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Up the Garden Path

THERE is a story going round in the corridors of the North Block that when the present Finance Minister took over, he called the Secretary in charge of foreign exchange and asked him what checks the Finance Ministry had over the foreign exchange spending of the other Ministries. To this question, so runs the story, the official replied in the correct manner, by scratching his head and mumbling something. He had yet to size up his new boss and was naturally cautious. But the reply, whatever it was, did not satisfy the Finance Minister who snapped back at him rather sharply and said, whatever the rules were, they must be pretty slack for he knew for certain that the Ministry of Commerce and Industry was squandering a lot of foreign exchange. Since the Finance Minister had himself been handling that other portfolio, there was no reason to doubt that he knew what he was talking about. The story is apocryphal, but it may well be true. And the truth of the story has been blazoned forth, week by week, for a whole year through the weekly returns of the Reserve Bank.

However much self-deprecatory the Finance Minister may have been, it would not be fair to say that the Ministry of Commerce and Industry had been squandering foreign exchange. That it had never done. True, there were some imports we could have done without. But whatever one may think of the logic of token imports for raising the standard of internal production or for providing incentives to greater effort, such as nylons or haberdashery, too much can be made of these minor things or of occasional slips, if they were slips. Broadly, the import policy has been unexceptionable, for it has been a policy of fostering industrialisation. If luxury cars got through or domestic production was stepped up, with imported raw material, of non-essential but highly profitable consumer goods, well, the fault was not of import control. Cars were not allowed to be import-

at all, only the parts, and in completely knocked down condition; if rayons and such things got through, it was only because they were raw materials of industry. Imports were mainly of capital goods and raw materials; even for these, the licensing was on the recommendation of the various Development Councils or of the Development Wing of the Ministry. There was no lack of scrutiny.

Today the then Commerce Minister is a Member of the Planning Commission but how can he disown his own baby? He has to take care of it and nurse it, however exasperating the demands it may make on the country's resources. How extravagant these demands are can be easily gauged from the present state of our foreign balances and the value of import licences that are outstanding. The figure which has been given out of the liability on account of import licences issued but not yet utilised is only that of projected imports of the private sector. It is subject to some, perhaps minor, modification, because imports on Government account are sometimes indented through private importers and vice vera. But the figure by itself, compared to that of the remaining sterling balances, would be an adequate commentary on the foreign exchange situation.

Development has been scrappy; the necessity of revising the target for food production upwards and the haste with which food imports had to be rushed before shipments of American loan wheat and rice could arrive testified eloquently to its lopsided nature. But in the sphere of industries, particularly in the private sector and this needs to be emphasised—development has been substantial, notwithstanding the general impression created by interested propaganda that the private sector was being very nearly wound up. Its volume has been impressive judged by any standards, and judged by the standards of yesterday, it is almost staggering. Our Delhi correspondent quotes Rs 760 crores as the estimated figure of investment made or committed for development of industries in the private sector in the first fifteen months of the second Plan period. Whether this estimate is also subject to modification as in the case of sector-wise distribution of imports or not, it is not quite clear. Nevertheless, this estimate may be compared to the total of Rs 570 crores set for the private sector for the whole of the Second Plan period. The import content of this development for which the country has to pay, it had not bargained for. Much of the withdrawals from the foreign exchange resources which have already taken place and the further calls on such resources which have to be honoured are unauthorised withdrawals. They lack popular sanction.

If the above figures meant that the private sector had already met the bulk of its import requirements, this would indeed be a silver lining in the cloud. It would put an altogether different complexion on the foreign exchange losses which are recognised today as the largest single factor threatening the success of the Plan. Unfortunately, so optimistic an interpretation would be hardly warranted, in the absence of some definite knowledge about the actual allocation of these resources. On the contrary, there is evidence in plenty, advanced and elaborated by several contributors in this issue, that a part of it represents investments outside the Plan. But how large a part, no one knows for certain, least of all the Planning Commission, judging from the Progress Report which it has just put out. The conclusion is inescapable that the development that has taken is not of the type intended in the Plan, which had been approved by Parliament and solemnly accepted both by the Congress Party and the Government.

The desire to find a scapegoat is difficult to resist when things have gone so far wrong as to precitipate a foreign exchange crisis. The pursuit, however, is likely to be unprofitable and more than a little hazardous. It is no use trying to find the guilty men: all are tarred with the same brush and accomplices, knowingly and unknowingly, in leading the country up the garden path. It is not that one Ministry was trying to scuttle what the others were trying to build up. It is not a case of failure of co-ordination. On the contrary, behind the development that has taken place, co-ordination has been very effective indeed. The Cabinet may have accepted the Plan, but judged by their individual performance, none of the Ministries did. It is not the States alone which have been back-sliding; all agencies of the Government have been playing the same game.

Who killed the red robin? There will be the inevitable witch-hunt, much acrimonious controversy and *mud slinging*; particularly if the foreign exchange situation continues to worsen and no ready relief comes in sight as a result of Pandit Nehru's *persuasive* diplomacy. For Pandit Nehru is determined to put on his best form abroad to raise foreign loans to save the Plan, while the Plan is systematically scuttled at home. For scuttling it is; the development that is in swing cannot be self-sustaining. Nothing could be better if a different pattern of development and a vigorous one, too, could be superimposed on the one that is being slowly, haltingly and inefficiently pursued, through the agency of the Government functioning along the lines that it has laid down for itself. But this would require an order of investment beyond the capacity of the economy to sustain. Public attention is fixed more easily on conspicuous consumption and waste, but what is even more tragic is *not* so much the lack of saving but the use to which we are putting our limited savings.

Primarily, it is policy making and administration which will come under fire, though one is not so sure that public resentment will necessarily result in the association of some expertise, not only at the stage of formulation, but also the execution of policies, particularly those concerned with the allocation of resources. Will the Planning Commission, which could not do the planning, will it be stirred into some activity? Not likely, until its composition and set up is changed wholesale. The situation presents a choice of alternatives and one may choose according to one's taste and predilections. Several possibilities stand out. The new genie that has been called into being, will it come into clash with the steel *frame*? Or will that frame be so chastened by the shock that it could be welded into expertise? The degree of popular pressure from below alone can provide the answers.

Reaffirmation of Neutralism

FOR the first time since independence, critics of Pandit Nehru's foreign policy seem to have succeeded in making an impression on New Delhi. Non-involvement in the "cold war" remains the essence of India's foreign policy. This policy of non-alignment with power blocs is approved by critics. Those who wish for some attachment with either side of the rival camps are in a minority. But even responsible critics have expressed dissatisfaction that India's foreign policy has been pursued in such a manner that India has few friends among world powers. No such damaging inference is justifiable. Nor is it a proper appraisal of India's foreign policy. But even New Delhi now seems to concede that a policy of even positive neutralism need not necessarily be aggressive. Realism is a diplomatic virtue. Credit is due to critics in persuading New Delhi about the need for realism in foreign policy.

There has been no major change in principle. But there has been a shift in the implementation of India's foreign policy. Both a personal issue and a problem of a realistic application of the policy are involved. Shri Krishna Menon is an able diplomat. His familiarity with world affairs is widely appreciated. He does not lack urbanity; in fact he can be affable, even charming but he has also a rare gift of rubbing people the wrong way and his aggressive attitude on such occasions has provoked uncharitable comments and has earned him the reputation in some quarters of being the best hated diplomat in western capitals. There had been occasions on which he had seemed to misinterpret instructions and directives and to exceed his authority as a roving diplomat. It would be ungracious to harp on all this. Krishna Menon still functions as a personal envoy of the Prime Minister. But Pandit Nehru has shown wisdom in assuaging critics by appointing him as the Defence Minister.

Hungary, Egypt and Kashmir are the three major issues which are supposed to have revealed the inadequacies of India's foreign policy. Because of India's attitude to the Soviet policy to Hungary, both Britain and America, it is alleged, have become more hostile to India. Because of India's active role in the Suez Canal crisis, London is alleged to have adopted an unfriendly and unsympathetic attitude to New Delhi on the Kashmir issue. Pakistan's supposed triumph in the United Nations on the Kashmir problem shows, the argument runs, how friendless India is in the comity of nations. In the West, India's stand on Kashmir and on Hungary has been decried as New Delhi's "double standard" foreign policy. Within the country, Britain's hostile attitude to the Kashmir problem and savage personal attacks on the Prime Minister in a section of the British Press have provoked a clamant demand for quitting the Commonwealth.

Only Britain and France, two of the aggressors in Egypt, are angry with India for her stand on the Suez Canal crisis. Most of the member-States of the United Nations, including the United States, have actively endorsed India's policy to Egypt. Throughout the Canal crisis, New Delhi and Washington had acted in close cooperation. It is not India's fault that Britain and France are in a mood to take revenge on India because of her Suez policy. Nor is it any valid criticism of India's foreign policy that Washington is irritated over New Delhi's attitude to the Eisenhower Doctrine. On these issues, India's foreign policy has the support of the people. Because India's foreign policy may clash with the interests of this or that Power, it is ridiculous to suggest that the policy has failed. No responsible nation can pursue an opportuned foreign policy.

Just as it is absurd to argue that India should change her policy to Kashmir because Britain and America do not support it, or that India should have pursued a different policy to the Suez Canal in order not to antagonise Britain and France, it is unwise to agitate for withdrawing from the Commonwealth because of Britain's and of some other Commonwealth members' unfriendly stand on the Kashmir issue. This latter demand may no longer be clamant, but it persists within the country. On second thoughts, informed Opposition leaders have emphasised the inadvisability of any such hasty action. India decided to remain within the Commonwealth not in the hope that other Commonwealth members will always support her foreign policy, but because the Commonwealth represents certain principles which are valued by this country.

India's Commonwealth link has advantages which cannot be seriously denied. To remain within the Commonwealth is not to be inimical to other associations and affiliations which are likely to further the cause of world peace. India's membership of the Commonwealth is no bar to her active association with Bandung nations or with the United Nations. Nor does it militate against her efforts towards a better understanding between East and West. Responsible elements within the country do not endorse any hasty decision to sever the Commonwealth link. There is, however, a growing feeling that measures must be initiated to lessen India's dependence on Britain and the Commonwealth on certain crucial industrial and defence matters. This is not an irrational demand. Too much dependence on any one country or Power must necessarily restrict India's choice and manoueverability.

On the Hungarian issue, New Delhi's policy has been severely criticised both within and outside the country. India's uncompromising hostility to the Anglo-French aggression against Egypt has been compared with her hesitant attitude to Hungary to substantiate the allegation about her "double standard". New Delhi has gradually shifted its ground on Hungary. At an earlier stage, and without adequate knowledge of the full facts, New Delhi was reluctant to brand Russia as an aggressor. But, with the re-entry of the Russian troops to Budapest after their first withdrawal, New Delhi's attitude had stiffened. In subsequent policy statements in Parliament, Pandit Nehru has gradually shifted from his original stand. Over and over again, the Hungarian tragedy has been deplored. In his latest statement on the Hungarian issue, during his recent Scandinavian tour, Pandit Nehru emphasised that the Hungarian resistance to the Soviet Army was in the nature of a national

movement. India has always been adamant about the occupation of any country by foreign troops, or even by the forces of the United Nations. This explains India's vote during the Hungarian debate in the United Nations.

While much has been sought to be made about India's predicament in the United Nations during the debate on Kashmir, domestic criticism of India's foreign policy is mainly concentrated on the effects of India's foreign policy on foreign aid in her hour of need. It is now better appreciated that Pakistan has gained only a pyrrhic victory in the United Nations on the Kashmir issue. But, within the country, the belief is widespread that India's Second Plan is going to be the major casualty of New Delhi's foreign policy. India's need for foreign aid is so urgent and vast that some irritation on this issue is understandable. But a closer examination suggests that this critical assessment of India's foreign policy has no solid basis. With the exception of Britain, no other country has received as much credits as India from the International Monetary Fund. Among Asian countries, India has been the major beneficiary of World Bank loans. Current negotiations with the World Bank do not indicate any discriminatory attitude to India by this international institution. Washington may not like the look of India's foreign policy. But New Delhi's foreign policy of non-alignment and the Soviet aid in men, money and equipment have, in no way, affected Washington's aid policy to India. America's aid to India compares favourably with that to any other Asian country. It has been substantial. Prospects of American aid are no less bright. Both in London and in Washington, the gigantic Indian experiment with economic planning is widely appreciated. Issues at stake in India are fully realised in both Britain and America. But in so far as critics within and outside the country have succeeded in making New Delhi conscious of some of the unrealistic overtures of its foreign policy, they seem to have achieved their purpose.

Credit Restraint

THE Reserve Bank has requested all scheduled banks to carry out a general reduction of bank advances during the current slack season. This is largely, though not entirely, an essay in persuasion, at least for the present. The banks have been used to directives for "selective credit control". This is the first time that they have been given a general direction about their lending operations. How is it to be reconciled with the argument which the Finance Ministry appears to have accepted, but on which it has slackened somewhat under pressure, that restriction of credit through the bulldozer method of higher bank rate is to be ruled out while planning development? Conditions which a rational credit policy have to satisfy in the present situation can be simply stated: adequate credit has to be supplied for implementing the Plan projects as also for the complementary investment necessary to implement such projects. While satisfying these two needs, a right credit policy should scrupulously exclude financing of transactions which fall outside the first two categories. How is this to be secured, short of detailed rationing, which would be impossible to administer?

The experience gained in the operation of selective control could be of some value, even if largely negative. To what extent application for advances can be shifted readily from one head to another, it is important to know, to begin with. The rest of it can be guessed, though very vaguely from the fact that borrowers generally have some access to funds other than what is directly supplied by the banking system.

Banks have in fact been asked to bring down their advance-deposit ratio without reducing their assistance to the essential sectors of the economy. What is the test of this essentiality? Over the years the general level of bank advances has steadily risen, the slack season decline has been less and less marked and the level from which the busy season rise begins has gone up. But has the expansion been unrelated to the genuine needs of bank finance to keep in step with the development that is undoubtedly taking place at a fast rate? The directive suggests a credit and price build-up which has unsavoury association with speculative holding of stocks. For example, at the end of December, the latest period for which such breakdowns are available, bank advances to engineering industry amounted to Rs 58 crores, while commercial concerns dealing with hardware, machinery, engineering and metal products obtained advances to the extent of Rs 48 crores. This alone might enable dealers to build up speculative stocks to the detriment of industry and consumers. But snap judgements in such matters have little value, since there are no standard ratios between credit requirements for production and marketing even for the same set of commodities.

True, agricultural credit is being made available more liberally but is it being supplied too liberally to enable speculative stockholding? If the farmers holding capacity has improved, there is little that the Reserve Bank can do about it directly. Data on advances do not suggest to what extent bank finance assists the process of storing up of agricultural produce but even if it does, this should be the special province of selective control.

To enforce a general directive, however, certain operational devices can be easily thought of and it would be surprising if the test of essentiality does not lead, after a time lag, to stiffer screening of loans under the bill market scheme. Perhaps its operation in the case of each bank would be put on a two-tier basis, different limits being set up for industrial and commercial advances The former will necessarily have to be for a longer period while the limit for the latter may be subject to more frequent and seasonal variation. But unless the Reserve Bank is prepared to give some serious thought to tests of essentiality and works out an operational device for enforcing it through marginal adjustments in its lending under the bill market scheme, the general directive will only aggravate the stringency without doing anything to curb it at the source, which may be broadly described as unplanned investment and the failure of a proper monetary policy for implementing the Plan.

Four Years Hence

CLAIMS advanced, explicitly or implicitly, by political opponents of the Congress are, no doubt, exaggerated. But there are unmistakable indications that the Congress has lost its robust faith in its future. It would be foolish to presume that, had the general elections been held now, the Congress would have lost the battle. But it would be a reasonable inference from the state of affairs since January last that the United Left would have bettered its position had the elections been delayed by six months. To-day, the food situation is much more acute. Even the common man now knows something about the implications of shrinking foreign assets. In the next few months, he will feel the impact more directly as some of the necessities of life become scarce because of the drastic cut in imports.

Transient economic troubles are not the only issues which are prejudicing the prestige of the Congress. Sophisticated political prophets had been proved wrong by the verdict of the January elections. Prophets had then confidently predicted that the electoral marriage among parties of the Left would prove a failure as the Congress was itself a Party of the Left. That was what the Congress wanted the voter to believe. It had formulated a bolder Second Plan. It was assuring the people that the Plan's bias to employment was deliberate. Time and time again, the Congress tried to convince the people that its emphasis on employment and small-scale industries reflected its concern for the small, common man.

Not all were convinced by the claims and assertions of the Congress. Kerala voted against it. Calcutta and, for different reasons, Bombay rejected the Congress. In all urban, industrial, constituencies, the Congress was grievously mauled, though not always defeated. Community Projects, National Extension Service, the State Bank's advertised new functions and the Second Plan's rural bias paid good dividends. In the countryside, the Congress experienced little opposition. But the country's educated unemployed, the middle class and the workers voted against the Congress. Organised, vocal, urban voters showed their growing irritation against the Congress. Their electoral behaviour left no room for doubt that they either had no faith in Congress proclamations, or did not regard the Congress as a sincere Party of the Left.

In the interest of democracy, the emergence of a growing Opposition is to be welcomed. More than once, the Congress has openly expressed appreciation of the emergence of an Opposition. But its soul-searching post-mortem analysis of the election verdict reflects its anguish over its partial discomfiture in the elections. It is mortified that the people no longer equates it with the country. Since independence, the Congress has shown symptoms of self-deception. Over and over again, there are talks and discussions about purifying the party organisation. Discussions are held, but nothing tangible is implemented. Never before have Congressmen themselves so openly admitted that they and the Party are losing touch with the people.

A growing feeling within the Congress that it is not regarded by the people as a true party of the Left explains the Prime Minister's and the Union Finance Minister's repeated emphasis, immediately after the general elections, that the Plan will not be slashed. That also explains the spartan budget for mobilising internal resources for the Plan. But the reaction of the Congress Party to these policies is a visible symptom of its growing weakness, Congress members of Parliament and secretaries of the Party have, in their hostile attitude to austere economics, feigned concern for the common man. But Congress members of Parliament have made no secret that they are worried about the political implications of the tax proposals. That is the main reason why they imply that a curtailed plan is preferable to such high taxation. Here, the economics of the Plan is not under reference. But the implicit request of Congressmen to slash the Plan for political considerations shows their eagerness to pursue a line of least resistance.

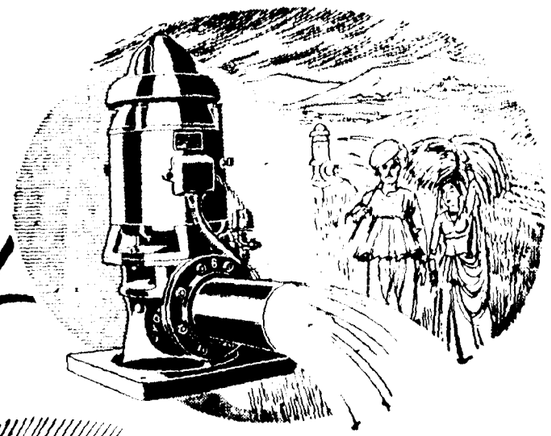
In the prevailing socio-political conditions in this country, such an attitude by members of the largest single political organisation shows that the Congress is losing touch with the people. Simultaneously, there is another political trend within the Congress which is disquieting. While Shri U N Dhebar, the Congress President, dilates on the incompatibility between the Gandhian ideal and the Congress Government's over-emphasis on heavy industries, he and his two secretaries seem interested in reviving the Party's control over the Government. As long as Pandit Nehru continues to be the Prime Minister, neither of these internal conflicts is likely to divide and disrupt the organisation. But these schisms may, in the absence of Pandit Nehru's magnetic charm and leadership, damage the chances of the Congress. Repeated talks about Pandit Nehru's retirement from the Government for galvanising the party organisation and the absence of fresh blood in his new Cabinet after the elections underline the lack of new leadership within the Congress.

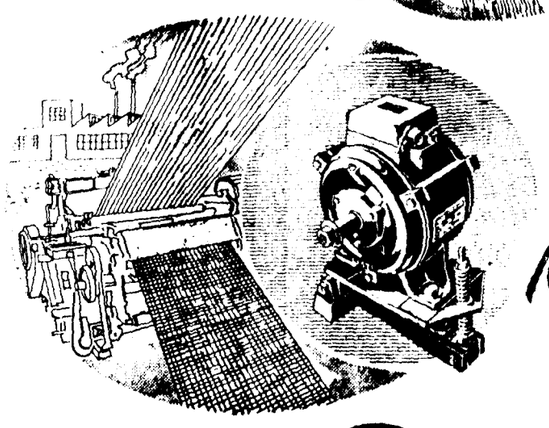
No less disturbing are the faint indications that the Union Finance Minister may have been barking aggressively, but is afraid to bite. No definite concession as regards the new direct tax proposals has been announced during his discussions with representatives of industry in Calcutta and Bombay. But the tenor of discussions in Bombay deepens suspicions that industry may have succeeded in its persuasive tactics. Some minor adjustments may be necessary. But any major concession in respect of direct tax proposals can only lead to a further estrangement between the Congress and the people. To-day, the Congress is neither a Labour nor a Socialist Party. Since the elections, it has been trying to woo labour. Its insistence on implementing the Plan, even if it means drastic taxation, is supposed to emphasise its socialistic bias. Apart from these deeper ideological considerations, its chances at the next general elections depend on whether the Second Plan's aims and objectives can be achieved in the next four years. For the second time, the Congress has been voted to power in the hope that it has a programme to ensure economic progress. Such hopes and assurances may not help the Congress for the third time. In the next general elections, it will be judged by results, and not by its promises.

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The Challenge and the Response

"And what if the powers above
do wreck me out on the wine-dark sea?
I have a heart that is inured to suffering
and I shall steel it to endure that too."

Odysseus

WHEN the Second Plan was in gestation, everyone was worried about our expanding population and economic stagnation. Our next door neighbour, China, was reported to be making much faster progress and everyone agreed that we could ill afford to lag behind. There was an almost universal demand for a 'bold plan'. The Planning Commission's target of Rs 4,800 crores was not considered excessive except by a few diehards who were opposed to the very idea of planning itself. Even the Federation of Chambers of Commerce and Industry, that stronghold of private enterprise, wanted the Plan to be at least a third larger. The advocates of a 'bold plan' cannot, however, say that they were not warned that an investment programme of this magnitude would lead to serious stresses and strains until the benefits actually began to flow. The Panel of Economists had made this point abundantly clear. They had forecast a substantial rise in prices resulting in considerable hardship in the interim period. While one member pleaded for a smaller plan, the majority recommended higher taxation and greater restraint on consumption as a means of pushing the entire Plan through. The Parliament and the people seemed at that time quite prepared to face the hardship rather than slow down the rate of progress. The toils of the voyage to Ithaca were deliberately chosen in preference to the ennui under the roof of Calypso.

Yet as soon as the Second Plan began getting into its stride and some of the difficulties which were foreseen actually materialised, the very people who had demanded a bold plan are raising a great clamour against it. The rolling ship, the bulging sails, the creaking mast and the unknown perils of the deep are all filling their hearts with strange fears. They are afraid of the whirlpool of foreign exchange shortage, the blizzard of heavy taxation and the high tide of rising prices. There is now an importunate call for a return to the safety of the harbour—lest the ship capsizes in a swell of inflation or be wrecked on the rocks of controls. The stresses and strains of the voyage are apparently proving too much for those who had at first so bravely set out to sea. If they were dissatisfied with the harbour that they had left behind, they are now equally dissatisfied with the heavy sea that they have to encounter.

But is the hardship faced so far really much greater than is normal for such a voyage? Which ship is there that does not roll and rock, creak and groan when bending its mast before a lively breeze? And what sailor prefers drifting to flying before a strong wind?

After all, a nation takes to economic planning because it is not content with mere drifting. It wants to go forward much faster than it would normally do. And for this purpose, is prepared to sacrifice a large amount of comfort and take a considerable amount of risk. It would be, therefore, clearly illogical if the discomfort and the risk involved are subsequently given as reasons for whittling down the Plan—especially so long as they do not become unbearable.

No "Safety First"

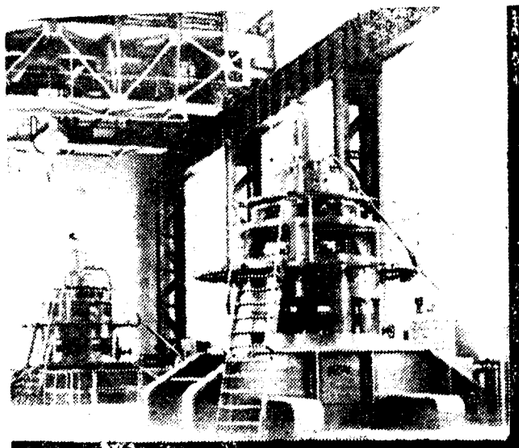
But a plan is not merely a mildly exciting voyage. If it is to be really fruitful, it must also provide to all participants a big enough challenge—a challenge which, while not being so difficult as to crush them, should be difficult enough to test their faculties to the fullest extent and stretch their resources to the utmost. In fact it is the response to the challenge thrown up by a plan which is even more important than any material benefit that it can bestow. This is the point which is usually missed by the "safety first" school of critics who long for a much smaller and safer plan—for a retreat to the placid waters of Wilhelmshaven or the security of a Maginot line. Does not our long history tell us that more wars have been lost by commanders who were too hasty, first in joining a battle and then in ordering a quick retreat? On the other hand, commanders, who were circumspect before joining a war but grimly resolved to fight it through once they had actually joined it, generally ended up in victory even when the odds were heavily weighed against them.

Wander in Wilderness

In fact our economic planners would do well to study the lives of the great military commanders of history. Both require very much the same qualities. A great deal of circumspection and ability to distinguish the wood from the trees, a discernment not to be thrown off their feet by temporary gains and losses, an innate sense of proportion, an imaginative and flexible mind, an unusual capacity for organisation and above all a grim determination to fight one's way through the greatest odds,—in short a cool head and a bold heart—are some of these sterling qualities. It is by taking calculated risks and fighting resolutely to the end and not by avoiding action and choosing the path of ease that a nation, no less than an army, achieves ultimate victory. If a nation wants to make real progress, it must have some real challenge before it.

It must create a challenge for itself in case there is none already provided by external forces. To the extent that the advice of the "safety firsters" takes off the edge from such a challenge, it will do grievous harm to the country in the long run although it may give some respite in the immediate future. It was the respite and the life of ease which Hannibal gave to his army at Capua that ultimately spelt its ruin.

The critics of our Plan would like us at the very first signs of difficulty to retrace our steps—to cut the size of investment, to



Power for the Millions by **AEI**

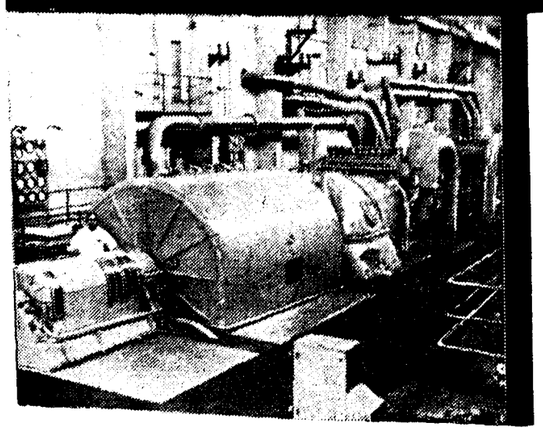
Khaperkheda	30,000 KW
Ramgundam	37,500 KW
Ahmedabad	1,35,000 KW
Surat	15,000 KW
Visakhapatnam	6,750 KW
Tatanagar	55,000 KW
Kashmir	6,000 KW
Jogindarnagar	48,000 KW
Greater Calcutta	1,61,000 KW
Madras (Basin Bridge), Pykara, Mettur, Papanasam and Moyar	2,15,450 KW
Mysore (Jog)	48,000 KW
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abandon the heavy industries proposed and to get back to the situation that obtained in 1955. They remind one of the followers of Moses who began to pine for the "cucumbers and the melons and the leek and the onions and the garlic" as also the "flesh pots" of Egypt and to wail that "there is nothing at all besides this manna before our eyes," no sooner had they crossed the sea dry shod and seen the dreaded Pharaoh disappear in the returning waters. And it is not without moral that in seeking an easier route to the promised land than that chalked out by their intrepid leaders, they had to wander 40 years in the wilderness.

No Fundamental Disequilibrium

How serious really are these difficulties which have today raised such a storm of protest in this country? Let us first consider the foreign exchange problem. It is now an open secret that our present foreign exchange crisis is more a result of an error of over-optimism in regard to imports by the former Commerce Minister and an error of over-pessimism in regard to exports by the present Commerce Minister, rather than any "fundamental disequilibrium". Such errors are no doubt most unfortunate and reprehensible and must be strictly guarded against in future. But it is not that the damage is entirely irreparable. One should not forget that unduly large import licences, especially those for capital goods, issued in the first year can be partially balanced by a more careful licensing policy in subsequent years. Some of the capital goods imported will also go into production in a couple of years' time and help ease the position during the Plan period itself. On the other hand, if we are even now prepared to tighten our belts a little further, we can easily earn another Rs 40 to 50 crores of foreign exchange per year by relaxing our export restrictions on some of the staple commodities like vegetable oils, oilcakes, etc. Any speculative rise in prices as distinct from that due to actual short supply could be partly guarded against by channelling these exports through the State Trading Corporation.

Secondly, let us consider the case of taxes. As the Finance Minister himself has pointed out, the total burden of this year's imposts will not be more than that of one week's rise in the prices of foodgrains in recent months. We should have never taken up the challenge of Planning, if we are reluctant to make even the small sacrifice that these taxes involve. The trouble with our country is not that we are over-taxed but that many of our people who should pay taxes do manage to evade them. The Finance Minister has at last given the country a scheme of taxation which is designed to meet effectively the challenge of the Plan and one hopes that while removing some of the minor lacunae, he will push it through to its logical end in the years to come.

The Price Situation

Thirdly, let us take the question of prices. Has the overall increase in prices even in foodgrains been really much greater than was foreseen and actually allowed for? No one expected the low 1954-55 level of prices to continue. After all, were we not troubled at that time by a sudden increase of unemployment in urban areas and of distress in rural areas? People forget that the general level of prices is still only about 9 per cent higher than the revised base (1952-53) level and the level of food prices only 7 per cent higher, while the employment position has improved considerably. The typical 'rentier' class outlook of some of our public men is neither bold nor wise. Prices rose by about 2½ times during the war with all its unproductive public expenditure and yet the country survived. When the rise is much smaller now and the bulk of it in productive schemes, it is too much of an exaggeration to say that the country is facing ruin.

It is true that the rise in food prices has caused serious difficulties for certain vulnerable groups of consumers. But the remedy is not to cut down the size of the Plan. This will only affect their incomes adversely and remove all hopes for the improvement of their position in the future. The real remedy is to undertake schemes which will raise their levels of income through developmental schemes. Until that happens foodgrains supplied to them can be subsidised. As against the loss which this subsidy may involve, we should count the extra income which millions of farmers are getting now. A part of that income is likely to be invested in production if we are only wise enough to protect the farmer in some way against the risk he will be undertaking in making this investment. It is true that the rising cost of living may have brought down the real incomes of individual members of the "rentier class" but against this must be placed the fact that some of their dependents must have also found new employment. It is true, again, that there is acute scarcity in some areas in spite of the overall increase in production and income. Measures to improve the conditions of farmers lead almost always to a fall in the marketed surplus during an interim period. The remedy again is not to cut down investment but to step up investment on productive schemes still further. In fact, with the low investment-output ratio that characterises our agriculture today and which is likely to continue for another couple of decades at least, the remedy for inflation in India is not less spending but much greater spending on agricultural schemes, which yield crops within 8 to 12 months.

No "Heroic" Measures

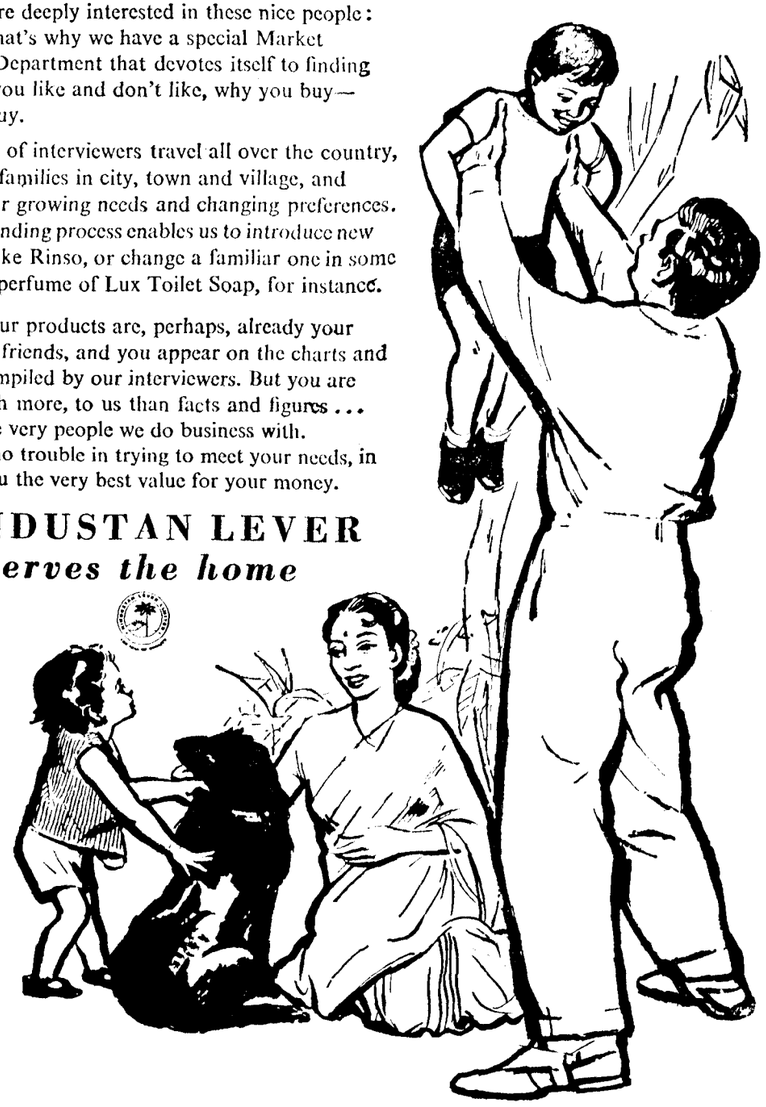
There is, therefore, nothing fundamentally wrong with our economy to warrant our getting into a panic and cutting down the Plan or making fruitless sorties this way or that. This does not, however, mean that everything is all right with our ship of state and that no improvement is needed. But here we should retain a sense of proportion. Measures like cutting down ministers' salaries, banning imports of vital medicines, re-imposing pre-1952 type procurement and rationing, etc., may create illusions of "heroic" efforts being made to save the Plan, but they are not necessarily so. In fact, sometimes they may do more harm than good if they blind us to the real remedies or generate a feeling of complacence. Moreover, if cutting down the salaries of ministers makes them inefficient or compels capable men to stay out of office or makes them more

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susceptible to tempting offers in the shape of, say, jobs for dependents or donations for election funds, then the remedy will be certainly worse than the disease.

The banning of imports of vital medicines which might help to restore the health of the potential worker is not certainly the means by which either national income or the balance of payments can be improved. By trying to ferret out the surplus from each individual farmer, we may be able to procure a fairly substantial portion of existing production but if such a measure ultimately inhibits the farmer's will to produce, then we may really be net losers in the long run. It is usually the people with a "rentier class" outlook who are fond of such musketry practice as it helps to produce a lot of sound and fury.

> "But as some muskets so contrive it
> As apt to miss the mark they drive at,
> And though well aimed at duck or plover,
> Bear wide, and kick their owners over".

Big enterprises and small minds rarely go together. A 'rentier' mentality which prefers security to enterprise, austerity to creative efforts, precedents to innovation and restrictive measures to countervailing action has rarely the vision that bold constructive planning requires. Nothing can be more unfortunate than an economic planner concentrating largely on petty tactical remedies when the real need of the situation is for a bold strategic move. In fact if muskets are fired where the real need is for deployment of forces, it can only make the situation worse by exposing one's weakness to the enemy. We should do well to remember that all the Samurai thrusts of Yamamoto did not help him to win the battle when his broad strategy failed him.

Strategic Considerations

The present stresses and strains can be effectively tackled only if our planners turn their attention from tactical to strategic considerations. While they should resist any suggestion for cutting down the over-all size of the Plan and refuse to be hustled into taking panicky actions, they should give urgent thought to possible redeployment of their resources from a broad strategic point of view. They should also now give thought to early provision of the built-in indicators and stabilisers which have been suggested to them so often but which they have sadly neglected so far. After all, in an economic, as in a military, operation, it is the quick and imaginative redeployment of resources with changing circumstances that is the key to success. That is why an efficient army commander always keeps an alert intelligence service as also a reserve with which he can give timely support to the main fighting force as and when the need may arise.

From this point of view, one wishes that our Plan too had two parts—(a) a smaller basic part irrevocably committed to action and (b) a reserve part to be deployed strategically as and when the situation so required. In fact this was precisely what some members of the Panel of Economists had proposed two years back. In a dynamic world there are bound to be frequent changes in the economic situation. Even the most carefully prepared plan has to be adjusted from time to time. But it is much better if these adjustments can be done through a process of selective expansion rather than a process of restriction.

If a plan has two parts, the basic part can be carried forward without any change. Quick yielding or late yielding schemes from the supplementary part can be added on subsequently depending upon whether the trend is inflationary or deflationary. The advantage then is that the plan proceeds according to the priority originally decided upon. On the other hand what is happening at present is that schemes are being dropped not because their priority is low but because they have a high foreign exchange content or because there was some accidental delay in starting them. The very structure of the Plan is thus getting distorted in an unplanned manner. There can be no doubt that many of our present difficulties are due to the fact that our Plan has not been formulated in two parts. But it is not yet too late to correct this defect to some extent. Schemes which have already made substantial progress, as also those which form the 'hard core' referred to by the Finance Minister, may all be put now into a basic part of the Plan, whereas all other schemes together with a number of new quick yielding schemes may be put into a supplementary part. If this is done, then it should be possible to deploy our resources much more rationally and effectively in future than has been possible hitherto.

The Challenge

Considering everything, however, it is perhaps not a bad thing that the Plan has at last presented us with a challenge. After independence, there was for some time a danger that a degeneration might set in in the country in the absence of a real challenge. All our present difficulties will be really a blessing in disguise, if they evoke in us that truly heroic response which distinguishes a resurgent people from a decadent one.

Rail Concessions

Concessional return tickets at 1½ single journey fares will be issued on all the Railways from July 15 to September 15, 1957, for Class I, II and III. Return tickets will be issued only between stations which are situated at a distance of over 300 miles from each other.

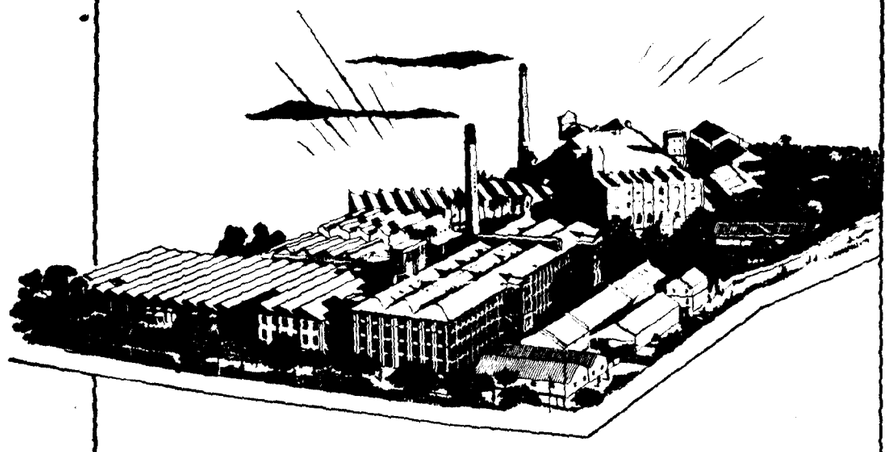
Break journey on the return journey will not be permitted but it will be allowed on the outward journey according to the normal rules applying in the case of single journey tickets.

Passengers must present the return halves of their tickets at the booking offices of the station from which the return journey is commenced and have these dated, indicating the date of commencement of return journey. This is important, as passengers holding return halves which are not so dated will be treated as ticketless travellers.

For 4 journeys between 301 and 500 miles, the period of availability of the return tickets will be 20 days; between 501 and 750 miles it will be 25 days; and for journeys of 751 miles and over the period of availability will be 30 days.

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Our Delhi Letter

Strains Administrative

The flow of machinery, raw materials and food into the country is high; agricultural facilities are steadily improving; there is industrial peace; and more people are doing more in an ever-widening occupational range than before.

If then prices soar, food shortages develop in pockets, financial crises recur and the cry of distress rents the air in too frequent spasms, the fault and failure must be that of organisation.

At least that is what it looks like to one watching the developing situation from the ring-side seat of the capital. The 'stresses and strains' that the Second Plan is being subjected to are mainly administrative.

IT should be possible to raise output with larger input. The emphasis on the socialist pattern of society should ensure a more equitable distribution of the rising national income. The only increase one notices however is that of frustration. And ironically enough, it seems equally spread out among all classes of people.

It is true that part of the national effort is in the nature of investment which would pay off later. Again part of the higher national produce is absorbed by the growth of population. On the other hand, the Second Plan got off to a good start with considerable achievements of the First Plan behind it. Besides, the Indian economy continues to benefit, without undergoing a corresponding strain, by receiving sizeable amounts of machinery, food and technical know-how, on a deferred payment or grant basis. Many observers in the capital are, on balance, inclined to attribute the the current economic malaise less to inadequacy of effort than to inefficiency.

The spotlight that has been recently focussed in the capital on austerity and economy is symptomatic of the belated realisation not so much of the avenues of thrift as of the administrative lapses. The Government has not been able to tackle vigorously the problems of production. The divergent demands of agriculture and industry remain unadjusted. A correct balance has yet to be struck between investment and consumption. And above all, the distribution of social gains and amenities is not only inequitous but, what is worse seems so and shows no signs of progressing towards a just system.

It would be of course an exaggeration to say that all the senior ministers and officials of the Government are in sackcloth and ashes. Not many of them would readily admit that the Government has not delivered the goods (though some do). It would indeed be wrong if the majority of officials began to beat their breasts as self-confessed failures; they are not. It seems true however that a fairly large circle of top-level administrators has been shaken from the erstwhile attitude of buoyant complacency that sometimes bordered on bravado. Two years ago every official, high or low, was firmly convinced that, in the last analysis, the Government of India was always right. Today the possibility that the Government has failed in a fundamental way is largely conceded. The economy drive is thus merely an exhibition of bad conscience. No one seriously believes that it will accomplish substantial or even worthwhile savings for the national exchequer. But opinion is unanimous that unless evidence of ostentatious waste and inefficiency is quickly removed from before the public eye, there will be hell to pay. The unofficial resolution demanding a cut in ministrial salaries was narrowly defeated at the last session of the A I C C by the votes of the ministers themselves, hurriedly collected from the dias.

The Ghost of Kerala

The ghost of Kerala constantly haunts New Delhi. That is unfortunate for an unsuspected reason. It threatens the existing order of privileges but, in doing so, it diverts attention from the present run of mistakes. In the sphere of industry, the Government has failed to balance investment and consumption in the context of the country's foreign exchange resources; it has not even tried to apportion foreign exchange between public and private sectors or between development that is planned, necessary complement to it or wholly outside it.

In the sphere of agriculture, the mistakes are, according to one school of thought, in the philosophy and working of the Community Project Administration. This school of critics believes that from the viewpoint of the country's economic development, community projects are proving colossal white elephants. Paving the streets, bridging the drains and constructing village theatres are in themselves very laudable objects but they do not directly bring rupees, annas and pies to the villager's pockets. The country needs to concentrate its energy on raising agricultural output. The demands of the farmer are simple: irrigation, manures, better seeds, and knowledge of better methods of cultivation. While the water available from big hydro-electric projects remains unutilised either because service channels have not been dug or it is too expensive, minor irrigation works remain comparatively negelected. Hardly, 30,000 wells were sunk during the whole of the First Plan period. This is an atrociously poor number for a country as large as India.

C P or Agricultural Development?

Attempts have been recently made to reorient Community Project and the National Extension Service schemes to meet the demands of agriculture. But they have been admittedly half-hearted. Shri S K Dey, the Minister for Community Projects, is a dynamic figure. He is virtually the father of the community project idea which envisages integrated economic, social, educational and political development of the entire community. Emphasis on agriculture would naturally mitigate the integrated approach. Shri Dey is by training and temperament so wedded to the concepts of social engineering, however, that he is bound to take a dim view of moves that tend to destroy the basis of his faith. There is evidence that he does. The tragedy, from one way of thinking, becomes more pronounced because so much of money, resources and national effort is being channelled into the community projects.

Record Performance of Private Sector

The industrial sector, on the other hand, suffers from paucity of resources. It is true that the Government has strained hard to satisfy the foreign exchange and the rupee requirements of industrialisation. But over Rs 400 crores in precious foreign exchange are stated to have been spent during the First Five Year Plan period and after on the avoidable import of consumer goods. The fact that cuts in the last import policy would effect a saving of Rs 40 crores in one year lends plausibility to the above estimate. That the cuts in the next import policy have been even more drastic cause no surprise. It is therefore reasonable to suppose that if due and far-sighted care had been exercised in formulating the import policy since planning was instituted, India's sterling balances would not have been depleted to such an alarming extent.

All this is however not to suggest that industrial development in India during the recent years has been slow. Investment made or committed in the private sector for the development of industries during the first 15 months of the Second Five Year Plan is computed at Rs 760 crores. The figure compares favourably with the target of Rs 850 crores set for the whole of the Second Plan period.

No Idle Capacity

Against this heartening record, one must set the probability that rise in production during the Second Plan period would not be as spectacular as during the First Plan. At the beginning of the First Plan, a good percentage of capacity in several industries was unutilised; in these industries it was merely a question of working the installed plants to full capacity. During the Second Plan period, however, new machinery will have to be mostly erected from scratch. This will take time. The Ministry of Heavy Industries has acted patriotically in interpreting the production targets set in the Second Plan as those to be attained by factories working one-shift. Except for some industries like steel and chemicals, where production is continuous, the interpretation will ensure that at the end of the Second Plan, the country can double output of most industries simply by working the factories double-shift.

This has, however, imposed added strain on the foreign exchange resources. The deferred payment scheme was evolved to conserve foreign exchange. It has met with some response. Schemes of foreign collaboration approved for firms in the private sector involve a cash down payment or immediate export of goods totalling Rs 46 crores by their foreign partners. But even after allowing for such agreements, even more drastic import cuts, and austerity in expenditure, the need for foreign exchange will remain. The Prime Minister himself is presenting the case for India to Britain. India is also seeking credit from the U S A and West Germany and suitable climate is being created for this purpose. The Government Resolution on Tea is only a beginning much more is expected to follow.

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The Plan and the Budget

A K Dasgupta

The Budget for 1957-58 is to be judged in its short period aspect of meeting the present economic strain as also in its long period aspect as setting a pattern for the future tax system. In this latter aspect it is forward-looking and its purpose is to give the tax system a certain resilience, so as to make it conform, as far as is possible within a democratic set-up, to the needs and objectives of long term planning. Judged by the normal standard, it is a bold Budget.

This is the first Budget in the country which acknowledges the financial implications of the Plan. And if at this stage it does not go far enough, it does at least provide an indication as to which way we must turn to in future for the mobilisation of domestic resources to meet the growing demands of the Plan.

AT the time the Second Five Year Plan was formulated some of us expressed a fear that the Plan was pitched a little too high both as regards size and as regards pattern. Raising of the target of investment in the public sector from Rs 4200 crores as it was in the Plan-frame to Rs 4800 crores and the volume of deficit financing from Rs 1000 crores to Rs 1200 crores was viewed with some misgivings. It was also felt that the foreign exchange component of the Plan as set by the pattern of development contemplated would be too large to be met by the export surplus and foreign aid such as we could normally expect to have. The shift of emphasis over to heavy industries which are at once time consuming was considered to be a little too premature. At one stage a suggestion came from certain knowledgeable quarters that we should rather have two Plans instead of one on two different levels, the more modest one being sort of a continuation of the First Five Year Plan with a relatively higher emphasis on industries and yet involving investment of a quick yielding character. The more ambitious Plan might then constitute additions to the shorter Plan to be resorted to if circumstances permitted.

Not that the investment target was considered to be physically unattainable. Raising of the rate of investment to eleven per cent of national income could not surely be considered to be an impossible task. Experiences are there of countries which have put in still greater effort towards rapid economic development. But such efforts demanded a degree of austerity on the part of the people which, it was feared, they would not choose to undergo. The First Five Year Plan had an easy sailing, partly on account of its less complicated character, partly also on account of certain fortuitous circumstances, e g, the Korean boom on the external front and good harvests on the internal front. A bolder plan was called for after the experiences of the first planning period. The Second Plan demanded a doubling of effort and sacrifice with the income target raised from 3 per cent per annum to 5 per cent per annum. Not too ambitious a target. But could it be realised under the present institutional set-up of the country,—the State relying just on the traditional method of taxation and voluntary saving? That was the question. Not an absolute scarcity of resources but the difficulty of mobilising these resources through democratic methods is what disturbed the economist at the time of the formulation of the Plan. The rather tame Budget for the first year of the Second Five Year Plan, the laxity with which the Import Control machinery worked during that year, the manner in which food prices were allowed to get out of hand, above all the reaction against the present Budget which happens to be the first significant step away from the traditional approach—all go to justify the validity of our misgivings.

Ominous Signs

One year of the Second Plan is over. In the public sector an investment of only about Rs 750 crores is said to have been made. And yet already there are ominous signs of disruption in the economy. Food prices have gone up to a disconcerting level, production of food grains, even though supplemented by increased imports, having failed to cope with the increased purchasing power in the hands of the consumers. The price index of industrial raw materials is conspicuously out of line with that of manufactured articles. The Sterling balances have been run down to a precarious level, and reports are that the existing legal margin is hardly sufficient to meet the outstanding liabilities. Despite large budgetary deficit (which, however, was partly offset by the drawings on Sterling balances), the money supply could not cope with the increasing demand for accommodation, and the economy has witnessed, and is still witnessing, an acute monetary stringency. On the other hand while all this is taking place, the unemployment figure is going up, as indicated by registrations in employment exchanges.

The dominant feature of the present economic situation seems to be a disproportionately large investment in the private sector. The large import of tools and machinery on private account, facilitated, as we now discover, by a liberal licensing policy, the rise in the prices of industrial raw materials, the increasing demand for accommodation from commercial banks and the consequent stringency in the money market, —all lead up to this conclusion. It is not known if the lines of investment are all strictly within the framework of the Plan, nor if the actual operations in industries are commensurate with the volume of capital goods imported. But evidence of increasing over-all investment activity in the private sector is clear, and it is also clear that the volume of private investment has been much too large in relation to the volume of corporate savings.

In Conformity with the Plan

The Budget for 1957-58 is to be judged in its short period aspect of meeting this present economic

The success of India's five-year plans calls for action of the highest order.

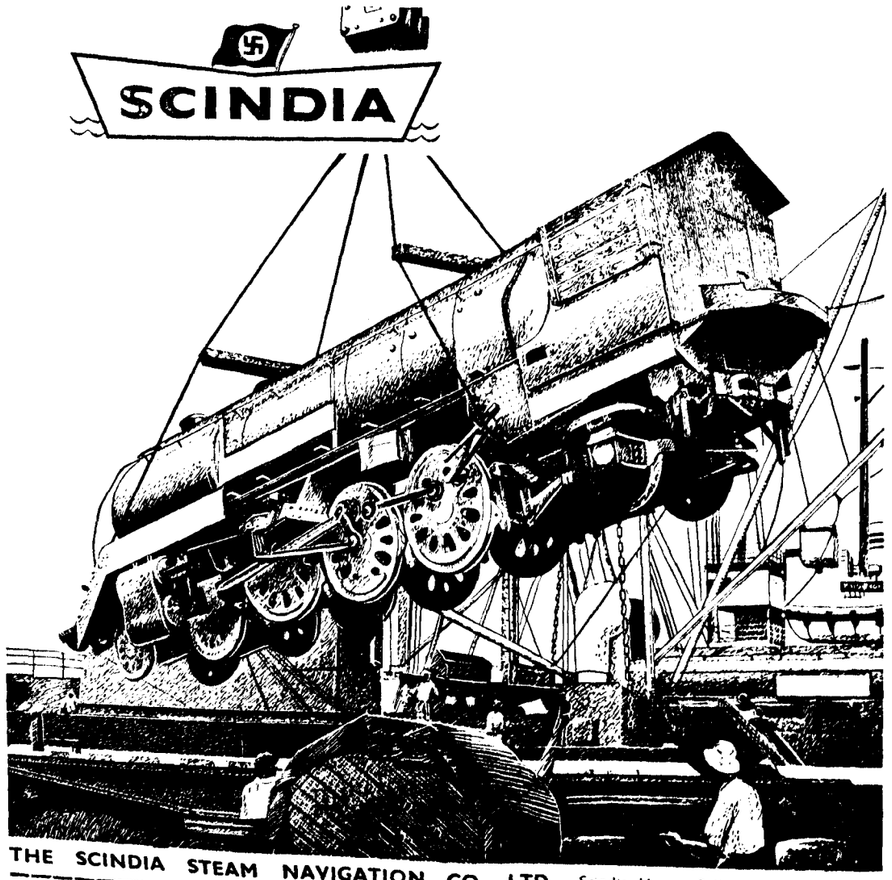
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strain as also in its long period aspect as setting a pattern for the future tax system. In this latter aspect it is forward-looking and its purpose is to give the tax system a certain resilience, so as to make it conform, as far as is possible within a democratic set-up, to the needs and objectives of long term planning. Judged by the normal standard, it is a bold Budget. It has extended the income tax coverage by lowering the exemption limit and has raised the rate of excise duties on certain commodities which may be described as semi-necessaries. On the other hand it has introduced new taxes in the form of Wealth Tax and Expenditure Tax for higher income groups, and has readjusted the structure of taxation so as to make evasion difficult, if not impossible.

The criticisms that have come from various quarters are either just emotional or are actuated by narrow self-interest. These criticisms and the manner in which the initiator of the Budget is found to be faltering under pressure only enhance our original apprehension that our people are not willing to accept the implications of planning. One of the curses of our present generation is a certain maladjustment between our aspirations and our willingness to act up to these aspirations. We demand all the good things of the world from the State, and yet we are not prepared to make enough allowance for the State's claim on us. We want freedom and democracy, but we are not always aware of the obligations that they involve. In fact, judging by the exigencies of the present situation and the needs of the Plan (in as attenuated a form as is economically feasible), the Budget does not go far enough. In spite of the additional taxes proposed, we are still left with a deficit of Rs 275 crores which the economy, already burdened with inflationary pressures cannot be allowed to bear.

More Saving

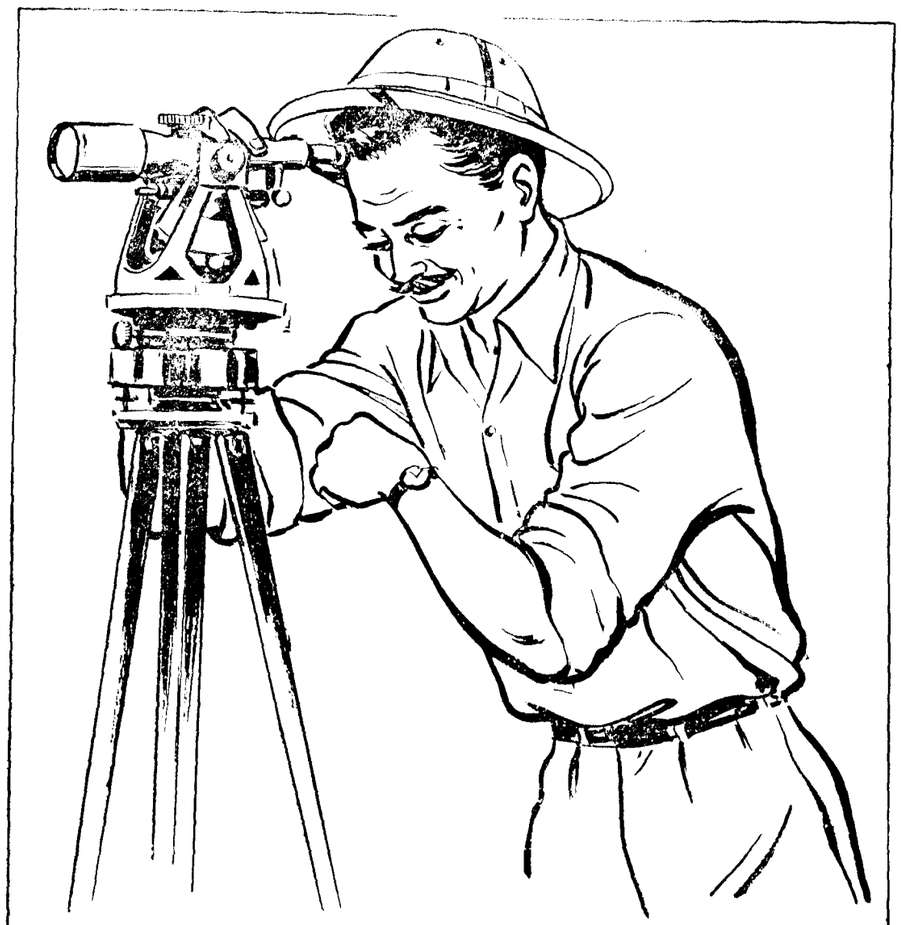
Several considerations come up in this connection. It is politically as well as economically undesirable that there should be any major cut in the Plan. Even the talk of a cut in the Plan is demoralising. Apart from this, once a Plan is framed with a system of priorities and with targets that are mutually consistent, it is a hard job to make costless readjustments at odd stages and without making prior preparations. In the present case, the contemplated investment in the public sector for the second year of the Plan is of the order of Rs 900 crores, and we are told that a large part of the increased investment is in lines where plans had already been laid out. The amount of planned investment for the second year compares rather unfavourably with the current year's investment when account is taken of the fact that it includes additional outlay on defence and further that the level of prices on which estimates have been made is higher than it was a year back. There is therefore ground for caution already. Secondly, so far as the private sector is concerned, even though unquestionably it has overshot its mark, it cannot be just left high and dry. It would be wasteful to allow it to build up idle capacity. Conditions have to be maintained for the private sector to be able to meet any legitimate need for complementary resources, whether they are internal or external. This surely would restrict the scope of import control and, incidentally, also of the use of interest brake.

In the absence of large scale foreign aid, the prospects of which may not be too bright, the position seems to be awkward. Imports have to be stopped no doubt, but import control must be supplemented by a strong export drive. And in order that the export drive may be effective to any degree, internal inflationary pressures have to be curbed,—devaluation being out of the question, considering its impact on the cost of development. On the other hand, loan rates have to be maintained at a reasonably low level so as to make it possible for the private sector to complete its legitimate investment projects. The watchword in the circumstances should be 'saving—and more saving'.

Benefits and Sacrifices

Considered in this light, the Budget, though bold in outline, is yet inadequate on the revenue side, in spite of criticisms to the contrary. There is still the traditional emphasis on excise duties. In the present short period context this is understandable, in so far as the excises do not fall on 'wage-goods'. The plea for excise duties is not that they will leave prices unaffected and will fall on the producer, but that by raising prices they will reduce internal consumption and release the surplus for export. It is naive to take it for granted that excise duties are regressive in character—the findings of the Taxation Enquiry Commission are indeed to the contrary. At the same time it is wrong to expect that consumers' resistance will play the trick and will hold the producers at bay; the analogy with export duties during the Korean boom is misplaced in this context. This, however, does not detract from the usefulness, at this juncture, of the proposed excise duties. One might as well ask for an extension of their range, so as to cover more 'non-wage goods' having export possibilities.

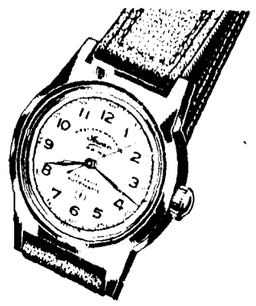
The additional direct taxes proposed are to be judged in their long run implication; the present yield is too small relatively to the requirements of the economy. The readjustments in income tax structure and the introduction of the Annual Wealth Tax and the Expenditure Tax are apparently inspired by the Kaldor proposals. Here again one would wish the Kaldor proposals to have been accepted in toto. Gift Tax is missing and the exemption limits in respect of both Wealth Tax and Expenditure Tax are considerably higher than those envisaged by Kaldor. On the other hand, the discrimination in favour of so-called 'earned income' seems to have been carried a little too far; beyond a certain limit there is hardly any clear case, either on social or economic grounds, for a distinction between income from property and professional income. The result is that the additional yield from direct taxes, in spite of a considerably higher marginal rate of taxation than Kaldor would allow, comes in the Budget estimate to only Rs 25 crores as against Rs 60—100 crores envisaged in the Kaldor proposals. There are no doubt political and administrative considerations which limit the scope for tax reform. But to bow down to these considerations too readily would be defeatism. If the industrialists and businessmen complain against the new Kaldor taxes, they should be asked to weigh their sacrifices against the tremendous benefits that they are deriving from the expansionist force released in the economy by the increasing developmental expenditure of the State.



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National Income, Consumption and Saving

Prospects for 1957-58

(Contributed)

Here is some expertise on the behaviour of national income, national expenditure, Government expenditure, and personal consumption from 1954-55 onwards. In the light of this study, the unusual rise in prices and the large deficit in external payments in 1956-57, in spite of not less than average order of advance in national income, appear to be the result of huge accumulation of inventories (which the economists treat as investment) and increase in personal consumption expenditure.

The forecast for 1957-58 is that the economy will remain on an even keel provided personal consumption does not rise by more than 3 per cent, Government expenditure is pegged down to 1956-57 level and a further drain of Rs 200 crores takes place from our external reserves.

THE following paragraphs attempt an analysis of the movements in national income and related magnitudes in 1956-57, and a national budget for 1957-58. In the absence of data, heroic assumptions have been made to derive most of the aggregates, and this analysis is, therefore, of some relevance only to the extent that it may broadly indicate the likely trends in the economy over the coming year.

The national income of India during 1954-55 was Rs 9,620 crores at factor cost and Rs 10,140 crores at market price. (Indirect taxes net of subsidies = Rs 520 crores. Miscellaneous 'fees' have been excluded from indirect taxes.) Government consumption in 1954-55 was Rs 670 crores, and net capital formation on Government account Rs 330 crores. Total private expenditure in 1954-55 thus works out at Rs 9,140 crores. Net private investment during the year including investment in inventories has been estimated at Rs 385 crores. (National Income Conference: Preliminary estimate prepared in the C S O.) Assuming stock changes to be **nil**—doubtless an incorrect assumption in view of the fall in prices during the year—private consumption would be around Rs 8,755 crores in 1954-55. For an estimated population of some 378 million, this gives a per capita consumption of Rs 231.6 in 1954-55. Further, total personal consumption works out at 86.3 per cent of the national expenditure.

1954-55

If per capita consumption were to be maintained at the 1954-55 level, total consumption in 1955-56— at 1954-55 prices—would need to be Rs 8,870 crores (for a population of 383 million). National income in 1955-56 was Rs 9,650 crores. Adding Rs 550 crores for indirect taxes, net of subsidies, (estimate based on available data) national expenditure at market price would be Rs 10,200 crores. If Government expenditure is placed at around Rs 1,150 crores—Rs 725 crores for consumption and Rs 425 crores for investment*— and if private investment at home is estimated at around Rs 400 crores (this is obviously an under-estimate as there was undoubtedly some upstocking during 1955-56.) With investment abroad (or the surplus on balance of payments on current account) at Rs 20 crores, private consumption would be Rs 8,630 crores. On the other hand, we saw earlier that to keep per capita consumption at 1954-55 level, private consumption (at 1954-55 prices) would need to be Rs 8,870 crores in 1955-56. In 1955-56, prices generally declined. The wholesale index fell by some 5 per cent, and the all-India cost of living index by about 6 per cent. If we assume the fall in general prices to be, say, 5 per cent, private consumption in 1955-56 at current prices would need to be about Rs 8,430 crores to give the same level of real per capita consumption as in 1954-55. That is to say, real consumption increased by some 2.4 per cent in 1955-56, or by about 1 per cent per capita.

If national expenditure (at market price) is taken at Rs 10,250 crores, and net investment at Rs 845 crores (Rs 425 crores on Government account; Rs 400 crores on private account; Rs 20 crores for investment abroad), the rate of saving in the economy in 1955-56 would be 8.2 per cent. All these calculations are at **market price** and not at factor cost. With total personal consumption at Rs 8,630 crores, per capita consumption in 1955-56 for an estimated population of 383 million works out at Rs 225.3. In percentage terms, personal consumption works out at 84.2 per cent of the national expenditure at market price.

Pursuing the same line of analysis, in order to keep per capita consumption constant, personal consumption in 1956-57—for an estimated population of 388 million—would need to be some Rs 8,740 crores at 1955-56 prices. We may now estimate the probable actual level of consumption during the year.

1956-57

Judging from available information, agricultural production during 1956-57 was significantly higher than in 1955-56, while the output of factory establishments was some 8 per cent higher. Output increases in the other sectors may be assumed to have been less, but the overall increase in the national income at constant prices may well have been of the order of 5 per cent ,i e, about Rs 480 crores at 1955-56 prices. This may appear to be a somewhat optimistic estimate compared to past trends, but judging from trends in output this increase may well have been obtained. In fact, as will be seen later, the distinctive feature of 1956-57 was an unusual rise in prices simultaneously with a significant increase in output and a large deficit in external payments. To return to our theme, in 1956-57, national income at 1955-56 prices may be estimated at Rs 10,130 crores. Adding Rs 600 crores (rough estimate) for indirect taxes, net of subsidies, national expenditure in 1956-57 would be Rs 10,730 crores at 1955-56 prices.

Let us now assume that Government expenditure during 1956-57 was around Rs 1,350 crores (estimated from Economic Classification of the Central Budget, and the revenue expenditure of States) —Rs 600 crores for investment (including investment in Govern-

* Estimate made on the basis of **Economic Classification of the Central Budget**, and the revenue expenditure of the States.

ment Commercial undertakings) and Rs 750 crores for consumption (which, incidentally, includes some expenditure on the Plan). If we estimate ex-ante private fixed investment at Rs 450 crores, i e, Rs 50 crores higher than in 1955-56, the amount of domestic product that would be left over for consumption and for inventory increases would be Rs 8,930 crores, against the Rs 8,740 crores necessary for maintaining private consumption at the 1955-56 per capita level. If we assume consumption to rise at the same rate as during 1955-56, the increase in consumption would require another Rs 200 crores or so; in other words, the economy would have been in balance if consumption had increased by some 2.4 per cent (as in 1955-56) and if there had been no upstocking; or again, the economy would have been in balance if per capita consumption had been held static at the past year's level, with an inventory increase of up to about Rs 200 crores during the year. Any substantial increase in personal consumption, simultaneously with inventory increases, could only result in a pressure on the balance of payments and rise in prices. In actuality, both transpired, the fall in Sterling balances (including withdrawal from I M F) being of the order of Rs 280 crores, and the increase in wholesale prices 14 per cent during the year.

Increased Stocks or Consumption?

It is difficult to state with precision the amount of upstocking that is likely to have occurred in the economy, or the increase in outlay on consumption during 1956-57. Scheduled banks' advances increased by Rs 150 crores during 1956, of which industry got Rs 85 crores and trade Rs 55 crores. Imports during 1956 were more than Rs 200 crores higher (payments figures) than in 1955, due in the main to increased imports of iron and steel and non-ferrous metals and manufactures, machinery, vehicles, chemicals, and a large variety of other producer goods. It may safely be presumed that a very significant part of the increase in imports has gone into investment (either immediately, in fixed investment or to augment inventories), while the balance has gone (as raw material) to sustain increased domestic production of a wide variety of commodities. From the point of view of the economy, most of it has been 'investment' during the year, though there has been a corresponding disinvestment abroad.

To some extent, the worsening situation both in the matter of prices and in the deteriorating foreign exchange situation has added to inventory accumulation. The upstocking rush has not been limited to imports. There has been a significant increase in inventories of agricultural products also. While little is known about inventories in general, the available information on stocks of agricultural commodities is even less. But, judging from estimates of production, despatches, and the movements of stocks at selected points, the total increase in inventories during 1956-57 for all commodities may well have been around Rs 150-200 crores in value. This figure relates to actual or ex-post investment, i e, the investment on inventories (at ruling prices) that took place, and not the sum of investment intentions at the beginning of the year.

Investment 'Hump'

The most significant feature of these imports of producer goods was that unlike imports of food, or other consumer goods, these imports were not 'deflationary' in their effect; in fact, to the extent that they called for additional complementary investments, their effect was inflationary. Further, most of these investments were not quick-maturing, and thus no immediate increase in output could be expected to accrue from all these investments. In other words, 1956-57 became the first year in the history of Indian economic development when a really serious 'hump' of investment was encountered. It would require detailed analysis of the investments that have already taken place and of those that are still to come to state how much of this 'hump'—implicit in the Second Plan—has already been negotiated. The hump came on rather suddenly, when expectations were rosy and the mood buoyant, and it came on faster than one may have anticipated.

There was, thus, a good deal of investment in the pipe-lines, during 1956-57. Not all of it could, of course, be designated as inventory increase, but some of it undoubtedly was of that nature. As seen earlier, an increase in inventories (or of fixed investment) by something like Rs 200 crores, would have left no margin for any increase in per capita consumption. What did happen was that private fixed investment was not Rs 450 crores as posited earlier but somewhat higher, total private investment (including investment in inventories) being around Rs 650 crores. At the same time, the demand for consumption was not pegged and the prices were forced up.

Shortfall in Savings

Wholesale prices increased by some 14 per cent in 1956-57 and the cost of living by more than 10 per cent. If we assume the general price level to have risen by, say, 10 per cent, the national income at factor cost in 1956-57 would be around Rs 11,150 crores. Adding Rs 600 crores for net indirect taxes, national expenditure at market price would then be around Rs 11,750 crores. With Government expenditure at Rs 1,350 crores, private (domestic) investment, including investment in inventories, at Rs 650 crores, and the net disinvestment abroad at Rs 280 crores, private consumption during 1956-57 may be placed at Rs 10,030 crores.

While the large foreign exchange deficit during 1956-57 arose principally from the heavy imports* of metals, machinery and equipment, vehicles, chemicals and the like required for investment or as raw materials in industry, the 'inflationary gap' within the economy is symptomatic of the insufficiency of savings relatively to investment demand. We have seen earlier that personal consumption was some 84.2 per cent of aggregate national expenditure in 1955-56; in 1956-57, personal consumption was as high as 85.4 per cent of the total national expenditure. Inspite of a 5 per cent increase in the real national product in 1956-57, as observed earlier, ex-ante savings were evidently far short of the investment plans of the Government and of private business.

* Government publicity does not obviously like to play up the imports of food or of other consumer goods.—Ed

Peep into the Future

We may now take a peep into the future, and try and assess the trends in the economy, during 1957-58. As is well-known, agriculture contributes some 50 per cent to the national income of the country directly and also affects industrial production and trade, indirectly. It is likely that the late monsoon this year may adversely affect agriculture, but to what extent is not known yet. It is also likely, however, that there will be slowing down of the rate of increase in the national income during 1957-58. Assuming a 3 per cent increase in the real national product inspite of a somewhat inevitable slackening of the increase in industrial output, the national income in 1957-58, at 1956-57 prices, may be estimated at Rs 11,485 crores. Adding Rs 700 crores for indirect taxes net of subsidies, national income (= expenditure) at market price may be placed at Rs 12,185 crores (again at 1956-57 prices).

According to the Economic Classification of the Central Budget for 1957-58, consumption expenditure of the Centre is budgeted at about Rs 400 crores; net investment at another Rs 400 crores; and investment through non-departmental undertakings (like Hindusthan Steel), together with loans and grants for capital formation to State Governments and local authorities, at another Rs 350 crores. If we assume total capital formation by the State Governments to be more or less equal to the capital loans and grants received by the States from the Centre—most States have a revenue deficit—the likely consumption expenditure of States (to the tune of another Rs 400 crores) will have to be added to derive total Government expenditure. Not all of these amounts are likely to be spent, however, especially in view of recent developments; further, in the past there has been a fairly wide gap between budgeted and actual outlays. We may, therefore, assume that total Government expenditure during 1957-58 will not exceed Rs 1,400 crores or Rs 50 crores above the 1956-57 level. Private investment may well slacken in 1957-58 especially if inventory accumulations are kept in check, and may for the time being be taken at the same rate as for 1956-57, i e, at Rs 650 crores. Assuming that there will be a further drain on our foreign exchange reserves—to be met, say, through loans or grants etc—by Rs 200 crores during the year, the amount available for personal consumption would be around Rs 10,335 crores. This represents a 3 per cent increase on the 1956-57 level and a definite improvement even in per capita consumption. That is to say, assuming that the national income increases by 3 per cent, that we rely on Rs 200 crores worth of import surplus during the year, and that the rate of investment is pegged at the previous year's level, we may expect per capita consumption to increase by more than 1½ per cent. If any of the above hypotheses falls through, and more particularly, if private consumption shows the same increasing trend as in 1956-57, or if Government outlay exceeds the level attained in 1956-57, the result will be a further spell of price increase, and further pressure on the balance of payments. If no further import surplus emerges, the gap between savings and investment will have to be met by a curtailment of consumption.

A Sudden Breakaway?

At this stage, a few lessons from the experience of the years since independence may briefly be recounted. Between 1948-49 and 1954-55, the national income of India increased from Rs 8,650 crores to Rs 9,620 crores; and national expenditure at market price from Rs 8,970 crores to Rs 10,130 crores. Total investment in the economy increased from Rs 440 crores to Rs 750 crores over the same period; and Government consumption from Rs 640 crores to Rs 670 crores. Borrowing from abroad was Rs 240 crores in 1948-49; in 1954-55, there was a nominal lending abroad of Rs 10 crores. Personal consumption thus increased from Rs 8,130 crores in 1948-49, to Rs 8,700 crores in 1954-55. However, over this period, national income estimates indicate a fall in the general level of prices by some 8 per cent. This would give an increase of only some 15 per cent in total consumption or a 7½ per cent increase in per capita consumption in six years. Personal consumption as a percentage of the national expenditure (at market prices) declined from 94 per cent in 1948-49 to 86 per cent in 1954-55.

As against these past trends, the available evidence in respect of 1956-57 indicates a sudden breakaway as it were in both personal consumption and investment expenditure. The basic malady in the economy has been insufficiency of domestic savings in relation to domestic investment plans. The conclusions which emerge from this survey are briefly recounted below:

(i) The marginal rate of savings in 1956-57 was too low to sustain the spurt in investment activity. One of the reasons for this may lie in the improved terms of trade for agriculture, and the consequent improvement in rural consumption.

(ii) Private investment in 1956-57 was rather high, especially in relation to past trends. This may partly have been due to a scramble for investment in fulfilment of Plan targets; to large investments in construction; and to some amount of speculative stock holding.

National Income and Related Aggregates

(Rs crores)

	1955-56	1956-57
1. National income at 1955-56 prices	9,650	10,130
2. National income at current prices	9,650	11,150
3. Indirect taxes (less subsidies)	550	600
4. National expenditure at market prices	10,200	11,750
5. Government consumption	725	750
6. Government investment	425	600
7. Total Government expenditure	1,150	1,350
8. Private investment at home	400	650
9. " " " abroad	20	280
10. Private consumption	8,630	10,030

(iii) The general insufficiency of savings in the economy can be corrected only by increasing the savings of the Government through taxation.

(iv) While the drain on the country's external reserves has been heavy, in terms of a national budget, the internal deficit in 1957-58 is not likely to be a significant magnitude. This is on the assumption that there is no panicky and speculative stockholding by traders and no irrational panic among consumers. In other words, domestic availabilities are likely to be adequate to meet current demands of the economy for consumption and for investment, provided there is no large scale hoarding.

(v) Finally, if investment and Government expenditure can be kept pegged at the 1956-57 level, and if ways and means are somehow found to finance an import surplus of about Rs 200 crores, there should be no further increases in prices during the year. This is on the assumption that national income would continue to rise. A necessary condition for this to come about is to hold the prices of agricultural commodities. For any increase in the income of the rural sector will lead to an immediate increase in consumption expenditure, thus widening the gap between available supplies and consumption demand.

Export Policy for Manganese Ore

IN their Press Note dated May 29, 1957, the Ministry of Commerce & Industry announced the policy for the export of manganese ore during the period July 1957 to June 1958. This policy has been reviewed in the light of the several constructive comments and reasonable representations that have been received from some quarters.

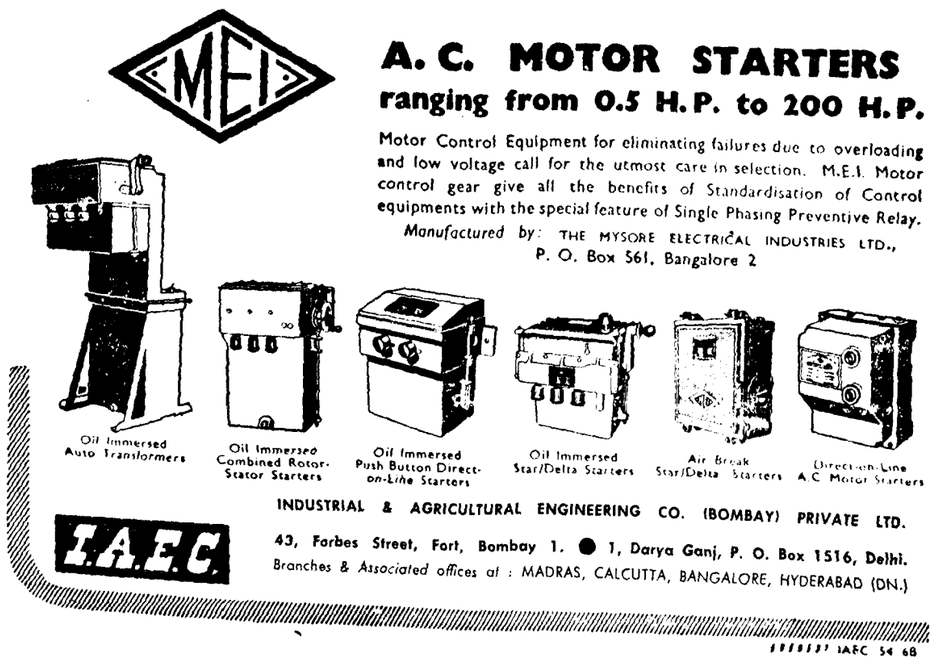
It has been represented that owing to diverse reasons such as, closure of the Suez Canal, outbreak of the flu epidemic and consequent dislocation at the ports, etc. it has not been possible for quota holders to utilise fully their quotas for shipment of manganese ore in 1956-57.

As a result of this review, the following concessions and modifications have been announced:

(1 Manganese ore moved to the ports against current quotas up to June 30, 1957, will be permitted to be shipped up to August 31, 1957, on an ad hoc basis provided that it is proved to the satisfaction of the Export Trade Controller concerned that shipment is to be made against contracts entered into before March 31, 1957.

(2) The minimum percentage of low grade ore (42% and below manganese content) will be reduced from 60% to 40%. This condition will not be insisted upon in the case of small exporters whose quota for the period July 1957 June 1958 works out to 1,500 tons or below.

(3) Mineowners, whose quota during the period July 1956 June, 1957, was 3,000 tons and below, will be given the choice to claim their quota for 1957-58 on the basis of 60% of their actual exports in 1955 or 1956 or 75% of their quota during the period July 1956 June, 1957.



From U N Headquarters

Economic Impact of Suez Crisis on Middle East

A 135 page document under the unprepossessing title Economic Developments *in the Middle East 1955-1956 has just been released at the United Nations. Chock-full of statistics, it might well have been called "the economic consequences of John Bull's folly" in the Middle Eastern countries. For here in these pages one gets for the first time the plain, unvarnished facts of how the Suez Canal crisis affected the Arab world.*

The facts do not make pleasant reading; besides it is difficult to isolate clearly the repercussions of the Suez crisis from those of current economic forces in the countries of the area. Nevertheless there are a number of economic changes that have ensued from the events of the latter part of 1956 which the United Nations report has considered. It is just as well that we know them.

But first let us have the background to Suez trade.

IN 1955 traffic through the Suez Canal accounted for about 13 per cent, in volume, of world seaborne trade. Tanker cargo alone accounted for approximately 8 per cent of the total volume of international trade and 19 per cent of all cargo carried by tankers. It is estimated that it costs probably $600 million more per year to carry the same cargo around the Cape of Good Hope and that about half of that extra cost would be needed to transport crude oil from the Middle East to Western Europe and North America with the present facilities. Apart from oil, the main northbound goods that utilise the canal are raw materials, including metals, cereals, vegetable oils and seeds, spices, sugar and textile fibres. Southbound traffic carries mainly cement, fertilisers, paper, sugar, machinery and a variety of other manufactured goods from Europe to Asia, Australia, and Eastern Africa.

To the countries of the Middle East themselves, the Suez Canal as a sea route has been of minor importance except as a passage for the exports of the oil-producing countries. By far the largest part of the region's international trade in commodities other than oil is carried on with countries west of the Suez Canal or within the area itself. Middle East countries which have no direct access to the eastern Mediterranean seaboard—Jordan, Iraq, Iran, the Sudan and the Arabian peninsula—find it convenient to transport part of their commodities destined for Western Europe and America across Lebanon and Syria by rail, truck or air.

The total value of Middle East trade that passed through the Canal in 1955 is estimated at $2 billion. This compares with an estimated value of $11 billion for all goods that passed through the canal during that year. Of the Middle East trade using the canal, approximately $900 million—47 per cent—represented exports of crude oil and oil products. In volume of cargo, however, the Middle East figures much more prominently, owing to the relative bulk of oil exports. Out of the total traffic through the Suez Canal, estimated at 107.5 million metric tons in 1955, the Middle East accounted for 66 per cent, while 60.4 per cent represented oil exports of the region.

In the Economy of Egypt

The economic benefits to Egypt of the Suez Canal are derived from two sources which directly add to the national income of the country. The first is that part of transit dues which is transferred to Egypt or is spent by the Suez Canal Company (Compagnie Universelle du Canal Maritime de Suez) in the country. The second source is the expenditure of passing ships and their passengers on goods and services during their short stops in canal ports.

The latter factor is difficult to estimate except where the supplying of such goods and services is handled by the authority in charge of the canal. The total direct addition to national income of Egypt arising from these sources has been estimated at approximately £E 11 million in 1955 and at around £E 9 million in each of the four previous years. For 1955 this was less than 1.5 per cent of Egypt's national income and about 5.7 per cent of the budget revenue. The amount for 1955 was considerably larger than in the period before 1947, when transit dues did not exceed one fifth of the 1955 level.

An important part of the expenditure of the Suez Canal Company in Egypt was on wages and salaries of employees. In July 1956 it employed over 5,100 workers in Egypt of whom the majority in the labourer group were Egyptian. About 42 per cent of those in the administrative and technical groups were Egyptian too.

Income created by sources other than the Suez Canal Company, but dependent indirectly on the operation of the canal, includes the income of workshops in Port Said employing about 1,400 workers and doing business other than for the company; the income of trades and services supplying tourists and the income of industry and services supplying fuel, water, food and power to ships directly or to the Suez Canal Company as intermediary. It is impossible, says the report, to estimate with any precision, the total amount of this indirect income.

Foreign Exchange

Practically all receipts from Traffic and tourists passing through the Suez Canal are in foreign exchange; these receipts have risen considerably in the post-war period. Of these receipts a large part was transferred abroad by the Suez Canal Company for distribution of dividends, additions to reserves and to its pension fund. The balance, which remained in Egypt, was significant as a source of foreign exchange.

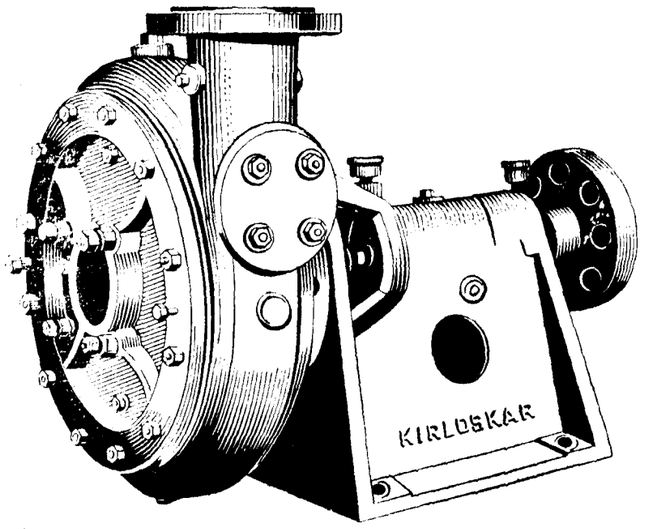
Nationalisation of the Suez Canal Company which took place on July 26, 1956 did not have any significant direct effect on the flow of traffic. However, it led to the blocking of Egyptian Government assets in France, the United Kingdom and the United States. Traffic through the canal ceased completely, however, with the outbreak of hostilities at the end of October.

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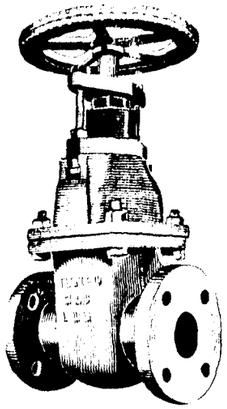
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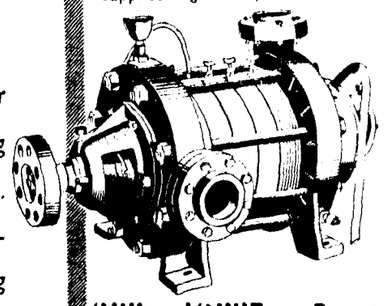
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end of October, Egypt received only a part of the transit dues paid by canal traffic, the rest being paid into the accounts of the Suez Canal Company abroad. Total dues during the period were of the order of £E 10 million, of which around £E 4 million accrued to Egypt. The cost of maintaining and running the canal for an equal period in 1955 was just under £E 3 million. Thus Egypt's receipts from transit dues between July and October did not greatly exceed current expenditure on the canal during the period. Such expenditure was largely made, however, in local currency and the dues which were received in foreign exchange were thus at a rate comparable to that which prevailed before nationalistation.

Change in Direction of Trade

The direction of Egypt's foreign trade adapted itself to the change in Egypt's international payment position following the freezing of its assets abroad. Imports from the Sterling area were substantially reduced and those from Eastern Europe increased correspondingly. Imports from the latter area included in particular, wheat and crude oil. Clearing accounts in favour of Egypt that had been accumulated with Eastern European countries amounted to £E 9.6 million net by the end of July; these were utilised to pay for imports from Eastern Europe or to settle payments for imports from Western European countries. Credits opened by India, Indonesia and Japan, countries which accepted payments in Egyptian pounds or deferred payments for their exports to Egypt and credits in Swiss francs advanced by the People's Republic of China supplemented available foreign exchange.

Withdrawal from IMF

In addition, Egypt withdrew $ 15 million from the International Monetary Fund in September 1956 and obtained a credit of $ 15 million from Saudi Arabia. These measures enabled the Government to purchase essential imports and at the same time to maintain the level of its short-term balances. They also enabled Egypt to add £E 5 million in gold to its currency cover in October and December and thus to increase its total holdings of gold and foreign exchange by the end of 1956 to about their level in July of that year.

Consequences of Military Operations

Military operations late in October and in early November 1956 were almost completely limited to Egyptian territory and involved, directly, only the two Middle Eastern countries, Egypt and Israel. The direct material losses were incurred wholly in Egypt. No estimate of these losses is available. Damage fell particularly in the field of transport and included airports, airplanes, roads, military vehicles, railways and floating equipment used in operation of the Suez Canal.

Indirect losses to Egypt resulting from military operations were also quite substantial. With the blocking of the canal, Egypt ceased to receive that part of the transit dues which it had been receiving. Suez Canal workers, numbering over 5,100 and workers supplying them services were unemployed. Loss of income from these sources was at an annual rate of £E 11 million. Loss of secondary income was also substantial.

Almost to counteract these losses as it were, in November the Egyptian Government appropriated vehicles and military materials in the stores of the Suez Canal military base which had been evacuated by the British. It also placed under sequestration, or public custody, a considerable number of British, French and other establishments located in Egypt, a large proportion of which were released by mid-February.

The largest concerns which were put under custody included oil producing and distributing companies, particularly the Anglo-Egyptian Oil Company which owned an oil refinery and five oilfields, three of which are located in the Sinai peninsula. Eleven banks with a total capital of £E 2.2 million, a large number of branches of insurance companies and several import agencies were also sequestrated. In January 1957 ownership of six sequestrated banks and of the insurance companies was transferred to a public corporation. This body was created to invest funds in public projects with a view to transferring them finally to private Egyptian hands. According to an official statement, compensation for the banks and insurance companies that were taken over would be paid to the public custodian pending final settlement of claims.

Impact on the Oil Industry

Blocking of the Suez Canal and interruption of the oil flow through pipelines via Syria resulted in a widespread change, in the last two months of 1956 and early months of 1957, in patterns of oil production transport, supply and refining in the Middle East as also of the revenue drawn from oil.

Production of crude oil during 1956 as a whole was 5.7 per cent higher than in 1955 but during November and December production fell by about 38 per cent below the rate of the preceding months of 1956. This was essentially due to the reduction in effective means of transport. The quantity of oil shipped by tanker was substantially reduced as a result of rerouting of tankers around Africa; the amount of oil transported through pipelines to the Mediterranean seaboard also fell, by 64 per cent.

The country most affected by the reduced production of crude oil was Iraq which previously exported three quarters of its oil through pipelines which ran through Syria.

The blocking of the Suez Canal also substantially reduced exports and production of oil in both Saudi Arabia and Kuwait which depended heavily on the canal. Iran was only slightly affected by the shortage of tankers, partly because of shipments of crude petroleum to Bahrain to replace the latter's imports from Saudi Arabia. But interestingly enough, for the area as a whole, income from petroleum showed an increase for the whole of 1956 as compared with 1955, despite the considerable fall in exports during the last two months of the year. In Syria, for example, receipts from oil companies in 1956 totalled approximately £S 115 million compared with about $S 50 million in 1955 and £S 6 million in 1954.

General Economic Effects

What are the general economic effects of the Suez crisis on the Middle East? The direct economic impact says the report, of events in October and November 1956 was shortlived and quickly diffused. However, the effects of the events apparently were felt beyond the area of the immediate conflict. The heightened political tension created by the attack stimulated additional military expenditure in several countries not directly involved in

the conflict. Speculation and hoarding in several of them were followed by shortages in supply and a rise in prices of various essential consumer goods besides oil products. At the end of October and early in November there were heavy withdrawals of bank deposits for a short period in countries surrounding the area of conflict—for example in Lebanon, Syria and Jordan—as well as in Israel. These developments, together with the more direct financial burdens of the conflict itself, produced a general rise in the supply of money and credit in Egypt, Israel, Lebanon and Syria and a strain on the foreign exchange resources of Egypt, Israel, Saudi Arabia and Syria. Iraq and the Persian Gulf states were less affected owing to their large accumulated revenues of foreign exchange. Turkey, Iran, the Sudan and Cyprus lay largely outside the orbit of the conflict.

The report, incidentally, has some pertinent remarks to make on the petroleum industry itself. Thus, it says that the petroleum industry continued its rapid advance in this part of the world, despite the setback caused by the Suez Canal crisis. Direct revenues received by the Middle Eastern Governments increased correspondingly, from about $ 500 million in 1953 and $ 680 million in 1954 to about $ 880 million in 1955 and $ 940 million in 1956. The profits to foreign-owned companies can well be imagined. Neither should the political implications of these profits be under-estimated. Considering that the United States oil companies have a high stake in Middle Eastern oil, the necessity of American intervention to halt the Anglo-French invasion becomes apparent. The question now being seriously asked among some diplomats at least is: Why should not the United Nations take over all the assets of foreign-owned or operated oil companies, so that the profits, instead of going to private firms, is utilised for the development of all under-developed countries and the Middle East ceases to be a political powder-keg.

The idea, though it may sound preposterous at the moment, may well have to be considered by the United Nations some time or other in the future. Oil is the root of all evil, certainly where the Middle East is concerned. It will continue to be so, so long as it is prospected, drilled, processed and its marketing is controlled by western companies, even if it be in conjunction with domestic Governments. The day when the United Nations decides to make world resources available to all people may well see the end of power politics in the Middle East. If the United Nations report has a moral, it is this: That political maturity is not catching up with man's economic necessities and that man has to blunder grievously through wars and economic upsets to understand that world resources are for world consumption directly—and not through a middleman.



From the London End

The Changing Status of Gold

The liberalisation of trade and payments in the Western World since 1948 has been so gradual that much of the significance of the progress achieved has been lost sight of. The advances made are, nevertheless, real.

Today the transferability of currency is so wide that for many currencies, a de-facto convertibility into gold and U. S. dollars has become a reality. Quantitative import restrictions have been relaxed to the extent that this type of control over trade has almost become unimportant.

Most of the current discussions for expansion of trade, especially in Western Europe, are concerned with the elimination or the reduction of tariffs. And so the 50 per cent increase in world trade and the 120 per cent increase in Europe's trade in the period since 1948 must, to a large extent, be attributed to the advances made in the relaxations over the control of trade and payments.

It is against this massive experience of trade expansion that an attempt is here made to review the function and what is suggested to be the changing status of gold in world finance.

THE restoration of a number of official gold markets in Europe since 1951 was mainly concerned (when they were reopened) with enabling central banks to buy and sell gold in accordance with their needs and policies and to enable supplies of newly mined gold to be marketed. These official markets, however, have always remained of little consequence: the existence of a number of viable free markets for gold in which prices invariably ruled at a premium over official prices had tended to give these markets an ever-increasing importance in an environment of exchange controls. The final acceptance by the International Monetary Fund in September 1951 of the right of gold producing countries to channel a proportion of their output to these free markets, gave these markets a profoundly new importance. An ever increasing proportion of new-mined gold each year has since "disappeared" into these markets.

"Disappeared Gold"

Official estimates of world gold production in 1956 (excluding that of the U S S R) at 28.6 million ounces represents an increase of about 1.1 million ounces or 4 per cent over the output of 1955. Since 1946, when the output was 21.7 million ounces, gold production has increased by one-third. The value of newly mined gold in 1956 was about U S $ 1,000 million (at a price of $ 35 per ounce). It is estimated that gold sales by the U S S R amounted to $ 140 million last year. The Board of Governors of the Federal Reserve System have estimated that of the newly mined gold, $ 500 million worth was added to official reserves. The balance must have therefore been absorbed for industrial purposes and private hoarding. The Bank of International Settlements publishes data each year of the value of what it calls "disappeared gold". Industrial and private absorption rose to $ 640 million in 1956, the highest in any year since 1951 when the value of "disappeared gold" amounted to $ 690 million.

The largescale private absorption of the fresh supply of gold in 1956 had certainly something to do with the Middle East crisis. What was particularly remarkable in 1956 was the steadiness in free market prices for gold bars. With the exception of the free market in Hong Kong and Paris, prices in all the markets ranged within 3 per cent of the official U S Federal Reserve System price of $ 35 per fine ounce.

Free Market Prices

Free market "prices" requires some explanation. The prices quoted on these free markets are usually expressed in local currency. These local currency prices, when converted into U S dollars at the free or unofficial market exchange rate, give the equivalent free market dollar price for gold. Thus prices in countries having a completely free exchange market like Switzerland and Tangier are generally lower than those in countries where there are no 'legal' free exchange markets.

The narrowing of the gap between the United States official price and the prices (converted at free market exchange rates) ruling in various unofficial markets strongly suggests not the paucity of demand but the increasing proportion of freshly mined gold that has found its way into these markets. The ever-increasing ability of holders of various currencies to convert their holdings into U S dollars has contributed towards another important development in the free gold markets, particularly those in Belgium, Holland, Italy and West Germany. There has been a considerable narrowing in the gap between the local prices for gold bars converted into dollars at free exchange rates and the same prices converted into U S dollars at official exchange rates. In a word, the time is fast approaching when

ESTIMATES OF DISAPPEARED GOLD
(Value in $ millions)

	1949	1951	1954	1955	1956
Gold Production	840	840	815	960	1,000
Sales by the U S S R	—	—	75	75	140
Less Increase in Official Gold Reserves	—480	—150	—660	—660	—500
Disappeared Gold	360	690	330	375	640
Accounted for by:					
Industrial Uses	200	140	190	210	240
Private Hoarding	160	550	140	165	400

Source: **Bank of International Settlements**—Annual Reports 1949-50.



Governments and central banks will find their currencies achieving a **de-facto** convertibility into gold and dollars at rates of exchange well within the official limits. And when this happens, Governments and central banks will have to concede official recognition to the free gold markets!

Some West European countries like Belgium, and Switzerland have found that a free gold market can assist towards abating the problem of inflation. By freeing the markets there is, at least in the initial stages, a spate of demand for gold. Where the central bank (as in Switzerland) actually becomes a supplier of gold, the sales within the country have the effect of reducing the liquidity of the public to a marked extent.

Central Banks Intervene

The steadiness in the price of gold bars in 1956 in Europe (in spite of the evident increase in private hoarding) is partly explained by the increasing ability of central banks to intervene in free exchange and gold markets. This is clearly borne out by the nature of the technical operations of the Bank of England and of other central banks. Although the currency employed in the official London gold market is still "registered" sterling or U S and Canadian dollars, the wide powers of the Bank of England to support transferable account sterling against U S dollars in the Zurich exchange market enables many non-sterling area residents to acquire registered sterling and so to purchase gold in London. This necessarily forces through a narrowing in the price gap for gold traded in various markets official or otherwise.

In Paris a free gold market for internal transactions has been in operation since February, 1948. Gold may be bought freely against French francs but may not be exported or imported except for officially authorised purposes. There have been times in the past when the French authorities have in fact intervened in this market. In times of rising trade confidence, the Bank of France has purchased supplies of ingot gold to bolster its reserves. In Western Germany the large-scale smuggling in gold coins and gold bullion has been halted by the freedom given for the import and export of gold against a new Deutsch mark of limited convertibility, the Bekomark. This currency at first stood at a slight discount to U S dollar but has since appreciated in exchange value to well within the official limits.

Dollar Exchange Standard

The experiences of the recent past in official dealings in gold equally suggest changes in policy and technique of considerable significance. The very fact that world trade and payments has risen faster than the supply of newly-mined gold suggests that the world is finding ways of avoiding a general shortage of monetary reserves. Fred Klopstock's recent monograph on the 'International Status of the Dollar'*, shows the clear movement of the Western World towards adopting a dollar exchange standard as a method for economising the use of gold. Between December 1947 and December 1956 the official gold holdings of twenty leading trading countries (excluding the U S A) increased by $ 4,424 million. In the same period their short-term dollar assets rose by $ 8,627 million. While in 1947 the non-Communist world maintained dollar assets as a ratio to gold of under 18 per cent, the ratio in 1956 rose to 54.4 per cent.

It is easy for any Government or its central bank to convert its dollar assets into gold. The U S Treasury always stands ready to buy or sell gold at the official price of $ 35 per ounce to and from central banks and monetary authorities. According to the U S Treasury Bulletin for March 1957, about $ 1.2 billion or 27 per cent of the rise in foreign gold reserves since 1947 represented gold acquired from the U S Treasury. With the exception of the heavy purchases of gold from this source in 1950-51, the sales of the U S Treasury of gold to foreign central banks in the recent past has been modest. In fact the U S Treasury purchased gold from foreign central banks in 1956.

* **Essays in International Finance**, Princeton University, May 1957.

FREE MARKET GOLD PRICES
U S Dollar Equivalents of Local Currencies per Fine Ounce of Bar Gold

End of Month	Paris	Zurich	Tangier	Lebanon	Hong Kong
1948 Dec	49.54	43.00	57.00	—	49.00
1951 Dec	41.38	38.62	38.85	39.00	42.71
1954 Dec	35.52	35.02	35.00	35.27	38.22
1955 Dec	35.95	34.99	34.92	35.21	38.04
1956 June	36.04	35.04	?	35.17	38.05
1956 Dec	36.17	34.95	?	35.23	37.90
1957 March	36.06	35.12	?	35.11	38.23

Source: **International Financial Statistics**—May 1957.

OFFICIAL GOLD AND SHORT-TERM DOLLAR HOLDINGS
(excluding U S A and U S S R)
$ millions

	Gold	Short-term Dollar Assets	Dollars as % of Gold
1938	11,358	474	4.2
1947	10,326	1,832	17.7
1953	12,887	5,667	44.0
1954	13,807	6,774	49.1
1955	14,439	6,956	48.2
1956	14,750	8,032	54.4

Source: **Essays in International Finance No. 28**—F H Klopstock.

There can be no question that a major factor contributing to the preference of non-dollar countries to hold short-term dollar assets instead of gold is the income-earning character of such assets. The rise in the U S discount rate in July last to 3 per cent and the corresponding increase in the U S Treasury bill rate has made short-term dollar assets considerably more attractive to foreign currency authorities than ever before. It is apparent that the "gold tradition" of many central banks including that of the United Kingdom is fast dying out. Britain's short-term dollar assets rose by $ 690 million between 1947 and 1956.

The gold reserves fell by $ 220 million in the same period.

The implications of the rapid freedom being acquired by the unofficial gold markets and the increasing use of the dollar as a monetary reserve are far-reaching. These developments suggest that the world is coming to accept the existing pattern of exchange rates and parities and to believe that this pattern will persist for some time to come. It equally suggests the gradual movement towards full currency convertibility and to the widening official recognition of this state of affairs.

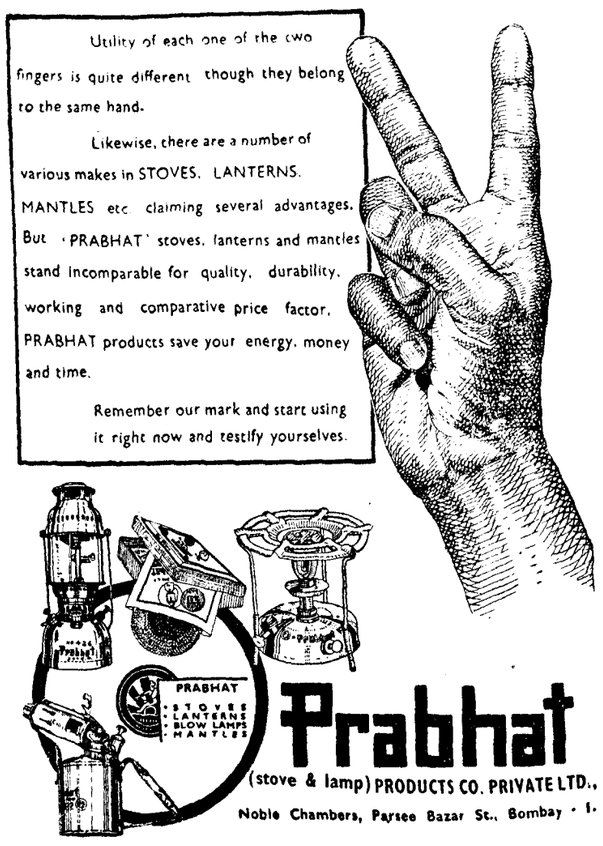
Dollar Exchange Standard?

These implications are important. What appears more important is the gradual abandonment of the gold tradition of many central banks and the coming into existence of the dollar exchange standard —a standard of particularly wide embrace. It is at this point that some difficult questions arise. The upsurge in foreign dollar holdings reflects the emergence of the United States as the principal financial centre in the world. Is the American banking system capable of performing the necessary international banking functions that follow from this position? This was the question posed in the 1930's in regard to international investment and the answer then was in the negative. In the immediate post-war years, similar doubts persisted. But the power of the American economy was so overwhelming that the new machinery of world finance set up in the years 1944-45 had inevitably to be based on the U S dollar. In spite of the widespread qualms and distrust of the United States, the point has now been reached where the power of the U S dollar is established. To have been able to achieve this power, the American banking system must have passed the necessary tests.

There can be no doubt that if the United States maintains in the future its performance of the past 7 years, its ability to finance and cover its short-term liabilities will be assured. Many British observers, fearing that sterling may lose its relative international position, often argue that the U S free gold reserves (i e the excess over the minimum legal cover against Federal Reserve liabilities) are insufficient to cover the volume of foreign short-term dollar assets. Such views are certainly unwarranted since they appear to be based on an arithmetical calculation of little significance. At the end of 1956 the U S gold reserves amounted to $ 22 billion of which $ 12 billion was supposed to cover the legal requirements. U S short-term liabilities to foreign countries amounted to $ 13.4 million. If we compare this position with the ratio of gold and dollar reserves to sterling liabilities of the U K, we find that the U K ratio was no more than 26 per cent in 1956. The American free gold to foreign liabilities ratio was in the region of 85 per cent.

The United States, while possessing an enormous productive capacity, remains, as an economy, extremely volatile and unpredictable. Its capacity to maintain the new dollar exchange standard and thus to engender a greater economy in the use of gold ultimately depends on the ability of the U S to pursue policies which maintain the purchasing power of the dollar and a sufficiently high level of activity so that imports are high enough to obviate the rest of the world experiencing another round of dollar shortages. This remains, as the Americans would put it, "the 60-dollar quiz".

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Letter from Paris

France and India: Problems and Prospects

The foreign currency difficulty of France arises from her increased incapacity to export while that of India arises from her increased needs for imports; the need for higher budgetary expenditure arises in France due to her increased expenditure on arms while that of India arises from increased public investments; the budgetary deficits however arise in both the countries due to the same reason, namely the refusal of the Capitalists to pay for the War in Algeria on the one hand and the Plan on the other, both of which they otherwise support enthusiastically.

It is at this point that the problems and prospects of the two countries are found to be linked. For the problems of France are due to the fact that she represents Imperialism in retreat and the problems of India to the fact that she represents the emergence of the ex-colonial countries in a block as a World Economic and Political Force.

The process of development of the ex-colonial countries and the process of imperialism trying hard to prevent its own disintegration are of course not at all independent. They act and react upon each other in a very intimate, though sometimes indirect, fashion. The difficulties in the two countries are thus results of the same current of history flowing through both the countries; and the prospects for them waiting down the river are not at all unconnected.

CAN one study the problems and prospects of India and France together in the same article? The two countries, are so very different in tradition and history, temperament and spirit, economic and social institutions, political and administrative organisations, geographical features and geological endowments. Indeed it is difficult to imagine two countries more unlike each other, and as a matter of fact, the contacts between the two countries have also been very meagre. Culturally, it has been almost nil, except for a few modern poets in Calcutta and a handful of modern painters. This is unfortunate, for a little bit more of contact with French and Italian cultures would have rectified the heavily one sided nature of the western influence we have received from the British, the Americans and perhaps a little bit from the Germans. Acquaintance with the art of film making as developed in these countries, to take just an example, would have made possible earlier and more frequent production in India of such films as "Pather Panchali", and the cultivation of French historical and political thought would have made Indian political thinking more scientific.

The political relations between India and France have not been any closer. They have been mostly indirect, as the two countries, have faced each other as members of two hostile blocks, direct relations have been limited to two minor skirmishes over the two French pockets in India, Pondicherry and Chandannagar.

Trade Relations

Economically, the relations have been increasing recently, but the relative importance of either country for the other has remained, uptil now, and is likely to remain in the near future, insignificant. Current transactions between the two were about £ 16 million in 1952 and rose to about £ 23.5 million in 1955, the balance being favourable to France and showing an increase from £ 3 million to £ 7 million.

Thus the tendency for trade to grow between the two countries is only the normal concomitant of the general increase in trade and production in both the economies. The pattern of trade, however, remains unchanged. Manganese continues to be the chief Indian export to France and iron and steel the chief import from France. There is not much chance of any diversification coming in this pattern. France surely will not interest herself in the engineering products of India, and as far as primary products are concerned, France would, if she could, reduce rather than increase her present volume of imports; for she is deficit not only with regard to the Dollar zone but also with regard to the Sterling zone. France cannot also increase her exports to India, for what India needs most urgently is machinery which she can get cheaper from at least one of the four: U S A, U S S R, U K and Germany. This of course does not at all mean that there cannot be fruitful cooperation between the two countries in certain fields; for as against their higher cost, the quality of French products is often of very high order, and there are lines of production in which the French are specially experienced, e g, certain fields of civil engineering, railway engineering, Jet propulsion, etc.

Credit and Aid

As far as possibilities of credit and financial aid are concerned, there, again, is nothing exciting. Private credit is not to be expected in any substantial quantity as, to the reasons that have made even American and British capital so reluctant to come to India, has to be added an additional one holding back the French investors, namely that the Indian field is unknown and unexplored for them. There is of course a very heavy pressure on French capital for flight, but it naturally tends to flow towards the French colonies and ex-colonies. (Capital export under public and private auspices taken together expressed as a proportion of the National Income is the highest in France.) As to export on Governmental level, the balance of payments situation is so desperate that aid to any non-French zone can hardly be thought of. Apart from all this, the political factor cannot be forgotten. Aid even from the U S A and the U K have, uptil now, been slow to come. Yet both of them have very real interest in keeping friendly terms with India. The same reasons apply to France with regard to her orbit of influence which does not extend to India.



Economic relations between the two countries are therefore not great and are not likely to increase. What can then be the problems and prospects of the two countries that can be discussed together?

Difficulties Similar

Let us have a look at the difficulties that face the two economies. We shall be struck by a great similarity, albeit superficial. As we have at length discussed in the last letter, the problem that is facing France today is that of shortage of foreign currency on the one hand and shortage in the budgetary resources on the other. Apart from this, the economy gives the impression of being prosperous. Production has been expanding; prices, though subject to pressure, have been steady for some years past. There are no signs of unemployment.

Are these not the facts and symptoms that also face us in India? If we do have large unemployment that is only with regard to labour; there has not been much of idle capacity lying about. If prices have been rising, the situation cannot yet be described as inflationary.

The roots of the troubles in the two countries however are entirely different. The foreign currency difficulty for France arises from her **increased incapacity to export** while that of India arises from her **increased needs of for imports;** the need for higher budgetary expenditure arises in France due **to her increased expenditure on arms while that of India arises from increased public investments: the budgetary deficits, however, arise in both the countries due to** the same reason, namely the refusal of the capitalists to pay for the war in Algeria on the one hand and for the Plan on the other, both of which they otherwise support enthusiastically.

The Same Historical Process

It is at this point that the problems and prospects of the two countries are found to be linked. For the problems of France are due to the fact that she represents Imperialism in retreat; the problems of India to the fact that she represents the emergence of the ex-colonial countries in a block as a World Economic and Political Force. The process of development of the ex-colonial countries and the process of imperialism trying hard to prevent its disintegration are of course not at all independent: they act and react upon each other in a very intimate, though sometimes indirect, fashion. The difficulties in the two countries thus are the results of the same current of history flowing through both the countries; and the prospects for them awaiting further down the river are not at all unconnected.

The same historical process gave rise to the two Great World Wars and the development of national consciousness in the colonial countries. The wars made the imperialist powers suffer losses of exported capital and thus made them weak; at the same time created objective conditions favourable to anti-imperialist struggles. Losses of colonies one after the other have meant the loss of the sources of cheap raw materials and privileged markets. This has faced the export industries of the older imperialist countries with rising production costs on the one hand, and with shrinkage of markets on the other. Hence the difficulties.

Decline of Older Imperialism

There are of course three other factors contributing to the decline of the older imperialist countries: competition with American economy, the strong Trade Union movements inside them and the Cold War situation. The first two cannot however be regarded as decisive, as their damaging effects could be and were actually neutralised by the existence of the colonies. As far as the Cold War is concerned, its contribution to it is not all on one side only. Thus, it has and is still preventing a depression in America. (That disarmament does not seem to arouse enthusiasm in American political circles was noticed and commented upon only the other day by no other than Walter Lippman). The decisive factor in the decline of the ex-colonial powers is thus found to be the loss of the colonies.

Yet, need it really mean decline? After all, these countries have reached a fairly high standard of living and a high rate of saving. Is there any inevitability in their decline? Surely efforts towards reorientating their economies to the new world situation would put them back, after probably an interval of a few years, on to a firm footing. If they would stop rearming and put an end to the colonial wars, they will have enormous amounts to invest in industry and in research and should soon be able to face American and German competition on equal terms. And the very development of the ex-colonial countries, instead of weakening them more and more, would provide them with evergrowing demand for capital goods and ever open fields for capital export!

Need for Planning

The problems of the ex-imperialist countries indeed are all solvable, and more easily than those of the ex-colonial countries; but only under the condition that they turn socialist. For, it would involve planning on a national level. Export of consumer goods can indeed be easily substituted by export of capital goods of the same value in a Social Accounting table. But in practice it would mean the bankruptcy of a certain number of capitalists, unemployment for a certain number of workers in certain fields for some time and new investments in new fields. These considerations will always supply pressure on continuing the war, and that would of course mean that resources which should be available for investment in modernisation will be wasted. There are many other difficulties in saving money by cutting armaments. Firstly, there is the pressure of those whose interests are involved, directly or indirectly. Apart from that, even if armaments programme objectively serves as a Keynesian outlet for surplus products at the moment, it does not follow that the expenditure on this head can be freely manoeuvred by the Social Accountant according to the needs of the moment to balance his accounts. For, once a programme is launched, it starts to have a life of its own, with considerable amount of autonomy subject to policies and decisions of military experts, cold war politicians etc, who may not at all like the interference of the Social Accountant.

An examination of the situation in France on this point will reassure anyone who thinks that

the above description is too schematic. Let us consider the Algerian war. It is a hopeless war, doomed to be lost. Yet, it cannot be stopped and money saved for more fruitful purposes. Among the diverse sections of the population who do not want it to be stopped is a large part of the textile workers, who incidentally belong to the Socialist Trade Union. They know that their products sell very much in Algeria and that these cannot be sold there any more, if Algeria is free and French textiles have to compete with other foreign textiles. Faced with the prospect of unemployment, the thought that Algeria might then be willing to import capital goods from France is of little comfort to them.

Again, if it were true that the Government wanted to stop the war thinking that even from the point of view of material interests the war had become unprofitable, even if the capitalists involved were to wish it to be stopped, even then it might be found difficult to achieve a cease-fire due to the opposition of various brands of Right Wing reactionaries, militarists, fascists, etc, who seem to have increased their hold on the army and who want the war not only for economic reasons. Assuming that the ex-imperialist countries cannot manage to plan and reorient themselves to the new balance of forces in the world, it is to be expected that in the measure that the economic and political forces of the ex-colonial countries gather strength, the ex-imperialist countries must face ever growing difficulties of the same nature as those experienced at present. That will, again, aggravate internal working class discontent which, in its turn, will still further worsen the economic difficulties.

This process cannot of course go on indefinitely. As far as the ex-imperialist countries are concerned, there can be two alternatives only. Either the working class will put an end to disorders by establishing Socialism; or the capitalist class will remove its disabling factors, 'democracy', and establish Fascism.

(This is not at all a speculation about the distant future. Such a decisive change in Italy or France in the near future cannot be ruled out. To clear up the mess created by the politicians, the name of De Gaulle is being more and more heard in France. The objective situation in France is not far from being ripe for Fascism. Subjectively, the people do not as yet want Fascism. But there are observers who believe that the deadlock in the Algerian War situation might give rise to Fascist attempt for power. Whether in such a case the Fascists will be able to hold their own or whether the resultant reaction on the part of the leftists will prove more powerful, cannot be foretold).

This of course will have a decisive influence on the balance of power as between the two giants of the cold war. In a world where history seems to have come to a stop as a result of the equally great powers of the U S A and the U S S R neutralising each other, it is in the struggle between the forces represented by France and India that the possibility exists of ending the stalemate one way or the other.

Does it lead to any further thoughts, any temptation to big generalisations? A new and rather odd little idea seems to be in the air. A book on underdeveloped economies recently published in France carries the title **"Le Tiers Monde"** or The Third World. Before the French Revolution, French society was officially divided into three classes, the nobility, the clergy, and the "Tiers Etat" comprising all the rest. The term "Tiers Monde" has been coined to designate the underprivileged part of the world. Very significantly indeed, again, Myrdal has been talking about the Marxian parallel in his **'International Economics'**. He recalls that Marx predicted the growing polarisation in capitalist societies between the capitalist and the proletariat. He says that while that has not come true, there indeed has been a polarisation on a world scale among the "Rich Nations" and the "Proletarian Nations". Still more significant, what neither Balandier (editor of the French book) nor Myrdal seems to recall is that it was the Tiers Etats that pulled down the Ancient Regime and that Marx predicted the downfall of capitalist society as a result of the struggle between the two classes! Does it indeed suggest something as to the possible course of events in the future?

There does seem to be taking place a world wide struggle between "Capitalist Nations" and "Proletarian Nations", considering that the countries of the Communist Bloc have all been and (except for Russia and Czechoslovakia) still remain 'underdeveloped'. Marx's prediction on the transition from Capitalism to Socialism applied to single countries taken separately has not come true in any country. Is Marxian dialectic which failed to work as previewed by Marx in single countries (which not being isolated societies could escape their fate through external means not taken into account in Marx's closed model) actually at work behind what is passing today in the world?

Let us not try to reply, but rest contented with quoting Myrdal's remark about Marx: "It is the distinctive attribute of a great scholar.....that even his mistakes are important."



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A Calcutta Diary

Green Eyes on the Damodar Valley

It is possible that the failure of the corporation idea—if such it is—stems from the fact that it was neither the one thing nor the other, with some of the evils of both and few of the virtues of either.

To sum up, there is a case for autonomy and there is a case for direct departmental running of development projects. There is none at all for having the worst of both worlds.

Those clever men who think they are having the best of both worlds—some politicians, some officials—seem unaware that the advantages are transient and adventitious.

THE West Bengal Legislative Assembly saw Dr Roy in a rather unusual role one day last week. On being asked to vote the State's contribution to the cost of the Damodar Valley Corporation, the House asked the Chief Minister many questions. He did not reply any, and said he was helpless. That there was discernible a certain method in the Doctor's helplessness escaped the Opposition, and it was eventually decided that the proceedings of the debate would be forwarded to the Centre so that it would know the feeling of the House. There was also a demand for amending the Act which had created the D V C as an autonomous corporation, which Dr Roy conceded suspiciously readily. After all, it was argued, it was West Bengal which was paying the bill, and so, it might as well demand a say in the matter. Before long, therefore, there will probably be a unanimous resolution calling upon the Government of India to amend the D V C Act, giving West Bengal what its legislators consider its rightful share in the control of the corporation. The Centre may not find it easy to call off the tune West Bengal insists on calling—except by provoking rival demands from Bihar.

New Delhi has itself to blame for this one more addition to its problems. If nobody in the Assembly thought of asking what would happen to the autonomy of the Corporation if West Bengal wanted its pound of power over it, it is partly because not much is left of the autonomy. Even as West Bengal today does not recognise that its earlier acceptance of the idea of an autonomous corporation was in fact a willing abdication of its authority, New Delhi never began to understand that a similar abdication was involved in its approval too. Parliament was ever ignorant of the implications of the corporation idea, and certain Ministers—Gulzarilal Nanda in particular—found Parliament's curiosity fully to their advantage. The opportunity was seized to gain control of the D V C, to make nonsense of its autonomy. Dr. B C Roy is only a late imitator.

* * *

The unfortunate precedent of the Centre apart, Dr Roy's move to get a finger in the D V C pie—and it is no less—acquires additional justification from imperfections in the D V C administration, which have received much publicity in recent weeks in this part of the country. The Corporation has not cleared itself very well, and S K Patil's defence in Parliament seemed rather half-hearted. (Why shouldn't this new Minister too try to ensure his control of the Corporation by dropping a hint to the present members that a more vigorous defence might follow greater obedience?) The Opposition in the West Bengal Assembly, which had charged the Roy Government with every conceivable form of corruption and inefficiency, could scarcely have thought that Dr Roy was the man to disinfect the D V C, but it had no time for such thoughts. It had walked into Dr Roy's parlour already. His helplessness was Mother Bengal's helplessness; her sons in the Opposition fell in line—for once and for worse.

The **claque** have started singing already. "Amend the Act," screamed the **Amrita Bazar Patrika** within a hundred hours of the Chief Minister's oration. Others will assuredly follow, and Dr Roy, forgetful that he is playing a game the Centre has played before with success, may well feel that his hands are being strengthened. Nothing of the sort may be happening. Rival and strident claims will shortly come from Patna and Ranchi, which Patil will view with not a little satisfaction. And then the stage will be set for Patil to make a grand entrance as a mediator. There will be a few jobs for Dr Roy's nominees, a few for men belonging to Sri Babu's caste or village, and control will remain in the hands of the Centre. The Opposition has indeed strengthened Dr Roy's fingers to be in the D V C pie, if not exactly his hands. The heat generated in the Assembly last week will thus end in hot air, and the three men who will be happy have already been listed. The Opposition will be welcome to bite its toes.

* * *

To say this is not to suggest that this is the only way to answer Calcutta's complaint; it is only the easiest and the worst. (Only the very simple-minded can have thought that to divide and to rule was a monopoly of the Satanic

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British; how well Delhi does it will be increasingly evident in the coming years). As for removing corruption in the D V C administration—which does need removing—we will probably see more of it after Patil has done his deal with Roy and Sinha; neither's administration is noted for its obvious freedom from corruption. And compromises always breed corruption, the currency being jobs for nephews and contracts for cousins. Is there not a third way out?

There is, even after the Centre has forfeited its moral right to uphold the principle of autonomy by robbing the Corporation thereof. Indeed, there are two ways, one calling for strength and the other the courageous acceptance of a weakness. If he so wills, the new Minister can restore to the D V C the autonomy that is its under the Act—after certain administrative changes have been effected. The autonomous corporation idea has much to commend itself, and it was not to be expected there would not be mistakes in the first experiment of its kind in this country. There are reasons to believe that it is not the idea which has discredited itself, for the D V C's achievements are considerable. It may be that only some individuals, Ministers and Members, have proved themselves unworthy of the idea.

* * *

On the other hand, the case for scrapping all autonomous corporations is not altogether weak, in spite of the obvious decline in standards of efficiency and honesty in the Government machinery. After all, the British left us the Government as a more or less going concern. The autonomous corporation is something we thought we would try out on our own, and if we have made a mess of it all, we had better admit it before it is too late. It may have been an error to rely on the Indian Civil Service for running these corporations too; this is something it had not been trained for. Also, this may have been an important factor in never quite severing the umbilical cord tying corporations to the Government, although it is quite on the cards that men from business would have made a greater mess of a different, quite possibly worse, kind.

It is possible that the failure of the corporation idea—if such it is—stems from the fact that it was neither the one thing nor the other, with some of the evils of both and few of the virtues of either. To sum up, there is a case for autonomy and there is a case for direct departmental running of development projects. There is none at all for having the worst of both worlds. Those clever men who think they are having the best of both worlds—some politicians, some officials—seem unaware that the advantages are transient and adventitious.

—**Flibbertigibbet**

Calcutta, June 25, 1957.



The Crisis of Bengali Gentility in Calcutta

Benoy Ghose

The social scale and the paraphernalia of gentility are all rapidly and constantly changing, and it is becoming increasingly difficult for different income-groups of the Bengali middle-classes to keep pace with that change, particularly in urban centres like Calcutta. Bengali gentility is facing a really critical situation.

And it has been made worse by the heavier influx of non-Bengalis in search of employment and almost impossible by the arrival of lakhs of Bengalis from East Pakistan who are largely concentrated in and around Calcutta.

The concept of gentility, moreover, is no less psychological than economic. And as the frontier of gentility is changing and its scale is ascending, the struggle for climbing up to it and for preserving the status quo as well is becoming keener day by day. The crisis of Bengali gentility is therefore not only economic. It is a social and psychological crisis also, with all its ramifying consequences.

The author is a well known writer in Bengali, and his recent study on the culture of West Bengal, following his earlier survey of Bengal villages and towns, cultural and economic, is a pioneer work in the field of Bengali letters.

IT is very difficult to locate the concept of "gentility" in a particular social sphere because it covers many vague concepts. The term "gentleman" however is purely English and it has been taken over unchanged in other languages. The complex of notions associated with 'gentility' belongs to all historic times and peoples, the sentiments expressed therein varying in intensity and relative importance. With the increasing democratisation and 'de-distantiation' of different social strata, gentility is tending more to be identified with some ethical and cultural values. 'Gentle' itself derives from the Latin **gens**, the genitive **gentis** meaning family or breeding. The gentleman, therefore, must be well-born, and once a gentleman one is always a gentleman. This point is reluctantly conceded by Henry Peacham, one of the earliest theorists of gentility (**The Compleat Gentleman, 1622.** Ed. by G S Gordon, Oxford, 1906), who laments that drinking, swearing and whore-mongering were no bar to gentility at the English court.

This concept of birth was once very important but it began to lose fast its importance as a criterion of gentility in modern capitalist and democratic society. Wealth had been an historically important attribute of gentility, but by itself it did not confer gentility. Those who raise themselves only by riches are slighted as 'upstarts' by the gentlemen of society. Yet, as it is impossible in modern society to maintain the ever-increasing paraphernalia of gentility without money or wealth it assumes a positive importance as a criterion of gentility today. Those who can master the art of acquiring money can also easily gain access to the status of gentility. The stigma of 'upstartism' is rubbed out in a generation or two, and the descendants of the so-called 'ignoble' upstarts become perfectly noble and honorable gentlemen.

The Theory of 'Gentility'

There is another important point for consideration in the theory of gentleman. No profession or work is genteel when it is practised 'menially' or 'manually.' This has been elaborated by Veblen in his **Theory of the Leisure Class** and is well-known to students of sociology. The sentiments associated with occupation are very violent and increase in intensity in earlier historical periods. All through historical times **menial labour** has been a bar to gentility, and, with few and transitory exceptions, **manual labour** also. Saint-Simon relates that the nobles of Louis XIV in camp before Lille preferred to go hungry rather than lift bags of rice from their wagons.

Salaried occupations for historical reasons are more genteel than free professions. Writers and artists have had to overcome this barrier to gain admission to gentility. The taboo on gainful employment is best exemplified in discriminations against merchants. Merchants were completely barred from the feudal and ancient nobility. In modern capitalist democracies there is an increasing tendency to regard wealth accruing from successful business enterprises as an achievement And achievement, distinguished ability and notable public service have ever been royal roads to the acquisition of gentility. In modern society literature and the arts are roads to gentility on the basis of this 'achievement' principle.

These are, more or less, material criteria of gentility, in so far as they are directly or indirectly associated with the gaining of material or economic status. There are some non-material criteria also. For centuries the western world has been assiduously cultivating the theory and art of manners and polite language in connection with gentility. Then the problem of dress is also there. Moralists have contended that 'clothes do not make the man'. But Shakespeare was a greater realist than the moralists when he said, "Apparel oft proclaims the man". At least it proclaims a 'gentleman'. And dress, therefore, is an important item in the paraphernalia of gentility. It has an economic basis also.

The Genesis of Bengali Gentility

This broad enumeration of the criteria of gentility is necessary because they are applicable to Bengali gentility also. 'Bengalis are historically and inseparably associated with gentility in India, particularly in modern India. Bengalis outside Bengal are commonly called 'Bangalee Baboos'. The origin of Bengali gentility goes back to the early period of British rule. The modern Bengali 'baboos' or gentlemen emerged some time in the last quarter of the eighteenth century as **banias, mutsuddis** and **dalals** or agents of E. I. Company's merchants and 'interlopers' and as **munshis, dewans** or **sarkars** of English administrators.

The story of their evolution, quite a long one, need not be told here. That is not relevant to our immediate theme. What is relevant is that most of the ancestors of the old Bengali genteel families were 'upstarts' in the light of the 'birth'



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and 'estate' criteria and that they had no great difficulty in acquiring the status of gentility by mastering the art of money-making. The social 'elevators' in the new urban milieu of Calcutta were definitely changing by the beginning of the nineteenth century, and the criterion of 'achievement' in wealth and education was gaining strength. As the scope for education and money-making was greater in Calcutta in early British days, the accession to the middle classes was also greater in Bengal. The problem of middle-class gentility has, therefore, acquired a unique historic importance in Bengal.

Post-War Changes

What was historically important in the nineteenth century is now becoming an increasingly complex socio-economic and cultural problem in the mid-twentieth century. Though the middle-classes had been both horizontally and vertically expanding for well over a century in Bengal, the contours of Bengali society were more or less clear and well-defined till the beginning of the second World War in 1939. Of course, the new urban social mobility, generated by various socio-economic forces, was resulting in ever-shifting social stratification and promotion and demotion of classes in Calcutta, that is, in Bengali society. But the speed of vertical mobility in the urban society of Calcutta was much less in pre-1939 days than it was in the war years and than it still is in the post-war years.

The reason is that all the channels of vertical circulation of individuals in Calcutta society were almost fixed for long range social equilibrium in the 1920's and 1930's. The prices were more or less stable, and incomes and income groups also were stable. The pattern of consumption, expenditure and the range of satisfactions of the Bengali middle-classes were more or less uniform over a fairly long period. The classical laws of Diminishing Returns and Marginal Utility were still operating 'immutably' over a limited range of middle-class consumption-units, and problems of substitutibility and the shifting or eluding of satisfactions were not present to create complications in the concept of gentility.

These were the golden days of Bengali gentility, in the sense that the chance of rising and falling a great distance in the vertical direction was then much less in a slowly changing society than it is today amidst complete social fluidity. The social scale and the paraphernalia of gentility are all rapidly and constantly changing, and it is becoming increasingly difficult for different income groups of the Bengali middle-classes to keep pace with that change, particularly in urban centres like Calcutta. Bengali gentility is facing a really critical situation. And it has been made worse by the heavier influx of persons from provinces outside Bengal in search of gainful employment and occupation in Calcutta, and of several lakhs of Bengali refugees from East Pakistan, largely concentrated in and around Calcutta. They have made the situation almost 'impassable'.

The economic competition is becoming harder day by day for Bengalis in Bengal and at the hub of it, in the city of Calcutta, the Bengali middle-classes are being pushed through the borderline of gentility towards the working-classes. Even there the competition is formidable. perhaps more formidable than what it is in the wide arena of diverse middle-class occupations. Middle-class gentility, moreover, is no less a psychological than an economic factor. And as the frontier of gentility is changing and its scale is ascending, the struggle for climbing up to it and for preserving the status quo as well is becoming keener day by day. The crisis of Bengali gentility is therefore not only economic. It is a social and psychological crisis also, with all its ramifying consequences.

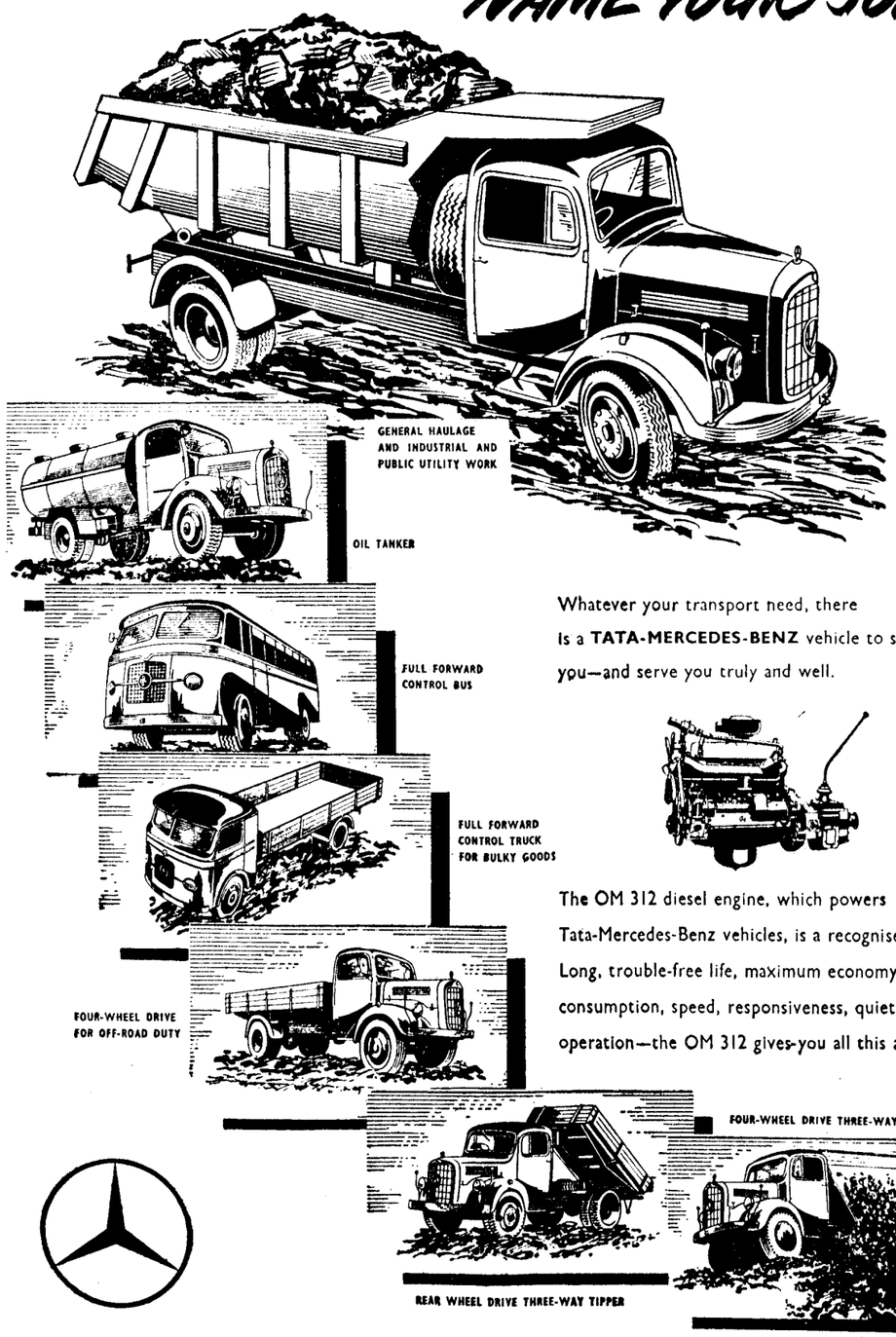
Economic Status

Let us now measure up the actual depth of the crisis by some available facts and figures. Since 1939-40, war-financing and other economic factors have brought about significant shifts in the income-groups with their resultant repercussions on the social structure. Calcutta being one of the most important centres of these income-changes, they had their due effects on the socio-economic structure of Bengal. These changes can best be illustrated by reference to national income statistics and statistics relating to social accounting. The required data are not available for this period. Even limited studies of income-tax revenue on a provincial basis have not been attempted.

All-India returns, however indicate that between 1938-39 and 1948-49, incomes of Rs 100,000 and over increased by 562%; incomes between Rs 50,000 and Rs 100,000 increased by 451%, between Rs 25,000 and Rs 50,000 by 270%, between Rs 15,000 and Rs 25,000 by 234%, between Rs 10,000 and Rs 15,000 by 228%, between Rs 5,000 and Rs 10,000 by 205%, and incomes up to Rs 5,000 by 143% ('How Indian income groups changed since 1938-39' —Employers Association of Calcutta). Though the greatest accession is in the top group, it should be noted that the increases in the various groups must have been due to the push-and-pull process of gradual polarisation during the period. Obviously such income-changes occurred in Calcutta also among different groups of Bengali middle-classes. Quite a segment of them was pushed upwards although a larger segment was pushed downwards. In this tension, it was but natural that the standard of income of Bengali gentility should shift upward , resulting in the bitter struggle for those who were being constantly pulled down.

The report of an enquiry into the family budgets of middle-class employees of the Central Government conducted in 1946 revealed that employees living in the cities of Bombay, Calcutta, Delhi and Madras were running deficit budgets as usual. The income and expenditure were not balancing and the deficit was varying from Rs 15-7 per family in Delhi, Rs 31-2 in Madras and Rs 41-6 in Bombay to Rs 46-5 in Calcutta (Para xii of the Report, 1949). This report also revealed that a large majority of these middle-class families had to incur debt and the extent of indebtedness in terms of the percentage of families was 40 in Delhi, 64 in Bombay, 68 in Madras, and 76 in Calcutta (Table xxxi of the Report). It is evident that the struggle of the middle-classes was keenest in Calcutta and the Bengali middle-classes, in particular, were seriously affected by it. This is also one of the most important reasons why 'trade unionism' developed among middle-class employees all over India in war-time and the post-war years and why Calcutta became one of its storm-centres. Possibly the Bengali middle-classes took the most

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active part in the movement, and as the findings of the Government Enquiry Committees showed, they had ample reason for doing so.

In the Struggle for Jobs

This is one side of the picture, possibly less grim than the other. Almost all income-groups of the Bengali middle-classes are facing 'unequal' and, in some cases, 'unjust' competition in their own capital city, Calcutta, with others hailing from other parts of India in quest of jobs and business. This has been high lighted in a survey of unemployment, conducted by the State Statistical Bureau of the Government of West Bengal in 1953. According to this Report, among the total, middle-class family units of Calcutta the Bengalis constitute as much as 77.8% as against 11.6% Hindustani-speaking. What is significant is that these 77.8% Bengali middle-class families contribute 90.7% towards unemployment while the 11.6% Hindustani-speaking families contribute 4.7%, and 4.4% other Indian families 2.2%, 1.0% South Indian families 0.5%. Including all classes and speaking approximately, Bengalis have 20% less employment than the average, Hindustanis 35% more than the average, South Indians 20% more and other Indians 10% more. In the case of the middle-classes, while the Bengalis have about 5% less employment than the average, the Hindustanis have 35% more, South Indians 35% more, and other Indians 28% more than the average.

Another important factor is that of the total number of 20.2 thousand women seeking employment in Calcutta, as many as 16.2 thousand are Bengalis; and the majority of them belong to middle-class families. In the case of other language-groups, most of the women employment-seekers belong to the working classes. The middle-class female population in Calcutta and the five adjacent towns of Tollygunge, Behala, Baranagar, South Dum Dum and Howrah City is about 775.4 thousand, of whom 681.3 thousand are Bengalis. Among the Bengalis again, 189.5 thousand Bengali women are middle-class refugees (about 28%). About the desire for some sort of employment among these middle-class women the Report says: "It shows that, generally speaking, the desire for some gainful occupation largely depends on the economic pressure. But it is noticeable that the decline is not as sharp as in the case of all women, in whose case the percentage declined from 63.0 in the income-group of Rs 150 to 23.4 in the income group of above Rs 700, whereas in the case of unmarried girls, the percentage declined from 63.9 to 33.3.

This probably indicates that the reasons for desire for gainful employment amongst these unmarried girls are not entirely economic". (**Survey of Unemployment in West Bengal**, 1953, Part III, p 6). This is an important observation, though its sociological significance has not been brought out in the Report for not being within its defined scope. It is one of the most important trends in the middle-class Bengali society of Calcutta, having direct relation to the problem of gentility. We shall come to this later.

The Nature of the Problem

The foregoing facts, though not adequate, indicate that some important forces are operating in the Bengali middle-class sector in Calcutta, creating new problems for different income-groups within it and pressing for new ways and means for their solution. The forces are primarily economic, but their secondary non-economic consequences are far-reaching. The ascending income-groups have been constantly raising their standards of domestic expenditure, introducing new items into their family budgets and new elements into their pattern and concept of living, thereby altering the traditional concept of gentility also. If the items of expenditure of these income-groups are compared with those of similar groups in the 1930's and 1920's it will be found that a large number of them have acquired new 'meaning' and 'importance'. Such items as rent, furniture, domestic assistance, dress, diet, laundering, social and personal recreation, holidaying, expenditure on children, education, medical relief, which constitute the traditional middle-class pattern of expenditure are there today as they were before, but their meaning and importance have changed with the change in the concept of living itself.

This change in the concept of living is a social fact of outstanding importance. It would have been better if I could illustrate my point with relevant facts from Bengali middle-class budgets of today and compare them with those of twenty or thirty years ago. Unfortunately no such data are available, because no survey or enquiry about middle-classes, as far as I know has been made till now in Bengal or in any other part of India, from the point of view of this change in the concept of living. Hence I have no alternative but to speak from close observation of the social life and behaviour of Bengali middle classes in Calcutta. As we are concerned here mainly with the prevailing social trend, it is hoped that there will be no wide discrepancy between the results of such observation and statistical surveys.

Changing Pattern of Expenditure

The middle-class pattern of expenditure has been changing since war-years all over India, particularly at all important urban centres, owing mainly to significant shifts in the incomes of different groups of middle-classes. Calcutta is one of these important centres where the Bengali middle-classes are chief actors on the changing social stage. Not only are changing incomes economically reflected in the pattern of expenditure, but the changing concept of living and gentility also is forcibly shaping it. For example, the average rent of middle-class residential houses in Calcutta has increased by about 100% while the average desire for living in a standard good house has also become widespread. In pre-war days a middle class family of the Rs 3000—5000 (annual) income-group could not think of paying a monthly rent of Rs 75-100, which a large number of families of this income-group do pay today, chiefly because a good house is as essential an item of good living today as good diet. The standard of housing is directly related to the concept of living. A 'drawing room' for visitors and a separate room for adolescent boys and girls were not needed by the average middle-class family in pre-war days because parents or 'heads' did not feel the necessity for having them for good living. That need is felt today by 'educated' middle-class families, not necessarily because they are having increased incomes but chiefly because of their new outlook.

The rate of change differs at different levels of society, in proportion to the consciousness and desire for that change. This consciousness and desire are greater in all middle-class strata, irrespective of their income-variations, because it is traditionally associated with the 'sense' of gentility swaying the middle classes. It has, therefore, a tendency of vertical diffusion among different middle-class income-groups, creating strong psychological complexes of inferiority in the lower groups and resulting in increased efforts for climbing upward. That is why a Bengali middle-class family in Calcutta, having an average monthly income of Rs 300, is seen sometimes paying with much difficulty a monthly rent of Rs 75 and bearing an average cost of Rs 25 for the 'best possible' education for a child in standard schools.

The attitude to diet and dress also is perceptibly changing among the Bengali middle classes in Calcutta. Dress costs more not only because department-and-chain stores are introducing ever-new fashions and styles and advertising them successfully to seduce their 'patrons', but also because Calcutta is increasingly becoming a national (in an all-India sense) and international stage for the exhibition of dress and because Bengalis are swayed easily by new attractions. Diet is changing because its scientific nutritional value is now a subject for study in 'domestic science' and 'hygiene' in girls' schools; and naturally when these school-girls become wives and mothers, they try not only to 'balance the budget' but also to 'balance the diet' even tending to upset the former balance.

Social and personal recreation and holidaying are also being listed in middle-class budgets as regular items of expenditure, because the new concept of gentility demands them as such. Above everything, what is called the 'cost of children' has of late been enormously expanding because of the growing consciousness among middle-class parents that in the rearing of children their status of gentility is ultimately reflected.

The New Reality

The changing concept of gentility, is, therefore, a new reality which the Bengali middle-classes are facing in Calcutta today. It is inevitably giving a sharper edge to economic struggle because whatever may be the importance of the non-material criteria of gentility, there must be an adequate economic base for the social operation of the concept. This is the reason why the desire for gainful employment among unmarried middle-class Bengali girls is not 'entirely economic', as has been observed in the Unemployment Survey Report of West Bengal Government previously mentioned. It would be more correct to say that the desire though not 'apparently' economic, is 'entirely' economic in reality. The mystery dissolves when the 'economic' concept of the statistician is supplemented by the 'gentility' concept of the sociologist and the latter is accepted as a social reality. Not only unmarried girls, but quite a large number of married women also are seeking gainful employment today among Bengali middle-class families in Calcutta in order to keep up this changing standard of gentility. The desire for gainful employment among unmarried girls may also partly be due to their growing consciousness of economic freedom, a consciousness of extreme social importance, not always adequately reflected in economic statistics.

Another important fact, worth mentioning in this connection, is that the so-called 'proper' time to marry is also changing mainly owing to the constantly expanding expenditure of the married and single alike. The unmarried are faced with the possibility of losing their status of gentility if they do not conform, in a period of ever-increasing expenses, to a rising standard of living. The notion of 'immorality' of marrying without the 'means' of supporting the family is shifting the 'proper' time to marry to an ever-advancing age, resulting in late marriages and in many cases, to forced celibacy. This is creating serious complications in the Bengali middle-class society today, which are also not adequately reflected in statistical surveys.

The economic struggle of Bengali middle-classes is becoming harder day by day in the city of Calcutta for various reasons enumerated before. Members of the classes are being elbowed out of many independent fields of economic activity for lack of initiative, proper scope and patronage and also lack of the patience necessary to survive excessive competition in those fields. They are, therefore, falling back more and more on 'salaried services' a field already overcrowded where, as the Unemployment Surveys showed, they are not fairly represented in Calcutta. Grievances, mixed with a sense of frustration, are therefore daily mounting among them and leading them, almost irresistibly, towards the political left. With the illusion of gentility vanishing before them, they are increasingly feeling the need of an alliance with the working classes in realising their economic demands.

But the tradition of gentility is very hoary in Bengal and it is very difficult for the Bengali middle-classes to shake off that tradition and merge themselves with the working classes. They are, therefore, found to swing from right to centre and to left in the political field at suprisingly short intervals. It appears from their social and political behaviour that greater truth lies in their struggle for holding on to the changing status of gentility and standard of living than for realising any ideological dream or political millennium. In that struggle for gaining and maintaining the status of gentility, the Bengali middle-classes have survived many shocks and shifts since the early nineteenth century, but none so grim and frightful like today's. As the ever-widening horizon of middle class gentility is daily receding before them, they are intensifying their desperate struggle on all fronts by all possible means to reach that horizon.

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Volume VIII-Nos: 14, 15, 20, 27, 28, 29, 30, 31, 32, 33 dated April 7, 14, May 19, July 7, 14, 21, 28, August 4, 11, 18, 1956 respectively.

Book Review

"Over-much Experimenting"

Ursula K Hicks

Theory and Working of Union Finance in India by R N Bhargava, Allen and Unwin, London 1956. Price 30s

NOW that there has been time for the teething troubles of the Indian Constitution to work themselves out, there was need for a good straightforward description and appraisal of the functioning of its financial provisions. This need has very largely been supplied by Professor Bhargava's **Theory and Working of Union Finance in India.** The book will be of great convenience to Indian students, and can also prove a useful introduction to outside enquirers seeking either to know something of Indian affairs, or having a general interest in the principles and practice of federal finance, to which the Indian Constitution makes a most interesting contribution.

Prof Bhargava covers a wide field in a modest compass. The most interesting sections are those dealing with the financial relations between the Union and State Governments, but Prof Bhargava also has useful and well balanced things to say concerning the choice of particular taxes. The chapters on expenditure which complete the book do not attempt much more than a summary description, without argument, and are useful mainly as a handy source of basic figures.

The theory to which Prof Bhargava pins his faith is essentially the familiar marginal principle of attempting to balance the "marginal sacrifice" implied in taxation with the "marginal returns" from public expenditure, and among types of public expenditure of one type with another. This is the approach which derives mainly from Edgeworth and has been most elegantly expounded by Prof Pigou. To hold firmly to this principle is a good basic guide to policy, and incomparably better than acknowledging no principle at all, beyond perhaps a vaguely defined "national interest"; but in modern practice it suffers from two shortcomings unless it is very carefully defined. On the one hand, it is too static in that it pays little or no attention to the development over time of the effects of different sorts of taxes and expenditures. In a country which is changing as rapidly as India today this is a particularly important aspect of public finance, which it would be rash to neglect. On the other hand, this essentially "partial equilibrium" or micro-economic analysis needs to be integrated with a "general equilibrium" or macro-economic analysis of the aggregative effects of taxation and expenditure, both directly, and indirectly as they influence the actions of entrepreneurs or consumers. It is true that before aggregative effects can be successfully evaluated a breakdown into partial effects must also be available, hence it is necessary at the first stage to examine the working of individual taxes and expenditures, but this is only a first stage.

One of the most useful sections of Prof Bhargava's book (as has been indicated) is that dealing with grants from the central Government to the States, (contained in Chapters V and VI). Starting with an examination of experience with different sorts of grants (unconditional, fixed ratio, ratio varied according to some measures of need in other federations) the discussion proceeds to evaluate the grants made by the Government of the Indian Union. The judgment is, that while a number of these are useful, on the whole they are not sufficiently equalising as between rich and poor areas, especially where it is made of the "derivation principle", as in sharing the revenue of certain taxes. In general since the grants have grown up piecemeal and haphazard, they exhibit a good deal of contradiction in their effects.

Prof Bhargava would like to see an independent body, similar to the Australian Grants Commission, work out an integrated grant structure. Since in India the Finance Commission already dealt with part of the field in their allocation of income tax revenue, the most sensible plan would seem to be to extend their terms of reference as far as seemed desirable in this direction. Besides the grants already in use in India there seems to be a case for increased emphasis on promotional grants; one example would be to extend grants to States, to be applied to urban housing through the local government authorities in the way in which they are now available to entrepreneurs for industrial housing. Although at present a few cities are struggling against fearful odds to control their slums, on the whole this subject is far too neglected. The time is also drawing near when it should be possible to make use of more refined measures of need in India when differential grants are in question. In this connection the use of a "unit cost" basis (which has been widely advocated in the U K) might be considered for such services as education and public health.

It could not be expected on the tax side that Prof Bhargava's crystal gazing would take him up to the innovations of the recent budget; but it is a pity that we do not have his comments on them. It may be suspected that he would subscribe to the doctrine that holds that better administration of existing taxes will yield higher dividends than overmuch experimenting. Prof Bhargava has however put his finger on one important black spot in the Indian tax system: the failure to extract an adequate revenue from land incomes. In a country with such a preponderant agricultural sector this failure has contributed in no small measure both to the present difficulties of the revenue and to the inadequacy of urban food supplies.

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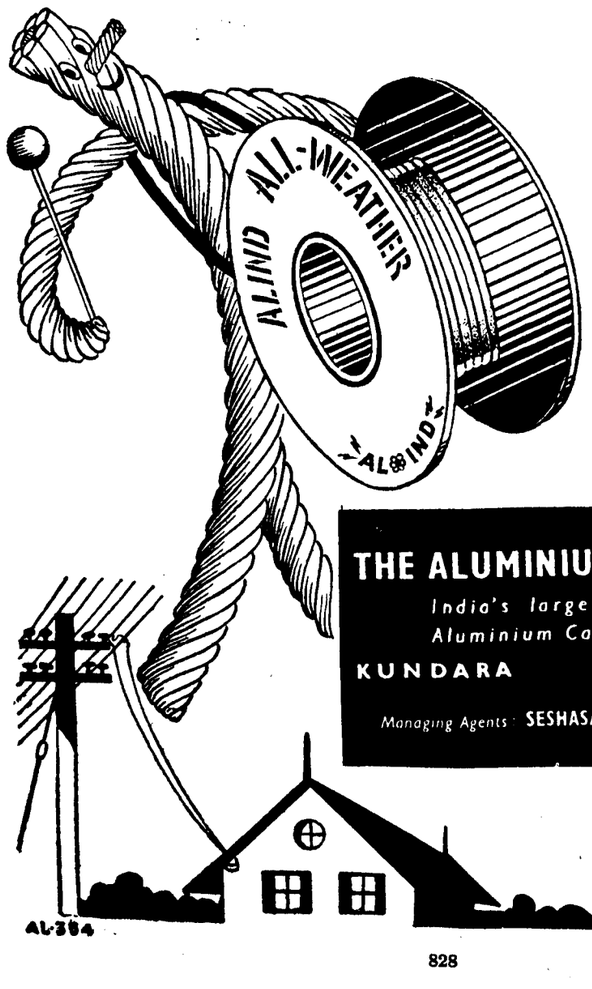
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The Mutiny of Eighteen Fifty Seven

Bimla Prasad Mukerji

The Sepoy Mutiny and the Revolt of 1857 by R C Majumdar. Firma K L Mukhopadhyay, Calcutta. April 1957. Pp 278, index. Price Rs 15.

Eighteen Fifty Seven by Surendra Nath Sen. The Publications Division. Government of India. May 1957. Pp 420, bibliography and index. Price Rs 5.50 Popular Edition. 7.50 Library Edition.

All historians have to start from the same sources while working on the subject, viz, contemporary documents and records. The volume of such materials is stupendous. But coming as it does mostly from the quarters of British officials and agents, it can throw only partial light on the happenings of 1857 and for this very reason, it has to be very carefully handled. Both Drs. Sen and Majumdar have admirably exploited this material for establishing their respective cases.

According to Prof Majumdar though there was no love lost between the British and the various local chiefs, the native rulers were almost invariably passive onlookers and in many cases openly against the movement.

Dr Sen, on the other hand, accepts that the rising assumed a national character, at least at certain places, though diverse factors operated in the growth of this feeling of national unity.

None of them, however, tries to answer the question: Why such a large number of sepoys drawn from classes of peasants and artisans revolted and fought desperately against the British, why in some places the mutiny received such a mass support, why in Bengal there was a peasant rising within a couple of years from 1857 and whether or not the revolt exposed, for the first time, chinks in the British armour, thereby presaging the national struggle which reached its culmination exactly 90 years later.

FOR some time past, historians have been busy uncovering further details about the first Indian rising against British rule. The revolt of 1857 has always been a source and inspiration for intensive research and hot controversy among people of varying affiliations, representing different and often opposing points of view, and emotions.

Recently, people all over India celebrated in a grand manner the first centenary of the great revolt of 1857, the one that is often taken to be the first stage of the national struggle for independence. Their celebrations were shared by their democratic and anti-imperialist friends all over the world. In fact, some of the latter like the Soviet Union, are bringing out their official histories, in collaboration with Indian historians, of the great revolt of 1857.

Naturally enough, the Government of India too, had engaged a very competent staff to bring out an official history of the rising of 1857, on behalf of the Ministry of Information and Broadcasting. The book, written by Dr Surendra Nath Sen, would very justifiably attract the attention and interest of all those Indians and foreigners who are avowedly eager to know the actual nature of the movement. More sensational has been the publication of the other book, **The Sepoy Mutiny and the Revolt of 1857** by Dr R C Majumdar and its reception among the general reading public. Dr Majumdar, as we know, was entrusted to supervise the researches conducted by the Government of India. Subsequently, however, the findings he made in the course of his researches led him to work on his own from a totally new angle.

Historians could never have agreed on the fundamental character of the Sepoy Mutiny. That is to say, there has always been scope for difference of opinion regarding its causes, its nature, its extent and basis, and finally the elements from which its participants came. Official British opinion was that the outbreak of 1857 had merely been a revolt of the Sepoys, infuriated because of the outrage on their religious beliefs (greased cartridge), joined in by the discontented feudal elements and the 'goondah sections' of the civil population. Later on, some nationalists like Vir Savarkar saw in this rising the first attempt on the part of the Indian people to throw off the foreign yoke. Now, after the achievement of independence, and on the occasion of the hundredth anniversary of the Revolt it is desirable, in fact quite necessary, that we should ascertain if it was a real struggle for national independence or just a racial-religious-feudal rebellion. It is reasonable to expect that we should be enlightened by the findings of such eminent historians as Dr S N Sen and Dr R C Majumdar, explaining the true meaning of the events of 1857.

All historians have to start from the same premises while working on the subject—namely contemporary documents and records. The volume of such contemporary evidence is simply stupendous. Coming as these do, mostly from the quarters of British officials and agents, these papers have brought to light only a partial picture of the happenings of 1857. And for this very reason, they have to be very carefully studied and used. Both Drs Sen and Majumdar have admirably succeeded in exploiting this material for establishing their cases. Dr Majumdar has begun with a brief but comprehensive review of the gradual expansion and consolidation of British power in India throughout the course of a century (1757-1857) and the effects it produced on the sepoy mutiny of 1857. Upto this point, he and Dr Sen are in agreement. Where they differ is on the interpretation of the actions of the discontented chiefs and of the sepoys who revolted in town after town, district after district. While Dr Majumdar presents a most illuminating study of the so called leaders of the sepoy mutiny, their characters, their relations with the British and their ultimately joining the ranks of the mutineers, Dr Sen deals very adequately and scientifically, with the risings in various parts of India, and the different forms they assumed.

According to Dr Majumdar, though there was no love lost between the British Government in India and the various local chiefs, the native numbers were almost invariably passive onlookers and in many cases, openly against the movement. Those natives who ultimately joined the revolt were forced by the actions of private Englishmen, of the Government, and often by the threats of mutineering sepoys. He shows how even then, jealousy and mutual suspicion among rival chiefs, feudal interests and communal feelings hampered a union of the 'rebel' forces. He examines the character of the sepoy risings and the disturbance among the civil population and finds that these were largely excited by religious sentiments, fanned by miscreants and goondas. In short, he reaches almost the identical conclusion, though from different premises, already advanced by official British historians.

Not Pre-planned

Dr Sen, on the other hand, accepts that the rising of 1857 assumed a national character at least at certain places. He rightly points out that diverse factors operated in the growth of this feeling of national unity, such as feudal loyalty, religious feeling etc. But in many cases, this national movement assumed a very low character, disfigured by communal riots, unnecessary cruelties and excesses. The native chiefs were led by motives of personal gain, not by the nationalistic and democratic ideals of 19th century Liberal Europe and the sepoys and their peasant associates often betrayed a medieval spirit in their demands on the British Government. Both historians are thus far agreed that the revolt was not preplanned or concerted.

It is really unfortunate that such eminent historians as Dr Sen or Dr Majumdar would totally ignore the lot of the common man, the peasant, under the first hundred years of British rule. They could have profitably discussed whether or not British imperialism in India meant real economic servitude for the masses; why such a large number of sepoys of peasant and artisan extraction revolted and fought so desperately against British forces; why in Oudh and its surroundings, the mutiny received such a mass support; why in Bengal there was a sympathetic peasant rising within a couple of years from 1857; whether or not the common people and the feudal chiefs had initially combined with the sub-conscious aim of throwing off the yoke of foreign rule; whether or not the revolt of 1857 exposed some vulnerable points in the British armour for the first time, thereby initiating a phased struggle for national independence that reached its culmination exactly ninety years later? All these questions remain unanswered in either book.

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Growing Pains

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What is happening now have been partly caused by the fact that the Plan was based on inadequate data and failure to carry through the initial exercises in inter-industry relations, but at least the major problems that have arisen now should have been recognised as necessary manifestations of the growing pains of a developing economy.

The alternatives before the Government are to cut down the Plan, to look for substantial foreign aid, or to stick to the Plan and seek to relieve the consequential pressures by direct controls at all strategic points.

THE Second Five Year Plan was conceived, drafted and introduced in the optimistic atmosphere generated by the obviously successful completion of the First Plan. It became apparent in the final year of the First Plan that its total income target was likely to be overfulfilled, even though there would be an appreciable shortfall in the projected public expenditure. The food war appeared to have been won and the supplies of other essentials were on the upgrade. All this was achieved without any substantial increase in taxation and at the same time without creating any inflationary problem; in fact, the First Plan started in inflation and concluded in a situation when price-support measures had become necessary for major agricultural products. Even the expected balance of payments difficulties had not materialised and the reserves position was apparently so satisfactory that the Government felt itself justified in relaxing import controls on a large variety of consumer goods.

The Second Plan on the other hand has been beset with doubts and problems from the first year of its initiation. The First Plan was of course much more modest than its successor, both in terms of the aggregate targets and of the types of targets aimed at. The emphasis on agriculture in a situation where existing elasticities could be utilised ensured its success; even if there had not been an unprecedented succession of three good monsoons, there would not have been much difficulty in realising the agricultural targets simply by taking in the slack. In industry also excess capacity was present in most of the important lines. In fact, in the Indian situation as it was in the earlier part of the decade, any 'first' plan was almost sure to succeed, if the targets were chosen in such a way as to utilise existing capacity or press only upon the most elastic parts of the economy.

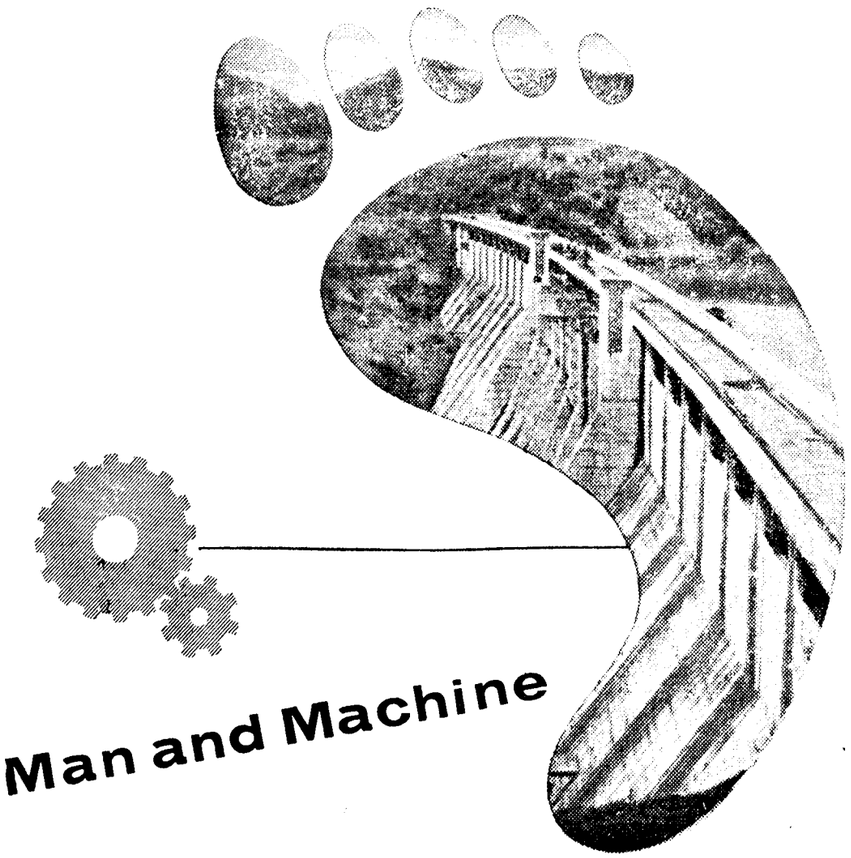
The difficulties of the Second Plan have arisen partly because of its size and composition and partly because of the success of its predecessor. The First Plan utilised almost wholly whatever excess capacity was present and in some cases a small net investment, or some replacement expenditure was able to produce substantial marginal returns. Besides, when a country starts developing from a very poor level, any absolute increase in output is a relatively large increase. The Second Plan, on the other hand, was initiated at a stage where the initial elasticities had become fully stretched: the cushion of excess capacity which keeps the marginal output-capital ratio high and ensures quick results was not available. The major commodity plans related mostly to lines in which the country had little or no pre-existing capacity: the projects were such as to make the gestation period, and therefore the inflation-potent lag, long. The financial requirements were naturally heavy and the foreign exchange component large.

As a consequence, strains and stresses have developed in the economy and it is proving difficult to devise remedies to reduce them. Problems have emerged in many directions and forms, though essentially they all emanate from the twin problems of an underdeveloped economy—shortages and inelasticities. There are easily recognisable pressure-points in an economy of this nature and the economist in India is now getting a practical demonstration of all that he would expect from a theoretical analysis of the facts of the situation. The most clearly visible problem is that of prices, especially of food, but alongside this one notices a critical balance of payments situation, imbalances in the rates of growth of different sectors, transport and supply bottlenecks, stringencies in the money market, budgetary gaps and inadequacy in the administrative mechanism.

II

What is surprising is not that the problems have arisen, but that the planning authorities, as well as the country in general, seem to have been taken unawares—not by sporadic unexpected elements, but by precisely those problems which are normal in a poor economy striving to upgrade itself in a relatively short period of time. What is happening now—expenditure in excess of technical estimates, expenditure ahead of plans, payments difficulties greater than the estimates, payments difficulties ahead of plans, unanticipated price increases, failure of small and cottage industries to increase consumer good output, transport and supply bottlenecks in industry, monetary stringency—have been partly caused by the fact that the Plan was based on inadequate data and failure to carry through the initial exercises in inter-industry relations, but at least the major problems that have arisen now should have been recognised as necessary manifestations of the growing pains of a developing economy.

A planned system is bound to face, raise and seek to solve a number of conflicts and contradictions inherent in the process of growth. The nature and magnitude of the problems would depend on the initial conditions in regard to the institutional set-up and resource-supplies, the rates of growth planned for the different sectors and the mechanism adopted. Such conflicts and contradictions are not of course peculiar to a planned economy, and it is worth remembering that it is because there are such conflicts and contradictions that a non socialist economy comes to, or tends to, any equilibrium at all; a general equilibrium would not have been possible if all economic forces pulled in the same direction and were sym-



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metrically reversible. In a collectivistic economy, or in an economy, in which the state plays an important part in the economic life, these conflicts appear on the surface and come out in a sharp focus. The fact of their clear appearance and easy visibility does not necessarily make them more strenuous than they would be in alternative conditions. What makes the strains great is not that the economy is planned, but that the magnitudes of the targets are greater than those which might come to be set, and the types of projects are different from those which might be adopted in an unplanned economy. If everything in India were left to private enterprise, the sum total of all projected output increments would not have meant a 25 per cent increase in the national income in five years and the projects would not have possibly included Bhilai and Rourkela.

III

It is therefore necessary to be fully prepared for the strains before initiating a large plan in a poor, inelastic economy, especially a plan with an emphasis on heavy industry. Internally, the most direct among such strains manifests itself, as it is doing in India now, through increasing relative scarcities of consumer goods and rising prices. It is important to watch the prices of all essential consumer goods, but naturally the most important problem in a country like India is that of food prices, which involve a question of movements in current demand superimposed upon a generally rising trend.

From the short-period viewpoint there are many different problems here—of production, of market supplies, of the consumers' cost of living and of the wage rates. One can start from the presumption that an essential requisite of successful development planning in India is the maintenance of a large supply and low prices of food. A low level of agricultural prices will not, however, maintain production incentives and may create acute distress among agricultural workers if the prices of non-agricultural commodities entering into the rural cost of living rise or remain high. A more important problem arises because of the large role in determining the course of food prices, first, of the producers' decisions regarding the proportion of the output that will be offered for sale, and, secondly, of the traders' decisions regarding inventory changes. Insofar as the producers themselves hold stocks with a view to earning speculative profits, they are of course in the same class with the traders.

The supply-reactions of the producers and of the traders will not necessarily be the same, when there is a change in prices or any other change in the situation. Given a definite total of fixed money obligations, the producers may feel tempted to hold back an increased share of their output for their own consumption, if they think that the prices are rather high. The producers' supply-responses would thus depend on their comparison of present prices with some conception of normal prices, which may be based on their experience in the recent past. The traders' supply responses depend on their expectations regarding future prices. Any rise in prices will affect the producers' supply reactions unfavourably from the standpoint of the market, while the traders' reactions will be similarly affected only by the expectation that prices will continue to rise.

To be completely satisfactory, therefore, food prices have to be low enough to reduce the pressure on the cost of living and on wage demands, high enough to maintain output and incomes in the agricultural sector, not so high as to induce the producers to reduce the share of the output offered in the market and, finally, stable enough not to induce disturbing changes in the traders' inventories.

It is easy to realise that no planning authority can discover a priori an optimum set of prices for all agricultural products which will satisfy all these conditions. In an unplanned economy under static conditions, the contradictions inherent in the system will help to establish an equilibrium set of prices, but a planned economy has a welfare premise to satisfy and has to think of an optimum set of prices in a dynamic setting.

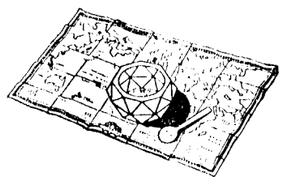
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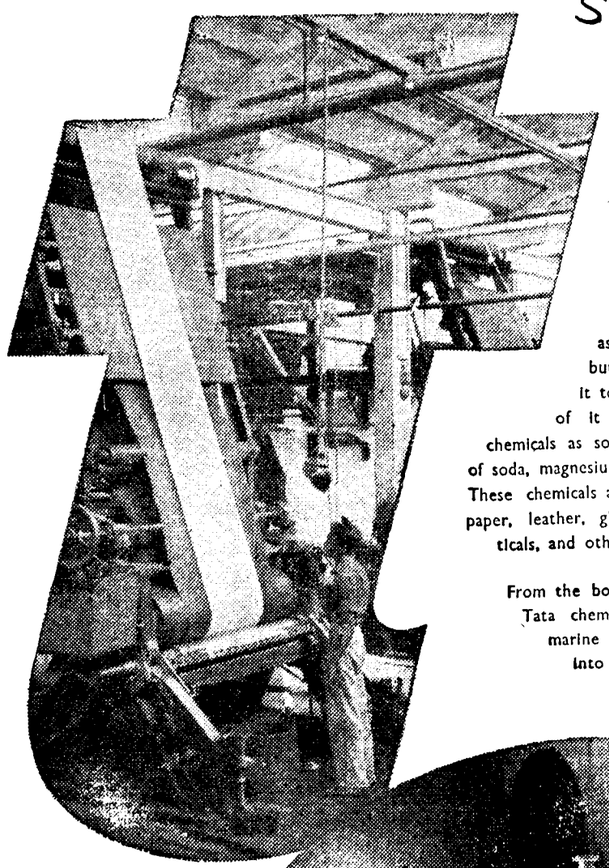
The logical basis of an appropriate welfare premise for a developing economy cannot, of course, be clearly defined. There are inseparable difficulties in deriving a social welfare function even when individual preferences are clearly known. Difficulties are multiplied manifold when one considers the unknown complex of preferences and when one, in addition, has to introduce time as an essential element in the picture. In reality, the Government has to decide, as best as it can, what its welfare postulate will be. There has therefore to be a large measure of arbitrariness in determining what the ordering of social priorities would be, which sectors are to be expanded and which contracted, what are to be the rates of such expansion or contraction, what are the groups which are to bear the larger share of the real costs of development and what amounts of present sacrifice would be justifiable in order to secure a given future output at a given future date.

The policies with regard to food supplies and prices have to conform to the requirements of the welfare postulate that has been adopted explicitly or implicitly. It is easy to see that the market mechanism may entirely fail to bring about results in conformity with the postulate. With producers ranged on one side and consumers on the other, one can develop a neat Paretian system in which the consumers' substitution rates come into a happy communion with the producers' transformation rates. But apart from the usual text book snags in the process, like market imperfections and misshapen transformation curves, the presence of a large body of traders who are concerned only with changes in price expectations makes the whole structure fall.

The emphasis, of course, is not on the number of traders, but on the relatively large role of inventory changes. It is this which also explains the monetary stringency that has been seen for quite some time. It is difficult to see why there should be any extra-seasonal stringency in the money market, unless there is a sudden spurt in the holding of commodity stocks. There was no sign of any large expansion of private enterprise during the period when the short loan market was heavily pressed and one cannot help feeling that the stringency was largely the

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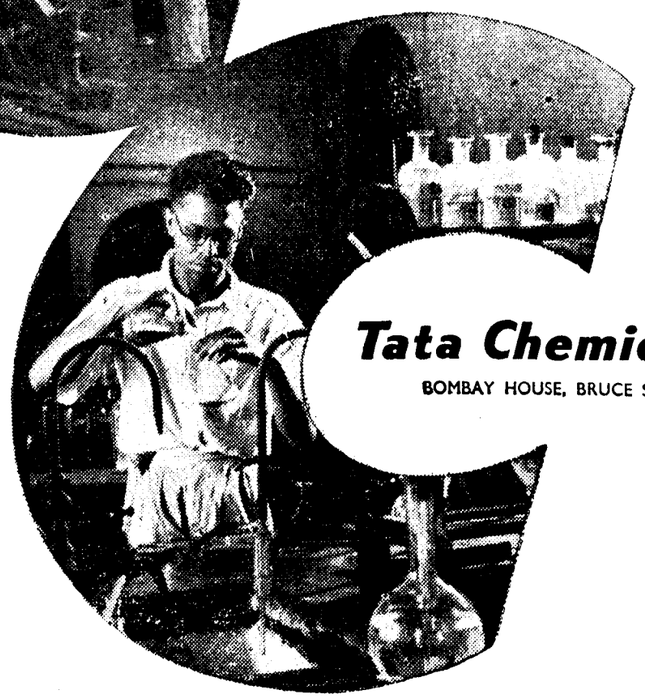




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result of speculative holding of commodity stocks. If direct physical controls are not adopted, monetary stringency would be a necessary cost of development; in the circumstances one can find a justification for a high interest rate structure, but it is doubtful if it will check speculative investments when other forces are encouraging such activity.

The basic reason for speculative activity of this nature is the shortage of food and other consumer goods in relation to demand —and inflation is just another name for persistent speculation. In regard to the non-food consumer goods, the framers of the Second Plan realised that the large expenditures on heavy industries would create an inflationary demand. At the same time, it was clear that a large heavy industry plan would make such inroads on the capital resources that it would not be possible to adopt any scheme for anything but the lightest of consumer good industries. The alternative of cutting down the heavy industry programme being considered out of the question, the choice in the consumer good field fell naturally on small and cottage industries.

The expectation that these industries would supply the required additional consumer goods with a very short time-lag appeared clearly as wishful thinking to those who knew economics well enough to understand the nature and magnitude of the problem, and who knew the facts of Indian economic life well enough to understand the limited potentialities of these industries and the extreme difficutly of doing anything for these on any substantial scale. With investment costs, productivity rates and wages at certain levels, one can show that small units are preferable to large units or that light units are preferable to capital-intensive units. But no one is sure that such a collocation of initial conditions actually exist, and no one has shown up till now how long it will take and what it will cost to secure the desired increase in consumer good output through the expansion of the small-enterprise sector.

The heavy industry expenditures of the Second Plan have already commenced, but at the end of nearly fifteen months of the Plan, the small industries are not yet anywhere in the picture. The adoption of a steel **plus** Ambar Charkha scheme has meant a growing imbalance between consumer demand and consumption good supplies, not only because the Ambar Charkha cannot possibly deliver the goods, but also because the part of the Plan relating to the Charkha has not yet been seriously taken up.

The above is not an argument against the small industries as such. There are excellent reasons—economic and social—why there should be a bright future for small enterprises in many fields. And one cannot easily ignore the social insurance aspect of the development of cottage industries. What is unjustifiable in the Second Plan is not its desire to expand the small-enterprise sector but its expectation that this sector will be able to meet all the increased demand for consumer goods at a moderate capital cost and without any great time-lag.

V

In an unplanned economy depending on the market mechanism, an equilibrating force would have operated through the balance of payments—in the form of increased imports of consumer goods or diminished export of goods domestically usable or of material capable of being utilised in producing final goods for the domestic market. Under a plan of the Indian type, requiring much more foreign exchange than can be provided by the normal export earnings and external aid or capital inflows, the balance of payments can be an equilibrating force only to the extent that there are accumulated foreign currency reserves or gold. Once these have come down to the minimum safety level, the balance of payments strain is superimposed on the domestic strain and a real crisis may easily develop.

In fact, the most urgent problem in the present Indian situation is that created by the persistent payments deficits and the decline in reserves despite a drawing of Rs 92.5 crores from the IMF. The reserves have now reached a level at which their role as a growth fund has become almost fully played out and their role as an equilibrator in the domestic situation is no longer significant. The payments problem is now an additional problem and its immediate urgency is greater than of any other problem. The major difficulty here is that any attempt to improve the balance of payments by expanding exports (even if the exports come from additional output) or reducing imports is bound to accentuate the domestic inflationary problem. In the absence of large-scale aid or capital inflows from abroad, there will be no way out of more and more severe import control and it may also become imperative to adopt direct domestic measures to prevent the ramification of the resultant inflationary effects.

A word or two may be added here in regard to the import control policy, which, in the recent past, suffered from a large measure of vacillation. To some extent the relaxations made during the closing years of the First Plan were intended to prevent inflationary pressures and there was, of course, some encouragement to be obtained from what then appeared to be a comfortable foreign exchange position. To a large extent, however, the actual policies followed lacked method. Imports of various types of luxury and semi-luxury goods were allowed—goods the non-availability of which would not only have saved foreign exchange but meant a smaller consumption expenditure in the upper income brackets. The pressure of trading opinion was probably an important factor leading to these unwise and unnecessary relaxations and to this was possibly added the recommendations of the IMF which generally takes a near-sighted view of the problem. The IMF has of course its own specific objectives, but it is surprising that when restrictions were being relaxed in 1955-56, the authorities were not thinking of evolving a long-term import control and exhange conservation policy appropriate to a developing economy.

VI

The pressure on the seams has become severe because all the pressure elements have come to operate on the Indian economy simultaneously. In the early stages, where there are excess capacities in the domestic production system and other elasticities that can be taken advantage of, and when there is, as India had, a large initial stock of exchange assets, a pressure at one point can be relieved by the cushions provided by the other points. A domestic inflationary pressure can

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be alleviated by utilising reserves; a balance of payments pressure can be neutralised to some extent by taking quick steps to increase the output of import-substitutes. But there may come a stage where the elasticity-margins have all been fully exploited and excess reserves have been used up, so that the economy is stretched on all sides and it is not possible to reduce pressure at one point by allowing some increase in pressure at other points.

This is partly the natural result of the passage of time and progress of development. The initial advantages and slacks are bound to disappear after the economy has been developing for some time. But to some extent this may also be due to the nature of the plans. A development plan can be made in such a way that the concrete results of the plan investments begin to come in by the time the initial advantages and elasticities have come to be fully utilised; if essential consumer goods and import-substitutes begin to be turned out in larger quantities before the inflation-generating forces get time to take hold on the economy, strains and stresses need not develop at all. On the other hand, a plan which has a very long gestation period on the whole is likely to come soon to a stage where all the pressure points will be fully extended.

The Second Plan has a long-gestation part which is currently exercising its pressure. Its short-gestation part, which should have been given strong priority, is yet in an amorphous state. It is possible that what was meant to be the short-gestation part of the Plan will turn out to have a longer gestation period than the other part, and, in the absence of some unexpected help or relief like large foreign aid or excellent monsoons, pressures will continue and tend to slow down the process of development.

VII

There are four alternatives before the Government of a country which finds itself in the position in which India now finds herself. The first is to cut down the Plan, or lengthen its duration without changing the targets. In both cases the annual rate of growth is slowed down and to that extent the pressure on the economy falls. If the slowing-down takes place to a greater extent in the long-gestation sectors than in the short-gestation ones, the pressure falls considerably. While it is unavoidable that the present situation will lead to some curtailment of the plans, it may not be possible to bring about an effective slackening down of the pace in the case of those large projects which have already progressed considerably and in regard to which irrevocable commitments have been made. Besides, the process of slowing down cannot really be carried very far: a 25 per cent increase in the national income in five years may be difficult to attain, but if the Second Plan does not even secure a 15 per cent increase, there will not be much to justify all this effort.

The second alternative is to look for substantial foreign aid. Foreign aid will not directly obviate the pressure originating from the internal rupee expenditure, but by taking away the steam from the payments crisis and by providing imports which will release resources for domestic capital construction, it will make the process possible and bearable. The difficulty in this is partly economic, depending upon the conditions of differential productivity of capital in different countries; but the greater part of the difficulty is political and it is probably reasonable to assume that foreign aid on a scale that will see India through the Second Plan comfortably will not be forthcoming.

The third alternative is to stick to the Plan and seek to relieve the consequential pressures by direct controls at all strategic points. There is, of course, a limit after which even the most complete of physical controls will fail to produce results; it may, for example, be impossible to secure an investment rate of 30 per cent of the national income in India without affecting the physical efficiency of workers. But the Indian Second Plan is not likely to require—at least at present—an investment rate of more than 12 per cent and it should not be difficult to devise a control system that can achieve this.

The really difficult problem is, however, not one of the overall investment rate, but that of mobilising the real components of investment in every sector and this is not so much an economic problem as one of administrative efficiency. It is this which raises the greatest doubt. Aside from the fact that the Indian administration may not in the near future become competent enough for the task, there is also the fact that the building up of a comprehensive control mechanism requires time. The control mechanism that the country had built up during and after the war has been scrapped over a large area and one may feel reasonable doubts whether an adequate system of controls—comprehensive in coverage and efficient in operation—can be reintroduced in the remainder of the Second Plan period.

The fourth alternative—born out of such negative factors as unwillingness to cut down the Plan, ideological allergy to controls or lack of faith in administrative competence—is that of plodding through on a pragmatic basis. There is no opprobrium here in the expression 'plodding through'; there are circumstances and political and administrative structures in which this may be the best possible course. The approach to policy problems in such conditions is largely symptomatic and consists in devising price policies when inflation threatens, adopting exchange restriction measures when a payments crisis develops and so on.

Monetary and taxation policies become particularly important in such conditions; in a comprehensive system of direct controls these policies are of secondary importance. The role of monetary policy is also minor when there are slacks in the economy; it becomes more and more important as the economy gets stretched and inflationary conditions develop. One feels that in the Indian situation the monetary authorities have been somewhat slow in recognising that they have some powers to bring down speculative activity and investments which are not in accord with the accepted ordering of priorities, and that these powers have to be exercised at the appropriate time.

Similarly, the really important task of the tax system has not yet been fully appreciated . The current Indian budget has been bolder than its predecessors, but it is still based on the idea that the central purpose of taxation is to provide revenues for covering the fiscal gap. If the requisite amount of saving can be attained by, or induced in the community, finance is not a bottleneck for Government expenditure. The main purpose of taxation in a plan-

ned economy is to reduce consumption and it is doubtful to what extent the taxes which are good from the standpoint of revenues are also good for securing a reduction in consumer demand. From this latter standpoint there is a strong case for high marginal taxes on income, on expenditures in general and also on consumption out of capital. There is also a strong case for very high excises on all types of luxury goods. Something like the British wartime purchase tax going up to a rate of 100 per cent on some commodities—would seem to be in order.

It should not be forgotten that even after the recent increases in taxation, we Indians are relatively one of the most lightly taxed peoples of the world. The fact that the economy is feeling the strain at all its pressure points leaves little scope for inflationary financing and there does not seem to be any method by which private voluntary lending to the Government can be increased substantially. If in these circumstances the Plan is not to be curtailed, large foreign aid is not available and comprehensive direct controls are to be avoided, a much greater effort than has been undertaken up till now is necessary in the field of taxation. Of course, taxation of the type and magnitude proposed above will not only reduce consumption but will also reduce production incentives. It is time, however, that we realised that over a large field of private investment activity in India, it is a reduction of incentives that is a prime necessity.

VIII

The alternatives enumerated above are not mutually exclusive. It will be reasonable to expect that while there will be an emphasis on one line of action or another, the actual policies will combine all the alternatives. There is bound to be some reduction in the plans, at least on account of more careful scanning and screening. One may suggest here that there is a need for a thorough examination of the whole range of public expenditures with a view to finding out the points where expenditure can be reduced without loss or perhaps with profit. There has to be a more intensive attempt to secure foreign aid or capital, for no amount of domestic measures will provide the minimum amount of foreign exchange necessary for implementing the hard core of the Plan. Direct controls will become more and more necessary if the pressures continue unrelieved, and one may expect that the role of the monetary and taxation policies will be more fully realised.

In addition to all this, it is essential that considerably more attention should should be given to the increasing of the supply of essential consumer goods. This will not be in conflict with the need for reducing total consumption, so long as there is large non-essential consumption in the upper income brackets. Apart from the economic need for maintaining or raising essential consumption, there is also the fact that a plan has to keep up morale and arouse enthusiasm; like justice, it should not only have results but also show results. It should be possible to stimulate a greater amount of enthusiasm for the Plan among the people and to induce a more sympathetic attitude towards taxation policies, if they feel that the expenditures that are being undertaken are worth while and if they find that their essential needs are being supplied.

What is important to remember is that the instruments and methods which were adequate for the First Plan will not be adequate for the much larger, considerably different and much more difficult Second Plan. Military authorities have often been accused of preparing for the next war with the weapons of the last war, and similar analogies have often been discovered in the field of business cycle control. There is nothing wrong in setting up a large but not unattainable plan, provided the authorities are willing and able to make their instruments adequate for their targets.

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The Economic Crisis in India

Wilfred Malenbaum

Indian economic growth under the Second Plan, now entering its second year, is faltering. It is not likely that the economy can attain its development targets in 1960-61 unless rapid and significant actions—not now contemplated, as far as I know—are taken both by the Government of India and by financing institutions in capital-exporting areas.

The crisis is dramatized in the deteriorated foreign exchange position of the country. This is of key importance, but it is only a manifestation of the basic problems involved in India's effort at a rapid acceleration of the rate of her economic growth.

LOWERING the Plan's targets—whether by announcing a revised Plan or by a less conspicuous extension of the present—might mitigate the foreign exchange crisis. Of itself, it does not solve the underlying problems of Indian development. Moreover, such a retreat from the targets of the Plan might have international implications also. World publicity attaches to the fact that India is attempting rapid economic progress while retaining a high level of the individual freedoms prized by a democratic society. There are clear and obvious contrasts with the development plans of Communist China. One might even point out that some of the problems India encountered arose from the deep-rooted devotion of the Government leadership to a relatively free, non-controlled economic order.

2. The solution requires action on several fronts. At least three basic factors contribute to the present Indian position. Each of them alone would have meant rough sailing for the Second Plan. Together, their effects have been marked and rapid.

(a) First is the fact that the Plan's investment estimates were low given the output targets. As steps were taken to implement specific capacity objectives in the economy, it was found that more resources were needed than were provided in the Plan. Investment expenditures were greater in both local and foreign currencies.

(b) The domestic savings and investment flows underlying the Plan appear to be unrealistic. While the Plan's domestic saving rate (an average of about 8.5 per cent of national income over the five years) is certainly a reasonable target, its achievement is made more difficult by the Plan's diversion of a heavy flow of savings, arising primarily in the private sector, into public investment. Even with strong fiscal and other measures, the result might lower savings, and perhaps lower total output. With less effective action, the private sector, and especially agriculture and big industry, would tend to continue to invest more in their own sector.

(c) The availability of the tools notwithstanding, Government has hesitated to adopt and implement the policies and actions that are necessary for, or that would facilitate the achievement of the programme. (The Government of India does not readily adopt—and implement—measures which reduce individual freedom.) Recent budgetary measures and the sharp curtailment of foreign exchange for private imports are in themselves not likely to suffice for the immediate crisis, nor do they deal with the other two factors.

(d) In addition to these, there were of course other contributory factors—some non-recurrent, none so fundamental as those above. There was the repayment for the German steel mill during the period. Uncertainties with respect to sterling tended to aggravate India's payment position beyond what the underlying trade and service situation would justify. The Plan's gap was only partially filled in advance; this would tend to draw reserves down very heavily in the early years. There is reason to believe that the gap was also underestimated given the Plan's provision for consumer goods imports etc.

3. Specifically, these factors point up:

(a) The fact that the Plan gives to the private sector less scope for growth than is generally realized. This is true for small scale activities, especially agriculture and other rural output; it is also true for big private industry. If the output targets of the economy are to be achieved over the five year period, consideration must be given to restoring technologically necessary balances between public and private effort, at least in some areas.

(b) The truth that, notwithstanding the above point, at least the modern industry component of the private sector has demonstrated a vitality and a degree of entrepreneurial aggressiveness which are important assets in a poor country seeking to accelerate growth. This sector has been largely responsible for the crisis in foreign exchange, thus deterring public investment, for the first Plan year in any case. The strong action recently taken by Government to alter this situation can stultify this private entrepreneurial drive. It will not serve to provide the required balance between private and public expansion.

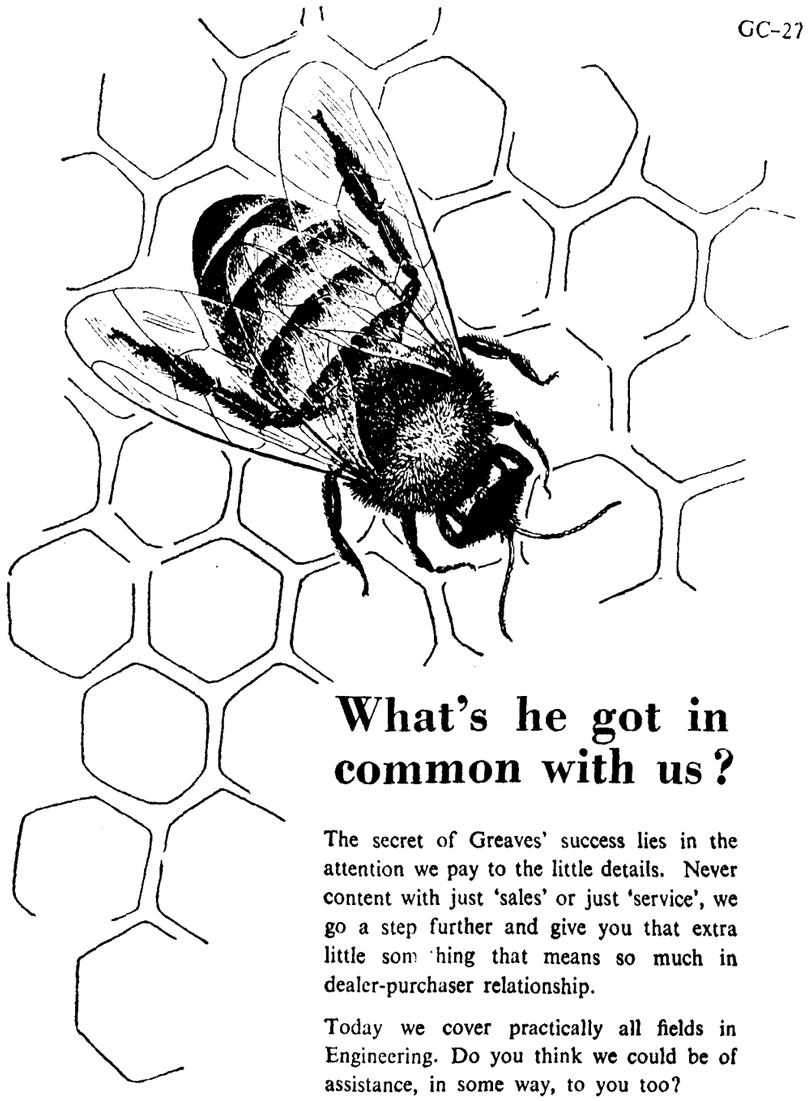
4. Given the early date at which weaknesses in the development structure have emerged, provision for the crisis in foreign exchange, of resources, among other changes, can be made while still retaining broadly the targets and the rates of growth of the Plan. What seems to be required are steps such as:

(a) Some commitment (by the International Bank and the US Development Fund, for example) of a large sum, say Rs 500 crores, supplementary to any already provided or under discussion (the amount taken to be roughly the

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Note: This article is taken from a longer paper prepared at the Centre for International Studies, MIT, USA. It should be noted that the information for the section on foreign trade rests primarily upon the partial data there. More recent and more complete data may, of course, alter the argument.

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size of a still remaining resource gap);

(b) Immediate release of some Rs 75 crores of this total to expedite present capital goods imports on Government account; and

(c) Use of the remainder as required to implement the altered programme.

Specific releases might be made on the recommendation of an international technical staff (appointed by India and the capital-exporting nations) and charged with assessing the programme and the steps needed to assure its fulfilment.

The remainder of the present paper deals more specifically though in brief with the problems to which study needs to be directed at once, in connection with the steps above.

A: The Foreign-Exchange Shortage*

During the Plan's first year, 1956-57, India apparently used up some Rs 300-320 crores of foreign exchange reserves, 50 per cent more than was planned for the five years of the Second Plan. The official figures for March 31, 1956 and 1957 show a decline of about Rs 190 crores. This, however, understates the reduction, due to a bullion revaluation, through which India "gained" some Rs 65 crores, and the utilization of over Rs 60 crores of drawings from the I M F in early 1957. Preliminary analysis based upon official data for the first six months of 1956-57 (April-September) and upon incomplete data for the next quarter places the major emphasis for this decline upon the trading account. The annual rate of exports during this period (Rs 577 crores) was essentially at the level mentioned in the Plan, while imports (Rs 954 crores) were appreciably ahead (by some 20 per cent). The trade imbalance was partially offset by invisible earnings which were substantially ahead of the Plan's estimates.

Contrary to expectations based on the Plan, the private sector is most responsible for this expansion in imports. Thus imports on private account alone during the first six months of 1956-57 were at an annual rate (Rs 783 crores) at which total imports, i e, including those on Government account were projected for the year. From the point of view of level of imports alone, this overfulfilment need not be too serious since Plan imports over the five years were phased in a very general way. Nonetheless, such a major excess of imports over the figures shown for the early years, or over the average imports forecast, should be explainable in terms of the time requirements of the Plan.

Unfortunately there is relatively little Plan information on the specific composition of these expected imports, as between public and private, or as to their broad functional composition—capital goods, raw materials and consumer goods. It does appear, however that imports of consumer goods and raw materials† were somewhat greater than was expected. With respect to the key component, capital goods, the level of imports for the first six months (an annual rate above Rs 500 crores), imports on private account must have exceeded by far what the Plan anticipated. It is this point which is crucial in Indian foreign exchange developments over the first year of the Plan.

Net investment in the private sector over the five years was expected to be Rs 2400 crores, of which Rs 400 crores represented increases in stocks and Rs 1300 crores more were to be for small-scale construction, especially housing, (Rs 1000 crores) and for agriculture and small-scale industry (Rs 300 crores). Investment in all these encompasses relatively little foreign capital goods. These would instead go to the rest of the private sector, to the organized industry, mining, plantations, small electric plants, etc, which were allocated an aggregate investment of Rs 700 crores, including, of course, the provision for factory construction. It is probable that the private sector was expected to import over the five years some Rs 200-250 crores of capital goods for net investment. Investment goods of this value were imported by this sector during the first six months of 1956-57 alone! If we assume that replacement involves imports equivalent to what net investment in this sector requires, capital goods imports by the private sector for new investment during the first half of 1956-57 were running as much as five times the level anticipated on the average for the five Plan years. It is reasonable to assume that these large imports in the first months were not simply early purchases of the requirements of the private sector for the total Plan. It therefore appears that a considerable amount of these private imports were licensed for industrial development not specifically budgeted in the Plan. (Moreover, the complementary domestic investment was presumably also not budgeted in the Plan.)

Several consequences follow from these developments:

(a) There has been some curtailment of resources that the public sector included in its investment budget, due to the overcommitments of the private sector for purposes for which provision had not been made in the Plan.

(b) The unexpectedly high level of private capital goods imports, even assuming that total capital goods imports were essentially at the level planned, accentuate the foreign exchange crisis. This follows from the fact that most of the provision made for filling the foreign exchange gap applied to imports on Government account only.

(c) The heavy private composition of capital goods imports probably contributed to a larger excess import of consumer goods and raw materials than might otherwise have occurred. This stems from the fact that this private investment as a whole is more urban-oriented than is public; it therefore contributed to expanded incomes in areas where expenditure propensities are higher. Also, private enterprise probably invested in facilities where the demand for raw materials followed much more rapidly upon investment than would be the case for Government investment.

(d) The short-fall in Government capital imports serves as a deterrent to public investment. The high levels of private investment are not compatible with the plan for public mobilization of private savings.

A further word may be in order with respect to underlying causes for these developments. Basically, authorizations for industrial expansion and the necessary allocation of foreign exchange for imports

* My thanks are due to Jagdish Bhagwati, a graduate student at M I T, for his assistance in analysing the available material on India's current foreign accounts.

† These figures are probably exclusive of foodgrains and other agricultural products imported on Government account, such as the shipments under P L 480.

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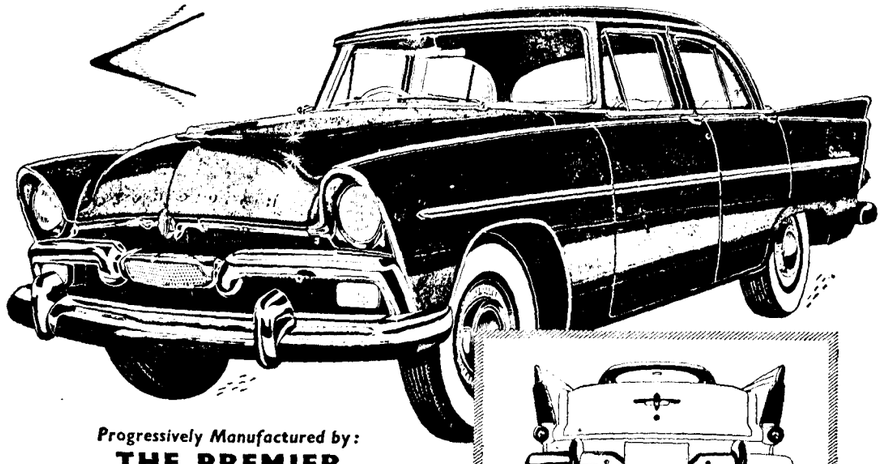
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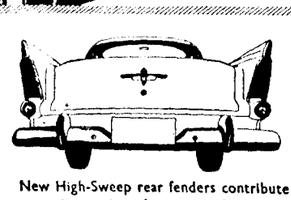
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were made with a rather open hand, and during the period when the private sector was rapidly expanding output and (in lesser degree) capacity in the fourth and fifth years of the First Plan. There is reason to believe that the general promise of the Plan, namely that the private sector could invest at a significantly higher rate than prevailed in the First Plan, was not in keeping with the resource budget of the Plan. (See below, B.) Finally, neither the specific investment patterns in the private sector nor the flow of investment resources into them had been studied sufficiently to permit effective administration of licensing for the private sector. While this is true, this technical difficulty can in no way explain authorizations for capital goods imports which were a multiple of the order of magnitude permitted by the exchange resources available.

B: Domestic Savings and Investment

On the problem of domestic savings and their flow into investment, only a few observations will be made here —to illustrate rather than to demonstrate. The Plan anticipated that the economy's savings would on the average double in 1956-61, as compared with 1951-56. The Plan envisages full utilization of these savings, but with a marked diversion from private to a sharply expanded public sector. Yet there is little evidence that the important changes in specific flows of resources implicit in the situation had been traced through and appraised. There is to be a very large expansion in public savings (attributable to the increases in revenues rather than to any reduction in Government expenditures for non-development purposes). The most extreme assumption which seems to be implied is that there will be essentially no expansion in the absolute amount of self-financing by agriculture and small enterprises. Indeed, the very rough estimates that are possible in these two areas suggest that what was an average direct flow of monetized savings to investment in excess of Rs 200 crores yearly during the First Plan was to remain below Rs 200 crores in the Second Plan.

Moreover, it is precisely in these sectors of small enterprise—agriculture and other—where the Plan's investment assumptions seem unrealistic, particularly with regard to their private-public balance. Thus, the nature of the Indian development programme in agriculture makes these two components complementary rather than competitive or supplementary. Government investment will in general lead to output only when it is accompanied by a necessary amount of private investment. Taking agriculture and irrigation as a whole for the six years from 1950-51 (before the First Plan) this balance was essentially on a 1 to 1 basis. For the Second Plan, public investment in these two sectors was to aggregate about Rs 800 crores while private was supposed to remain below Rs 300 crores. This shift in ratio is not even acknowledged in the Plan, which thus provides no basis at all for explaining why public investment at Rs 800 crores will not need to elicit a higher level of private. In these circumstances, the specific expectation of marshalling private resources for public investment from these sectors seems unrealistic. The tendency will be for resources available to the small scale sector to be invested in the sector rather than in public savings schemes, and the like.

A somewhat parallel argument prevails for the big industry sector. Here, moreover, the situation is complicated by the fact that the Plan speaks of a very large increase in the level of investment in this sector (from about Rs 325 crores for 1951-56 to Rs 530 crores for 1956-61). Actually, investment in large scale industry during the first Plan years was about Rs 500 crores and not the lower figure given in the Plan. The Plan's resource budget (if it may be called this) permits only the maintenance essentially of the investment rates of the previous five years (and, incidentally, of 1950-51 too).

In such circumstances a shortfall in resources for the public sector appears inevitable, either because the pattern of investment will result in a smaller expansion in income (and hence in taxes and savings) or because greater investment will in fact occur in private activities. This last may be the other side of the overperformance in the private sector observed above.

These problems, it should be noted, arise from the domestic savings-investment structure of the Plan itself. At best, the achievement of the Plan's output, savings and investment goals would have required a major effort of analysis and implementation, with the broad use of fiscal and monetary policies on the one hand, direct controls on the other. Given the fact that this would have been a formidable task, Government tended more readily to go along with the lesser degree of controls and the lesser emphasis on increased taxation that are in any case preferred.

C: The Capital-Output Ratio

The Second Five Year Plan has been formulated on the assumption that each rupee of additional income will require 2.3 rupees of new investment. For a number of reasons, including the relatively heavy industrial emphasis of the present Plan, this capital coefficient must be considered as a very low figure. Experience to date has already suggested that the public investment programmes, calling for Rs 3800 crores according to the Plan, may well involve expenditures some 25 per cent higher, due primarily to "higher costs" (which generally refer to more than price increases). Examination of the sectoral experience of the First Plan, to say naught of comparisons with other countries, corroborates such increases. A more realistic calculation is needed, sector by sector, of the capital requirements to produce the expansion in income.

It may be appropriate to observe here that the Plan's target, an average increase of 5 per cent per annum in national income, is a high goal but a goal which may be necessary for a country seeking to shift rapidly from stagnation to progress. One might well argue, given China and given the state of mind in the emerging nations of Asia and Africa, that a lower target would be inappropriate for a nation seeking to make this shift using the political tools of a democratic society.

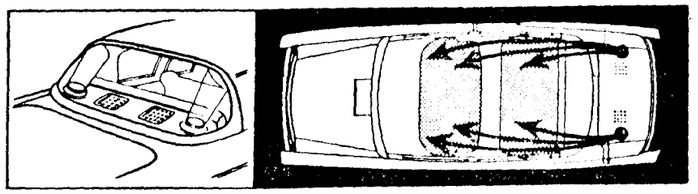
There is also, of course, the possibility that any increase in investment requirements would need to be financed primarily from abroad. In the Indian Plan the ratio of net imports to total investment is 15 to 20 per cent. Only further analysis of these requirements for Indian investment, and of the mobilizable domestic savings, can provide the basis for a marked increase in this ratio.

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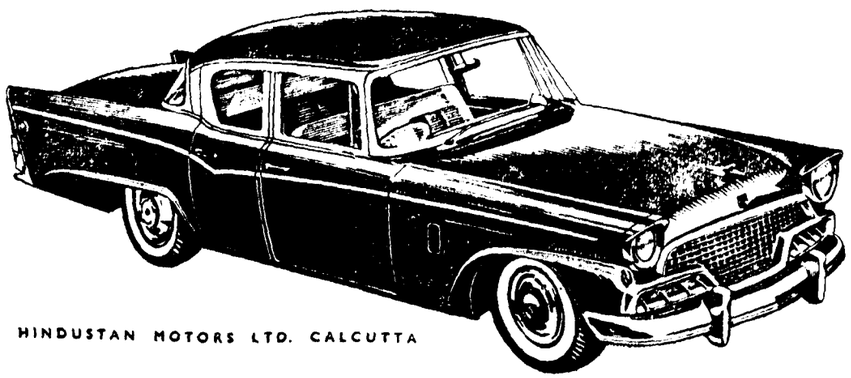
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Rephase the Plan for Agriculture

V Y Kolhatkar

The causes of the current economic strains will not be found where they are usually sought, i e, in the planning of financial resources or the execution of the programme of expenditure.

Origin of the 'stresses and strains' to which the economy has been subjected of late lies in the failure of our agriculture to keep in step with developments going on elsewhere in the economy, when it has to lead rather than to follow. The solution, therefore, lies in re-phasing and vitalising the programme of agricultural development—land reform, major irrigation works, supply of seed and fertilizer and Community Development.

The recent speech by Shri Morarji Desai in which he said that the recent fall in the exports of agricultural products was due to internal production lagging behind internal and external demand confirms the view stated below that the need of the hour is an all out effort to raise productivity of our agriculture.

THE Second Five Year Plan is in danger of running into a blind alley. Within hardly a year of its inception, the economy is showing unmistakable signs of serious disequilibrium. The balance of payments shows a gap of Rs 210 crores and the internal price level has shown an alarming rise in the whole of the year in question. The recent taxation proposals have added to this rise and there is a cry from some quarters that the authorities are trying to bite more than they can chew. Competent economists feel that the investment expenditure scheduled to take place in the Second Plan period is far bigger than can be financed from the available savings of the public. Official as well as non-official opinion, for the first time in the short history of national planning, is seriously thinking in terms of economy drives, of slowing down the tempo of the Plan and of pruning the unessential parts.

It is worth noting that the actual Plan expenditure during the year 1956-57 has fallen short of the budgeted expenditure by about Rs 120 crores and that the Centre has tapped resources for the expenditure in general accord with the directives of the Plan. It is true that the State Governments have not been able to act fully in accord with the Plan for finding resources for their own outlays. But the total performance does not seem to have been too far away from the lines and limits chalked out in the beginning of the year. It is true that deficit financing to the tune of Rs 230 crores has added to the volume of money in circulation, a sizable sum which exercises an inflationary pressure. It is also true that the unexpected rise in defence expenditure last year and the proposed further rise this year add to unproductive expenditure and strengthen the inflationary potential. It will, nevertheless, be of interest to note that the causes of the disease are located elsewhere, more than in the level of planned and executed programme of expenditure. It will be easy to appreciate this statement if we analyse the current symptoms and put them in proper perspective.

An Underlying Cause

In the general picture of the balance of payments position, the figures of merchandise import and export values are very important for our purpose. Two outstanding features of our import position are that (a) capital goods figure prominently in the import list, and (b) the imports of foodgrains figure almost equally prominently, if not more prominently, in the list of goods annually purchased from abroad. It will be readily agreed that there is nothing unusual or unexpected in the imports of capital goods. The planned programme of development requires these imports. This, however, is not so in regard to our food imports. Efforts were in fact directed towards doing away with food imports. From the pre-Plan year of 1950-51 to the year 1954-55, we have been importing food grains to the tune of Rs 120 crores in value on an average per year. It is true that in 1953-54 and 1954-55 we imported roughly Rs 72 and Rs 68 crores worth of food grains respectively. It is also true that in the year 1955-56 our food imports totalled only Rs 17.68 crores in value. But a disquieting rise has undoubtedly taken place in the year 1956-57. In the first nine months of the year, i e, from April to December 1956, we imported wheat and rice valued at Rs 40 crores, in addition to the wheat imports from the U S A which were financed from the Wheat Loan. From the beginning of the year 1957 upto April, we have imported six lakh tons of wheat from the U S A, and the Union Government has a programme of purchasing about 2½ lakhs of tons of wheat every month. Other food grains are also being purchased. It is reported that since the beginning of the year foodgrains imports have totalled roughly Rs 40 crores. This brings the total of imports of foodgrains to Rs 80 crores which certainly is a disturbingly large amount. These Rs 80 crores do not seem to include the value of wheat purchased from the Wheat Loan, which is calculated at about Rs 25 crores.

The country has been running short of food for long, and even though food production is reported to be rising, the internal supplies are falling short of our requirements. This is what makes us dependent on the foreigner. A careful scrutiny of the figures of production of foodgrains shows that after reaching the peak in the year 1953-54, there has been a fall in production in subsequent years. It is this disparity between internal requirements and internal production which has compelled us to import food grains from outside. In the last seven years alone, we have imported foodgrains to the tune of Rs 700 crores and odd. How much valuable foreign exchange is being lost in this way can be easily seen.

And foodgrains are not the only agricultural produce we import from outside. Raw cotton and raw jute are two other agricultural commodities which we have been importing for quite a long time now.

A Solution

The programme for the development of agriculture has four facets, viz, land reforms, major irrigation works, supply of good seeds, fertilisers, etc, and community development projects. There are undoubtedly some encouraging reports in regard to each one of

these fields. But there are, in all of them, serious defects and deficiencies which have to be removed. The programme of land reform is in many cases not proceeding satisfactorily. It is reported that the consolidation of holdings in Uttar Pradesh has worked in favour of the richer landlords and has created, in consequence, a considerable amount of resentment and unrest among the small cultivators. They cannot in these circumstances be expected to put in their best efforts to raise their output. Consolidation of holdings and also cooperative farming and other measures of land reform, however, are long term measures and cannot be relied upon to give quick results in terms of larger agricultural produce. The need of the hour is a quick rise in the production of agricultural goods so as to enable us to do away with foodgrain imports permanently.

Any method by which a quick rise in agricultural production can be brought about would be most welcome. It is very necessary for instance that we complete the major irrigation works on hand as quickly as possible so that they can start functioning with the least possible delay. But it is reported that in some areas where water supply from new irrigation works is already available, farmers do not avail themselves of the facility because of prohibitive levies. It is further reported that in some other areas brought under irrigation, the farmers cannot make use of the new opportunity for want of credit facilities. These are deplorable facts and show utter lack of planning. If this is the position in regard to completed irrigation works, grave doubts arise about the possible benefits of new irrigation projects in the event of their accelerated completion.

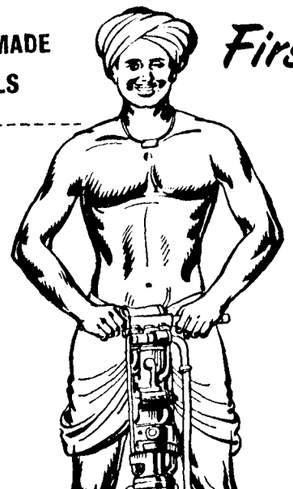
Agricultural, Not Community Development

In regard to Community Development Projects, it is becoming increasingly clear that most of the expenditure under items other than on agricultural development (i e, related directly to the raising of agricultural productivity) is in the present circumstances a waste, whatever may be its ultimate value. I suggest that the entire sum of Rs 350 crores budgeted for Community Development projects for five years, which works out at Rs 90 crores annually, should be employed more productively in supplying the cultivators with natural manures, artificial fertilisers and improved seeds in an appropriate manner. That such supply raises the produce of farms by as much as 30 per cent is now a fact, proved also by investigation lately conducted into the working of the Community Development projects. We can supply these things as free gifts or on subsidised rates as interest-free advances, for one year, and as advances free of interest in the second year and so on. In this way a large part of the expenditure on community projects can even earn a return and would be available for reinvestment in agriculture year after year. In areas where the irrigation projects are completed, farmers should be encouraged to take advantage of the facilities and, if necessary, the irrigation dues should be immediately scaled down so as to be acceptable to the farmers. Ample credit facilities should also be made available. These measures should help considerably in raising the productivity of agriculture.

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First Year of the Second Plan

How far did the stress set up during the first year of the Second Plan originate directly or indirectly from the Plan itself? This is a question which the Progress Report on the Plan prepared by the Planning Commission would be expected to ask, even if it be too much to expect an answer from it.

That the stresses and strains have been experienced in the very first year of the Plan, does warrant the hope that they will strengthen the country and prepare the people to face better the difficulties that are bound to arise in the future.

But when one finds that the Planning Commission does not even bother to watch the progress of what should be its primary concern, the Plan, one begins to wonder seriously if any such hopes are really justified.

IN a preliminary review of the progress of the Second Five Year Plan during the first year of its operation, the Planning Commission has claimed "substantial achievements in some fields and a modest advance on the whole" although general economic conditions were "not too favourable". The brief document lists the difficulties faced during the year, and then proceeds almost immediately to a detailed description of the developments in different fields during the period. In a document of this kind one would expect to find an overall assessment of the progress made by the Plan together with an evaluation of the problems faced by the country at the end of the period reviewed. It is not enough to know, for instance, how far the pace of developmental expenditures had been stepped up during the period and what proportion of the Plan expenditure had been in fact incurred. This has hitherto been the central theme of reviews. Even this is lacking. The Progress Reports, which held promise of becoming highly useful analytical documents reviewing the state of the economy in relation to the Plan, appear to have degenerated into collections of statistical information with accompanying descriptions. Perhaps the more comprehensive review promised at a later date may do greater justice to the needs of the situation.

Developmental Outlay

The progress report for 1956-57 indicates that the total outlay on the Plan during that year (revised estimates) amounted to Rs 761 crores, made up of Rs 370 crores spent by the Centre and Rs 391 crores by the States. This is to be compared with the budgeted amount of Rs. 380 crores. The break-up of the budget and revised estimates of expenditure by major heads of development is shown in Table I.

A comparison of these figures with those for earlier years as made available in a table published in the "Review of the First Five Year Plan" brings out some interesting points, which however, the progress report for the year does not care to note. The expenditure on the Plan for 1955-56 (revised estimate) was Rs 666.5 crores, while that for 1954-55 was Rs 475.9 crores. Plan expenditure was thus stepped up by Rs 191 crores between the fourth and fifth years of the First Plan, but could be stepped up further by only Rs. 95 crores during the First Year of the Second Plan. (Table II) The break-up of this expenditure as between Centre and States reveals however that the expenditure of the Centre was actually lower in the first year of the Second Plan than in the previous year, the fall being of Rs 22 crores. State expenditure on the Plan has shown, on the other hand a steady increase from Rs 192.3 crores (Accounts) in 1954-55 to 274.0 crores (R E) in 1955-56 and Rs 370 crores (R E) in 1956-57. What explanation there would be of this phenomenon it is difficult to say, but that some explanation is necessary is clear.

If the total outlay of the Second Plan is taken at Rs 5,000 crores, the expenditure during the first year constitutes only 13.6 per cent of it. True, the expenditure during the first year of the First Plan was also low being only 10.9 per cent of the revised target of Rs 2386.4 crores for the First Plan and 12.9 per cent of the actual outlay incurred. But this was clearly because the First Plan hardly affected the expenditure for the first two years. One would have expected the experience of the first year of the Second Plan to have been somewhat different. That it was not should have occasioned some comment. The Plan itself did not give any indication of the time pattern of expenditure anticipated over the five year period, but the foreign exchange budget forecasted a sharp humping of imports over the second and third years of the Plan, which suggested a somewhat similar humping in Plan expenditure. Imports have actually increased sharply over the first year, but Plan outlay in the public sector has not. Here is a relationship that once again demands an explanation, though the Progress Report does not even take note of it.

Table I—Expenditure on the Plan, 1956-57

(Rs Crores)

	Budget	Revised
Agriculture and Community Development	108	93
Irrigation and Power	181	179
Industry and Mining	121	111
Transport and Communications	247	233
Social Services	143	123
Miscellaneous	30	22
TOTAL	830	761

Table II—Plan Outlay

(Rs Crores)

	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57
					(RE)	(RE)
Centre	132.1	125.4	181.3	283.6	392.5	370.0
States	127.3	142.2	161.7	192.3	274.0	391.0
Total	259.4	267.6	343.0	475.9	666.5	761.0

Gap in Resources

The report provides a broad statement of the financing of the Plan outlay during the year (Table III).

Table III—Finance of Plan Outlay 1956-57

(Rs Crores)

Outlay on the Plan	761
Domestic Budgetary Resources	427.2
External Assistance	63.1
Total Resources (2+3)	490.3
Gap in Resources (1—4)	270.7

This shows that there was a gap in resources of Rs 270.7 crores, though the Central deficit itself amounted to Rs 216 crores only. It is useful to relate the deficit in Government accounts to the expansion in money supply, though there are of course other influences which operate on money supply. During the year 1956-57, money supply with the public recorded an increase of Rs 118 crores of which Rs 45 crores consisted of an increase in currency with the public. The difference between the deficit and the increase in currency could be accounted for by many factors, of which the variations in the Reserve Bank's holdings of Government securities and the decline in foreign assets of the Reserve Bank would be probably the most important. The fact that the figure of the deficit is only a revised estimate has also to be kept in mind in this case.

A much more detailed analysis of the financial situation could undoubtedly be made and related to the monetary picture but even the points above do not figure in the Planning Commission's Progress Report. The Report does not give data with regard to the proportion of Plan outlay constituting actual investment which would permit of suitable analysis. Another important deficiency is its failure to examine the foreign exchange crisis, though the sharp fall in foreign exchange assets is referred to as one of the unfavourable influences affecting the Plan.

Unfavourable Influences

The Planning Commission's review actually mentions four unfavourable influences operative during the first year of the Plan. These are:

a) the Suez Crisis,
b) upward pressure on prices,
c) shortages of certain essential materials like steel and cement and
d) the sharp running down of foreign exchange assets.

This list of unfavourable influences poses an important question. Is one entitled to describe as an unfavourable influence a development which is clearly the result of the Plan itself or at any rate of internal forces under the general control of the authorities?

Of the four items listed above, the first was obviously an extraneous influence—an influence which could not have been foreseen and provided for. But the same could certainly not be said about the other three developments. If internal prices have shown an upward tendency, it only indicates the increase in the pressure of demand occasioned by the very operation of the Plan. The shortage of materials like steel and cement is again clearly a consequence of the Plan itself and could have been foreseen and provided for in advance. The running down of foreign reserves at a terrific pace must also be ultimately ascribed directly or indirectly to the Plan. To say that the Plan had to work under unfavourable conditions during a particular period creates the impression that these adverse conditions were due to extraneous causes which could not have been provided for when the Plan was drawn up. But three of the four unfavourable conditions referred to in the official review are by and large the by-products of domestic forces working within the Indian economy. The Planning Commission, therefore, owe it to the public to explain these phenomena and indicate how far the Plan itself was responsible for their generation. Even the exact impact of the Suez Crisis on the operation of the Plan required careful assessment. After all, it probably helped in some ways, for instance, by slowing down the utilisation of our foreign exchange assets.

Food Production

Though the Report fails in many directions, it does give us a picture of the progress made in particular sectors of the economy. We are told, for instance, that food production rose by 1.4 million tons in 1956-57, an increase of about 2.2 per cent over the previous year's output (Table IV). This is a welcome feature of the year's developments, especially in view of the fact that food production had been declining over the past two years. Production of food reached its peak at 68.7 million tons in 1953-54 and then declined to 66.6 million tons in 1954-55 and to 64.8 million tons in 1955-56. The trend was, however, reversed in 1956-57 and production in that year is stated to have risen to 66.2 million tons. The 1.4 million ton increase in food production during 1956-57 needs to be seen in the correct perspective, which is provided by the following statement from the official review of the Plan:

> According to the food production programmes, an addition in production potential of about 2.5 million tons was expected to be realised in 1956-57.

Actual production, according to official estimate, 1.4 million tons.

The distinction made in the official review between production and production potential is worth noting. If certain acres are brought under irrigation or reclaimed or otherwise improved so as to yield higher output, it can be said that an increase in 'production potential' has taken place. But this does not mean that actual production will increase to the same extent, first because the actual level of production depends also upon seasonal factors and second, because it is not easy to estimate the addition which can be specifically attributed to the potential created through particular development programmes. With regard to the domestic performance on the food front in 1956-57, there can in fact be two alternative views. It may be that the food production potential of 2.5 million tons created during the year was fully utilised but the increase in output on this account was offset by a diminution in output because of seasonal failures. On the other hand, it may be that the production potential created was not fully utilised for one reason or another. From available reports, it appears that it is the latter explanation which is more in accordance with the facts. It was pointed out for instance at the recent meeting of the National Development Council that of the 6.3 million acres brought within reach of irrigation works during the First Five Year Plan, the area actually utilising irrigation facilities did not exceed 4 million acres. It is very likely that a similar situation existed during 1956-57 also.

Table IV—Agricultural Production

Crops	Unit	1950-51	1955-56	1956-57
Total Food grains	Million tons	50.0	64.8	66.2
Major Oilseeds	"	5.1	5.7	5.9
Sugarcane	"	5.6	5.9	6.3
Cotton	Million bales	2.9	4.0	4.8
Jute	"	3.3	4.2	4.2

Lag in Utilisation

According to the official review, about 90 large and medium irrigation projects were expected to be completed during the year bringing under irrigation an additional area of about 1.5 million acres. At the same time, another 1.6 million acres were to be brought under irrigation by completion of minor works. Also, over 3,000 tube wells were completed by the end of the year. In addition to the expansion in irrigation facilities on this scale, the Central Tractor Organisation reclaimed an area of 87,000 acres of kans and jungle land. Was all this area reclaimed or brought within reach of irrigation worked to capacity? Perhaps the necessary information is not yet available. But if the assumption that there continues to be a lag between the creation and utilisation of production potential is correct, and this is the lag which was not anticipated when the First or the Second Five Year Plan were being drawn up, one would naturally like to know what positive steps, apart from exhortations at the meeting of the National Development Council, have been taken to reduce this lag to the minimum?

All this is on the plane of execution involving creation of the production potential and its utilisation. There is also the question of a proper planning perspective in agriculture. We cannot afford to continue spending crores of rupees year after year on the construction of irrigation works, major and minor, on land reclamation and on other works for the improvement of agriculture in the vague belief that these works are beneficial to agricultural production. Every attempt must be made to assess the direct benefits which accrue from the various works undertaken, first because such an assessment helps in securing maximum utilisation, and second because on the basis of this assessment decisions on similar works and works of allied nature can be taken with greater confidence. It is therefore important from the point of view of planning itself that whenever a work of the above type is undertaken measures should also be taken for the assessment of its results soon after its completion.

Industrial Production

Accordng to the official review, production in all the principal organised industries (barring aluminium and vanaspati) was higher in 1956 as compared to 1955. The revised index of industrial production rose from 122.1 to 132.7, i e, by 8.7 per cent. Separately, the output of radio receivers rose by 86 per cent, and the increase in output of bicycles, automobiles, electric motors, transformers and power driven pumps ranged from 33 to 60 per cent. Cement, sugar and diesel enginess belong to the category of industries where the increase was in the range of 10 to 25 per cent. Production of steel and mill-made cotton cloth recorded an increase of only about 4 per cent. A number of new items were also produced in the country for the first time as in previous years. Levels of output in industrial undertakings in the public sector, says the official review, were also generally higher than in 1955, i e, in locomotives, integral coaches, D D T, penicillin, newsprint, cables and machine tools. The order of increase in output obtained in these public industrial enterprises has not however, been indicated—for what reason it is difficult to say.

Between 1951 and 1954, the increase in industrial production was of the order of 13 per cent (i e at the rate of a little over 4 per cent per annum). The increase in 1955 was 8.2 per cent and in 1956, as stated earlier, 8.7 per cent. One thing, however, is not indicated in the official review. That is the extent to which the increase in industrial output is accounted for by additional capacity which might have been created during the year and the extent to which the increase was due to fuller utilization of capacity already in existence. Surely, some new capacity did come into use during the year. That is why new items like portable electric drills, shock absorbers etc could be produced. But this was certainly not the case for all items which recorded increases in output.

Take the case of radio receivers which recorded the highest percentage increase during the year. The capacity already existing in the industry was considered adequate to meet the expanding demand for radio receivers throughout the Second Plan period. Therefore, the Plan did not provide for any expansion in the capacity of this industry, although it did approve a number of schemes for the manufacture of components and parts which are at present being imported from outside the country. Yet output expanded substantially. The same should apply to the automobile industry and a number of others which have recorded increases in production during the last year.

The distinction drawn above between production which increases with expansion in capacity and production which does so without it is of significance in providing an idea of the pace at which investments are maturing. Maturing investments could then be related to outlay under the Plan. Apart from the fact that such an analysis would give a better idea of the contribution of the Plan to industrial expansion, it would help the process of planning itself because it would provide more precise information on capital-output coefficients and on time-lags.

Private Industrial Investment

It is disappointing that the official review gives no indication at all of the magnitude and pace at which investments took place in the organised industrial sector during the year. The upward pressure on the price level and on external balances is being increasingly attributed to a spurt in investment in the private organised sector and to accumulation of inventories of food grains and other primary commodities on an abnormally large scale. This presumption of a spurt in investment in the private sector derives from the excessive imports of capital goods, including iron and steel, during the year.

If the presumption is correct, one would like to know whether this is a case of lumping of investments contemplated for the five-year period in the very first year or a case of additional investments taking place over and above those provided for in the Plan. In either case, the situation through which

the country is now passing underlines the importance of more effective control over private investments. Over-investment in the private sector is dangerous because it involves the using up of resources which would otherwise have been employed in investments to which the Plan accorded higher priority. The question of the volume of private investment is clearly linked to that of the level of public developmental outlay discussed earlier. The report fails to discuss both these important questions.

Conspicuous also by the absence of any reference to it in the official review is the steel expansion programme. Over the past one year or so the public has been told so often about the steel expansion programme as comprising the hard core of the Plan that it deserved separate mention in the official review. Even if none of the schemes in hand has reached the stage of completion, some idea could still have been given about the progress made so far in the construction of the steel plants.

Conclusion

The Planning Commission's general impression of 1956-57 is that "the year recorded substantial achievements in some fields and a modest advance on the whole". This it is claimed happened in spite of the fact that general conditions were not too favourable. There is no doubt that increases in industrial and agricultural production took place during the year and that in every sector some steps were taken towards the achievement of the particular targets laid down in the Plan. One would hardly be justified, however, in therefore describing the year as satisfactory—particularly, if it is considered from the viewpoint of the Plan.

The rate of increase in industrial production during 1956 was for instance not much higher than in 1955 and there was evidence to suggest that a further increase in production would not take place without an increase in capacity, even though substantial unutilised capacity continued to exist in paper. The increase in agricultural production fell far short of the target. On the prices front, the country was faced with a difficult situation as prices moved strongly upwards. At the same time, the drain on foreign exchange reserves assumed terrifying proportions creating a crisis which continues to occupy the attention of all concerned with the Plan.

How far the stresses set up during the first year of the Second Plan orginated directly or indirectly from the Plan itself should have been examined in a progress report of this character. The fact that such strains were making themselves felt in the economy during the very first year of the Second Plan is obscured in the progress report by a mass of detailed information of no particular importance or significance. In the circumstances, how can one hope that the stresses and strains of the first year of the Plan will strengthen the country and prepare it to face better the difficulties that are bound to arise in the future?



The Foreign Exchange Crisis

And India's Second Five Year Plan

V K R V Rao

After all, we have only just begun planning in the 'hard' sense. It is only in the Second Plan that the country is really attempting to go ahead faster than normal in the economic field, with all the stresses and strains that it inevitably involves.

It is perhaps just as well that the crisis should have overtaken us so early during the operation of the Second Plan, because the country, its leadership and its administration have now been seized of the realistic implications of planned development.

We do, of course, need to review and rephase the Plan, but what is needed even more is to review the whole machinery of planning that we have established in India.

EVERY one knows that India today is confronted with a foreign exchange crisis of an almost unprecedented character. Whereas during the whole of the five year period of the First Plan, India's exchange reserves dropped by only Rs 158 crores, the corresponding figure within a little less than 15 months of the Second Plan has been of the order of Rs 278 crores. When account is taken of the credit of Rs 95 crores that we have received from the International Monetary Fund, the draft made on the country's foreign assets during the period of 15 months comes to about Rs 373 crores. Our reserves stand today at about Rs 467 crores or only Rs 67 crores above the statutory minimum laid down by the Reserve Bank Amendment Act of last year. If we take Rs 40 crores as a working balance, then what is left as spendable foreign exchange reserves is not sufficient to meet the requirements of even one month.

The questions which arise for consideration are three-fold. One relates to the immediate future, the second to the Plan, and the third to planning itself.

Immediate Measures

Let us take the immediate question first. Obviously, the drain on foreign exchange must stop; and as it takes a little time for this to happen, additional foreign exchange resources must be obtained to meet the continuing drain to avoid the worse alternative of defaulting. This has been done by our resorting to the International Monetary Fund; and a credit of Rs 95 crores has been accordingly obtained from that institution: which amounts to 50 per cent of our quota. It is not possible to obtain any additional amount from the Fund for another period of 12 months. The second thing to do is to tackle the evil at its source as it were and effect a drastic reduction of the demand for foreign exchange. This is being done—and fairly drastically—by the recently announced import policy abolishing the O G L and confining the issue of import licences for the July-September quarter to capital goods and raw materials. I am afraid this is not going to provide a complete solution either, as the value of outstanding licences today has been estimated by Government itself at Rs 420 crores. Assuming that the bulk of this amount would become a foreign exchange liability during the current quarter and making some allowances for the liability that would ensue from the grant of new licences during this period, it is obvious that the exchange resources likely to be available to the country during this quarter would not be sufficient to meet the likely liability. And the exchange reserves available from sterling balances would be only Rs 27 crores on the assumption of leaving intact the statutory minimum of Rs 400 crores of currency reserve together with a working balance of Rs 40 crores. Inevitably, therefore, by the end of July or perhaps even earlier, Government would find themselves with the alternative of either defaulting on payments or devaluing the rupee or making a draft on our currency reserve after obtaining the necessary legal power to do so.

Devaluation No Solution

It is obvious that we cannot possibly default on payments. The alternative of devaluation is also not a satisfactory solution. Devaluation is usually resorted to for purposes of correcting an adverse balance of payments when thereby it is possible to expand exports and reduce imports. This expansion of exports is brought about by a reduction in our export prices in terms of foreign exchange, while the contraction is brought about by a rise in our import prices in terms of the domestic currency. Both these are possible only when the elasticity of demand for our exports is more than unity and the elasticity of demand for our imports is less than unity. Looking to the nature of our exports, and the likelihood of remedial action being taken by our competitors, it is doubtful if, by devaluation a really sizeable addition will be made to our foreign exchange resources from exports, even though there may well be an increase in the physical volume of our exports. As far as imports are concerned, devaluation works as an effective restrictionist factor when (a) imports consist largely of consumer goods rather than capital goods and raw materials and (b) when there is no planned economy. In the case of a country like India, however, where the economy is planned, quantum and composition of imports being determined by Plan-priorities, and import licences, and where the bulk of imports, therefore, consist of capital goods and raw materials, devaluation will only succeed in raising the rupee costs of the Plan and distributing the incidence of higher prices on a pro-rata and, therefore, non-priority basis on our imports. Devaluation, therefore, is no remedy for dealing with our current problem of balance of payments.

Scrap Currency Reserve

The only remaining alternative is to give up the concept of the

sanctity of the currency reserve. And I see no reason why we should not do so. After all, a currency reserve is intended to be used and obviously it should be used when the need for doing so is greatest as it is at the moment. Otherwise we will be treating the currency reserve in the same manner as the world used to treat the gold reserve in the inter-war period; and that is an outmoded procedure. In fact, several countries including Canada, New Zealand, Australia, Ceylon, and Israel have gone so far as not to prescribe any reserve requirements in the form of gold or foreign exchange against the issue of currency. This does not mean that the countries concerned do not accept the overall responsibility for maintaining the external and internal stability of the value of their currencies. Only they would discharge this responsibility through appropriate economic, fiscal and monetary policies rather than by the device of a mechanical safeguard of a currency reserve.

Flexibility of Action

A statutory currency reserve of foreign exchange only inhibits flexibility of action, unless of course it is frankly recognised that this reserve is not a touch-me-not sacred good but is meant to be used and will be used in times of exchange crisis when all other remedies will not have the desired effect within the immediately relevant short period. In fact, this position is conceded even in the Indian legislation on the subject, clause 4 of the Reserve Bank Amendment Act of 1956 having given power to the Bank to suspend the assets requirements with the previous sanction of the Central Government for a period of six months in the first instance, which may be extended from time to time for periods not exceeding three months at a time. The suspension, however, is subject to a maximum deficiency of foreign securities by Rs 100 crores. In other words, it should be legally possible for Government to run down our sterling balances to a minimum of Rs 300 crores instead of having to stop at the current statutory limit of Rs 400 crores. To my mind, however, this does not provide the safety margin required to deal with the current exchange crisis. And if this assumption proves correct, then another big psychological hurdle will have to be overcome before any attempt can be made to dip into reserves below Rs 300 crores. My view, therefore, is that Government should seek power at the forthcoming session of parliament to do away with the provision for a statutory reserve of foreign exchange required as cover for the currency by the present Reserve Bank Act. That will give them the necessary time interval within which their programme for increasing exports and decreasing imports would have become effective enough not only to stop the drain on our exchange reserve but also possibly set in motion a trend in the reverse direction.

I must hasten to add that this recommendation is based on the definite assumption that the exchange crisis will not indefinitely continue into the future. In other words, the assumption is that the current divergence between exports and imports will soon start correcting itself and that, well before we reach below the new minimum reserve of Rs 300 crores suggested above, the gap would have disappeared and the balance of payments made to balance without seeking any further draft on the country's foreign exchange reserves. If this assumption proves to be incorrect, then scrapping the legal provision regarding the statutory currency reserve would have been of no use at all in meeting the exchange crisis. It would only have postponed the evil day of reckoning at the expense of throwing away our hard-earned foreign exchange reserves. Exchange reserves, of course, are meant to be used but this utilization does not constitute any more than a holding operation. Exchange reserves only enables the country to purchase time within which to set the economic house in order so to speak. The important thing, therefore, is to look to the efficacy of the operation undertaken to bring about normalcy in the balance of payments.

Export Drive

It is this aspect of the problem which brings us on to the second aspect of the problem formulated earlier, viz. its relation to the Second Five Year Plan. As already pointed out, a great deal of direct control is exercised on imports under a planned economy. This is, of course, nowhere being near equally true in the case of exports, where markets involved are foreign and the writ of the domestic Government does not run. Every possible step should, of course, be taken to step up the level of exports even if it means some restriction of domestic consumption and diversion of the resultant savings to the export market. Examples would be commodities like cloth, sugar, raw cotton, oils, oilseeds and oilcake. There is also the possibility of stepping up our exports of handicraft products. These, however, do not touch our two major export earners like tea and jute manufactures where we are already exporting the bulk of our domestic output. The possibilities of increasing our export earnings, therefore, are not very great, especially in the immediate short period when we have to deal with the exchange crisis. Nevertheless, it is not unlikely that, given the necessary effort, we may add to our exports by about Rs 40-50 crores within a year and that is certainly not something to sneeze at. In any case, we must go full steam ahead with our export drive, for in the coming years, our need for foreign exchange is bound to continue and can be met only by self help in the form of increased exports.

Cutting Down Imports

As far as the immediate question is concerned, however, it is in the realm of imports that we will be able to secure quick results by our own action. That means that we have to cut down our imports for the next year or two, during which period it is hoped that enough results would have accrued from our export drive to lessen the rigour of the foreign exchange crisis. Cutting down imports, however, is going to affect the Plan, for the bulk of the imports we are now getting are in pursuance of the implementation of the development programme comprised in the Second Five Year Plan. It is possible that some of the imports of capital goods and raw materials we are now getting may not be linked specifically with individual projects included in the Plan, but there is no doubt that

all of them are linked with either some kind of development or production programme in the country. It goes, therefore, against one's grain to recommend a reduction in these imports; but I can see no immediate alternative which is within our control. The recently announced import policy for the quarter ending September is, therefore, obviously in the right direction. And it is more than probable that the severity of restrictions on imports may have to continue possibly into the next six months as well. In the meanwhile, there is no gainsaying the fact that this policy does involve a certain slackening in the tempo of the Second Five Year Plan. But there is no need to become tragic over this consequence.

Factors Behind Exchange Crisis

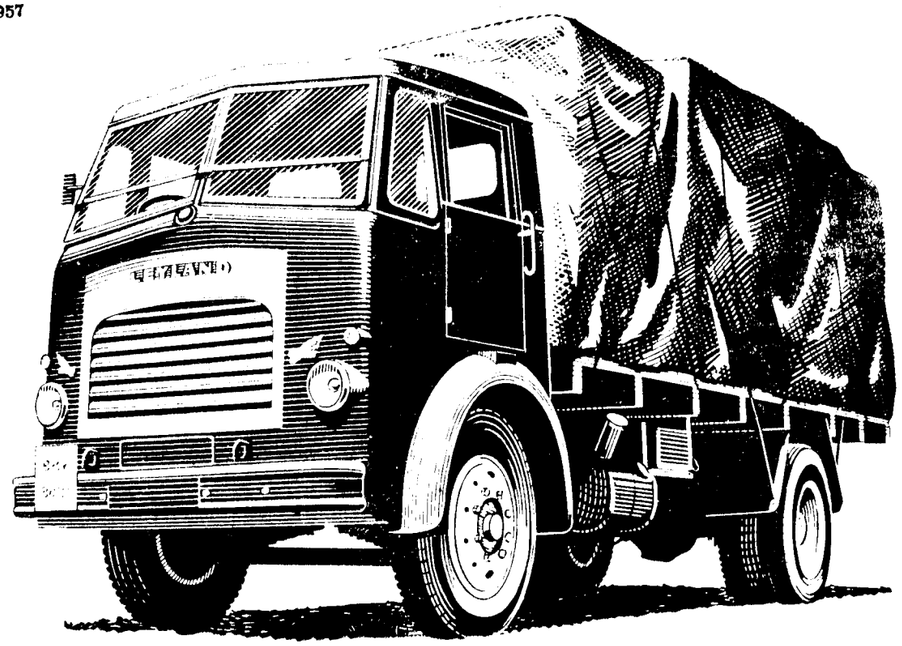
Partly no doubt, the rise in imports over the first 15 months of the Second Plan is due to a rise in foreign costs due partly to the Suez crisis and partly to the generally rising inflationary trends abroad; partly it is due to the private sector spilling over in its development programme on projects not contemplated in the Plan. But a part is also due to the fact that elements in both the public and the private sector have acted in a somewhat anarchic fashion and built up their imports ahead of schedule, because of their anticipation of exchange shortages in subsequent years of the Plan and their consequent desire to safeguard their own individual positions. In the process, of course, they have precipitated the very exchange crisis that they wanted to escape. But this kind of behaviour is not an entirely unfamiliar phenomenon even in much more rigidly and comprehensively controlled economies like that of the Soviet Union where individual State concerns have built up stocks of raw materials or semi-finished goods ahead of schedule with a view to safeguarding their individual production programmes. Anyway to the extent that the unexpectedly large imports of the last 15 months are traceable to this cause, it only means that there has been a disturbance in the time schedule of individual projects in the Second Plan, with the result that some projects may get completed sooner while others may take a longer time than planned. In the alternative it means that some items in the Plan which would under normal circumstances have taken longer time will now get completed earlier, while others would be saddled with the unpleasantness of having to undergo a longer period of implementation.

Rephasing of the Plan

Anyway, there is no denying the fact that the impact of the exchange crisis on our imports during the next 12 months or more does call for a review and rephasing of the Plan. Our import policy, therefore, will have to concern itself primarily with the carrying through of the projects which have already been started and very strict priority considerations will have to be applied to the taking up in the immediate future of projects which have not yet been started. In other words, the Plan will now classify itself under five heads, viz. (1) projects which have already been started and for which considerable expenditure in foreign exchange has already been incurred, (2) projects which must be started either because they are linked up with the items included in the first category or because they are essential from the point of view of basic productivity, including export capacity, and (3) projects specifically for which foreign aid is available and which do not involve any substantial additional expenditure of foreign exchange from domestic resources, and (4) projects which, though important, can nevertheless be postponed for a year or two and taken over to the later years of the Plan, and (5) projects which are not so important but have nevertheless found a place in the Plan either because of prestige considerations or for some reasons not quite connected with the pure economics of the Plan. Items included in the fourth and fifth of the categories mentioned above have to be ruthlessly controlled in the immediate future; and to this extent this does involve a slackening of the whole bundle of projects known as the Second Five Year Plan. But the hard core of the Plan, which is intended to give the country an industrial base, will remain unaffected; and to that extent the essence of the Plan remains intact. It is important, however, to recognise this fact and not slur over it in the name of saving the Plan as a whole, for otherwise our expenditure will become uneconomic in the context of our exchange difficulties and threaten the future of the Plan much more than a rational and deliberate rephasing of it is likely to do.

Expectations of Foreign Aid

It must also be added that our difficulties are not wholly traceable to the large increase in imports that has attracted so much attention. The Plan had proceeded on the assumption that a substantial volume of foreign aid would be available for financing its foreign exchange costs; and it also appeared during the early months of the first year of the Second Plan that these expectations would be more than justified. The successful visit of our Prime Minister to the United States and the understanding he established with President Eisenhower, the lull in the cold war and the new look in the Soviet Union together with the response it evoked in the United States, the increasing recognition in the American Senate and Congress of the importance of foreign economic aid, and the welcome accorded to the Plan by the International Bank and the optimistic impressions left on the country by the Bank Missions visiting India, all these had created the feeling that substantial foreign aid would be forthcoming in the very first year of the Plan and, therefore, not unnaturally encouraged the Indian authorities to go ahead with their import programme. Unfortunately, these factors have not worked; in any case, they are taking much longer than one anticipated in the beginning of the Plan. This has undoubtedly injected an element of instability into our planning, and given our exchange crisis a somewhat greater threatening look than it would have had otherwise. The country must understand that a substantial volume of foreign funds is necessary for implementing the Second Plan; and this cannot be provided wholly or even to a substantial extent by our exports during the Second Plan period. Foreign aid, grants or loans—we prefer loans—is essential for the success of the Plan. An all-out effort, therefore, must be made to secure foreign funds during the Second Plan period; and this must be done both in the public and in the private sector. From this point of view, the action taken by the Finance Minister recently to provide some relief to foreign companies working



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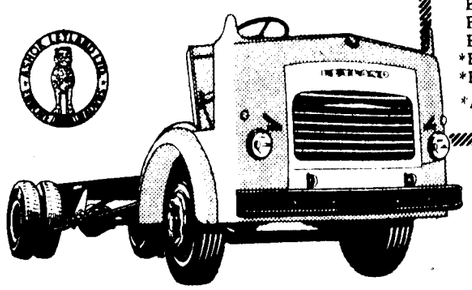
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through subsidiaries or operating through branches and earning other incomes is a step in the right direction. In fact, something more needs to be done to attract private foreign capital to India.

No Inhibitions

Foreign capital has a definite place in the economic development of an under-developed country especially when it is independent and is wedded to a democratic set up and humane values like India; and we must get rid of the old ideas on foreign capital associated with the days of political dependence and colonial capitalism. I would favour our giving special incentives to private foreign capital in India, especially in the immediate short period; as our economy gets broad-based and diversified, we will automatically be able to reduce the significance of private foreign capital in our economy.

Similarly, I don't see why we should not raise loans from private investors in foreign markets by offering them attractive rates of interest. Our current drive for deferred payment on capital goods imports does involve the incurring of very high interest commitments; and if we are prepared to pay high interest to foreign suppliers of capital goods for short period accommodation, I see no reason why we should not be prepared to pay high interest rates to foreign private investors for short period accommodation. In fact, the latter procedure is to be preferred not only because of the greater flexibility it gives to the funds thus obtained but also because it will save us the element of higher price that suppliers of capital goods are bound to charge because of their stronger current bargaining position. Sales on credit always involve a price element additional to interest charged on accommodation; and this we can avoid by obtaining short period loans from private foreign investors. Finally, I would strongly urge the need for our seeking straight-forward loans from friendly foreign governments, like the U S A., U K., Sweden and Switzerland. This was done by England and France at the close of the war; and I don't see why India should not follow suit, especially when the purpose for which she seeks it is productive and also conducive to the maintenance of the democratic values basically similar to those of the United States and the United Kingdom. If the loans are not forthcoming, then we shall know where we stand and can revise our economic policy and may be political policy too; but we have no business to cry "wolf" before we have explored the landscape.

Implications of the Crisis

Finally, I turn to the implications of the current exchange crisis on the whole subject of planning itself. The Second Plan proceeded on the assumption that imports during the first year would be of the order of Rs 783 crores, while actually they have amounted to about Rs 1,000 crores. The Plan proceeded on the assumption that excluding foreign aid, our adverse balance during the first year would be of the order of Rs 148 crores; actually, the adverse balance has amounted to Rs 300 crores, if we exclude the loan we got of Rs 60 crores from the International Monetary Fund. The Plan had expected the 'hump' in imports to occur during the middle of the Plan period; in actual fact, we have started the very first year of the Plan with a 'hump' and one almost as large as the peak expected in the third year of the Plan.

All this means that there is something radically worng with our planning machinery. Such things ought not to happen in a planned economy. The fact that they have happened under India's planned economy only means that there has been no coordination between spending and supplying departments in Government, between Central and State governments, and between the public and the private sector. It also means that the planning authorities do not have the tools essential for planning, lack the necessary machinery for economic and statistical intelligence, and do not have in sufficiently developed measure the planning techniques essential for estimation, implementation, and rectification. I must make it clear, of course; that statistical intelligence and planning techniques are not sufficient in themselves to make for successful planning. We also need the play of informed economic and social judgment as also the willing and positive cooperation of both the people and the administration. All the same, it is imperative in the context of Indian experience to stress the need for a review of the whole machinery of planning itself in India.

Again, I would add that we do not need to become tragic over this situation. After all, we have only just begun planning in the 'hard' sense. It is only in the Second Plan that the country is really attempting to go ahead faster than normal in the economic field, with all the stresses and strains that it inevitably involves. This is especially so because of the extent to which it leans on foreign exchange resources for its implementation. From the long period point of view, it is perhaps just as well that the crisis should have overtaken us so early during the operation of the Second Plan, because the country, its leadership and its administration have now been seized of the realistic implications of planned development. It is, however, ridiculous to develop a sense of defeatism or give way to an infantile desire to run away from the Plan and clamour for reducing its size. We do, of course, need to review and rephase the Plan. But what is needed even more is to review the whole machinery of planning that we have established in India.

The Basic Question

We must ask ourselves the basic question whether and how far our planning machinery is equal to the tasks of formulating and operating a planned economy, and what we should do in order that it may be better able to do so. No doubt, the coat has to be cut according to the cloth; but planning has no meaning if the length of the cloth is a given datum and contains no element of stretching. How, to what extent, and in what direction we can stretch the cloth but without tearing it, in order that we can get ourselves a bigger or a longer coat is the very essence of the Plan and constitutes the whole **raison d'etre** of a planned economy. The recent exchange crisis has sharply underlined the fact that we do not yet have in any adequate measure, the machinery or the technique for stretching the cloth without exposing it to the risk of tearing it somewhat. It is to the rectification of this structural deficiency that we should now turn, and as urgently as we are turning to the task of meeting the immediate difficulties created by the exchange crisis. That is the implication that the crisis has for the success of the whole concept of planning in India.

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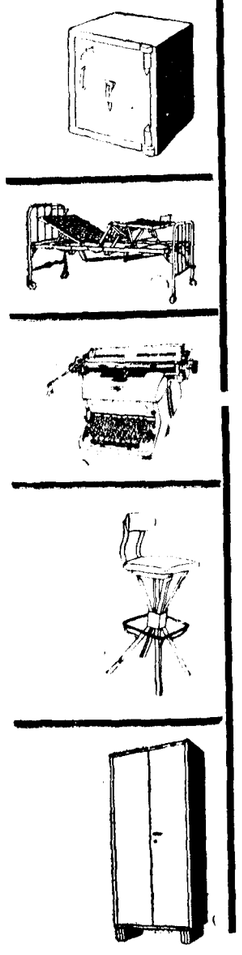
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The Myth of 'Paradise Lost'

Unesco's Study of Bombay Labour

Morris David Morris

There has been an increasing tendency in India as in the West for scholars to make use of the survey questionnaire technique. Properly developed, conducted, and interpreted, these surveys can give us new insights into social phenomena. We can get from them some idea of the nature and scope of social tensions, which in a newly developing society are especially great.

However, if the questionnaire is improperly designed, if the interpretation of the data is poor, the survey can be a menace. The conclusions can lead to erroneous social policy, adding to rather than easing social difficulties.

One of the most recent—and disturbing—of these surveys revieved here was conducted by the Tata Institute of Social Sciences under the sponsorship of UNESCO's Department of Social Sciences.

NORMALLY, poor scholarship falls of its own weight and needs no substantial criticism. However, scholarly interest in the problems associated with the creation and disciplining of an industrial labour force is mounting rapidly while the amount of material on the subject is yet exceedingly slim. In the absence of any substantial body of data against which scholars and administrators may check any new contribution, erroneous data tend to take on the same weight and value as correct data. It is all the more likely in the case of this study* which bears the imprimatur of UNESCO. Given this impressive support, it is likely that it will be accepted by scholars as reliable when in fact it is misleading and incorrect. It is important, therefore to look further into this study.

The weaknesses of the study are three in number: method; data and interpretation. After some brief comments on methodological considerations, I will explore some of the statistical and analytical errors.

II

It should be noted that the published study is an abridged version of the original paper. Possibly, some of the methodological and statistical difficulties would be cleared up were we able to refer to the original report.

The survey involved questioning 523 workers who originally came from five Marathi-speaking districts of Bombay State (p 55). We are not told the industries in which the workers were employed in Bombay City. The implication is that the bulk of them were cotton mill workers (p 68), but the vagueness on this count as well as the absence of detailed occupational classification and age data make it impossible to assess the adequacy of the sample in relation to the relevant labour force. Moreover, we are not given the sex composition of the group questioned, although the implication is that it was entirely male.

There is also some confusion in the conception of the statistical universe. The investigation "undertakes to study the nature and extent of the impact of city life and conditions on the **rural migrants** into the city of *Bombay....*" (p 51). But a few pages later (p 58) we are told that 9.17 per cent of the respondents **"were born in the city."** The study, in other words, immediately becomes something more and something less than a study of migrants into Bombay.

At the very outset, then, we find serious weaknesses in the survey conception. In addition, there are no caveats regarding the reliability of the data. There seems to be no recognition of the dangers of the questionnaire technique, even when used by the most sophisticated interviewer confronting the most sophisticated interviewee. In this case there are added difficulties. Educational, social, and authority-image barriers separate the surveyors from the unsophisticated subjects, who are inevitably filled with fear and suspicion. In addition, the questionnaire consisted of twenty pages of questions, enough to add sheer physical and emotional fatigue to problems of communication. The likelihood of obtaining unambiguous results under these circumstances seems questionable, nor does the study show any use of effective cross-check questions to eliminate contradictions and falsifications by the respondents. Not only does it seem clear that the survey was not designed to reduce the degree of contradiction or falsification, but, as I will show below, the author seems incapable of dealing with these problems in his analysis. In fact, he adds to them.

III

(1) Dr Prabhu gives us a very confusing picture of the rural environment from which these people come. Despite his rejection of the *district gazetteers as "too ancient to* be referred to" (p 55), he proceeds immediately (p 55-57) to give us a serious of quotations—direct and indirect—from the Satara, Ratnagiri, and Kolaba Gazetteers, published in the 1880s, to illustrate modern economic conditions and migratory patterns. This is hardly adequate. It would have been better if the study had referred to recent census data, Government investigations, and *scholarly monographs* to give us a picture of the rural conditions from which the migration effect emerges.

Discussing the causes of migration, the study tells us that "Poverty and pestilence in rural areas have been the major causes of the cityward movement of villagers. **Small landholders and labouring classes** had been the worst sufferers in the times of famines and bad seasons in the Deccan and Konkan..... In the *famine of 1876-77*, large numbers of **lower caste** people from Satara, Ratnagiri and Kolaba came to Bombay in search of work". (p 53) Based on *eighty year old documents*, the description is purely gratuitous. Not only is it unnecessary, but it involves the study in a rather common error. There is no necessary

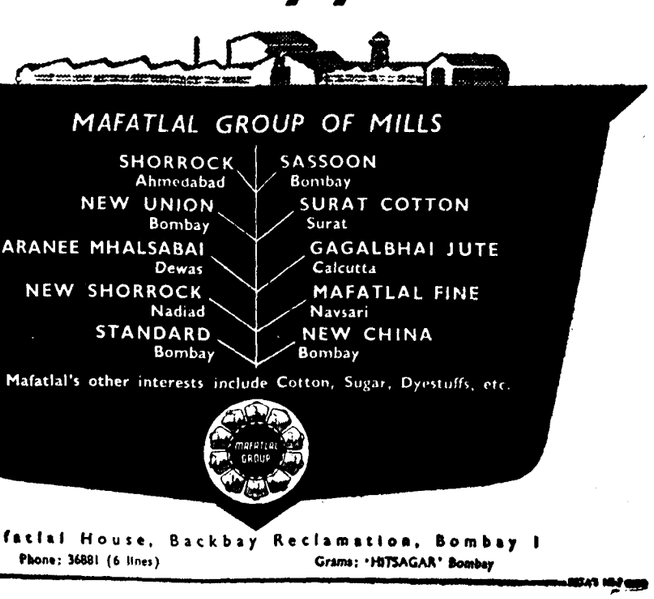
* Pandhari Nath Prabhu, "Bombay: A Study on the Social Effects of Urbanization on Industrial Workers Migrating from Rural Areas to the City of Bombay", **The Social Implications of Industrialisation and Urbanization: Five Studies in Asia** (Calcutta, UNESCO Research Centre on the Social Implications of Industrialization in Southern Asia, 1956), pp 49-106.
Emphasis in quotations is mine —M D M.



all the cloth you need



all the variety you need



relation between "small landowners and labouring classes" and "lower caste" people. Yet the analysis implies that the one means the other. This occurs despite the fact that the questions and comments (p 55-57) make clear that all castes were affected by difficulties in the mofussil and migrated to Bombay. It may be true that a large portion of migrants to Bombay have been low caste. This is merely evidence of the obvious fact that low caste people constitue a large proportion of the Indian population. It will be possible to say that low caste groups have been more prone to migrate only when the populations of districts of emigration have been carefully studied in relation to the groups that in fact do migrate.

(2) Dr Prabhu tells us that "the causes of cityward migration are not purely economic. There are also other social causes. Lack of facilities in the villages for proper and higher education of the youth is an important factor which has also partly caused the cityward migration ....Then again, some, especially of the youth might have migrated in search of greater psychological satisfaction in the urban environment.. It opens to them opportunities for fulfilling their ambitions and aspirations, opportunities which are not available in the small villages .....Further, the city provides an escape for a certain class of people who have become socially undesirable in the village". (p 58) This being a statistical study, we would expect the statistics to bear out the elaborate listing of causes of migration. But unfortunately they do not. Virtually all the migrants left the village for purely economic reasons. The study reports that "Nearly all of them (99%) have come to the city and taken service out of sheer despair,—because there is no other means of livelihood, or no land for tilling, or they cannot get another job, or income from the village is insufficient, etc." (p 63).

There is a further claim that "the age composition of the rural migrants....lends support to the contention that it is the combined force of these various causes that compel the villagers to the city. An overwhelming majority of the migrants belong to the age group 7 to 30 years, which shows that, while economic causes are there, there must also be operating other strong social and emotional forces impelling the village folk to go citywards". (p 58) The fact that some 81 per cent of the respondents fell in the 7-30 year category at the time of migration suggests nothing of itself as to causation. If one must derive some conclusion from age of migration, it is more likely that it suggests economic pressures rather than anything else.

(3) The comment is made that Bombay "offers unlimited opportunities of employment to people in search of work and wages." (p 58) The history of Bombay employment patterns since the end of the first world war however provides no evidences of "unlimited" opportunities.

(4) The writer goes on to tell us that "'Casual Labour', as it is called, is a feature of Bombay industries. This is the result of periodical movement of workers to their villages. The migrants cannot resist the very natural and human urge to visit their homes in the villages after a period away in the city. A worker may go 'home', i e to his native village on leave or on furlough. If leave is not granted, he may even resign—which he sometimes does by simply stopping to attend the factory or mill—and proceed to the village. This leads to a heavy turnover." (p 63)

Recent scholarship has suggested on the contrary that to the extent that casual labour has been a characteristic of Indian industry, the feature has been the result of employer policy rather than the consequence of worker psychology. (See: M D Morris, "The Supply of Labour to the Bombay Cotton Textile Industry, 1854-1951," **The Indian Economic Journal,** October 1953, p 151-152; and Daniel Thorner, "Casual Employment of a Factory Labour Force, 1851-1939" **The Economic Weekly Annual,** January 1957, p 121-124.)

Further, in the main organized industries in Bombay that feature has not been typical for many years. Even on the docks, the decasualization scheme has put an end to casual employment.

Moreover, the data refute the analysis. The author points out that the average period of stay in Bombay City is 21.5 years and that some 67 per cent of the sample had been in the city for more than fifteen years. About 50 per cent of the workers "have been successfully sticking to or have been continuously retained in their first jobs." (p 63) This hardly suggests "heavy turnover" of the labour force.

(5) Describing the respondents' attitudes towards their present jobs Dr Prabhu tells us that "It is rather strange that very few of them (5.16%) are conscious of the importance of security of job. Apparently, security in a job is hardly any concern of theirs. The only important consideration is immediate earnings, the size of the salary packet. And only 2.58% indicated a preference for a job with prospects of promotion." (p 64) On the other hand a reading of the historical evidence, the several official investigations of Bombay industry, indicates that security and upgrading have been critical concerns of the workers, and all reactions to the problem of rationalization further suggest the error of the above conclusions. In addition, the author tells us that 58 per cent "want provident fund, gratuity or pension." (p 66) Certainly, these are security oriented objectives. Another 23 per cent want jobs that will give them promotion or hopes of promotion. (p 66) This seems to contradict the other statistics that only 2.58 per cent want jobs with promotion prospects.

(6) The tabulation of "ambitions" by educational level "shows that proportionately a much larger number of individuals lacking ambition in relation to job is found amongst the illiterates than among the literates," (p 66). In other words, illiterates are less ambitious than literates. It is more likely that the questionnaire did not elicit the hopes of the respondents but rather the realistic assessment by the illiterates of the opportunities for themselves that the world has to offer at the moment. In fact, the study shows that some 79 per cent of the respondents "are keen that their children should be educated and they also want them to secure suitable jobs for themselves. The fact that almost all of them have grouped 'good education and jobs' together as one of their aspirations seems to suggest that for several of them, good education is a means to a good job and is therefore desired for their children." (p 66-67) Since at least 66 per cent of the respondents are functionally illiterate (p 60), and 79 per cent want their children to be educated, it is obvious that a great proportion even of those who are themselves illiterate have quite vigorous ambitions.

(7) The data on income are very dubious. Although we are not told, the survey seems to have been done in 1953 and 1954, while the earnings data are for 1952. It is doubtful whether the workers who were surveyed would remember the earnings of such a distant period. Further, anyone who has attempted to gather income and budget data must recognize that the information collected from individuals is extremely treacherous. My own experience is that there is a tendency to understate earnings and overstate expenditures and earnings. (Even if there is also a reverse tendency, it is impossible to assume that the two tendencies will cancel each other out.) Furthermore, it is impossible to tell whether the income data includes annual bonuses. The author states that the time during which the investigation was conducted was not a period of high employment and as many as 23 (4.39%)....were reported to be unemployed, **which is a highly significant unemployment rate** among the industrial workers." (p 69) A rate of 4.39 per cent of unemployment may be painful for those unemployed, but would not normally be considered "highly significant." In addition, it is unclear whether the 4.39 per cent had been unemployed during the whole of 1952 or were unemployed only at the time of the survey.

Dr Prabhu tells us that each industrial worker, in addition to his urban dependents, supports on the average 4.2 persons in the village. (p 69) He implies that the village folk earn no income whatsoever and are absolutely dependent on the income of the urban worker (**loc cit**), but provides us with no evidence on the basis of which such a judgement can be made. Instead, we find the statement that "A very large number....in our sample universe said that they had property (mostly joint family property) in their villages." (p 70) The data are ambiguous, but at least 73 per cent claimed property in their native places. (p 70) However, this evidence is dismissed with the statement that there is a tendency to overstate village assets, and that even if the assets do exist, "this does not necessarily mean they are well off in the village; most often they are not." (p 70)

The only information on economic status in the village that is given is a table showing village houses owned. A table of village landholdings is not given. Yet, if one is concerned to "throw light on their (urban workers) living conditions in their villages" (p 71), it would have been more useful to provide data on village landholdings by urban workers.

(8) The report contains the statement that "Yearly income has no **correlation** with the standard of education attained....It may be seen, therefore, that the higher income does not contribute to the standard of literacy. Conversely, the higher standard of education does not contribute to the higher income, and no positive inference can be drawn." (p 72) The data provided ignores the 50 per cent who are illiterate and the 3 per cent who went to school beyond the primary stages. They include only the 16.44 per cent who could sign their names and the 30.78 per cent who could read and write. Although

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we are told that "income has no correlation with the standard of education attained", a tabulation of the data given for the two groups (p 72) gives us exactly the reverse conclusion.

Annual Income (Rs)	Respondents just able to sign name (% of total)	Respondents able to read and write (% of total)
301- 700	5.8	2. 5
701-1,000	29.1	16.25
1,001-1,500	38.4	39. 4
1,501-2,000	11.6	23.75
2,001-2,500	8.1	10. 0
2,501-5,000	7.0	8. 1
	100.0	100.00

These data clearly show a direct correlation between education and earnings.

If the author were correct in saying that there is no correlation between income and education, it would suggest that some 79 per cent of the workers are rather confused in wanting more education for their children. However, when the data are read correctly, rather than as we are told we ought to read them, it is obvious that level of income and education are correlated. It then suggests that the workers' desire to get their children educated makes a great deal of sense. This ambition is a reflection of their daily experience.

(9) The discussion of indebtedness (p 72-73) is thoroughly inadequate. We are told that statements of indebtedness "may be mostly understatements as these workers do not keep precise diaries or records of their indebtedness." (p 73) While statements of indebtedness are likely to be incorrect, there is no warrant for the assumption that indebtedness is understated. My own experience suggests that there are strong prestige reasons for overstating indebtedness.

The report states that "In the higher borrowing groups there is a lesser number of individuals sending money home". (p 73) "It is found that the respondents who do not send money home belong to the lower income groups." (p 72) This fits with the conclusion that "a good part of the borrowed money is used in the city itself." (p 72) However, if all this is true, it then contradicts the judgement that remittances to the villages are a cause of substantial indebtedness. (p 69)

At another point in the study we are told that "At one extreme, the city has men several times wealthier than the wealthiest in the village, at another those who are much poorer than the poorest in the village...." (p 90) While the former is certainly correct, the latter is hardly likely. Certainly, the author cannot persist in stressing the unrelieved poverty of rural dependants and at the same time tell us that the urban workers who support them are poorer yet. He cannot have it both ways.

(10) Do the workers visit their native places often or not? The study contradicts itself on this point. In one place we are told that 71 per cent of the respondents visit their native villages once or more times a year. (p 81) But later we are told that "The worker is bound by service rules and earns only 15 days' privilege leave per one full year of service....too short a period to visit a distant village in Satara or Ratnagiri....It is usually possible for him to accumulate long leave over a period of two to three years. He therefore generally sends his family to the village home for a change and himself stays alone in the city. His wife and children are, therefore, the link between the worker in the city and his people in the village." (p 85) At a later point the study again stresses the fact that "Once the family is settled in the city, it is the woman who pays visits oftener to the native place." (p 88) If it is true that families go to the villages more often than the worker himself, it is hardly likely that 71 per cent of the workers are going to the village once a year or more (p 81) when only 59.28 per cent of the respondents send their families to the village once a year or more. (p 85)

Earlier, we were told that "in spite of their long stay in the city and under the strong influence of urban culture, they (the workers) retain their original love for agriculture, undiminished and unchanged." (p 65) Now we are told that the villages are looked upon as backward and lacking in opportunity "because of the change in outlook, change in values, change in the patterns of behaviour and conduct that the city has forced upon the migrants. City impact seldom fails to superimpose itself on those who come to the city, the reason being that the 'civilized' and 'modern' modes of behaviour and conduct, the fashions of the city, and various mechanical and other amenities, etc command an undisputed recognition and have a powerful influence on the minds of the people. These migrants are no exception. They have been very much allured by the glamour of the city and it is no surprise that they are often in a mood to prefer city life." (p 84) Dr Prabhu winds up this section by telling us that "Studied in the totality of the situation we find that the responses eulogizing everything rural is more a sentimental feeling than a result of the inconveniences and difficulties met within the city." (p 87)

IV

One of the great weaknesses of the survey technique is that its devotees tend to denigrate the value of historical and comparative data. They seem to feel that Truth emerges solely out of the answers provided to their questions. In fact, of course, a questionnaire is always shaped in the context of a hypothesis. The analysis is inevitably affected by some preconceptions, whether or not these are recognised. In this case the analysis is permeated with the old-fashioned hypothesis that workers moving to the cities suffer the torments of the damned. This social theme was advanced some seventy years ago by Arnold Toynbee the Elder in his pioneering LECTURES ON THE INDUSTRIAL REVOLUTION. Since then, this theme has been embroidered with all sorts of supplemental social hypothesis, about slums, overcrowding, disease, and the phenomenon of **anomie**. In India, especially, this analysis has emerged as the tale of a rural "Paradise Lost" pitted against the urban "Inferno".

Surprisingly enough, this hypothesis has rarely been subjected to rigorous, objective testing. Much that has been written has been tautological. But where the thesis has been subject to verification, as in the research of Professor Ashton on late 18th and early 19th century England, the idea that the Industrial Revolution spelled disaster to the industrial workforce has had to be substantially discounted.

It must be stressed that this problem has never really been tackled in India. At best, the efforts at comparing the conditions of life of rural and urban workers have resulted in resounding **non sequiturs**. One does not have to engage in a **mystique** of urban horror in order to recognize that the industrial working class in India has a distressingly low scale of living. Generally speaking, this is the result of the fact that India is a very poor society.

Throughout the whole of Dr Prabhu's study there runs a fundamental contradiction, the inability to decide whether industrial workers are worse off or better off than rural workers. In fact, however, the author continues to be bound by his emotional attachments to the Toynbeean "Paradise Lost" theme. In any study of industrialization and urbanization, one critical question —perhaps the most critical would be the degree to which workers break traditional group loyalties and establish new ones. But the author, preoccupied with the traditional assumptions, never really bothers to investigate the possibility that his workers may in fact have as many or more links with the city than with the country. So far as I can determine, the study asked no questions about the types of groups and the nature of the loyalties these workers some two-thirds of whom have been in Bombay for more than fifteen years have created in the city. For example, we learn that a "large majority" of the workers are trade-union members, (p 65) but the author does not explore the meaning of this institutional attachment. His respondents, to the extent that they are cotton mill workers, must have participated in the two-month general strike in 1950. Surely, this reflects an identification with urban-industrial institutions that is worthy of detailed investigation.

To a disturbing degree, the results obtained from this study are contradictory and the analysis unrewarding. By neglecting to ask the correct questions, Dr Prabhu failed to take account of the impact of urban-developed institutions on working-class lives. The nature of the data which have been collected and analyzed is such that in large part the study must be deemed irrelevant.



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Rationale of the Ambar Charkha

V M Dandekar

Ambar Charkha is a beginning from scratch, as there does not exist any traditional small-scale industry for spinning. The All-India Khadi and Village Industries Board's Ambar Charkha programme is expected to be completed by 1960-61 when a new small-scale industry on a village basis will have been established in the country, at a cost of Rs 75 crores per annum in subsidy. The capital cost of the programme, however, will be small, only about half of the annual cost of the subsidy.

This process of developing upwards from the village base may be compared with the alternative of proceeding downwards from the existing centralised modern industry as recommended by the Textile Enquiry Committee. A modern spinning unit can be set up in every important cotton growing centre, at no greater cost.

THE Ambar Charkha programme of the All-India Khadi and Village Industries Board is founded on the policy decision, which is one of the cardinal principles of the Second Five Year Plan, that during the Plan period, the bulk of the increased supplies of consumer goods should be reserved to the village and small-scale industries and that the employment provided by these industries should progressively increase. A committee, called the Village and Small-Scale Industries Committee (briefly the Karve Committee), was appointed chiefly to examine the issues arising out of this policy decision. The Committee has laid down fairly fully the grounds on which it would support such a decision. Briefly stated, these grounds are as under:

The basis of the above decision is not a general opposition to technical improvement such as is implied in the view, if held anywhere, that a less advanced technology is in itself the more desirable. Its main purpose is to rehabilitate, in their own occupations, persons possessing traditional productive equipment and skills; to protect those who are at present employed; and to offer to the unemployed and the underemployed, additional or fuller employment in their traditional occupations though their productive effort here will be so meagre that it will have to be supported by direct and indirect subsidies to yield to them a minimum level of subsistence income. An advantage in providing such part relief employment within traditional occupations is that by its means existing capital equipment and trained personnel can be put to some use, howsoever uneconomic and be made to produce the needed supply of consumer goods.

Such a course is therefore to be recommended provided (1) the contribution of the productive effort in the traditional industry substantially lowers the cost of the relief and social security which would otherwise be necessary; and (2) recruitment into the relief programme of new persons who are not traditionally engaged in the industry or creation of new equipment which can provide no more than relief employment is avoided so that the fulfilment of the immediate objective may not hamper the future rational development of the industry.

Does it Reduce Burden of Relief ?

Let us now examine the Ambar Charkha programme in the light of these principles. To begin with, let us see to what extent the productive effort on the Ambar Charkha reduces the burden of relief. To do this we should work out the cost of production of yarn on Ambar Charkha and compare it with the cost of production of comparable mill yarn. On the basis of (i) a wage of 12 as. a day to the spinner with a daily output of 8 hanks; (ii) raw cotton at Rs 700 per candy for 20 counts and Rs 600 per candy for 16 counts; (iii) a margin of about 12½ per cent for wastage and (iv) handling charges at 6¼ per cent of the costs, the Khadi Board has worked out the cost per lb of Ambar yarn of 16's, 18's, and 20's. (Report of the Ambar Charkha Enquiry Committee : pp. 63). This is shown in the table below.

The Khadi Board proposes that this entire difference be met by direct subsidy. Thus, of the Rs 1-8-0 which the spinner will earn on a lb. of 16's yarn, Rs. 1-0-3, which is more than two-thirds, will be met by a direct subsidy; of Rs 1-11-0 which he will earn on a lb. of 18's yarn, Rs 1-4-1 which is three-fourths, will be met by a direct subsidy; and of the Rs 1-14-0 which he will earn on a lb. of 20's yarn Rs 1-6-3 which again is nearly three-fourths, will be met by a direct subsidy. The contribution of the productive effort on Ambar Charakha is therefore between one-fourth and one-third of the total relief to be provided.

The Khadi Board expects that this difference will be somewhat reduced in the rural area since the transport and other charges on the mill yarn will have to be added to the price of the mill yarn. Taking the instance of 18's yarn, the Board expects that the difference of Rs 1-4-1 on this yarn, will be reduced to Rs 1-1-0 on this account. It is doubtful whether the differential transport costs of the mill yarn will be as high as 3 as. per lb. But even if this is granted, out of the Rs 1-11-0 which the spinner will earn on a lb. of this yarn, Rs 1-1-0 that is nearly two-thirds will have to be met by direct subsidy.

Only by One-fourth

On the other hand, in the above calculation of the production costs, no allowance is made for overhead costs. In reply to the questionnaire from the Ambar Charkha Enquiry Committee, the Khadi Board stated that "the overhead charges on the present traditional khadi are com-

Cost of Ambar Yarn

	16's	18's	20's
Raw cotton	0-12-3	0-14.2	0-14-2
Wastage	0- 1-7	0- 1-9	0- 1-9
Spinning wages	1. 8-0	1-11-0	1-14-0
Handling charges	0- 2-5	0- 2-8	0-2-10
Cost per lb. of Ambar yarn	2- 8-3	2-13-7	3- 0-0
Price of comparable mill yarn	1- 8-0	1- 9-6	1-10-6
Difference in cost	1- 0-3	1- 4-1	1- 6 3



puted at 18¾ per cent; these are inclusive of establishment, transport, insurance, etc. In the Ambar Charkha scheme, the Board expects a progressive reduction in the overhead costs from the present 18¾ per cent to 12½ per cent. By what stages this reduction will be effected and by how much are points that cannot now be indicated." Further in explanation of the handling charges, the Board stated that it "contemplates a thorough revision of its earlier Ambar Charkha Programme and directly undertaking the manufacture of cloth from yarn produced on the Ambar Charkha. The question of handling charges or its appropriate percentage to total costs may not, therefore, arise."

Taking the most favourable view of these expectations of the Board, we may suppose that the total overhead charges will be 12½ per cent including handling charges if any. In the above computation of the production costs of Ambar Charkha yarn, only handling charges at 6¼ per cent have been allowed. The cost of production will have therefore to be raised by at least another 6¼ per cent or by anything between 2 to 3 annas per lb. As a result it will appear that the difference between the costs of the Ambar and mill yarns will be at least three-fourths of the wages payable to the spinner on Ambar Charkha. Let us therefore suppose that the spinner, with a daily production of 8 hanks, will earn 12 as. as wages of which nearly 9 as will have to be met by a direct subsidy.

Cost Under-estimated

The Khadi Board's view, which also was the basis of the above computations of production costs, that a spinner working on the Ambar Charkha can produce, on an average, 8 hanks of 20 counts per day of 8 hours, from carding of cotton to spinning, has not been accepted by the Ambar Charkha Enquiry Committee. The majority view of the Committee, after considering all available data including the data from the field tests conducted by the Khadi Board, was that the Ambar Charkha can give a daily production of 6 hanks on the average; the minority view placed this figure lower still.

What happens if this view turns out to be correct and the average production does not come to 8 hanks a day? Either the spinners will earn less than 12 as. a day or else, a higher proportion of their wages will have to be met by direct subsidy. Thus supposing that the spinner is able to produce on an average only 6 hanks instead of 8 hanks, he will be able to earn only 9 as a day if the cost of yarn is not to rise further. On the other hand, if it is decided that, in any case, an average spinner must earn 12 as. a day, the cost of yarn will increase by an addition of one-third of the spinning wages shown in the above computations. Thus taking the average case of 18's yarn, the spinning wages per lb. will be Rs 2-4-0 instead of Rs 1-11-0. The difference in the cost of the Ambar and mill yarn of this count will be Rs 1-13-1 which is more than 80 per cent of the wages payable to the spinners.

Thus the productive effort on the Ambar Charkha cannot be expected to contribute more than one-fourth of the total relief. Whether this may be regarded as substantial is a matter of opinion.

Basic Condition Violated

The Ambar Charkha programme does not also satisfy the second requirement laid down by the Karve Committee, namely, that the programme should not involve the recruitment of new persons who are not traditionally engaged in the industry or the creation of new equipment which can provide no more than relief employment. For, as it happens, there is not presently in existence in the country, any large traditional handspinning industry with recognisable capital and labour structure, either unemployed or underemployed which has to be rehabilitated. The findings of the Pilot Survey of the handspinning industry at Tirupur conducted by the Khadi Board, as well as the experience of the organizers of the industry in all the 512 khadi production centres in the country show

"(i) over 90 per cent of the spinners are women from the lower middle class families whose social status prevents them from going out in search of any other alternative occupation as a means to supplement their family's meagre income"; and that

"(ii) retired, superannuated Government and other service personnel constitute a substantial portion of the total number of male spinners."—All-India Khadi and Village Industries Board: Common Production Programme for Cotton Textile Industry—page 13.

It is obvious therefore, that the existing hand-spinning industry is not traditional but is entirely artificially created. Also, the classes of persons which are attracted to this industry, are certainly not those whose claims on social relief are most urgent.

No Long Term Rational Programme

Is it then possible to regard it not as a short-term relief operation but as a long-term rational programme of development of the textile industry in this country?

The Karve Committee has laid down the following considerations in this connection:

In the long-term development of an indusrty, on a rational basis, a decentralised economic structure consistent with a progressive economic development at a fairly rapid rate should be accepted as a socially desirable goal. The bias towards decentralization would mean that in the future programme of technical improvement, the techniques adopted are appropriate to the decentralized pattern and further that continuous effort is made to adjust existing improved techniques for particular production activities which are centralized in modern economies to a decentralized mode of operation or to invent or to discover decentralized substitutes for them.

Thus it seems that there are two distinct routes to effect the deliberate transition from the traditional small-scale industry to an improved modern but decentralized industry. One is by discovering or inventing decentralized substitutes for the existing centralized techniques. The other is by continuous effort to adjust the existing centralized techniques to a decentralized mode of operation. In the first, the progress will be from the village base upwards around small towns and existing small centres of urban life. In the second, the progress will be from the large industrial centres downwards by spreading small industrial units among the small towns located all over the country.

Base for Future Development?

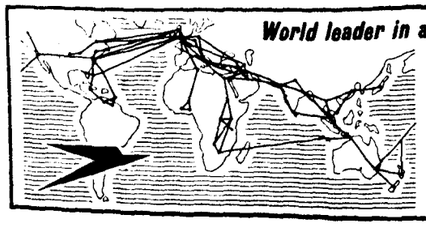
In the case of hand-spinning, as there does not exist any traditional small-scale industry with which to make a start, a logical procedure is to begin by setting up a spinning industry in the small-scale and village industries sector so that its future development may proceed on



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a rational basis from the village upwards. The All-India Khadi and Village Industries Board proposes to do this by manufacturing and installing 25 lakh Ambar Charkhas which are estimated to produce about 400 million lbs of yarn annually. This will involve a capital expenditure of Rs 32.5 crores calculated at Rs. 130 per Charkha and will provide full time employment to about 36 lakh spinners. These calculations are based on the Board's estimate that a man working on the Ambar Charkha can produce, on an average, 8 hanks of 20 counts per day of 8 hours. As mentioned earlier the Ambar Charkha Enquiry Committee was of the opinion that the production might be much lower, say only 6 hanks. In that case, the proposed 25 lakh Ambar Charkhas may not be able to produce the expected 400 million lbs of yarn but much less, say only 300 million lbs.

There is also another reason why the actual production in the Ambar Charkha programme may fall much below the expectations. Ambar Charkhas will be widely distributed and the production will be highly decentralised; that in fact is its principal social goal. It is unlikely therefore that the Charkhas will be fully employed over the whole year. Therefore in order to supply the estimated requirements of 400 million lbs of yarn, there may be necessary a larger number, say 30 lakhs of Ambar Charkhas. The capital expenditure may in that case amount to about Rs 40 crores. Of course this will be compensated by the fact that the programme will offer increased employment, say to 44 lakh spinners instead of the estimated 36 lakh only.

Pre-condition for Productivity

The programme is expected to be completed by 1960-61 when a new small-scale industry on a village basis will have been established in the country. Among other features of the traditional industry, it will have the important characteristic that employment in it will be of a part-relief nature. Thus on the basis of 12 annas a day, the 44 lakh spinners will earn a daily wage amounting to Rs 33 lakhs of which more than three-fourth or say Rs 25 lakhs will be in the nature of relief payment to be provided in the form of a direct subsidy. Calculated for 300 days of the year, this will amount to Rs 75 crores per annum. In comparison with this, the capital cost of the programme appears indeed small amounting to only about half of the annual cost of the subsidy.

Once the hand-spinning industry is so established, its future development may proceed on a rational basis as laid down by the Karve Committee. As and when the existing capital and labour structure of the industry is found to be fully employed and the demand for its product continues to rise beyond its full capacity, conditions will be regarded ripe for the introduction of superior methods of production. It is to be hoped that when such conditions arise, the principles laid down by the Karve Committee will be borne in mind and that no further expansion of the industry on the present lines will be attempted. At the same time, it will be incumbent to see that only such technical improvements are adopted as will not greatly disturb the locational and social set-up of the persons employed in the industry and also not cause any unemployment or underemployment among them. For instance, it is only when the per capita consumption of cloth rises to 25 per cent above its level in 1960-61, that such technical improvements in the Ambar Charkha will be permitted as will enable a worker, working for 8 hours, to produce 10 hanks, rather than the present 8 hanks, of yarn.

Developing from Village Base

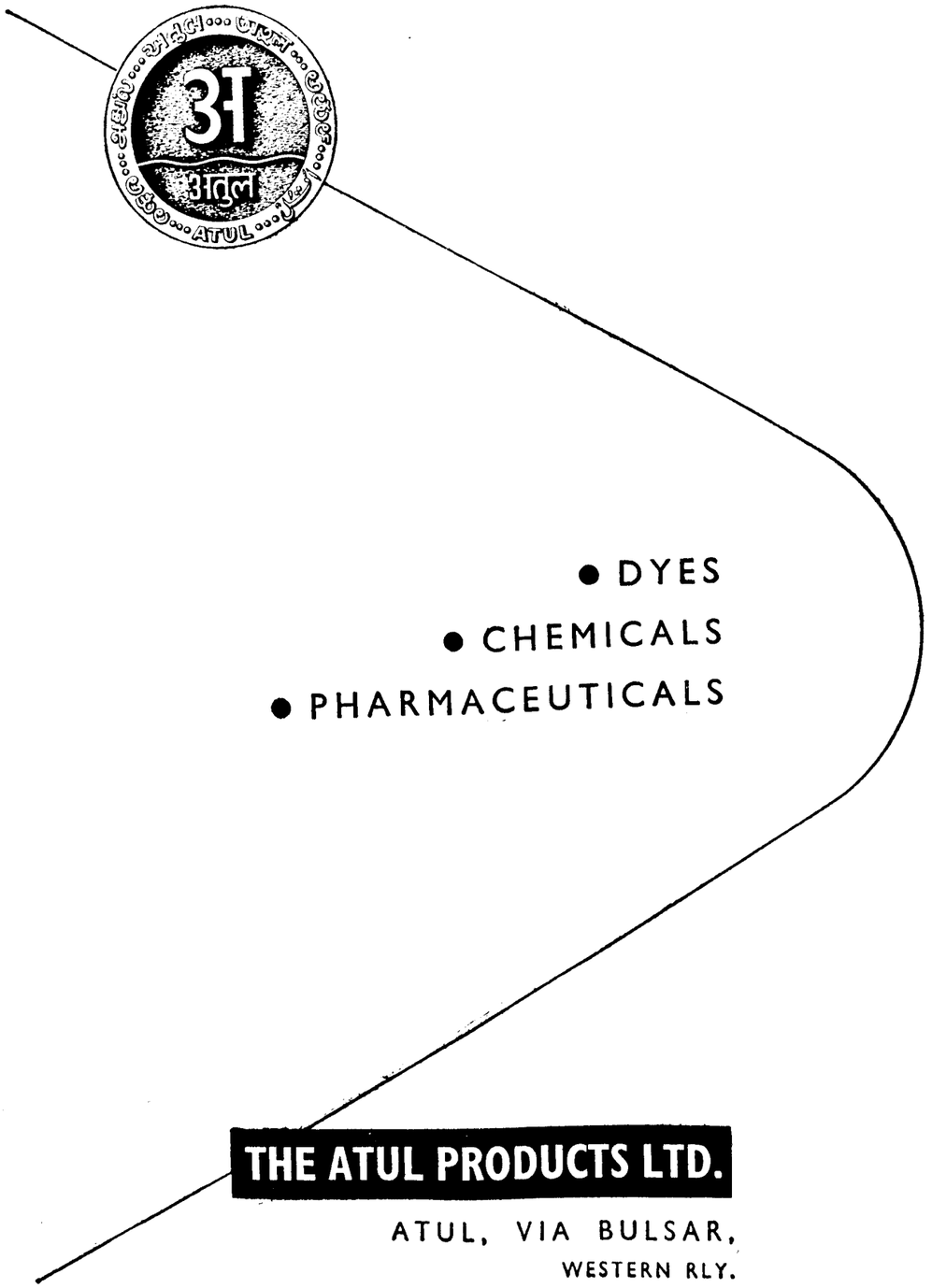
It should be clearly understood that there is no prejudice against technical improvement as such and that there is no objection in principle to even the productive efficiency of the modern industry provided the same can be attained in a decentralised pattern of production. But if the productive efficiency of the modern industry is say 20 to 25 times that of the traditional industry, as it will be in the case of spinning industry, it should be aimed at and attained only when the per capita demand for the products of the traditional industry rises to 20 to 25 times its present level.

This process of developing upwards from the village base may be compared with the alternative of proceeding downwards from the existing centralised modern industry. It does not run against the principles laid down by the Karve Committee whenever there does not exist any traditional industry as in the case of hand-spinning The course was also recommended by the Textile Enquiry Committee. This Committee recommended that all additional yarn requirements should be met by setting up new spinning units of the modern industrial type. According to its recommendations, the additional requirements of 400 million lbs of yarn will require 2 million additional spindlage on the basis of production of 5½ oz per spindle-shift, working two shifts a day and for 25 days in a month on average of 20's count. These may be provided by setting up, for example, 100 units of 20,000 spindles each. At a cost of Rs 40 lakhs each, these will involve a capital expenditure of Rs 40 crores which is not greatly in excess of what will be required for the Ambar Charkha programme. Such a proposal as this is also not opposed to the social goal of a decentralized industry. Thus with 100 units to set up, there can be a spinning unit in every important cotton growing centre.

Decentralisation

There is also no reason why decentralisation may not be carried still further by setting up even smaller units. Progressing along these lines, the effort will be to adapt the modern machine spinning industry to a decentralized pattern and to set up all over the country small but efficient spinning units which will always be in a position to adopt or adapt future technical improvements leading to further increase in productive efficiency.

A disadvantage of this course is that it will not offer employment on a scale comparable with that offered by the Ambar Charkha programme. But it should be understood that as there exists no traditional industry in hand-spinning, such a procedure as outlined above will also not create any unemployment or underemployment in any traditional industry. As for the large volume of relief employment which the Ambar Charkha programme promises to create, it is worthwhile examining the implications and advisability of such a course in view of the heavy burden of subsidy and relief that it will almost permanently throw on the economy.



The Core of the Plan – Railways

G Isaac

The Plan has been described as a 'steel' Plan—as a Plan to "make machinery to make machinery."

There has been talk of the "hard core of the Plan—coal, steel, transport and ancillary power" and the Prime Minister has said "Agriculture will now and always be No. 1".

The Plan is none of these things—it is a Railway Plan.

THE largest single allocation in the Plan is the allocation under the railways—Rs 1,125 crores out of a total Plan-frame of Rs 4,800 crores. Subsequently the railway allocation has been raised by Rs 200 crores to Rs 1,325 crores. The steel plants have an allocation of only Rs 400 crores or less than a third of the allocation that has been made for the railways. There are a great many articles in newspapers and magazines by officers in the railways to say that even this is insufficient, though already these allocations are more than a quarter of the total Plan.

The railways are, again, the largest single drain on the country's foreign exchange resources. The total foreign exchange requirement of the Plan in the public sector had been estimated at Rs 1050 crores, and of this not less than Rs 425 crores or nearly 40% was to be for the railways. As the railways have proceeded to make use of these foreign exchange allocations, acute shortages have arisen. Our foreign exchange resources have fallen to a perilously low level. Imported consumer goods are rapidly disappearing from the market and even imported raw materials necessary to keep up production of Indian goods are not available. Almost totally impossible credit conditions have been imposed for the import of all kinds of machinery needed by Indian industry.

Eats up all the Steel

The Plan envisaged imports of steel for the Plan period of about 7 million tons. The railways have a mission abroad at the moment with instructions to buy 5 million tons of steel. Obviously, nobody else is going to see much imported steel for some time!

Of the available supplies of steel within the country, the railways are the largest single consumer. The railways have a colossal and insatiable appetite for steel. Railway engines and wagons are, of course, all of steel construction, but in addition to these, railway lines, sleepers, marshalling yards, signalling equipment, etc, all absorb steel in fantastic quantities. In 1956 the Railway Ministry estimated that the railways would require about one million tons of steel; by 1961, when the railway workshops and installations like the Chittaranjan factory and the Integral Coach Factory are expanded and working in full swing, their demand is likely to be in the region of 3 million tons per year. In other words, the enlarged railways will absorb the 3 million additional tons of steel per year that will be manufactured by the new steel plants. There will be very little left for houses or schools or any other purpose.

Carrying Coal for Itself

The various magazines, pamphlets and articles put out by the railway authorities give the impression that the railways are making superhuman efforts to carry coal and other raw materials for the steel plants. The facts are rather different—in fact ridiculously different. Of the total production of 39 million tons of coal per year the existing steel plants require only about 2 million tons. The railways, on the other hand, require 13 million tons. The railways give the impression that they are co-operating in a gigantic effort to increase coal production from 39 million tons to 60 million tons in the Second Plan so that the new steel plants and other industrial units can have an adequate supply of coal. In fact the three new steel plants altogether require only about 5 million tons of coal. The railways will require most of the remaining 16 million tons of increase for themselves!

American Experience

This is certainly an odd state of affairs. It is justified on the alleged ground that if India is to industrialise herself and specifically, if Indian steel production is to be increased from 1.3 million tons to 4.3 million tons as is planned, then the railways must be expanded accordingly. This sounds very plausible and a great many articles have been written to show that this is so—in fact, it is not true. The United States increased her steel production from 15 million tons in 1932 to 117 million tons in 1953 and increased her industrial production enormously while the total railway mileage, the number of passenger, goods wagons and locomotives all declined.

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	46,253	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.**

The Americans, of course, moved more and more of their goods (in this period national income increased by seven times) by road and road transport.

To villages and small towns this brought freer flowing traffic, lower cost communication, lower cost for supplies brought in from other centres and the countryside. It brought better education for children, increased employment, and higher property values. It destroyed social barriers, created national loyalties and provided the fundamental basis for American community growth.

All Goods Can Move by Road

All the goods that industrial development requires in the Second Five Year Plan could have been moved by road and road transport at the expenditure of a small fraction of the real resources that are now being poured into railway

development, and the steel, foreign exchange, cement and finance thus set free could be used to build houses schools, hospitals and to clear up our slums.

Why is this not being done? This is largely the result of the extremely influential position that is occupied by the Railway Board. They are the largest single industrial undertaking in the country, and the largest single Government organization. The Railway Board is staffed by some of the ablest men in the country. There is also another reason for not criticising their policies. The railways are the largest buyers within the country of many kinds of goods. Many companies have their order books full for the next five or six years with railway orders, their raw materials are delivered on a priority basis, and they make comfortable profits.

Malignant Growth

Again, all alternative methods of transport have so systematically been paralysed by railway influenced legislative restrictions that there is frequently nothing to do but to rely entirely on the railways. It is a paradoxical situation. The railways are now a cancer in the Indian economy but the more rapid the malignant growth, the more the country becomes dependent on railways.

There is however an end to most things. People originally supported the Five Year Plan because they thought there was something in it for them in the way of better housing, schools, sanitation, communications, clothes etc. They haven't got these things because the resources necessary for making them have been swallowed up by the Railways.

Nobody is quite conscious of this, or of how all this happened, but there is a deep feeling that the people have not got what they expected from the Five Year Plans. As this feeling grows and crystalises, there will grow effective opposition to the strangle hold of railways on our Five Year Plans and on the Indian economy.

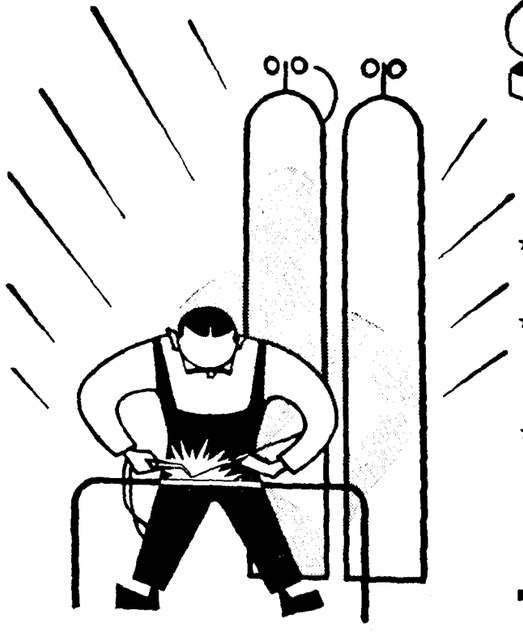
Cement from Slag

Manufacture of cement from blast furnace slag is to begin next year at Chaibasa, 40 miles from Jamshedpur the first such project in India. When iron ore is melted in a blast furnace, slag is separated from iron and floats in a layer on the surface of molten pig iron. Although rich in lime content, slag has hitherto been put to no use, and enormous quantities have collected over the years at dump sites in the Tata Steel Works.

A plant is now being set up by Associated Cement Company at Jamshedpur to granulate liquid slag as it pours out of the blast furnaces.

M P Finance Corporation

The Madhya Pradesh Financial Corporation during 1956-57 received thirteen applications for assistance to the extent of Rs 51.20 lakhs. Out of these applications advances have been sanctioned to four industrial concerns for Rs 13 lakhs as against their demand for Rs 16.25 lakhs.



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Some Aspects of the Japanese Economy

The Lessons for India

D R Gadgil

After attending the Seminar on Economic growth in Japan in the month of May, Prof Gadgil spent some time to study the working of the Japanese economy.

His programme consisted of visits in Tokyo, among others, to the Bank of Japan; The Mitsui Bank; the Central Cooperative Bank of Agriculture and Forestry; the Agriculture, Forestry and Fisheries Finance Corporation; the Small Enterprise Agency; the Economic and Research Wing of the Planning Board; and the Mitsubishi Research Institute. He also spent a week outside Tokyo, visiting agricultural and cooperative banks, prefectural offices dealing with agriculture and industry, primary agricultural cooperative units and a variety of industrial concerns, chiefly of medium and small size.

Prof Gadgil had set down, in the form of notes on special points, a few general observations on some aspects of Japanese experience and the lessons they hold for us. These are based on either actual observation, information gathered through personal discussions, or data culled from authorised publications.

These notes were not organised with a view to publication and at the time of writing, Prof Gadgil had no intention of letting it appear in print. We are grateful to him for allowing us to publish it.—Ed.

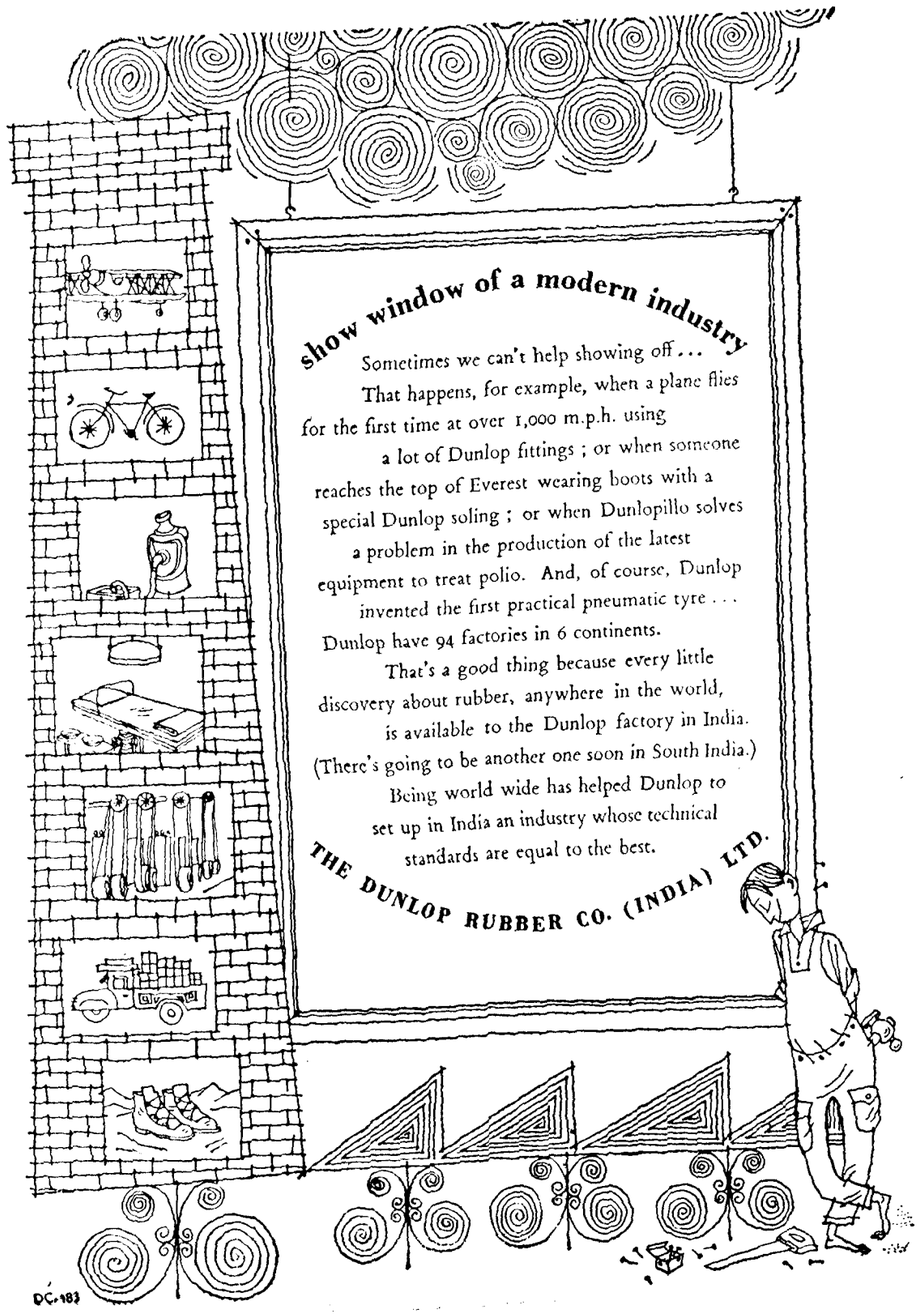
JAPAN has during most of the post-war period been under inflationary pressures, has suffered from chronic monetary stringency and has had a very high level of rates of interest for all kinds of accommodation. Some aspects of this experience are of particular importance in the present Indian context. Throughout this period industry and commerce as a whole were much more dependent on banks in Japan than in India and the banks in turn were, for most of the period, heavily dependent on the Bank of Japan for a substantial proportion of the required funds. Because of this situation, the Bank of Japan has been able, without much exercise of formal authority, to direct total credit policy, for the most part, in an effective manner. The loan operations of banks have almost continuously imposed a heavy strain on their resources and often the ratio of deposits of individual banks to their advances has reached 100. As most important commercial banks borrow to a significant extent from it, the Bank of Japan obtains from these banks periodical information about their total resources and loans position, together with a fairly detailed classification of loans by industries and trades. This enables the Bank of Japan to give such advice as may be considered necessary regarding the total volume of loan business, transacted and contemplated, and the expansion of loans in specific directions.

Apart from such informal advice, which might be detailed, the Bank of Japan evolved and operated fully, during the period of special inflationary pressures, a system called the Higher Interest Rates Application System. Under this system, extremely high rates of interest were imposed by the Bank of Japan on loans to individual commercial banks in excess of a certain limit, fixed independently for each individual bank. The rates charged varied in accordance with the volume of borrowing as related to the fixed limit, and in relation to the purpose for which borrowed funds were used. For differentiation by purpose, broad categories were used such as, Export trades, Import settlement, Agricultural and Fishery Bills. The Higher Interest Rates Application System worked with particular stringency during 1953-54. In 1955-56 the situation changed so much that the commercial banks did not find it necessary to borrow any substantial amounts from the Bank of Japan. However, since the latter half of 1956 monetary stringency has begun to reappear. When the borrowing of individual banks from the Bank of Japan falls low, the higher rates become inoperative and today the variations in rates for the different purpose category loans is also not large. At the time of my visit to the Bank of Japan, the total span of differential rates by purpose was reported to be between 7.67 and 8.76 per cent.

Apart from the Higher Rates System and the informal advice, no selective credit controls are exercised by the Bank of Japan. Japanese opinion did not seem to favour operation of detailed selective credit; I was told at the Bank of Japan that informed opinion was moving to the view that the differential rates flowing out of the Higher Rates System should also be given up, barring special treatment to be given to export bills. At the same time, in view of the increasing importance in the economy of durable consumer goods, thought had begun to be given to possibilities of control over instalment purchase finance. The authorities of the Bank of Japan and of the commercial banks appear to be fairly satisfied with the working of the existing system; there is a considerable informality in it and, of course, its working depends largely on the close relations of the executives of the big banks in Tokyo with the Bank of Japan, and their mutual confidence.

Industry Largely Depends on Banks

The Japanese industrialists, for their part, are dependent to a large extent on banks. At the beginning of the period of reconstruction, with fixed and working capital in extremely short supply, the dependence on banks was particularly pronounced. Over the years, owned resources for long term finance have become available to a much greater extent; but because of continued large investment every year, the dependence on banks for intermediate and long term finance still exists to a marked degree. This vests considerable power in the banks to regulate the direction of expansion through refusal to grant accommodation in given directions. Though it appeared that a subs-



tantial portion of bank accommodation was utilised for intermediate or long term purposes, it did not appear that any distinction was made in the treatment of these longer terms loans from short term accommodation.

A feature which perhaps obviated, to some extent the need for distinction between long term, intermediate and short term accommodation was the reported absence of open credit lines or overdraft facilities. The banks, it was said either discounted bills or gave loans for specific periods and of specific amounts, each loan being considered an independent transaction in itself. This gave the banks, it was said, a continuous and constant check on the operations of customers. Evidently the industrialists did not mind borrowing short and continuously renewing the loan even though the borrowing was actually for intermediate or longer term purposes.

Advance and Deposit Rates

Attention may briefly be drawn to two other features of the credit and banking situation. The first is the existence, and strength of a genuine bill market in Japan serving the purpose of industry and trade in relation to both internal and external transactions. An enterprising medium size producer, for example, told me that he rarely borrowed from banks and could usually satisfy all his working capital requirements through discount of bills. The other feature is that the rates of interest on deposits offered by banks and the rate charged for specific types of loans made by them are all limited by Government regulations; there was general consensus of opinion in favour of continuance of this regulation of lending and deposit rates. It should be noted that before Government regulations stepped in the post-war period, these rates were usually regulated by inter-bank agreement. This statutory regulation of rates has confined the total movement of lending rates, at present, within a somewhat narrow range. This also, perhaps, creates a situation where the banks can ration credit at the margin by selection of the parties to whom and the purposes for which funds would be available.

It is somewhat strange that no complaints are currently made regarding the high level of rates of interest in Japan. One of the difficulties faced in India in relation to an upward movement of the Bank rate is related to the consequence of an increased Bank rate on the borrowing operations of Government. The difficulty does not arise in Japan equally directly because the Government of Japan does not borrow for terms longer than a year. There is thus no annual long term borrowing programme of Government to which some attention has to be paid in determining the Bank rate. However, it is possible for the Bank of Japan to lend to Government directly as also against its ad hoc securities and the Bank of Japan can also take up, when necessary the short term bills of Government. These short term bills are of two types: foreign exchange bills and food bills. The latter are meant chiefly for financing Government rice purchases. The bills are always issued at a fixed rate and if they are not, at any time, fully taken up by banks and the market the gap is made up by the Bank of Japan. It was reported that in recent months most of the short term bills had to be taken up by the Bank of Japan. Thus Government depends on the Central Bank for short term funds and to some extent for what may be called deficit financing; however, finance of development investment as such is arranged for without any resort to general public borrowing by Government.

II

Price Support Programme

In relation to the production structure of Japan the most important feature to be noticed is the large measure of security given by Government policy to the agricultural producer. The Japanese crop of rice is bought by Government almost entirely through local cooperatives, and distributed to the people. The purchase price of rice for the year is determined in advance by Government and so is the price charged to the consumer. For the most important agricultural crop in the country, there is therefore, a guaranteed purchaser at a fixed price. I gathered the impression that the fixing of rice purchase price would be partly influenced by political considerations and that on the whole the purchase price of rice tended to be fixed on the higher side. However, it was reported that this had no important adverse effects through transference of agricultural land from other crops to rice, as in the dominant rice areas there are no real alternative crops.

For most other cereal crops such as wheat and barley also, there is a price support programme. In the case of rice, quotas for compulsory collection are laid down. However, in recent years sales by farmers to Government in excess of their rice quota have been substantial. The sales of wheat and barley to Government have, on the other hand, been on a voluntary basis since 1952. For supplies of these grains, as for rice, Government buys both at home and abroad. For rice there is a consumer price fixed by Government; in the case of wheat and barley, the Government sells its holdings at pooled prices to wholesalers. The moving up of the price of rice charged to the consumer has not always proved easy and the Food Control Special Account continues to show a deficit.

In addition to these cereals Government supports the prices of some other important crops such as rape seed and potatoes. Thus for by far the larger portion of agricultural production the farmers' effort is unhampered by the fear of prices falling.

Farmers Cooperatives

The processing of agricultural produce may be said to be almost entirely in the hands of the farmers and their cooperatives; and the bulk of marketing is also carried out by them. Farmers cooperatives in Japan had always gone in for processing and warehousing arrangements, but in the post-war period they were specially encouraged to do so. From 1951 to 1956 Government pressed with a five year plan for warehousing and enabled almost every primary cooperative to build a warehouse of its own, as also to acquire processing plants.

The efficiency of the operations of the marketing and warehousing system is greatly enhanced by the arrangements for grading, assembling and pooling. The average primary cooperative in Japan has usually a warehouse, some processing units, a staff of not less than 10 full time persons and, in addition to its credit and marketing activities, it



distributes fertilisers and conducts a consumer goods store. Of particular interest in this context is the fact that almost each primary has on its staff persons who are equipped to grade local agricultural produce. In consequence, the marketing of produce has not to be attempted on the basis of the separate individual lot of each producer. All produce brought in is graded and then assembled together. This makes it possible to pay pooled prices to all members, evening out the risk of fluctuations and eliminating a fruitful source of complaint and mistrust. It appears that for field crops, the price pool is for the season as a whole; however, even in products like vegetables and fruit, pooling of prices is adopted; in these instances, the period for the pool price is shorter, such as that of a month at a time.

At All Levels

There are vigorous purchase and sales organisations not only at the primary but also at the intermediate, i e, prefectural level and the apex, i e, national level. In some products, purchase agreements or understanding are arrived at the national level through the Purchase or Sale Federations. Fertilisers, for example, it was reported were bought in bulk at the national level and distributed through prefectural associations and through the primary cooperatives. At the prefectural level there are separate sets of storage arrangements for agricultural produce and for fertilisers. It was reported that almost the whole of fertilisers distribution to farmers was in the hands of cooperatives.

There appears to be almost no individual or private enterprise in the processing of agricultural produce. In some cases processing is done in groups smaller than even the primary cooperative. For example, rice husking was done in small units formed by groups of farmers coming together. For rice polishing, however, the plant was usually owned by the primary cooperative and polishing of the husked rice of all members carried out by the cooperative. Similarly almost no private money lending activity was reported to be existent for rural producers in Japan.

Better Terms of Trade

There is little doubt that the extremely rapid recovery of Japan in the post-war period was based to a large extent on stabilisation and encouragement of agricultural production. The favourable turn to events was given in the first instance, by the programme of land reform accompanied by inflation which reduced greatly the load on farmers of compensation payments. As a result, a much greater proportion, than before the war, of the net returns in agriculture were retained by peasant families. The programme of purchase of the rice crop at comparatively favourable prices, the price support for other field crops and the general favourable level of prices for other types of agricultural produce such as fruit and vegetables made the terms of trade for agriculture much more favourable than they were before the war. The difference between the pre-war and the post-war positions of the farming communities is best brought out through a comparison of Farmers' Purchases of Consumption Materials at the two periods. In 1954 the index of actual purchase of such materials stood at 187 with 1935-36 as the base at 100. The relative improvement of the farming community is indicated by their taking up in 1954, 21.6 per cent of total domestic purchase of consumption materials as against 15.5 per cent in 1935-36.

Another indicator of the comparatively favourable terms of trade enjoyed by agriculturists in the post-war decade is the position of the rural cooperative credit system in relation to short term funds. There are areas in the South and West of Japan where deposits of primaries with Central Banks and of the Central Banks with the Apex Bank formed almost 2|3rds of their total resources, less than a one-third and in some cases even 1|5th of deposits of members proving sufficient for the short term finance required by members during the year. The total capital investment during the last 10 years has been so adequate that in some areas the demand for even long term or intermediate capital is small.

Balancing Centre

With a well-organised prefectural and national cooperative credit system it becomes possible for the Central Cooperative Bank for Agriculture to act as an effective balancing centre. The permanent surplus of funds that the Bank receives from the more prosperous areas are used to finance the needs of the other areas which are still comparatively backward. With the Central Cooperative Bank for Agriculture functioning as a balancing centre between regions, it is found that the cooperative credit system has no need of outside funds for short term finance of agriculture. On the contrary, during many months of the year the Central Bank finds itself in a position to lend, for short terms, to commercial banks in Tokyo, comparatively large funds at profitable rates.

It may be noted in this connection that the Central Cooperative Bank for Agriculture has always been able to raise funds through debentures of from one to five years duration, from the money market. Even at present the Bank keeps up the practice of floating some debentures, mainly it is said to actively maintain this possible source of funds. The Central Cooperative can also, if necessary, borrow from the Bank of Japan either through rediscounting agricultural bills for which the Bank of Japan prescribes a specially favourable rate or directly against securities. However, as noted above, the Bank does not find it necessary to make significant use of these other sources of funds today. The position of the agricultural cooperative credit system merely emphasizes the favourable situation of Japanese farmers in the post-war decade. Stable and comparatively favourable prices, together with Government programmes of development and investment assistance, have brought about an expansion of output even in an agricultural economy already so intensively developed as the Japanese. And the increase in production of the agriculturists and their consumption has been an important factor in the total economic recovery of Japan in this period.

III

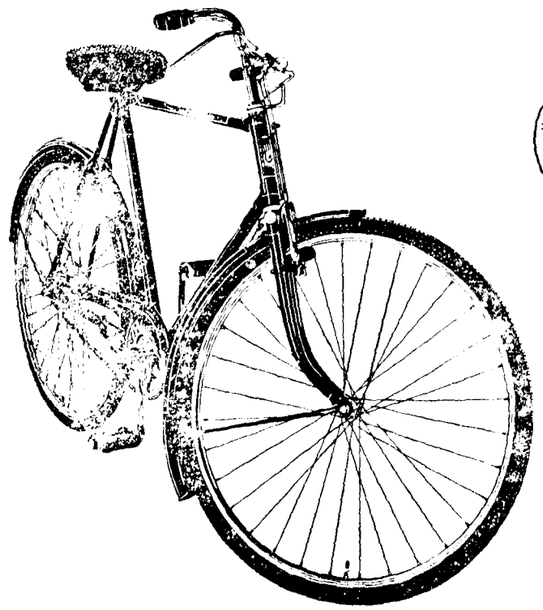
Financial Assistance from the State

Another important feature of the Japanese post-war situation has been the large part played by the State in providing funds for investment both for rehabilitation in the first instance, and for development later. This part was played by the State in relation to every sphere of economic activity. In the field of economic overheads such as transport and electricity generation, there has been massive direct investment by the State; in the field of social overheads such as in the building up of the educational system at all levels and of constructing the post-

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war system of almost universal health insurance, direct State action has been important. Similarly for specified sectors in industry such as ship-building and marine transportation, large scale coal mines and iron and steel enterprises, the State has directly provided substantial investment resources. To the smaller producer, i e, to agriculturist producers as a whole and to medium and small enterprises in industry, the State has made available very substantial investment funds through special organs that it has set up in this behalf.

With the exception of the largest concerns, the routing of Government investment funds has been done through a series of special organisations set up for the purpose. These are the Development Bank, the Export Banks, the Agriculture, Forestry and Fisheries Finance Corporation, Small and Medium Business Finance Corporation, Japanese Housing Public Corporation, the Hokkaido Development Finance Corporation and others. In the national railways or in electric generation, for which the special Electric Power Development Corporation has been set up, investment is made directly. For small and medium business whether of primary or industrial producers, investment assistance is given through the special purpose corporations. The Hokkaido Development Finance Corporation exemplifies a financial organisation set up to look after the special needs of a backward region.

Finance for Agriculture

The Agriculture, Forestry and Fisheries Corporation was set up to provide long-term finance for these primary productive activities. There existed at the end of the war nothing corresponding to Land Mortgage Banking in agriculture which could lend long term. Possibly, in view of the land reform brought about at the end of the war, a Land Mortgage system was not thought to be the most appropriate or useful. The Agriculture, Forestry and Fisheries Finance Corporation derives its funds entirely through Government. It does not operate directly in the sense of dealing with applicants for long term loans through its own staff. It operates entirely through the cooperative credit system, i e, primarily through the Central Cooperative Bank for Agriculture and, secondarily, through the prefectural and primary cooperative organisations. The Corporation has a small expert staff of experienced officers usually recruited from the Ministries or cooperative Banks to analyse the plans of development which the Bank finances and to supervise operations in the field in a general way. The detailed processing of applications, supervision over use of funds, arrangements for recovery, etc, are undertaken on agency basis by the cooperative credit system. There is thus no duplication of branches or staffs and short term and long term business is effectively integrated. Since the ordinary cooperative credit system deals with the funds obtained from the A F F Finance Corporation as trust funds which it lends according to direction, it need not be concerned with problems of liquidity in relation to these long term lendings. It was reported that the staff of the prefectural departments also helps in the scrutiny of applications and in supervision over use of borrowings of long term funds.

Policy Coordination

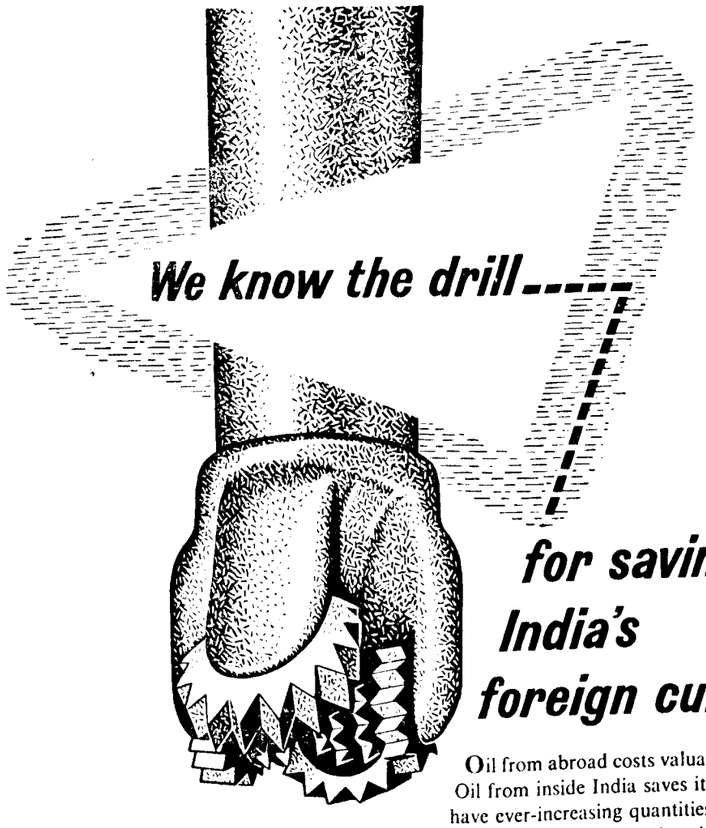
Through a system of priorities and differential rates, the Corporation funds are directed mainly towards development investment to which Government attaches special importance. The finance for the warehousing programme in its earlier stages was, for example, made available at concessional rates by the Corporation; but when Government was satisfied that the basic programme had been fulfilled, the rate of interest for warehouse building finance was shifted from the concessional rate of 4 per cent to the usual 7.5 per cent. Another striking example of the coordination of Government programme with activities of the Corporation is afforded by the special terms given by the Corporation to small owners of private forests. The Government has a plan of regulating the cutting down of all timber, including that in private forests. Difficulties might be faced by owners of private forests if they are forced under the Government programme to postpone their programme of cutting down forest. Therefore, loans which are meant to facilitate regulation of forest cutting are given to private owners of forests at the special rate of 4 per cent. This rate of 4 per cent was available for three other types of purposes: (1) the repayment of old debt (2) acquiring of farm land by small holders and (3) the improvement of farms by the smallest farmers. Both the latter were given on the recommendation of and worked through the Village Farm Land Regulation Committee. The bulk of loans made to individuals were for improvement of farm land. No security of property as such was taken.

The Corporation made loans to cooperatives as well as to individuals. Loans were made in the main to agriculture, forestry and fishery cooperatives for capital equipment, processing plant, joint reclamation schemes and for road making in forest areas, etc. The usual amount lent was about 50 to 60 per cent of the cost of schemes. It was reported that, in terms of repayment performance, the forestry and fishery societies were found weak, chiefly because they were more affected by natural calamities.

On the side of agriculture and small industry, the part played by Government investment activity is obviously important. It is to be noted, however, that even for large industry Government investment assistance was very substantial. For the 4 years from 1951 to 1954, of the total supply of industrial funds for all purposes and from all sources, the share of funds supplied by Government varied between 7 to 12 per cent.

Sources of State Finance

What were the sources of the funds required for the very large investment programme of the State in post-war Japan? One important source was, of course, funds obtained as part of what may be called the Aid Programme and by way of foreign expenditure at the time of the Korean War and after. These funds were external and played an important part in Japanese rehabilitation in the early post-war years. However, after the initial period the investment programme was financed mainly by internal funds. A substantial portion of investment funds was obtained through current taxation, the proceeds of which left a significant surplus for investment purposes after meeting all current requirements of Government activity. This, of course, was possible because of the consistently high level at which taxation was pitched throughout this period. In 1955 the Budget of General Account expenditure of the Japanese Government represented 15 per cent of the distributed national income. In 1949 this percentage was well over 20 and was 16.5 or more for the years between 1949 and 1955. The decline in the ratio has to be considered in



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the context of a rapidly rising level of national income. Total Government expenditure has been, through the years, increasing at a fast pace and till 1953, 10 per cent or more of the funds required for Government loans and investments were obtained from the General Account Budget. In recent years there has been a move towards not financing any substantial part of investment expenditure through the General Budget surplus.

More important than tax revenues, and much more important in recent years are the funds of the Trust Fund Bureau of the Ministry of Finance. These represent, in the main, postal savings. To these have to be added the postal life insurance funds. The insurance and the Trust Fund Bureau funds may be taken to represent savings of small men. These have through recent years remained at a high level. If one looks at the increasing self-finance by companies, the high level of deposits with agricultural cooperatives the substantial postal savings, etc, it is clear that capital formation and savings have been a marked feature of Japanese economy in the post-war period.

Special Corporations

A recent development which may again bring in public borrowing as a source of funds for Government investment is the setting up of separate corporations for taking charge of special developmental activities. Thus afforestation, highways, housing have all been put in charge of special corporations which are put in funds initially by Government, but which have also the power to borrow through debentures, etc, on a long term basis from the public; these corporations are created to fulfil specific programmes of construction, development, conservation, etc, formulated by the Government.

The establishment of these corporations raises two important questions. One relating to administrative policy and the other relating to finance. Firstly, is it an advantage to put a long term programme of development under autonomous corporations, the operations of which are not likely to be affected continuously by passing events in the political field or by current changes in administration or administrative arrangements? Secondly, is it better to get each development activity financed independently on the terms it can obtain and to account for everything separately, instead of all activities being financed through omnibus Governmental borrowing programmes? Even when Government guarantees or subsidies have to be given in such cases, separate accounting will lead to more meaningful calculations of net costs and burdens being made. Further, it is likely that this may induce more care being taken in incurring capital expenditure. No doubt, even today separate accounts are maintained in relation to each important work. But the current state of any of these accounts has no operative force. The situation might be different if a continuing corporation were aware that its record of use and outlay of capital resources would materially affect its ability to raise further finance and the terms on which it was raised.

Care and Economy

Exercise of great care and economy in use of capital resources is another feature of Japanese economy which is bound to strike an Indian visitor. The height, the roominess, the showiness of buildings, the size of storages, the width of platforms, all such matters are obviously related to use. Much thought appears to have been given to appropriate proportion and quality everywhere, particularly in economic overheads. The result is an even spread of facilities and amenities undreamt of in our country. The hard surfaced road strips reaching to even remote rural areas and the ubiquitious, small sized three-wheel truck are the most eloquent signs of this feature of the Japanese economy.

IV

Technical Assistance

A great deal has been already written on the special position of small and medium industry in Japan and Government assistance given to it; this, it is not necessary to recapitulate. I would, however, draw special attention to one or two aspects which are not always adequately emphasised. Whereas there is an elaborate structure of credit organisations which supply finance to small and medium industry and funds are made available for the purpose by both the national and prefectural Governments, what appears even more important is that the financial assistance is effectively backed by technical and managerial advice services maintained by prefectural Governments.

I was particularly impressed by the large staffs maintained by each prefectural Government in both its Industry and Commerce and the Agricultural Departments. Supervision or audit of concerns and societies appears to be a minor part of the work of the departmental staff; the major part appears to be keeping in touch with individual establishments and giving them continuous technical and management advice. Here again it is important to note that production efficiency guidance through better management methods was as much emphasised as assistance in relation to the more strictly technical side. The Departments of Industry conducted experiment stations for improvement of the technical as well as the managerial aspects. The Small Enterprise Agency which is a national organisation working chiefly through prefectural staffs also lays special emphasis on adjustments for achieving production efficiency. Detailed work of this type is possible only because the strength of staff is adequate for the purpose and also because of the close understanding between the small industrialists and the prefectural staff.

The distance usually noticed in India between the official and non-official appeared non-existent in this context and the officials concerned seemed to know a great deal about the total affairs and working of even the smallest of industrial establishments. It was clear that the vigorous operation of small and medium industry in Japan was in no small measure due to the positive and effective technical and managerial counselling that they received from the official agency.

Industrial Cooperatives

Another important feature of the Japanese situation is that in the context of industrial cooperatives individual establishments are member units of the cooperatives. Each individual member unit would be a private, usually proprietary, concern with a small number of employees going up to sometimes 50 or more persons. There is no insistence in this case to convert each primary unit or individual etablishment itself into some sort of cooperative. The position would be clear if it is stated that this would mean in India the formation of industrial cooperatives with small Weaving Karkhanas, or carpentry or engineering



workshops as members. In view of the successful working of the Japanese system, it is necessary to consider whether some re-thinking in this regard is not due in India.

In a sense a good deal of what industrial cooperatives attempt in Japan could be the work of what might be called a local trade association. The picture of the Japanese organisation of small industry appears to be quite complicated. Industrial cooperatives, proper, usually confine themselves to facilitating purchase of materials and giving technical and managerial guidance and would often have nothing to do with the sale of produce and usually also with finance. In the field of exports, there would be an independent set of cooperatives which would look after inspection of goods for reaching minimum export standards and still another set of export associations which would provide services such as obtaining intelligence from export markets, arranging for the coming together of producers and exporters of the products and giving any specially needed technical guidance.

Historical Evolution

In this context, the historical evolution of the present pattern of organisation has some significance. Systematic assistance by Japanese Government to small industry dates chiefly from the Depression of the thirties' when Government had to step in to extend the organisation of small industrialists and traders into manufacturers' guilds and export guilds, which were strengthened by low interest loans and small subsidies. The export guilds, like manufacturers' guilds, were conceived originally as media for voluntary cooperation and joint facilities to aid the small businessman. However, circumstances soon made it necessary for Government to embark on policies like price-support subsidies, taking collective measures to improve methods and maintain quality, administering quotas, etc. The newly spread network of associations had, therefore, to be strengthened and used for pervasive control. Because of the advent of war economy in Japan in the late thirties', further development of the manufacturers' guilds, export guilds, etc, was arrested. However, according to Dr Lockwood, "in its original conception the experiment got far enough to indicate that government initiative backed by cheap credit might have accomplished a good deal through the techniques of voluntary association."

I did not have sufficient time to observe carefully the working of various types of associations or cooperatives which cover at present the field of small industry in Japan. I felt however, that in a large measure the present pattern of organisation is modelled on concepts which Dr Lockwood feels succeeded to a significant extent in the early thirties.' This would mean that the organisational pattern is not so much of orthodox cooperation as that of some sort of cross between a guild and a cooperative society.

The continued survival and well being of medium and small scale industry in Japan appear to be due very largely to (a) massive financial, technical and managerial assistance positively provided by the State and (b) the formation of various types of associations for a variety of purposes among the producers themselves and among producers and traders, with active State backing and full understanding and active cooperation with this structure of the producers. I would suggest much greater information be obtained from Japan in relation to both these aspects of the Japanese situation.

V

Continuity and Integration

In considering the present situation in Japanese small industry, it is necessary to remember that there has been very much greater continuity in the evolution of industrial techniques and of forms of industrial organisation in Japan than in India. The older traditional industries did not collapse, but progressed continuously in technique and organisation and adapted themselves to the changed conditions and requirements of the modern market. They were actively helped to do this by the State and by large industry. Also, modern industry, barring heavy industry, has grown gradually and has always been linked with the older forms. This gradual evolution and other circumstances in the country have also meant that industries and industrial centres have grown all over the country and have not been confined to a few exotic cities.

Small and medium industry has been connected on the one hand, with primary production and on the other, with centres of large industry. There is a considerable element of sub-contracting in small industry, and even when not serving as subcontractors or as a component of a large industrial unit or assembling centre, small industry does not produce entirely or even chiefly for the consumer goods market. A large number of products of small industry are intermediate goods required by large industry, which on its part is not anxious to spread in every direction but finds it useful to depend on the division of labour made possible by the existence of large numbers of small and diversified units. Decentralisation, in terms of both location and unit size, is thus fully and concretely in evidence in Japan. There is compartively little differentiation between country and town; cities spread considerably into the rural areas and all rural areas show evidence of the presence of some industry and industrial establishments. The economic overheads chiefly in terms of transport facilities and electric power are spread remarkably evenly throughout the country and local associations and prefectural and local Governments stimulate industrial and economic development all over the country.

Technique of Small Industry No Different

It follows that the technique of small industry is in no material respect different from that of large industry; whether machine replaces labour or not becomes merely a question of economic calculation in the particular process, at the particular plant, at the particular time. With the growth of capital available to small industry there has been a steady trend towards increased mechanisation. The older reported decentralised type of spinning, for example, no longer seems to exist. The spinning unit of about 3,000 spindles that I was shown as being among the smallest in the country was a miniature replica, obviously efficiently run, of a large spinning mill with complements of machinery from the blow room to high draft spinning. Still smaller units of about 300 to 400 spindles, also almost fully mechanised, that exist in the Osaka region are units producing not ordinary yarn but yarn of special types, as that required in carpet weaving, etc. Even the 3,000 spindle unit produced a single count, the quality of which, it was admitted was not as good as that produced by the bigger mills, and all of its production was taken up only in specific types of

My life *by Adipocere*

Pronounced 'adi-po-saire'

What a life I have had. To add to my troubles, I keep being attacked by little microscopic things which you call bacteria, but which I call a curse. Little do they know that I am immortal, as in spite of this terrific onslaught I continue to live, albeit in different forms.

When the bacteria attack me, my body releases hydrocarbons—light, medium and heavy. The corresponding physical states of these are gas, liquid petroleum and wax. The petroleum part of me is squeezed into any contiguous porous material, usually sand or limestone, where it remains until some crazy geologist from an oil company decides to look for me.



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weaving establishments. Similarly, in the match industry, it was reported, box making and other work which used to be put out in cottages had increasingly been mechanised.

The extent of industrial activity in rural areas is shown by the considerable non-agricultural employment and income of rural households. Domestic work, i e, work carried out in the homes, seems to be getting less important but the availability of diffused employment in small establishments scattered all over the country is obviously as important as, if not more important than before.

Employment Plan as Vague

Development in Japan, in the post-war period has high-lighted the problem of employment for the large numbers that have been added in recent years to the working population. The response to this situation in terms of theoretical formulation presents a curious parallel to what is happening in India. Immediately after the war with the repatriation of a large number of older emigrants, the number seeking employment on land increased to a large extent. With rehabilitation and recovery there has been some falling off in this number. It is realised that numbers employed on land must further continue to decrease. Large industry has grown in production capacity and performance rapidly during the last 10 years. However, almost all the increased production of existing units is due to increased efficiency and except for the additional employment offered by new units, increased production of large industrial establishments does not create new jobs. The tertiary field, mainly that of retail trading, is already heavily crowded. Therefore, as of logical necessity, in Japan, the planners, like their Indian counterparts, look to small scale industry for providing the bulk of the needed additional employment.

In actual fact, inspite of the comparatively healthy condition and progressive temper of small industry in Japan, that sphere does not seem to have afforded large additional employment. Therefore, even though the latest Japanese plan for the next five years still considers small and medium industry as the main source of additional employment, the data for employment, etc, available for the period since 1950 does not afford a concrete basis for the hopes entertained in the plan. In this respect of additional employment in small industry, the Japanese Plan appeared as vague and insubstantial as the Indian.

VI

Institutional Changes

In changing, during the post-war period, the older pattern of economic power in Japan, three steps appear to have been important, viz, Land Reforms, the break up of the Zaibatsu, and the social security programme. Land reform and agricultural price support significantly increased the share of the farming population in the national income. Social security programmes, together with the rise in importance of the trade unions, seem to have done something to improve the condition of the urban poor. It is claimed that through the combined effects of a number of schemes, almost universal health converage is now available in Japan. A scheme of unemployment insurance for employees who work for employers of five or more workers is also in operation. A scheme of old-age pensions was reported to be under discussion and there is talk of minimum wage legislation.

The effects of the break-up of the Zaibatsu are at least for the short-period visitor, very difficult to assess. In spite of some reversal of Occupation decisions, the formal seperate existence of a number of constituents of the old Zaibatsu groups is still maintained. There is said to be considerable informal cooperation between the new independent members of old groups but it is not clear to what extent this means effective exercise of concentrated economic power. (In a sense, the procedures followed in breaking up the Zaibatsu combinations have special significance for India. The new units, after the break-up, are usually still large and meaningful in terms of productive activity. It was only the all comprehensive financial integration that was broken up; and from the point of view of exercise of economic power, it is this step that is important).

Education of Crucial Significance

Lastly, and of crucial significance, is the wide spread of education and educational facilities. The far-sighted educational reform of the early Meiji statesmen has paid large dividends. Compulsory primary education began decades ago in Japan. Today it is compulsory between the ages of 6 and 15; after this, educational facilities are very ample, widely diffused and not too costly. Special efforts have been made during the post-war period for maintaining opportunities of further education for all. The chief instrument has been the Japan Scholarship Society, a Government auxiliary organ whose budget appropriations have steadily and rapidly increased during the post-war decade with the support of all political parties. The Society is reported to have contributed to the financial support of 2.2 lakh students during 1955-56. The high mechanical skill of Japanese workmen, the wide spread of scientific knowledge and of the use of all types of gadgets in the country, all of which contribute materially to efficiency of labour, must be considered essentially as fruits of the national investment in education.

Lessons from Japanese Experience

In attempting to draw lessons from Japanese experience, we have to bear in mind the difference in back-ground and conditions and in the stages of economic development of Japan and India. As compared with India, Japan has a more homogenous, well-knit society which has already made considerable progress in modernisation and industrialisation. There are, however, many points of similarity in the situation of the two countries during the post-war period. During this period Japan had to undertake a considerable effort at reconstruction and development and to face many problems similar to those of India. The continuous large increase in working population, the chronic load of unemployment, the pressure on land, the need to form capital in a large way and to build up a more advanced industrial structure, all these were common to Japan and India. In both countries State initiative was important and in both it was formulated in terms of period plans; also, in the changed socio-political conditions of the post-war period, Japan tended to evolve a socialistic pattern.

In maintaining a high level of capital formation and in directing economic development according to plan, Japan has had much greater success than India. The rate of savings maintained in post-war Japan successfully refutes the contention that a high rate of capital formation in the less rich countries is incompatible with a movement

towards distributive justice. The Japanese example also emphasises the importance of the decentralized efforts of local authorities, of autonomous systems like the cooperatives, and of semi-autonomous corporations in economic planning in a democracy.

Japan also presents today the picture of an economy very much more socialistic than the Indian. In Japan, the distribution of wealth and income is much more even, the concentration of economic power much less, the disparity between classes, between the cities and the country-side, and between regions, much less marked, the part taken by Government in the regulation and direction of the economy and in positively helping economic activity much larger and more positive; and there is an effective and increasing programme of social security.

In view of all this, it appears likely that planners in India have more to learn from the post-war experience of Japan than that of any other country.

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Internal Balances in the Plan

Dhires Bhattacharyya

As compared with the Draft Plan-frame, the final Plan is more elaborate on the side of industrial production targets but is less mindful of the inter-relations between production, training and transportation. Some of the targets have been lowered, drastically in a few cases, while others had been maintained.

All these modifications may be justified on the ground that a new set of balances was worked out afresh each time a target was changed. But in the absence of any claim to this effect, the Planning Commission cannot dispell doubts about the consistency of the new targets finally approved by them. In relation to the balances in the Plan, we do not know where we stand.

Even when a self-consistent set of targets in the aggregate has been arrived at, there remains the question of balancing their parts in time and over space. Without the general consistency of the targets in the aggregate, there is no means of ensuring that mistakes will be detected and resulting bottlenecks cleared in time.

THERE was a time in the early part of 1954 when people in the country generally believed that the Second Plan would be a nicely trimmed and tailored one, for the report had gained currency that the working out of the internal balances of the Plan had been entrusted to the Indian Statistical Institute. In spite of the obvious difficulties of undertaking detailed econometric studies with Indian data, the Institute could at least undertake an objective study of the important inter-relations involved and suggest a line of advance with a mutually consistent pattern of industrial and other targets. This, it was expected, would make the Second Plan something more than a mere conglomeration of ill-assorted schemes, with essential complementarities fully respected and internal contradictions carefully ruled out.

Draft Plan-frame

Considering that the nature of the task was both novel and important, and ad hoc and short-term study was not at all adequate. Something in the nature of a permanent inter-industrial study organisation was the natural corollary of the demand in the country for a balanced and integrated Plan. Moreover, the studies made in the Institute (details of which have not yet been made public) seem to have been based on certain macro-aggregates, little attention being paid to the composition of these aggregates. But in a vast country like India regional and sectional studies, undertaken on an empirical basis, are not less important for the balancing of the Plan than aggregative studies which by their very nature must be largely based on a priori considerations.

Within these important limitations, the Institute worked to make public two kinds of results:

(1) the amount and type of Investment needed to achieve the Income and Employment targets of the Plan (25 per cent and 11 million respectively) and

(2) the production targets for individual commodities worked out in such a way as to add up to the Income target, as well as to form a consistent pattern among themselves.

Targets in respect of some 60 items were brought together in Table I of the Draft Recommendations for the formulation of the Second Five Year Plan (later referred to as the Plan-frame). The author of this important document assures us that "attempts have been made to see, in a rough way, that the targets given in Table I are consistent." We do not know the basis for holding out this assurance; it seems somewhat improbable that all of the individual targets were balanced among themselves. But an Appendix to Chapter Two of this document gives some idea about how these balances were worked out for five major commodities—electricity, coal, steel, cement and heavy chemicals. If similar calculations in respect of the other commodities had been worked out in detail, they should have been published at the time to enable the public and the Planning authorities to see clearly the balanced character of the Plan. This would have been an important safeguard against haphazard changes in individual targets of production.

The nature of the commodity balances must be clearly understood. The targets are related to one another by certain technical relations on the production side, not bound to one another by demand relations arising out of the amount and distribution of the national income. As such even a so-called balanced Plan may not be balanced as between demand and supply. It is presumed that the final demand for many of the commodities will come from the State which is not bound by the ordinary considerations relating to demand. Even when this is not so, the State, by the exercise of its fiscal and other powers, can see that production takes place according to Plan and excess or deficient demand is corrected at the source.

Presuming that in this sense at least the targets of production contained in the Plan-frame were in balance, any upward or downward revision of the targets must affect all of them together in more or less the same degree. Let us see if this is what has taken place in the successive stages of formulation of the Plan. (See Table I).

Balances Not Worked Out

This table includes only selected items and it will be seen that comparable figures are not available in respect of each target. Nevertheless, the general tendency is sufficiently discernible. As compared with the Plan-frame, the final Plan is more elaborate on the side of industrial production targets, but it is less mindful of the relations between production, training and transportation. The targets relating to education and training, and also those relating to roads and railway facilities have been considerably lowered in the final Plan although the industrial production targets remain virtually the same. In agriculture, too ,the same or nearly the same output targets have been combined with lower targets relating to the production of fertilisers and to irrigation facilities. The targets for social services have been drastically cut down. All these modifications may be justified on the ground that a new set of balances was worked out afresh each time a target was

changed. But in the absence of any specific claim to this effect, the Planning authorities cannot dispel lingering doubts regarding the consistency of the new targets finally approved by them.

It is not the purpose of this paper to contend, either that the balances worked out by the Indian Statistical Institute was all-correct, or that a strictly proportionate expansion in all the targets is the only way to have a bigger and bolder Plan. But nowhere in the final Report on the Plan is the impression given that the new set of targets is based on objective considerations. Rather the contrary impression is created, namely, that the targets were set up by pruning, through negotiation or by pressure, the expenditure projects prepared by the spending departments of the Government.

Plan-frame and After

This difference in the pattern of targets envisaged by the Plan-frame and by the final Plan is not correctly reflected in the money expenditure targets allocated among the different spending departments. Some departments like transport and social services, for example, will spend more than what appears justifiable from a comparison of their targets of production. A rough comparison of the allocation of development expenditure by broad sectors, prepared from published data, is given in Table II. The main point to note is there is little correspondence between physical targets to be achieved and the expenditure budgeted for the purpose in some cases a smaller output results from the same or even larger expenditure, while in one case (electricity) a larger output results from a smaller expenditure.

This lack of correspondence between the targets envisaged and the expenditures allocated in the different stages of the formulation of the Plan brings out quite clearly the dichotomy between financial and physical Planning in the process of preparation of the Plan. While the working out of the commodity balances is entrusted to an outside agency, the preparation of financial estimates remains, as before, in the hands of the spending departments. The physical balances and their financial counterparts can, therefore, hardly coincide. Once again, it is not claimed that the financial provisions made in the Plan-frame were more appropriate to the targets envisaged than were the departmental provisions in relation to their targets. But the Planning authorities must explain why they chose one set of figures in preference to the other.

This short study leads but to one, very negative, conclusion namely, that in relation to the balances in the Plan we do not know where we stand. Assuming that the financial provisions in the Plan as it stands are appropriate to the set of production targets contained in it, we have no means of knowing whether this set of targets is mutually consistent. On the other hand, the set of targets in the Plan-frame might have been a balanced one, but the financial provisions in that document have been stigmatised by the spending departments concerned as grossly inadequate. There is still need for examining the physical targets of the Plan in relation to each other and for studying the relation between these targets and the financial allocations made for reaching them.

Even when a self-consistent set of targets in the aggregate has been arrived at, there remains the question of balancing their parts in time and over space. In this sphere of practical planning, mistakes are almost inevitable and bottlenecks are bound to appear from time to time. The general consistency of the targets in the aggregate is primarily a means of ensuring that these mistakes are realised, and these bottlenecks cleared, in time.

Table I—Targets in Successive Stages of the Plan

Name of item	Plan-frame	Draft Outline	Final Plan
Steel (m tons)	5.0	4.3	4.3
Iron Ore (m tons)	13.0	12.5	12.5
Coal (m tons)	60.0	60.0	60.0
Cement (m tons)	10.0	10.0	13.0
Electricity (m Kw)	6.0	6.8	6.9
Heavy Machinery			
(Fabrication) (Rs crores)	150	..	..
Heavy Machinery			
(Electricals) (Rs crores)	40	..	..
Locomotives (Nos)	400	300	400
Passenger miles (index)	130	115*	115*
Freight carried (index)	140	118*	118*
National Highways (000 miles)	17.5	13.6	13.8
State Roads (000 miles)	35.0	..	..
Technical training higher education and research (index)	175	..	..
Foodgrains (m tons)	76	75	75
Irrigation (m acres)	100	88	88
Fertilisers (Nitrogenous) (000 tons)	560	380*	345*
Fertilisers (Phosphatic) (000 tons)	200	600	600
Ports (handling capacity) (m tons)	..	33.8	32.5

* =calculated

Table II—Allocation of Expenditure: Plan-frome and final Plan

Sector	Plan-frame		Final Plan	
Agriculture, irrigation and rural development	1,150	(17.7)	1,200	(16.6)
Electricity	500	(7.7)	470	(6.5)
Industry and minerals	1,500	(23.1)	1,660	(23.1)
Transport and Communication	1,000	(15.1)	1,425	(19.8)
Construction and Stocks	1,850	(28.4)	1,500	(20.9)
Social Services	500	(7.7)	945	(13.1)
Total (Rs Crores)	6,500	(100)	7,200	(100)

Note: Figures include both public and private development expenditure. In some cases, expenditure in the private sector has been arbitrarily allocated between different sectors, but this does not materially affect the order of magnitudes involved.

Administration—From the Human Angle

There is a saying in Sanskrit that no one worships Siva to make 'Kailas', the abode of the Lord, prosperous. One worships the Lord for one's own advantage.

Similarly, no one joins Government service to make the country prosperous; it is to his own benefit and to the benefit of his kith and kin.

It is not, however, a question of self above the country. The clever or lucky ones in Government service have to be like a banyan tree giving shelter to all those who seek it. Family, friends and kinsmen have always been the special charge of men of position in this country. It is under this tradition that our civil service is still working.

TO look for 'out of way' favour and to extend such favour are normal things in Government. When a new man comes to a post, whether through the Service Commission or by promotion or transfer, to the usual question "Who is he?" the inevitable answer is "He is so and so's nominee". The result is that you find at every level of administration cliques and sub-cliques. This is the bane of Government service. It is frustrating and ruinous. This human element is often forgotten when the question of administrative reform is discussed.

Our administrative system has grown—some would call it an overgrowth—around the nucleus which was left behind by the British. There are a few clever people in it. There are also elaborately laid-out procedures. Those men and the system were quite useful at the time of change-over. Today, the problems the administration has to face are different and the men and system left behind by the British are found wanting in most respects.

Our basic policies relate to the Plan. The bankruptcy of the civil service as advisers on policy was exposed when the Draft Plan-frame for the Second Plan emerged from outside the Secretariat and the Planning Commission, which was under the dominating influence of civil servants, had to toe the line.

Similarly, everyone who had to do anything with the administration knew the drawbacks of the system but it was left to one Appleby, a foreign expert, to examine our administrative system and suggest how to improve it.

Even the Governor of Communist Kerala alluded to Appleby reports in his Address to the Legislature. No doubt, Dr Appleby is eminent and courageous. And there are many valuable observations in his reports. One should not, however, forget that in matters of organisation, the human element is uppermost. The success of any organisation, whether it be in the administrative field, in industry or trade, lies in welding together men of different temperament, equipment and capacity for effective action. For that, understanding of the human material is essential.

If our senior officers who have grown and worked with us cannot find a solution to our administrative problems, what can we expect from them. We are going to make a mess of everything, if we are to look to globe-trotting foreign experts for advice and guidance on matters of organisation and methods of work in our own Administration. Every nation has to organise its affairs according to the genius of its people.

Though we launched the second of the five year plans for economic development, we have not yet adjusted our administrative machinery for the successful implementation of the Plan. The basic principles governing recruitment, conditions of service, office procedure etc continue to be the same as before. A new set-up, the Organisation and Methods Division, is scratching the fringes to stream-line the administration for the last three years; but it has not yet cut deep into the ulcer of cliques and sub-cliques. One wonders whether it will ever do it.

We are in the second year of the Second Plan. No Ministry seems to have a clear picture of its year to year requirements of different categories of staff; nor has the Public Service Commission, the main recruiting agency of the Government, any idea of a planned, rational system of recruitment. The rule that was introduced as a temporary measure still continues. The Ministries can make their own appointments if a post is not to last beyond one year, and such appointments can be continued for another two years with the formal concurrence of the Service Commission. It is only where the post continues beyond three years that the Ministry need go to the Service Commission for recruitment. It is this rule which has led to widespread nepotism. When a candidate is entrenched in a department for three years, the Service Commission advertisement becomes a farce.

Further, there is a lot of waste of time, energy and public money when the Service Commission tries to recruit for solitary posts. For example when a Government Department wants an engineer, the Service Commission advertises and selects two or three suitable candidates and from them one is appointed. At the same time, another department also may need an engineer with similar qualifications. The candidates who appeared for the first post have to apply afresh for it, and appear once again for interview and the same procedure has to be gone through all over again.

Such duplication can be avoided to a large extent if the sponsoring Ministries are prepared to submit to the Service Commission a year in advance category-wise requirements of staff, to enable the Commission to plan its programmes for recruitment. It will be argued that unless different cadres of services are organised, a uniform system of recruitment would not be feasible. There is force in this argument. What prevents Government from forming necessary cadres of service? No Ministry likes to do it, because it will take away patronage.

After recruitment comes the question of training. Here the first problem is how to train the large number of those who have got into positions without proper equipment or training. If they are not properly trained, the new recruits will get lost, however good the qualifications they may have. There is a lot to learn in the process of actual work, and here,

your colleagues and superiors count most. It is worth considering whether much will be lost if Saturdays are devoted for rigorous training of staff for, at least, a period of six months. Training should be given in small groups, in order to bring the senior officers and the lower staff close together. There should also be a forum for mutual exchange of experiences.

Policy Making

A great weakness in our administration is at the policy making level. Our top civilians find solutions to most of the problems by their resourcefulness, rather than by careful study and understanding of the problems. They have the usual weakness of the bureaucrat to grab and keep more and more power in their hands. This is a weakness, however, which the civil servant will never admit; he may not even be aware of it. The inevitable result is that he gets bogged down in too many problems and too many trivial details. He hardly realises that the trait of a good civil servant is always to keep his successor ready, instead of trying to make himself indispensable. He should always find sufficient time and leisure to keep abreast of the developments in his field, not from the files coming from below, but from his own independent study and discussions. He should be in a position to apply his mind constantly to major issues of policy, and anticipate events before they overtake him. He should have also at hand a small group of officers, who have intellectual curiosity and aptitude for policy making, for discussions and assistance. He should not allow himself to be over-worked year after year, without leave or rest.

Execution

When policies are clear, the problem of execution becomes easier. But a sound policy can be spoilt by bad execution also. It is at the execution level that vast number of people are employed. To weld them together into a team and to employ them usefully require leadership of the first order at all levels. Discontent, particularly at lower levels, is widespread. Here comes the conditions of service, governed by innumerable rules. They are so complicated that hardly any one understands them. These rules were framed a long time ago and though they have been amended many times, they are now completely out of tune with the requirements of today's administration. Rules should be simple and clear, and no room should be left for doubt in regard to one's conditions of service. The absence of such rules is one of the main reasons for discontent among the ranks of Government servants.

There is, besides, the desperate economic condition of the vast majority of the staff, which is the root cause of many of the troubles. This is a matter over which Government cannot sleep for long. The difficulties of Government are also equally great. To allow any substantial relief to the staff would involve a heavy financial commitment which it is in no position to make. Simple salary increases, however, do not seem to be the solution. Government should meet groups in the legislature and try to develop mutual understanding of each others' problems and difficulties and to evolve a scheme by which Government can take greater responsibility for providing minimum amenities like food, housing, medical aid and educaton of the children of the staff at reasonable cost. There is no escape from it. The defence services have their own canteens and stores where they can get most of their requirements at a cost much lower than that prevailing outside. The working of the army canteens should give Government an idea whether the civilian staff can also be given this much needed relief on similar lines. If an army marches on its stomach, it is no different with the other categories of service personnel, particularly when the country is launching such ambitious plans.

Administration is a large problem and a human problem. In this, what is lost in character cannot be regained by any other means. A civil servant cannot afford to have any lapses. And the standard has to be set right at the top, so that it percolates to the lower levels. Unfortunately it is the lapses at the top level, including those at the ministerial level, which are bringing down the standard of administration. It is the man who gets into the position and not the position that makes the man. This is a maxim which is seldom understood by the bureaucrats. The result is that they lose touch with realities when they get into position. It is character that comes first and foremost in administration. Who will instil this into the heads of our top men? Will they realise it themselves and act up to it or will they go the Old China way?

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A Post-Script to the Budget

I S Gulati

Unlike Mr Kaldor, however, the additional taxation proposed in the Budget relies more on commodity and other indirect taxation than on direct taxation. Under Kaldor's scheme, indirect taxation (excluding taxation of land) would cover not more than 20 per cent of the additional tax receipts collected for the Plan, whereas according to the Budget, indirect taxation comprises over 70 per cent of the additional revenue.

This shift in accent towards indirect taxation is a measure of the extent to which Kaldor's scheme for comprehensive direct taxation has been either diluted or not implemented. Of the four new personal taxes recommended by Mr Kaldor, the tax remaining to be introduced is the general gift tax.

In addition, the reforms in company taxation and in the reporting of income and wealth assessable to tax suggested by Kaldor remain to be implemented.

(The following paper is a slightly amended version of a chapter from the author's forthcoming book **Capital Taxation in a Developing Economy (India)** to be published by Orient Longmans.)

THE budget of the Government of India is usually presented to the Parliament on the last day of February preceding the financial year to which the budget relates. But the budget for 1957-58 presented to the Parliament at the usual time was an interim budget. The general elections to the Parliament were about to conclude and, therefore, it was not considered appropriate to bring before the old Parliament new financial measures of any importance, even though the economic and financial circumstances called for such measures. That some drastic measures were necessary was clear from the very outset. Between June 1955 and December 1956 the general price-level had registered an increase of a little over 25 per cent. Some counter-inflationary measures on the monetary front helped to bring down the price level but to a very small extent. (The index number of wholesale prices moved from 341 in June 1955 to 429 in December 1956 and was around 420 in March 1957.)

Deficit Finance

The price situation at the time of the presentation of interim budget was anything but satisfactory. Still, according to the estimates of total expenditure for the year 1957-58, current receipts of the Central Government from existing taxes, borrowing and external assistance fell short by Rs 365 crores. This meant that if the expenditure of the magnitude contemplated was to be incurred and that too without making any effort for securing additional current receipts, the Government would have to incur a deficit to the extent of Rs 365 crores. The deficit in 1956-57 was of the order of Rs 240 crores. (See Government of India's brochure "Budget 1957-58—Taxation Proposals Explained", para 8.)

Thus the deficit of the Central Government alone in the first two years of the Second Plan would have been Rs 605 crores. This compares with the Plan-ceiling of Rs 1200 crores on deficit financing in the entire public sector over the five year period. But this in itself would not be an important consideration for not incurring a deficit of any order. The important consideration is the absorptive capacity of the economy. But indications are that this absorptive capacity is already under strain and that too very largely because of deficit financing that has gone on in the past three years. The other factor responsible for the present strain is the decline in food supply partly because the domestic food output has not maintained the level obtained earlier and partly because the food imports had to be restricted with a view to conserving the foreign exchange reserves for the purchase of capital equipment to be installed under the Plan. In these circumstances, the Government could not with equanimity contemplate deficit financing of any order. Since the estimates of receipts on account of borrowing and external assistance provided for the maximum that was considered feasible, the only method available of reducing the deficit was to raise additional taxation. And remembering that (a) the tax receipts of the Central Government amounted to only Rs 476.5 crores in 1956-57 and (b) the deficit confronted in 1957-58 was as large as Rs 365 crores, only an all-out tax effort could have some marked effect on the deficit.

Kaldor's Tax Proposals

When Mr Nicholas Kaldor put his estimate of the additional taxation required for the fulfilment of the Second Plan at Rs 1,250 crores, instead of the Plan-estimate of Rs 450 crores for the five year period, he remarked that "there is nothing impossible about these targets, provided the problem is tackled on bold lines and the tax system is subjected to a thorough and comprehensive reform." (Indian Tax Reform, Report of a Survey issued by the Dept of Economic Affairs, Ministry of Finance, Government of India, p 1.) According to his calculations the broadening of the base of direct taxation "through the introduction of an annual tax on wealth, the taxation of capital gains, a general gift tax, and a personal expenditure tax (the last in partial substitution of the present super-tax on income)" would "provide the greater part of the requirements necessary to ensure the success of the Second Five Year Plan".

New Taxes

That the Government was not prepared to incur a deficit of the order of Rs 365 crores was made amply clear by the Finance Minister when he presented the interim budget in February 1957. The budget presented to the new Parliament in May 1957 proposed to reduce the deficit to Rs 275 crores, the balance of Rs 90 crores to be met from additional taxes. Since these taxes would come into force a few months after the year had commenced, the receipts in 1957-58 would be somewhat lower than in a full fiscal year. It is estimated that in a full fiscal year these additional taxes would yield about Rs 115—120 crores. This is quite an effort, considering that it would mean securing an annual rise in Central tax collection (including the amount transferred subsequently to the State Governments as their share of the Central taxes.) to the extent of 22 per cent. Unlike Mr Kaldor, however, the additional taxation proposed in the budget under review relies more on commodity and other indirect taxation than on direct

taxation. Under Kaldor's scheme, indirect taxation (excluding taxation of land) would cover not more than 20 per cent of the additional tax receipts collected for the Plan, whereas according to the budget indirect taxation comprises over 70 per cent of the additional revenue.

This shift in accent towards indirect taxation is a measure of the extent to which Mr Kaldor's scheme for comprehensive direct taxation has been either diluted or not implemented. Of the four new personal taxes recommended by Mr Kaldor, the capital gains tax was introduced through a mid-year Finance Act last year, and the wealth tax and the personal expenditure tax are part of the current year's proposals. The tax remaining to be introduced is the general gifts tax. In addition, the reforms in company taxation and in the reporting of income and wealth assessable to tax suggested by Kaldor remain to be implemented. But the low estimate of revenue from the taxes introduced reflects not a revision in calculations but rather the dilution of the taxes both in rates and coverage.

Capital Gains Tax

The capital gains tax re-introduced last year departs from Mr Kaldor's proposal in two important respects:*

First, the tax exempts capital gains discovered at the time of gratuitous transfer.

Second, the maximum rate applicable under the tax to capital gains is 4 annas in the rupee (i e, 25 per cent) as against 7 annas in the rupee (i e about 45 per cent) suggested by Mr Kaldor.

It is generally recognised that if, in the case of a capital gains, tax, tax liability is related to the realisation of capital gains, the taxpayers naturally tend to defer realisation and "if gratuitous transfer (whether in lifetime or on death) is not treated as realisation, the taxpayers can postpone the payment of capital gains tax indefinitely". (See "Not in Defence of T T K" in the issue of June 8, 1957.) Experience in the U S A suggests that because of this exemption nearly two-thirds of the capital gains remain untaxed. There is reason to believe that in India where the joint family system is still sufficiently entrenched in spite of the onslaughts of industrial advance and Western values, a much larger proportion of capital gains would not be taxed so long as this exemption is allowed. As regards the second departure, Mr Kaldor's proposal for the maximum rate of 7 annas in the rupee was linked with his other suggestion that the basic rate of income tax (as distinct from super-tax) should be raised from 4 annas to 7 annas in the rupee. His idea was that it would simplify matters a great deal if capital gains were treated as income and taxed accordingly. The Finance Minister chose, however, to retain the basic rate of 4 annas for income tax, and therefore he fixed the maximum rate of capital gains also at 4 annas in the rupee. The fixation of the lower maximum has naturally meant that the tax proceeds should be lower than if the maximum suggested by Mr Kaldor were accepted. In fact, it should be possible to raise the maximum rate of capital gains tax to at least 30 per cent now that the current budget proposes to raise the rate of income tax on companies from 25 per cent to 30 per cent, for after all, the significance of a basic rate of income tax as distinct from super-tax rests on the provisions which exist in the income tax legislations following the British practice, for the refund of income tax to shareholders in respect of distributed profits.*

Personal Expenditure Tax

The personal expenditure tax introduced through the current budget differs also from Mr Kaldor's proposal in two important respects. First, while Mr Kaldor proposed a straightforward relationship between tax liabilty and personal expenditure subject to the exemption of Rs 10,000 per annum per adult, the tax introduced relates liability to income in addition to expenditure on personal consumption. Apart from the fact that this provision restricts the number of assessees chargeable to expenditure and therefore brings down its yield, it creates an anomalous position in that if a person with wife and two children has an assessable income of over Rs 60,000 per annum, he is liable to expenditure tax if his expenditure on personal consumption exceeds Rs 34,000 but another person with an assessable income of, say, Rs 50,000 will not be liable to expenditure tax even if his personal expenditure were to exceed Rs 34,000. Moreover, to have fixed the same exemption limit of Rs 24,000 for a bachelor as well as for a person with wife but no children would operate unduly in favour of the former. The second important point of departure is that rates of the tax rise from 10 to 100 per cent whereas Mr Kaldor had suggested a rate schedule ranging from 25 to 300 per cent. Presumably, the reason why the expenditure tax has been introduced with lower rates is that it was not considered immediately practicable to bring down the super-tax rates applicable to individuals to the level suggested by Mr Kaldor. But the fact remains that as a consequence the revenue from the expenditure tax cannot be as large as Mr Kaldor estimated.

Wealth Tax

The case of wealth tax is not simply one of dilution. Dilution has no doubt taken place in respect of (a) the minimum exemption limit, (b) the exemption of some types of assets and (c) the aggregation of wealth for purposes of rate fixation. But it is not an unmixed dilution.

Mr Kaldor proposed that to start with persons with property valued at Rs 100,000 or below should be exempted from the wealth tax, and as the administration gained in experience the limit could be brought down. The wealth tax now introduced, specifies three separate exemption limits: Rs 200,000 for individuals Rs 300,000 for joint families; and Rs 500,000 for companies. The first two limits are cases of dilution, the third one of extension because it was Kaldor's intention not to subject corporate property directly to tax but through share holdings. No doubt, the taxation of wealth both as corporate property and then as share holdings involves taxing the same property and this amounts to discrimination against corporate property. But this sort of differentiation is not more indefensible than the differentiation which exists at

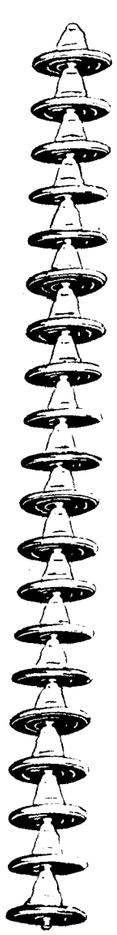
* A detailed appraisal by the author of the Capital Gains Tax as reintroduced in India aoppeared in the issue of December 8, 1956.

* I must confess my inability to understand why the current budget does not raise also the maximum rate of income tax applicable to individuals from 25 per cent to 30 per cent. Unless this is done, how would an individual be given credit for the 30 per cent paid by a company on his dividend income when he is liable to the maximum rate of 25 per cent? I don't think it is proposed to allow an offset against individual liability to super-tax.

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of capital, it runs into difficulties very soon and degenerates into some sort of differential outlay tax on various types of assets. It was with a view to avoiding, or say, reducing to the minimum the administrative difficulties that Mr Kaldor suggested that the best method or procedure is to follow ordinary accounting rules and to value each particular item of property at its 'book value until it is sold,' or disposed of gratis. The "book value" stands for the current value of an asset at the time of the introduction of the tax or the cost incurred subsequent to its introduction. Under this procedure, valuation specifically for purposes of assessment has to be made '(a) initially when the tax is introduced and the personal accounts are set up; and (b) subsequently when the property is transferred to a different owner otherwise than by sale.' Now, Mr Kaldor was aware that valuation by "book value" instead of by current market value will mean that values assessed to the wealth tax will tend to lag behind current market values and as a remedial measure he proposed that in fixing the schedule of rates for the wealth tax, appropriate upward adjustment should be made on this account.

Mr Kaldor's proposal for basing the wealth tax assessment on "book values" has the great merit of bringing the administrative task within manageable proportions. But his other suggestion that to offset the tendency for "book value" to lag behind current market value the rate should be raised appropriately is open to the objection that it will apply capriciously to various assets irrespective of the actual lag (in time as well as value) in respect of each of the assets charged. An alternative to Mr Kaldor's suggestion, but perhaps somewhat more complicated, would be to continue assessing the wealth tax on the "book value" until the asset in question is transferred by sale or otherwise and then reassess the tax on the difference in value discovered at the time of transfer on the assumption that the difference was spread evenly over time, unless the taxpayer can prove otherwise. In any case, to provide for annual valuation of property will be suicidal to the new tax and the earlier the Government relents on it, the better.

Gift Tax

The general gift tax formed an important link in Mr Kaldor's scheme of comprehensive personal taxation primarily because with the personal expenditure tax on the statute book, much tax avoidance would be possible through concealing personal expenditure in gifts, if the latter are not chargeable to tax. Also, since under Mr Kaldor's scheme capital gains are to be treated as realised not only when assets are transferred on sale but also when transferred by way of gift or bequest, the taxation of the latter form of transfer, which is eminently justified in terms of equity, representing as it does an accretion of economic power, becomes administratively an easy and economical method of raising revenue. These considerations apart, a gift tax is essential to have as a complement to the taxation of transfers on death.

In India, transfers on death are taxed through an estate duty with rates which are very low compared to the rates prevailing in so many other countries of the world. Mr Kaldor suggested the replacement of the estate duty by a general gift tax payable on all gratuitous transfers, whether by way of gift or bequest, in excess of Rs 10,000 for any single recipient. Mr Kaldor's proposal derives from two arguments. First, the estate duty form of taxation is based on 'an antiquated conception', because 'the true incidence of inheritance taxes falls on the recipients of the inheritance, and not on the deceased.' Second, 'there is no justification in equity for a difference in treatment as between gifts inter vivos and the receipt of legacies or bequests'. Hence the need for a single progressive tax on all gratuitous transfers.

The omission of the gift tax from the proposals of the current budget therefore, it is hoped, does not reflect the Government's calculated decision against such a tax altogether. As stated above, the absence of the gift tax leaves a wide loophole for the avoidance of the expenditure tax and if the intention is to see the latter operate effectively, either as a revenue collector or as a disincentive to ostentatious spending, the introduction of the gift tax cannot for long be postponed.

Tax Returns

It is hoped also that in prescribing the returns to be completed for assessment to income, wealth, expenditure and also capital gains taxes, the taxpayers would be required to submit one comprehensive return, instead of separate returns for each of the taxes. This would be advantageous not only to the taxpayers in terms of the saving in time and expense involved in submitting separate returns entailing considerable duplication but also to the tax authorities because they would be able to cross-check the entries in the returns more readily.

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From the Chair

The Indore Malwa United Mills Ltd

Speech of the Chairman Shri Kudilal Govindram Seksaria

SPEECH delivered by the Chairman, Shri Kudilal Govindram Seksaria, at the 50th ordinary annual general meeting of the company held on Monday, the 10th June, 1957 at Seksaria Chambers, 139, Medows Street, Fort, Bombay—1.

Gentlemen,

I really consider it my privilege to welcome you all here today to the FIFTIETH ANNUAL GENERAL MEETING OF THE COMPANY, which is an auspicious occasion of the Golden Jubilee of your Company. The Directors' report and the annual accounts of the Company for the year ended 31st December, 1956 have been in your hands for sometime and with your permission, I take them as read.

You are fully aware of the dynamic changes that your Company has undergone during all these years, and especially after my father, late Seth Govindram Seksaria, took up the Managing Agency of the Company. From year to year your Company has gained strength so much so that I would humbly venture to claim that its rich potentialities today make it not only a premier Textile Unit of Indore or Madhya Pradesh, but rather whole of India.

Since we met last, much water has flown under the bridge and though it is not my intention to enumerate the events at home or abroad, I must comment upon some of the worst jolts that we all experienced in the pulse of the world economics. The temporary blockade of Suez not only created a political chaos but it disrupted the economy of various countries especially the Asian ones, including ours, which are so vitally linked with its passage. This paralysis of the canal passage has spelt an unprecedented additional cost to our Second Five-Year Plan and made the problem of foreign exchange unfortunately more acute. But thanks, however, to our Prime Minister by virtue of whose instrument of Panchshila, the boiled waters have calmed down.

At home, hardly a month back the new Union Budget, probably the most controversial one since independence, has been presented, whose guiding star has been obviously to find out the resources for the implementation of the Second Five-Year Plan, and as a result of which the popular impression has gained ground that the Kaldor Report has become the Bible of the Union Finance Ministry. The Honourable Finance Minister, Shri T. T. Krishnamachari, has been metaphorically called a fisherman casting his net far and wide and in presenting his bold and imaginative measures he has been frequently accused of "killing the goose that lays the golden egg." But with such a Herculean task before him, I sincerely believe none-else would have fared better.

The critics have termed the new Plan to be too ambitious and have expressed their doubts about its success. It is feared to involve many a danger and risk, but in this connection, I entirely agree with our worthy Prime Minister Nehru that all these have to be faced in the process of revitalising the country. He seems to have well said, "it is only the dead that carry no risks".

Not Plan Conscious

Both from expected and unexpected quarters the criticism has continued to be made that the Plan has been drawn up in an over ambitious spirit and that it must be revised in order to make the implied burdens less heavy for the people. The one question which is being repeatedly asked is whether the plan cost could not be cut to suit the size of the resources cloth. Without indulging into economic and political reasons, I feel that the real crux of the problem is that our people are not fully plan conscious today. True it is that we face today certain fundamental problems, which dishearten us and present a very dark picture of our dreams, but the world itself is passing through a crisis and India is no exception. Food problem causes the most alarming situation. The imbalance of foreign exchange is another big hurdle. Absence of personnel for the Management of public sector is also a great handicap. All these evidently persist to shatter our faith in the implementation of the Second Five-Year Plan, but surely that is no reason why we should not march ahead. We have already gone half way on the road to economic progress and there is no return without ruin.

The industrial core of the plan involving heavy burdens of steel, coal, transport and ancillary power should not be confused with arguments about the economy in Government expenditure or avoiding waste and the like. I agree that economies should be effected and probable waste avoided. Talking of waste which is apprehended to be maximum 10 to 15% in the new plan, I may submit that it is not only rampant in public sector, but it is equally found in private sector also. You, I and all others in private sector are fully aware of it. And even if a great drive was made, a few crores of rupees might be saved. But it would not touch the basic question very much. The basic problem is that "big sums" have to be spent on the steel plant and other industrial undertakings. For this we require money and it can come only through taxes or savings. Everyone in the country has to share burdens and make sacrifices, and I on my part shall always be happy to accept my share and perform my duties with no regrets or complaints.

Undaunted Faith

Though I was born a capitalist, I have always thought in terms of a Socialist. Somehow, or the other I am also naturally inclined to be optimistic in my views and even with dark clouds over our heads today, I have an undaunted faith in India's future. We have been rendered materially poor in the process of centuries of slavery, but, I still consider India to be

rich in the great potentialities of its vast natural resources and gigantic manpower. Their exploitation are capable to overcome any hurdles that might come in its path of the socialistic goal of the society I have myself pledged to this goal and at any cost or sacrifice shall continue to make my humble contribution in the achievement of the goal.

Changes in Management

Coming to the affairs of your Company, I wish to speak a few words about the revolutionary changes that your Company has undergone last year. You are aware that after resignation of your Managing Agents, the Board delegated its power of Management to a committee of wholetime Directors. I cannot, however, on this occasion of the Golden Jubilee of the Company, miss the opportunity to pay my glowing tributes to your late Managing Agents, Messrs. Govindram Seksaria, whose invaluable services and contributions have rejuvenated the very life of your Company. It is due to them that our enterprise today occupies a premier position on the map of the Indian Textile World. However, in deference with the views of the Government your Company abolished the Managing Agency System and appointed this committee of wholetime Directors for which the Central Government has been duly moved to accord its formal approval. You will appreciate that this has meant a substantial saving to your Company in remunerations as compared to that paid to the Managing Agents.

A second step which all of you will most welcome is in your Directors deciding to take up a Labour Director and Technical Director on the Board of Directors, for which I am happy to inform you that necessary permission has already been obtained from the Central Government to increase the maximum number of Directors from seven to nine. I hope to have as my colleague a Labour Director and a Technical Director in the near future. This was also a step marching along with the changing times and you will be proud that your Company has not lagged behind.

As usual, our relations with the Labour have been very cordial last year also there being no strikes or stoppages of work. The ties between the Labour and Management are bound to be further strengthened after their participation is available even in the Management of your Company.

Profits

Turning to the Profit and Loss Accounts, you will observe that despite the adverse factors, which I shall presently mention, the gross profits of your company have been well maintained last year. Although the gross profits had shot up to their peak heights in 1955, a record set up since 1945, they have very nominally receded last year. The figures rose from Rs 6.78 lacs in 1954 to Rs 27.93 lacs in the following year and Rs. 24.02 lacs last year. The year 1956 started with a cheerful and healthy atmosphere and there was also almost a boom in the textile industry for the first six months so much so that looking to the all round features of your mills and steadiness of the textile industry, your Directors were induced to raise the ad-interim dividend to 5% as compared with that of last year's 3% thus making the total dividend up to 11% as compared with 9% of the previous year. Had it not been for the additional excise levied wth effect from 1st September, 1956, I am sure, the results would have been far better than even the previous year and a new record in profits would be inevitably set up. I hope, this explanation and the enthusiasm on the occasion of Golden Jubilee of the Company will amply justify the increase in the dividend. By virtue of the timely distribution of the dividend, the latest changes in the fiscal measures have coincidently proved beneficial to the Company in so far as the dividend factor is concerned. It has, also to some extent, reduced the incidence of new wealth tax on your Company.

A glance at the audited accounts for the year 1956 will show that the Company has made a nett profit of Rs. 12,50,744-13-2, after providing sufficiently for depreciation and development rebate. As I have stated before though the gross profits last year have receded from Rs. 27.93 lacs in 1955 to Rs. 24.02 lacs in comparison with the last year, yet the nett profits, however, are higher than the previous year. After making provision for remuneration to whole time Directors and Selling Agency Commission, depreciation and taxation the nett profit amounted to Rs. 8.89 lacs, as compared with Rs. 7.53 lacs for 1955. The higher nett profit, inspite of decline in the gross profit is due to lower provision made for all the three counts namely agents' commission, depreciation, and taxation, the details of which are given in the Directors' Report and the accounts. The stocks of cloth bales with your mills have considerably increased which would be quite evident from the balance sheet as at 31-12-1956 showing them at about Rs 58½ lacs from about Rs. 31 lacs as at 31-12-1955. It was due to the upward revision in Excise duty with effect from 1st September, 1956, the Cloth market became weak and the factor coupled with acute stringency in money market resulted in the poor offtake of cloth and consequently the mills had to carry larger stocks.

Excise Burden

You are aware that your Mills are mostly manufacturing Coarse and Medium qualities, the excise duties of which have been increased from one anna per sq. yard to an anna and a half and from one anna to two annas respectively. As a result of this, your Company had to pay over Rs. 4.5 lacs during the months of September to December 1956. It is feared that unless the demand and offtake of cloth—both improve substantially thus restoring the shattered confidence of the textile world, this burden of Excise duty and the high prices of raw cotton may tell heavily upon the result of the Company this year.

The Directors' Report has already dealt with all the detailed particulars of the accounts and they will give you a sufficiently clear picture of the financial position of your Company.

Transport

Despite the disadvantages of an up-country mill, a salient feature which particularly your Mill enjoys, is that saving in freight charges, which issue is becoming of growing importance to your country as it exerts a considerable influence on your competitive

position in the market. The Mill consumes roughly 40,000 bales of Cotton in a year and almost all of it is available locally, thus saving a lot of freight charges. The transport difficulty is another serious bottleneck these days in our national economy and the cost of freight seems to be increasing everyday. As announced in the latest Finance Bill, an increase of 5% in the existing surcharge is to be levied in the freight charges with effect from 1st July, 1957. But I am happy that your Mills will bear a lesser impact on account of the reason mentioned. Further, Indore is being connected by a broad gauge line with Ujjain, as a result of which also transport system will be more efficient and costs considerably reduced.

Rationalisation

There are certain points, however, which have been disadvantageous to the growth of your Mills and which your Directors have had to face every now and then. Our labour per 1000 spindles and per 100 looms is considerably higher than the labour at Bombay or Ahmedabad, for which the logical remedy seems to be the rationalisation of muster. Your directors have taken steps to reduce the excess labour by a system of voluntary retrenchment of labour by payment of compensatory gratuity, which has already reduced the labour force considerably.

Your Mill is still running on coal and old type of steam engines, which not only increase your cost of fuel and power generation, but also affect us adversely in our programme of rapid modernisation of machinery. Off and on the efficiency and working of the Mills are handicapped on this account. The poor quality of coal and difficulty of transport situation always keep us in a very unsteady position. But I have now to give you a very good news in this respect. The Government of Madhya Pradesh has sanctioned a load of 1250 K.W. Our hopes are further converged on the new Hydro Electric Plant which is a part of the Chambal Project carried out in our area and on its completion during the course of next two years of time, your Mills may be totally running on electricity as most of textile units are doing.

Coming specifically to the problem of Plant and Labour you will remember, I had drawn your pointed attention to this in my last year's speech. I am happy to inform you that the progress in this direction is quite satisfactory in accordance with our plan. You are aware that the machinery of your undertaking dates to the year 1907 and you all appreciate the gradual investment made by your Directors to equip your Mills with the machinery requisite to the needs of the time. As you will see from the accounts an expenditure to the tune of Rs. 14 lacs has already been incurred in renovation, replacements and additions of the machineries. Your Directors contemplate to spend an equal amount this year also.

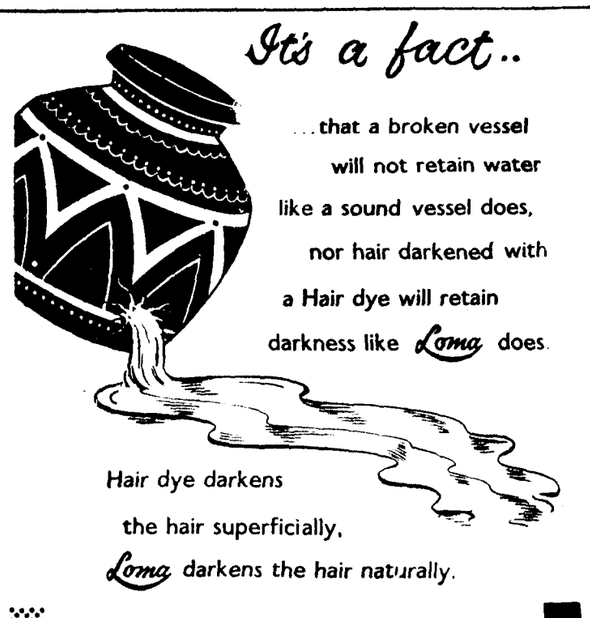
As intimated to you in the notice, we would be transacting some special business in the meeting, which followed by the explanatory memo in the notice must have already made the purpose clear to you. In the larger interests of the Company, I hope you will accord your sanction to it.

On behalf of the Board and myself, I should like to express my thanks to all of you the shareholders, Directors, to the management, all Officers, Technicians and employees both in the Mills and at the Registered Office and the Company's selling agents for the co-operation and hard work they have put in to bring out the most satisfactory results that are before us.

Gentlemen, I now beg to move:

"Resolved that the Directors' report and Audited Statement of accounts for the year ended the 31st December, 1956, already sent to the Share-holders, be and are hereby approved."

Note: This does not purport to be the proceedings of the meeting.



Vegetable Oil in the Second Plan

A C Chhatrapati

With the rapidly growing internal demand and the pressing need for stepping up exports of oils to earn foreign exchange, more energetic measures are urgently required not only to increase oilseed output but also to develop cottonseed crushing and solvent extraction industries in order to make optimum use of the available resources.

Only measures of an emergency nature can help to augment oil supply significantly within a short period; otherwise not only will there be little scope forexports but the country may face a famine of edible fat.

VEGETABLE oils are important to the Indian economy for three reasons; they constitute three-fourth of the edible fat consumption of the people; they supply the basic raw material to paints, soap and other toilet industries and they are valuable foreign exchange earners. However, unlike cereals, cotton, jute and sugar cane, increasing oilseed output has received little attention in the last decade. Consequently, exports of vegetable oils fluctuate more violently than any other major item in our export list. Their prices also fluctuate most violently causing serious hardship to consumers, industrial and others. Despite the desperate need to step up exports to bridge the yawning gap in the foreign exchange resources, Government has been compelled to ban exports of groundnut and other major edible oils because of their shortage and high prices. In fact, between 1951-52 and 1956-57 exports of groundnut oil had to be banned in three years. As edible oils can play an important part in promotion of exports, I propose to analyse recent trends in oil supply, the adequacy of the targets in the Second Plan and discuss ways and means of augmenting vegetable oil resources of the country.

Oils in the First Plan

The First Plan envisaged an increase of 8 per cent, from 51 lakh tons to 55 lakh tons, in the output of major oilseeds, namely, groundnut, rape and mustard, sesamum, castor and linseed. The total output of all vegetable oils was expected to rise by 12 per cent to 12.72 lakh tons. The export target of vegetable oils was fixed at 1.7 lakh tons. The increase in oilseed output was expected to be achieved through increase in yield per acre.

Table I—Acreage, Output and Yield per acre of Major Oilseeds

Year	Area (acres)	Seed output (tons)	Yield per acre (lbs)
1936-37 to 38-39	2,134,000	4,812,000	505
1947-48	2,406,500	5,117,000	476
1950-51	2,650,800	5,078,000	430
1951-52	2,887,600	4,949,000	400
1952-53	2,761,500	4,659,000	380
1953-54	2,748,200	5,462,000	445
1954-55	2,023,600	6,182,000	457
1955-56	2,920,900	5,628,000	432

It will be seen from Table I that the target of the Plan was achieved through increased acreage rather than increased productivity. In fact, the yield per acre of oilseeds has been steadily declining and the First Plan has failed to check this trend. Thus in the last 20 years an increase of 17 per cent in output has been obtained through a 37 per cent increase in acreage.

While the target of output of oils was exceeded, during the First Plan period, total exports fell short of the target (See Table II). Net exports, i e, exports **minus** imports actually declined from 1.13 to 0.79 lakh tons. The increase in net supply of oils by 18 per cent was not sufficient to meet the internal demand. This is evident from the fact that in 1956 prices of vegetable oils rose by 46 per cent over the previous year, while the wholesale price index for all commodities rose by only 13 per cent. In 1957 also, prices have continued to be firm although the output of oilseeds is expected to be slightly better. As mentioned earlier exports of major edible oils have been banned owing to the internal shortage.

In the Second Plan

The Second Five Year Plan provided for an increase in the output of the major oilseeds from 56 lakh tons to 70 lakh tons by 1960-61. Subsequently, in the light of the inflationary tendencies and the rapid growth in demand for consumer goods, the targets for agricultural outputs were revised upward. Accordingly, the target for major oilseeds was revised to 76 lakh tons, i e, an increase of 37 per cent. Although a year has passed since then, the break-down of the revised target in terms of different categories of oilseeds has not yet been given out. This target is to be achieved largely through distribution of improved varieties of seeds and improved cultivation practices. No information is yet available in regard to the progress made by the State Governments for achieving these targets. The Indian Central Oilseeds Committee has recently decided to start regional research stations and an oilseed extension scheme on the lines of the cotton extension scheme of the Cotton Committee. Considering that multiplication of improved seeds, training of extension staff and research at the research institutions will take considerable time, it is extremely doubtful whether the targets of oilseeds output can be achieved by 1960-61 unless good monsoons and increased acreage through the initiative of the farmers produce the desired result.

Table II—Oil Supply and its Utilisation

	1951-52 (tons)	1955-56 (tons)
Total oil output	13,60,000	15,53,000
Imports	38,000	73,000
Exports	1,48,000	1,52,000
Net supply	12,50,000	14,74,000
Uses :		
Non-edible	1,90,000	2,24,000
Edible	10,60,000	12,50,000

'The Programmes of Industrial Development, 1956-61', have estimated the supply and utilisation of vegetable oils by 1960-61 in comparison with 1954-55 as follows (the figure of total output in 1960-61 has been revised in light of the revised target):

	1954-55 ('000 tons)	1960-61 ('000 tons)
Total production	17,60	22,80*
Consumption :		
For edible uses	11,39	13,58
For vanaspati	2,59	4,30
For industrial & miscellaneous uses	2,24	2,78
Exports	1,38	2,14

* based on output of 76 lakh tons

These estimates give a very distorted picture of the oil supplies not only because statistics regarding carry-over of stocks from one season to another, uses of seeds, output of oils and uses of oils except by the organised industries, are not available, but because some of these figures relate to different periods. Output of oils based on crop estimates naturally relates to crop years, i e, October-September, and the figures of exports, industrial consumption, etc, should also relate to this period, but the figures of exports, consumption for vanaspati manufacture and industrial uses for 1954-55 seem to relate to the financial year (April-March). In fact, in the calendar year 1955, the nearest period to the crop year, exports of oils, oilseeds and vanaspati amounted to 3,11,000 tons in terms of oil. The quantity of oil consumed in vanaspati manufacture totalled 2,98,000 tons. Therefore, the availability of oils in 1954-55 for edible purposes, which is a residual figure, was about 9.27 lakh tons and not 11.39 lakh tons. On this basis the per capita availability of oils for edible purposes was only 7.4 lbs per annum and not 8.2 lbs per annum as indicated in the Programmes.

Demand Under-estimated

The forecast of uses of oils in 1960-61, however, seems to be an under-estimate. In the Second Plan the output of soap is expected to increase by 1,00,000 tons, paints and varnishes by 20,000 tons and lubricants by 6,000 tons. On the basis of the Planning Commission's own estimates, these industries will thus require 70,000 tons more oil. But the estimate for industrial and miscellaneous uses indicates a rise of only 54,000 tons. This implies a decrease in the uses of oils for hair oil, massage, and other miscellaneous purposes from 93,000 tons in 1954-55 to 78,000 tons in 1960-61! It may be noted that the National Sample Survey has recently estimated the quantity of oils used for hair and massage only at 2,00,000 tons or 1.5 ounces per head per month. This is not an unreasonable estimate. Therefore, even at present either the oil available for edible purposes is less than what is estimated or the total output of oils is higher than is assumed. In any case, it should be obvious that the quantity of oil required for non-edible uses will be much larger in 1960-61 than envisaged in the Programmes.

It is nearly impossible to estimate the likely demand for edible oils after four years with little reliable information of the consumption pattern in the past. Nevertheless, it is desirable to test whether the expected improvement of 30 per cent in oil output will be sufficient to meet the internal demands and leave a surplus for exports as envisaged in the Plan. This entails a forecast of increase in demand for oil on account of (i) increase in population, (ii) increase in urbanisation, (iii) increase in purchasing power and (iv) changes in consumption habits affecting oils.

Admittedly the increase in availability of oils of 18 per cent in the First Plan was insufficient to meet internal needs. This deficit will have to be made good from the increase in output during the Second Plan. Secondly the consumption of cereals in good monsoon years is considered to have reached the optimum level according to nutritional standards. Therefore, future increases in expenditure on food will be more in the direction of supplementary foods like fats. Since the proportion of expenditure on fats is at present extremely low, even a small increase in expenditure will bring about a substantial increase in their demand. Thirdly the production of ghee may not increase significantly because the consumption of milk is rising and increase in milk output will be used to meet this more remunerative demand for milk. Hence the future increases in fat consumption will have to be in the form of oil and vanaspati. Taking into account all these factors and considering the recent trends in the consumption of cloth and sugar, it is my surmise that the increase envisaged in the Plan may not be sufficient.

In view of the poor progress in measures to improve output, it is to be feared that the country may face a veritable shortage of vegetable oils unless concerted efforts are made not only to increase output of oilseeds but also to augment supply of vegetable oils from existing resources quickly.

Cottonseed Crushing

Two important existing sources for augmenting vegetable oil supply are cottonseed crushing and solvent extraction of oil cakes produced by ghanis and oil mills.

Although India is the third largest producer of cottonseed, it allows cottonseed to go waste in the form of cattle-feed. In USA and even Uganda more than 80 per cent of the cottonseed is crushed to produce substantial quantities of good edible oil. At the present rate of output of 14 lakh tons of cottonseed in India, the total vegetable oil supply can be increased by 1.4 lakh tons, if 80 per cent of the crop is crushed.

Cottonseed crushing requires special equipment for delinting and dehulling the seed. Raw cottonseed oil being dark in colour and unpleasant in taste is unpalatable. Consequently cottonseed crushing did not interest the industry, especially when other good edible oils were available in sufficient quantities; and a market was developed for cottonseed as cattle-feed. In view of the impending shortage of edible oils, the need for cottonseed crushing has been felt, but being in infancy it has to face a number of difficulties.

The most difficult problem is the frequent disparities between the prices of cottonseed and its oil. Cottonseed prices are determined by its demand as cattle-feed from farmers. On the other hand, cottonseed oil prices fluctuate with world price when exports are free and prices of other edible oils, when the oil has to find sellers within India. The risk of loss on account of such disparities is further increased by the fact that for continuous crushing the crusher will have to arrange to purchase and store large stocks of seed during the ginning season of 6 to 7 months. Owing to the high incidence of railway freight, transport of cottonseed from distant surplus areas is not economical. Thus the existing crushers have to close down frequently because of disparities in seed and oil prices and non-availability of seed locally.

The second major difficulty faced by crushers relates to disposal of the by-products. Cottonseed contains only 13 to 22 per cent oil. In addition, it yields 4 to 6 per cent linter (if the seed is of American variety) which is the basic raw material of the acetate rayon industry, 30 to 35 per cent hulls which are good for feeding cattle as roughage and 45 per cent oil cake. The decorticated oilcake has an extremely limited market in Ahmedabad and Bombay cities

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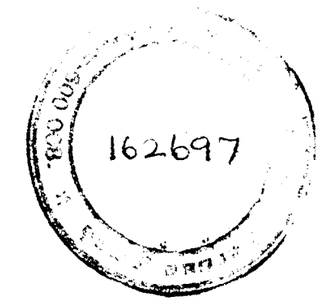
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while undecorticated cake has a larger market in Punjab and some other regions. But generally, the marked preference of farmers for feeding whole cottonseed to cattle causes great difficulties in disposing of cottonseed cake economically.

The third difficulty in cottonseed crushing is the absence of technical know-how for producing good quality oil and linters. Special care and facilities are required for storing cottonseed and special skill is required to produce good quality products. At present the linter produced by the crushers is frequently unacceptable to the only acetate rayon factory in India owing to its poor quality. The vanaspati factories are reluctant to use cottonseed oil because it is difficult to bleach owing to defects in the technique of its production and washing.

How to Reduce Risks

Obviously in the face of such serious difficulties rapid development of cottonseed crushing can take place only if Government makes cottonseed crushing less financially hazardous through fiscal and other measures along the lines enumerated below. It is a pity that the Planning Commission has not recommended any measures to develop cottonseed crushing rapidly although it has expressed a fear that the oil supply might not be sufficient. Further it has recommended increase in cottonseed oil output from 9000 tons to 30,000 tons only, perhaps due to the opposition to cottonseed crushing from rural interests who continue to hold the belief that whole cottonseed is the best cattle feed. The prolonged experiments at the Izzatnagar Research Institute have proved that there is no significant difference in the nutritive values of cottonseed and its cake as cattle feed. There is now no rational objection to encouraging cottonseed crushing.

(1) An active educational propaganda among farmers to use cottonseed cake and hulls in place of whole cottonseed as cattle-feed: This will create a remunerative market for cake and hulls and reduce disparities in seed and oil prices. The National Extension and Community Development staff may undertake this activity to begin with in Punjab, Saurashtra and Rajasthan which not only consume cottonseed produced in their territories but also import from long distances.

(2) Provision of financial incentives to make cottonseed crushing attractive: The existing oil mills in cotton growing areas may be offered low interest loans for installing delinters and hullers. Cottonseed crushing may be included among industries exempted from payment of income tax on profits and dividends upto 6 per cent on paid up capital under Section 15 C of the Income Tax Act. The Central Excise duty on cottonseed oil may be abolished. At present the net revenue from this duty must be hardly in excess of Rs 1 lakh. The loss of revenue to Government therefore will not be of any consequence, but it may induce entrepreneurs to undertake cottonseed crushing.

(3) Technical assistance in producing good quality cottonseed products: It is necessary to disseminate existing knowledge on storage and processing of cottonseed and institute research in these problems with special reference to Indian conditions.

(4) Permission to cottonseed crushers to crush other seeds: At present licences are issued under the Industries Development & Regulation Act for establishing cottonseed oil mills on the condition that they will not crush other oilseeds. For economic operation it is necessary that these crushers should be permitted to crush other seeds in the off season for cottonseed or when cottonseed supply is inadequate to maintain production.

Solvent Extraction of Oil cake

The Planning Commission has recommended increase in the capacity of solvent extraction from 4 lakh tons to 8 lakh tons during the Second Plan in order to produce 64,000 tons of oil from oil cake produced by ghanis and oil mills containing 6 to 8 per cent oil. However, solvent extraction is economical only when fresh oil cake containing 15 to 18 per cent oil is put through the solvent extraction process. Only this way good quality oil can be produced economically. Therefore, to encourage solvent extraction it is necessary that owners of solvent extraction plants should be permitted to purchase and instal expellers near the solvent extraction plants of crushers situated in a locality may be induced to put up a solvent extraction plant on a cooperative basis to which they can feed fresh oil cake containing 15 to 18 per cent oil. The suggestion of the Planning Commission that solvent extraction of ghani oil cake should receive special attention in view of the emphasis given to ghani crushing in the Plan is impracticable as collection of the cake in sufficient quantities from widely dispersed ghanis within a reasonable time is impossible.

To sum up, with the rapidly growing internal demand and the pressing need for stepping up exports of oils to earn foreign exchange, more energetic measures are urgently required not only to increase oilseed output but also to develop cottonseed crushing and solvent extraction industries in order to make optimum use of the available resources. Only measures of an emergency nature can help to augment oil supply significantly within a short period; otherwise not only will there be little scope for exports but the country may face a famine of edible fat.

New Railway Yards and Workshops

Two new railway marshalling yards are to be constructed at Bhilai and at Bondamunda, near Rourkela, at a total estimated cost of Rs 6.38 crores.

The construction of these marshalling yards has been found necessary to cope with the heavy traffic in connection with the two new steel plants under construction at Bhilai and Rourkela, and also with traffic from other subsidiary industries which are expected to develop in the vicinity of the steel plants.

The railway Board has given its approval to the construction of a new locomotive shed at Yashwantpur, three miles from Bangalore City at an estimated cost of Rs 14.5 lakhs.

The Railway Board has also sanctioned the expansion of the railway workshop at Dohad, on the Western Railway, to increase its locomotive repair and overhaul capacity. The expansion is likely to cost nearly Rs 28 lakhs.

Financial Base for Industrial Development

How and why the national economy is suffering from stresses and strains, is a matter for debate. The symptoms of the ailing economy are visible enough. Prices are rising; foreign assets have been drawn down to a near-danger level; money continues to be tight. But, be it emphasised, in a developing economy, these teething troubles are inescapable.

To-day, in the second quarter of the second year of the Second Plan, it is becoming increasingly evident that the financial troubles stem from lack of planning in the last five years. During the First Plan period, production improved; national income expanded. But measures were not taken to erect an adequate financial base for the expanding economic structure.

That is why the economy is exhibiting financial maladjustments.

AN expanding economy must, the more so in an underdeveloped country, have strong tax and credit bases. Even as the Taxation Enquiry Commission was formed before the end of the First Plan, the preparatory work for creating an appropriate credit base was started before the beginning of the Second Plan. With the 1957-58 Union Budget, the process of rationalisation of the tax system has been well under way. There are still some "gaps". Finances of States have yet to be made ship-shape. They will have to pull their weight. Rationalisation of the borrowing policy has not yet begun. But, then, it cannot begin unless a firm decision has been taken about interest rates.

New Delhi's plans for strengthening the credit base are being unfolded gradually. Gradualness of these schemes is the main trouble. No less disturbing is the Government's wrong emphasis. Informed opinion has welcomed TTK's Budget. He deserves credit. But it would be uncharitable to ignore that his predecessor started the process of rationalisation of the tax system. TTK has determination and drive. He showed courage in implementing the essential features of tax reforms. His determination to establish a sound and an ample credit base is commendable. His ends are right, but his means seem to be questionable.

Agricultural Credit and State Bank

There are two aspects to the problem of establishing an adequate credit base. One relates to agriculture and the rural economy. It is not TTK's fault that the State Bank, the nationalised Imperial Bank, is taking time to find its bearings in the rural atmosphere. Doubts persist, in retrospect, whether the Imperial Bank, by its tradition and functions, is best suited for the purpose for which it has been nationalised. But, as what has been done cannot be undone, the only sensible course is to hope that the State Bank will get acclimatised to its rural environment.

From the recent amendment of the State Bank Act, it is clear that this institution will be entrusted with the exclusive obligation of supplying farm and rural credits. Under the proposed scheme, the Agricultural Credit Department of the Reserve Bank is to be transferred to the State Bank. There is much to be said for this plan of making the State Bank responsible solely for stimulating agriculture and the rural economy. It has ample resources. It should not take long for this big and sound organisation to acquire and to train the needed personnel.

Division of Functions

Far more important than the problem of familiarising the State Bank with its changed responsibilities is the question of a proper division of functions. There are disturbing indications either of a confusion of purpose between the Government and the State Bank, or of attempts to foist too heavy and unrelated functions on the latter. Even the State Bank's ample resources are not adequate for supplying credits to agriculture and to small-scale industries (this latter function has been started as an experiment) over and above the hitherto normal duties relating to commercial credits.

It is more than time for the Government and the State Bank to come to a final decision about the latter's sphere of activities. Those who are impressed with the urgent need for strengthening the rural and farm economy are inclined to the view that the State Bank should concentrate on galvanising the vast rural sector of the economy. The State Bank, it is presumed, is the proper agency to finance and coordinate the development of agriculture and village, small-scale and cottage industries.

This emphasises the second aspect of the credit problem. If the above division of functions is finally decided on, the problem of industrial credits will become more acute. But this is both a challenge and a responsibility to the existing commercial banks. Diversion of the State Bank's resources and activities to the rural sector will accentuate the shortage of commercial and industrial credits. But the gradual retreat of the State Bank from the urban, commercial, sector is likely to benefit scheduled banks in the long run.

The scheduled banks will have the opportunity to exploit the resulting vacuum. Urban, industrial, savings are likely to be deposited increasingly with the other scheduled banks as the State Bank withdraws from this sector. At the same time, the State Bank should, in course of time, be able to recuperate its urban and commercial losses from the growing rural sector, a growth which will be helped by its new functions. This does not, of course, debar the State Bank from subscribing to the share capital of specialised institutions created for supplying long-term industrial finance.

Factors Behind Monetary Stringency

In the division of functions outlined above, it is assumed that agriculture and the rural economy will have the needed credits for expansion. But industrial and commercial credits will continue to be in short supply. Finance for industry is the main topic for discussion in this article. So far, the basic background against which this problem has to be viewed has been sketched. But before an analysis of the problem itself, some of the current assumptions may be discussed.

Monetary stringency has persisted for more than two years now. It started as a sequel to disparity in money rates between London and

Indian money markets. Exchange banks increased their borrowings from the Indian money market. This phenomenon was originally reflected in dearer short-term money rates only. There was no corresponding increase in lending rates of banks or in money rates in general. Only gradually, as deposits became costlier, did banks raise their rates for advances to maintain profits, especially as the Bank Award raised establishment charges.

This was the state of affairs in 1954 and 1955. Last year, another factor intervened to aggravate monetary stringency. In 1956, there was a considerable trade deficit. In all these three years, there was heavy deficit financing. In 1954, bank deposits expanded appreciably. Deposits have continued to expand, though the pace of improvement had slowed down in the last two years. It is of interest to note that in 1956, the expansion in bank deposits was larger than in 1955.

With these facts in mind, some of the current money market assumptions may be noted. In India, the increase in money supply has never been fully reflected in an expansion in bank deposits. This is only to be expected where the people are not yet bank-minded. In recent years, again, though not in 1956, there has been an appreciable increase in insurance business. This is not an unnatural development in a developing economy, and, in this country, it is a welcome sign that insurance business is expanding even though it may be at the cost of bank deposits.

Seepage from the Banking System

Last year's banking and monetary developments are now better appreciated in retrospect. It is now realised that the heavy excess of imports over exports has had a deflationary effect on bank deposits. Simultaneously, there has been a progressive increase in the demand for bank credits by industry. Bank advances to industry and to commerce have consistently increased since 1953. But the increase in bank advances to industry and to commerce was relatively heavier in 1956.

These factors are now better realised. The discrepancy between bank deposits and money supplies has another explanation which is not without significance so far as developments in 1956 are concerned. By 1955-56, it became evident that the Government would broaden and rationalise the tax system in order to maximise internal resources for the Plan. Discussion had focussed attention on the need for a system of checks and balances so as to minimise tax evasion. This objective is as important as revenue considerations in wealth and expenditure taxes. As a sequel, there has been a revival of hoarding, and some increase in conspicuous consumption of luxury goods by the rich.

In 1956, and in the latter half of 1955, there has been a considerable increase in bullion prices and what is more important, in cash transactions in relation to steel, cement and in some other goods which are subject to some form of control or permit system. Money circulating in the non-banking sector in this sense has some relation to the disparity in the expansion in money supplies and in bank deposits. While this non-banking sector has expanded in the last two years, the process of monetisation of the traditional, non-monetised sector must have also gone on, resulting in larger absorption of currency.

There has been a relative rise in agricultural prices in the last two years. Because of the absence of banking or insurance facilities, it has not been possible to attract the increase in the income of the rural community into the banking system via savings. This is one of the main reasons, some bankers have argued, why rising national income is not correspondingly reflected in higher bank deposits. This is where the State Bank's concentrated activity in the rural sphere comes in.

Growing Pressure on Banks

Why expanding national income is not generating a corresponding increase in bank deposits, is now better understood. But, given this phenomenon, the relative expansion in bank advances seems to have unduly alarmed authority as well as experts. This aspect of the problem is not entirely irrelevant. But it can be over-emphasised until the turnover of bank deposits is much quicker than what it is today.

On the assumption that bank deposits will not keep pace with expanding national income as long as the necessary conditions do not prevail, the growing demand for credits of a developing economy will continue to exert pressures on the banking system. That was what happened in 1955 and 1956. There was a consistent and progressive increase in bank advances to industry and to commerce in 1954-56. This changed make-up in bank advances partly explains why the traditional, seasonal slack season is getting shorter and shorter, though it does not explain why the so-called flow-back of funds is becoming heavier.

Refinance Corporation

Two other simultaneous developments may be noted. Even as the industrial demand for bank credits was growing, many corporations decided to capitalise revenues for financing expansion. In recent years, banks and insurance companies have been the main props behind such bonus or rights issues. Bank's resources were already over-extended. Nationalisation of life insurance created a temporary vacuum in the supply of risk capital. These factors aggravated the shortage of capital for financing industry. Meanwhile, the rising ratio of bank advances to deposits, growing industrial demand for bank credits, financing of imports of capital goods through bank credits and similar other symptoms of bank financing of industry became visit

This was the main problem under discussion between the Finance Minister and bankers some eight months ago. As the general elections and the Budget intervened, the solution of the problem was postponed. Recently it has been decided to set up the Refinance Corporation. Both the Reserve Bank Act and the State Bank Act have been amended to enable these institutions to subscribe to the capital of specialised organisations created for supplying long-term finance to industry. It is the intention of the Government to divest the Reserve Bank of all routine banking functions, to make the State Bank responsible for rural and farm credits, to utilise the Life Fund properly for stimulating the new issue market and existing equities.

Experiment in Financial Escapism

Contrary to the popular impression, the proposed Refinance Corporation is not meant to be a direct source of supply of medium -and long-term finance to industry. It is an intriguing experiment in financial escapism. This Corporation will only discount loans by banks to industry. This may help scheduled banks to tide over the adverse con-



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sequences of their willing or unwilling involvement in medium-term finance to industry. But this is not the sort of specialised institutions which are necessary to supply medium-and long-term finance to industry. It is a more faulty mechanism than the Shroff Committee's proposed Consortium. Of the Refinance Corporation, the most damaging criticism is that it is an open encouragement to banks to get directly involved in long-term financing of industry.

With the progressive institutionalisation of savings, institutions must necessarily be the suppliers of capital. That is obvious. But this does not necessarily mean that deposit banks should supply directly, as is envisaged under the proposed Refinance Corporation set-up, long-term finance to industry. Recently, the European Productivity Agency of OEEC has issued a report on the supply of capital funds for industrial development. It is stressed that European banking systems do "more for financing the capital formation of industry than orthodox views on deposit banking would allow". The EPA report comments that any extensive development in this sense would in effect be reversing the continental banking reforms of the 1930's.

Shroff Proposal Better

But, in the changing make-up of investment, EPA concedes the need, for devising newer techniques to solve the problems involved. That does not mean that direct participation by banks in long-term finance for industry is approved. "A safer and convenient method of using the commercial banks' resources to the proposed end is to form specialised, technically well-equipped institutions", EPA recommends, "whose, share capital is jointly held by the banks, and to supply them with sufficient loan capital for long-term investment". That is why the Shroff Committee's proposal is a better alternative than the proposed Refinance Corporation. The latter, to repeat, blesses direct participation by banks in long-term industrial finance. That is contrary to prudent banking practice.

But EPA has mental reservations even in making the above recommendation. "A technically safer solution"—this is EPA's basic conclusion—"is for any such specialised institutions to raise their operating funds by issue of bonds and debentures, instead of relying on bank advances". That would be an ideal solution both for banks and for industry, though subscription by banks to capital of such specialised institutions may be necessary. But the question is whether this ideal solution can be implemented in this country. A closer examination of the problem indicates that it can be.

The Ideal Solution

Of the capital of the Refinance Corporation to be subscribed, banks' proportion is not large. Their contribution can be made good by raising the contribution of the Life Insurance Corporation, an institution well fitted to supply long-term investment. If it be necessary, the proposed Corporation's subscribed capital can be raised duly by larger contributions from the Insurance Corporation, the Reserve Bank and, now that the State Bank will concentrate its activities in the rural sector, by the State Bank. In the solution thus envisaged, commercial banks will be responsible only for supplying industry's working capital.

Not only the proposed shareholding of the Refinance Corporation, but its proposed working methods seem to be wrong. During the Lok Sabha debate on the amendment of the Reserve Bank and State Bank Acts, the Finance Minister argued that the Corporation's directorate should be composed of bankers and not of industrialists so as to prevent favouritism. It is difficult to appreciate how bankers could be good judges of industry. EPA not only recommends specialised institutions for supplying capital for industrial development, but emphasises that these must be technically well-equipped institutions. That means that the Refinance Corporation's directorate should consist of cost accountants, technical consultants, engineers, financial experts and economists, but not necessarily bankers.

So much about the Government's plans for long-term finance to industry. There is already the Industrial Credit and Investment Corporation. The proposed Refinance Corporation is a move in the right direction, though the Corporation's share capital and directorate need revision on the lines suggested above. There is a case for either raising the operating fund of the Refinance Corporation or amalgamating the Industrial Finance Corporation with the Refinance Corporation. There is also the need for an Export-Import Bank which could take up some of the functions of the National Development Corporation. On the State level, the Finance Corporations should have large operating funds; their functions should be extended to include promotion and underwriting of new issues and industries; they should cooperate with the State Bank in supplying finance to small-scale industries.

Export-Import Bank Needed

Intermediate credits have internal and external aspects. This article is mainly concerned with internal long-term finance for industry. But last year's experiments and the recently-enlarged functions of IFC and NDC underline the need for providing intermediate credits to importers and exporters. This can be the function of a new Export-Import Bank. In this connection, it is of interest to note Professor Rosenstein Rodan's suggestion, in a paper read before the Tokyo Seminar, for creating an International Rediscount Institute to supplement the activities of the World Bank and the Monetary Fund. Under Prof Rosenstein Rodan's Plan, an Export-Import Bank will be all the more necessary to furnish guarantees by importing countries.

The Finance Minister has started well. Much has been accomplished in the process of rationalisation of the tax system, though much more will have to be done to complete the process. His intentions of rationalising the credit base are commendable, but he seems to have started on the wrong path. Adequate supplies of medium and long-term internal and external credits to industry must be ensured. But the end has to be achieved through legitimate means. Any direct association between banks and industry must be avoided. One false step may lead to another.

Doubling Tata Steel's Output

Tata Steel's expansion project to double the output to two million tons is progressing according to schedule.

The project scheduled to be finished before two and a half years by May 31, 1958, is now reported to be "more than 52 per cent complete." There has already been an outlay of Rs 30 crores over the project.

Bank Finance for Industry

S K Basu

The role which the Indian banking system will be expected to play in the expanding economy of the country during the Second Plan period offers an interesting and useful line of study.

Under the impetus of the Plan the working capital requirements of private industry will steadily increase, and the banking system will be expected to meet the requirements with the assistance, if necessary, of the Reserve Bank of India.

But the question is how far bank finance will be adequate for the increased need of industry.

From the analysis presented below it will be clear that an institutional gap would inevitably emerge if the deposit expansion of the order of at least Rs 500 crores did not take place during the Second Plan period or advances to other than the industrial sector were required to be greater.

As the Second Plan gets into stride, import surpluses are likely to be larger and produce a greater contractionist effect. In the circumstances there should not be any complacency about the adequacy of bank finance during the Plan period and measures would have to be adopted to introduce greater flexibility in the supply of credit and, if necessary, to reorganise the entire credit machinery.

(All references have been given at the end of the article).

BEFORE we examine the question of adequacy of bank finance for private industry during the Second Plan period, it may be worthwhile to recapitulate the experience in this connection during the First Plan period. In respect of the provision of working capital requirements to trade and industry during the First Plan, the performance of the Indian banking system has been on the whole satisfactory. The Plan's estimate was that Rs 158 crores would be forthcoming from banks and other sources of short term finance to meet industry's needs of working capital. It might be presumed that the banking system was expected to provide by far the greater portion of it.

In the five years from December 1950 to December 1955, the scheduled banks' advances to industry rose from Rs 152.36 crores to Rs 221.0 crores, that is, by Rs 69 crores nearly; and commercial advances rose from Rs 246.13 crores to Rs 323.2 crores or by Rs 77 crores. About the time the Plan estimates were framed, the volume of credit itself had been at an inflated level which was substantially curbed by the restrictive monetary policy of November 1951. It was in subsequent years that under the stimulus of the industrial and general economic expansion, an increase in the demand for credit took place.

Advances to industry indeed rose from Rs 196 crores at the beginning of the First Five Year Plan (March 1951) to Rs 279 crores at the end of the First Five Year Plan (March 1951)[1]. Thus there was a [illegible] of 42 per cent in industrial ad[illegible] during these five years. In [illegible] umstances the assistance [illegible]y the banking system in India was not inadequate.[2]

A study of the Reserve Bank of India's Research Department estimates that the working capital requirements of industry that may have to be provided by the banking system would amount to an additional sum of about Rs 150 crores during the Second Plan period. This study is based on capital-sales ratios and the assumption that the level of borrowing would continue to be 60 per cent of the inventories as estimated by the Taxation Enquiry Commission and that the share of bank finance in the level of borrowings would rise to about one-half. That is, in addition to the current provision of industrial credit of Rs 180 crores—Rs 220 crores* which constitutes nearly one-third of total bank credit, the banking system would be called upon to provide a further amount of Rs 150 crores to industry.[3] Assuming that there will be no change in the present institutional framework, an increase in bank credit to industry could come about either through an expansion of the banks' resources or through a readjustment of the banks' assets portfolio.

The question of expansion of the banks' resources is closely related to the trends in bank deposits. The declining trend in deposits witnessed in the immediate post-war years has been reversed, and from 1952 it appeared that a phase of deposit expansion had definitely set in. From Rs 823.5 crores in 1952 the deposits of all scheduled banks rose to Rs 1,013.4 crores in 1955. In the twelve months of 1955 the increase was by nearly Rs 87 crores.[4] With the increasing tempo of economic development, the level of deposits may be expected to go up. The extent to which the level will rise is related to the trends in money supply which again will chiefly depend on the scale of deficit financing. According to the estimate of the Research Department of the Reserve Bank, two-fifths (40 per cent) to one-half (50 per cent) of the increase in money supply is expected to take the form of deposit money. But in view of the recent trends in the composition of money supply not only in India but also in other countries, it will be misleading to suggest that the deposit component of the increased money supply would form such a large proportion. According to the Report of the Central Board of Directors, Reserve Bank of India, of the increase in money supply during 1955-56, expansion in currency accounted for 4|5ths.[5] In exact figures currency constituted 73.3 per cent of the total expansion in money supply which was an increase from 65.0 per cent in the previous year.[6] In almost every country a similar trend is being witnessed for the currency component to increase relatively to the deposit component of the money supply. In the circumstances it will be nearer the mark to believe that one-third to one-quarter of the expansion in money supply would take the form of deposit money.

In the light of our past experience of the impact of deficit financing on money supply during war years and during 1953-55, and taking account of the deficit in the balance of pay-

*Total advances of Scheduled Banks to Industry (Rs crores): Dec. 31, 1952: 178.8; Dec. 31, 1954: 199.9; Dec. 31, 1955: 221.0.

ments and the possible absorption of money by the Reserve Bank through open market sales on the one hand, and the volume of credit creation by the banking system on the other, deficit financing of the order of Rs 1000 crores (another Rs 200 crores being met by drawing down Sterling balances) may be estimated to produce a net increase of money supply to the extent of Rs 1500—Rs 1600 crores. On the basis of the ratios between currency and deposit money as prevalent in recent years, it may be assumed that the increase in deposits would amount to Rs 400—Rs 500 crores.

Advances of the scheduled banks in India in 1955 accounted for nearly Rs 650 crores out of total deposits of Rs 1000 crores. This works out to an advances-deposits ratio of about 60 per cent. If the same ratio is maintained and if it is assumed that industrial credit would account for half the credit expansion, a rise in industrial advances of the order of Rs 150 crores would postulate an increase in total deposit liabilities of Rs 500 crores. Thus without a redistribution of the assets portfolio, the scheduled banks would be just able to meet the increased demand for credit. In the event of the demand for commercial and other types of credit increasing by more than Rs 150 crores, the maintenance of a 60 per cent advances-deposits ratio would call for an expansion of deposits by more than Rs 500 crores. In case the deposits do not increase by more than Rs 500 crores, the increased demand for credit can be met by pushing up the advances-deposits ratio. A rise in this ratio would mean a corresponding reduction in the ratios of cash and or investments to deposits. The problem, therefore, resolves into that, first, of how far the banks can lower their cash ratios and work with safety and unimpaired liquidity; and secondly, how far they can reduce their investments without repurcussions on the gilt-edged market.

Cash Ratio

While the ratio of loans and advances, including bills discounted, to deposits in recent years (1954-55) has hovered round about 36-37 per cent in the U K and 38 per cent in the U S A, that in Japan has been as high as 79.2 per cent and in Western Germany as high as 90.8 per cent. But in the context of the inflationary potential inherent in the large scale development expenditure under the Second Five Year Plan, the pushing up of the advances-deposits ratio much too high would not be desirable. The ratio has recently soared above 70 per cent under the pressure of a continued demand for bank credit. Efforts should be made to keep it within a range of 60-65 per cent.

The raising of the advances-deposits ratio would have to be at the expense of the cash ratio. Even if the lowering of the cash ratio were feasible under the present conditions of greater availability of Reserve Bank credit and liberalized remittance facilities, the scope for reduction is limited. The cash ratios have already been pushed much below the levels at which they were maintained in the pre-war or early post-war years. In 1954-55 the ratio of the scheduled banks' cash and balances with the Reserve Bank to deposits was 9.50 per cent[7] and

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in 1955-56 it was still lower at 8.69 per cent. In January 1957 it touched a low of 7.64 per cent.[8] When the British banks with their long established traditions and functioning in a highly organised short term money market are working with a ratio of about 8 per cent, it will be clearly undesirable for the banks in India to reduce their cash ratios still further. Moreover, the excess of balances with the Reserve Bank over the statutory minimum during the last three years of 1953-54, 1954-55 and 1955-56 have amounted respectively to Rs 11.94 crores, Rs 18.89 crores and Rs 13.93 crores.[9] It is clear they do not provide an adequate basis for expansion of bank credit to any significant extent.

To what extent would it be feasible to reduce the banks' holdings of Government securities from the present level? The ratios of the investments of the scheduled banks in Government securities to their net liabilities have varied between 35-38 per cent during 1951-52 to 1955-56. The ratio though closely similar to that of the London clearing banks (which was 35 per cent in January 1955) is indeed higher than in some other countries. But the scope for reduction of the investments-deposits ratio is not very great. During the Second Plan period, the banking system will be called upon to take up large blocks of Government loan issues. Unless the Reserve Bank stands ready to purchase all the securities that the banks may throw upon the market to release funds for advances to trade and industry, the banks may be unwilling to sell them at a loss. If they have to sell some of their investments at all to meet the legitimate credit demands of their customers, who are their bread and butter, and have to realize capital losses, the rates charged to customers may be raised to compensate for these losses. Large sales of securities will also lead to a fall in security prices and a rise in open market interest rates which again will raise customers' rates. Large scale liquidation of investments without support from the Reserve Bank would cause a great deal of confusion and instability in the Government bond market. Even if the support of the Reserve Bank were available and the Bank engaged in open market purchase operations on a large scale, the inflationary pressures inherent in the enormous development expenditure would be considerably aggravated.

The banks, however, need not be required to sell out their investments for increasing their advances to trade and industry. They can always obtain the necessary resources by borrowing from the Reserve Bank against the pledge of Government securities. The declared policy of the Reserve Bank is to make its credit available against the pledge of such securities. But a great deal will depend on the terms on which such credit is provided by the Reserve Bank.

Other Resources

Another source from which the banks could secure the necessary funds for increased advances is their capital and reserves which would have to be expanded. If an expansion of the risk assets of the banking system has to take place within a given volume of deposits and within a given framework of cash and investments ratios, it would have to be accompanied by an expansion of capital and reserves. But the Indian banks have shown no tendency towards increasing their capital and reserves. The ratio of paid-up capital and reserves of the scheduled banks to deposits stood constant at 9 per cent during 1950-53 and declined to 8 per cent in 1954 and 7 per cent in 1955.[10]

It is clear from the above analysis that an institutional gap would inevitably emerge if the deposit expansion of the order of at least Rs 500 crores did not take place during the Second Plan period or advances to other than the industrial sector were required to be greater. As the Second Plan gets into stride, import surpluses are likely to be larger and produce a greater contractionist effect. In the circumstances there should not be any complacency about the adequacy of bank finance during the Plan period and measures would have to be adopted to introduce greater flexibility in the supply of credit and, if necessary, to reorganise the entire credit machinery.

Rising Time Deposits

There is, however, an interesting trend in the behaviour of bank deposits in recent years which may enable the banking system to increase their loans and advances to trade and industry on the basis of its existing resources. Since 1951-52 a remarkable shift in favour of time deposits as against demand deposits can be witnessed. The percentage of the scheduled banks' demand deposits to total deposits has been steadily declining while that of time deposits to total deposits has been steadily increasing. The former stood at 67.1 percent in 1951-52 but declined continuously till it reached 59.9 per cent in 1955-56, while the latter rose from 28.50 per cent to 34.39 per cent. The table given below clearly brings out the unmistakable trend towards time deposits.

This trend is rather curious in the context of the expanding economy of the country. It does not conform to the general behaviour pattern of bank deposits during such periods. It may be partly due to the liquidation of real property as a result of legislative and fiscal measures. But this is largely due to the general rise in deposit rates induced by the Exchange Banks' competition for funds in the Indian money market now that the cost of borrowing in the London market has increased. Whatever repurcussions the trend may produce, there is one redeeming feature. With the growing percentage of time deposits to total deposits, the power of the banking system to create credit will tend to increase. A lower cash

All Scheduled Banks[11]
(In crores of Rupees)

	Demand	Time	Savings	% of time liabilities to total liabilities	% of demand liabilities to total liabilities
1951-52	593.73	290.82	135.66	28.50	67.1
1952-53	546.23	309.26	138.05	31.12	63.8
1953-54	526.75	328.26	142.14	32.91	61.6
1954-55	559.62	351.86	151.57	33.09	61.4
1955-56	608.64	407.95	169.40	34.39	59.9

ratio has to be maintained against such deposits and funds may be released from required reserves for loans and advances.

Compulsory Deposits

Against this potential increase in the power of the banking system to create credit and thereby increase its advances to industry must be set the far reaching effects of the recent fiscal measures relating to control of depreciation and other reserves upon the capacity of self-financing on the part of industry. Depreciation allowances and development rebates normally deducted for purposes of computation of profits would no longer be treated as items of expenditure unless the companies deposit with the Central Government or Reserve Bank before June 30 of the relevant assessment year a prescribed amount depending on its undistributed profits and reserves. The amount to be so deposited will consist of two parts (1) one part being a certain percentage of the amount by which the retained profits of the previous year available before deduction of depreciation and development rebate but after deduction of income and super tax payable and dividends declared exceeds the sum of one lakh of rupees. (2) the other part being a prescribed percentage of accumulated profits and reserves which are not represented by fixed assets in the business.

Such a scheme of compulsory deposits of a portion of the accumulated profits and reserves of industrial companies will oblige them to take recourse to the banking system for that part of their current finance which they were providing themselves out of their own liquid resources. At a time when the banks are already fully loaned up, this additional demand for accommodation will put them under a severe strain. The deposits are no doubt refundable wholly or partly in such cases where the Government is satisfied that the refunded amount will be used in business for "approved" purpose. But it is well-known it will mean a tremendous delay to obtain the Government's approval for release of funds and many inquisitorial enquiries may have to be faced. In the circumstances the industrial concerns will prefer to rely on the banking system.

Changing Character of Deposits

Recent developments during the busy season of October 1955 March 1956 have highlighted this problem of adequacy of bank credit. During March 1956 there was a net rise of scheduled bank credit by Rs 64.1 crores as compared with Rs 25.8 crores in March 1955. The expansion during the busy season (October 15, 1955 to March 30, 1956) amounted to Rs 172.4 crores as against Rs 97.5 crores in the preceding season (October 1954-March 1955). A significant feature of this rising trend of bank advances is that it has not been accompanied by a sizeable increase in the resources of the banking system. The net deposit liabilities of the scheduled banks increased from Rs 899.42 crores in 1954-55 to Rs 1003.54 crores only in 1955-56. In January 1957 they reached Rs 1110.30 crores. Not only the rate of increase of deposits has been slow, but the increasing trend has not also been

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The monthly break-downs of deposit figures reveal declines of deposits in several individual months. In February 1956 net deposit liabilities fell by Rs 2.03 crores to Rs 1037.29 crores from Rs 1039.32 crores in January 1956. In March 1956 again they fell by Rs 7.79 crores to Rs 1029.50 crores as compared with the previous month.[12] As a result the advances-deposits ratio shot up from 67.0 per cent at the end of February 1956 to 73.0 per cent in March 1956. The increased demand for credit is being met by the banks through borrowings from the Reserve Bank, by drawing down their cash reserves and by selling out their investments. Their net borrowings from the Reserve Bank rose by Rs 24.3 crores to Rs 65.1 crores as against the rise of only Rs 11.5 crores in the preceding month and their investments in Government securities fell by Rs 15.4 crores as against Rs 8.1 crores in March 1955.

The investments-deposits ratio declined from 36.2 per cent at the end of March 1955 to 34.2 per cent. The cash ratio also declined from 8.4 per cent in March 1955 to 8.1 per cent in March 1956.[13] It is interesting to notice in this connection that the commercial banks in the USA have been recently faced with a persistent heavy demand for funds from the private sector. The banks are meeting the increased demand for credit by selling Government securities and by increased borrowings from the Federal Reserve Banks. Holdings of Government securities have fallen by $ 5 billion and member bank indebtedness has shown a marked tendency to rise in the USA.[14]

Enhanced Demand for Credit

During the busy season of 1956-1957 the enhanced demand for bank credit has aggravated the problem of bank finance still further. The credit-deposits ratio had already risen to 70.21 per cent in October 1956 as compared with 57.98 per cent in October 1955.It further rose to 71.12 per cent in December 1956 and to a peak of 73.27 per cent in January 1957. The resources of the banking system appear to be clearly inadequate to satisfy the rising demand for funds. A further raising of the advances deposit ratio would clearly be an unsound policy especially in the context of the current security pattern of the banks' advances. During the last two years 1954 and 1955 the liquid character of the advances has tended to deteriorate remarkably. While the percentage of advances secured by real estate rose from 4.6 per cent in 1953 to 21.3 per cent and 20.4 per cent in 1954 and 1955, the proportions of advances secured by Government securities fell from 8.5 per cent in 1953 to 0.7 per cent in 1954 and 0.6 per cent in 1955, and those secured by merchandise declined from 46.1 per cent in 1953 to 18.1 per cent in 1954 and 20.7 per cent in 1955.[16] Neither the cash ratio nor the investment-deposits ratio can be reduced further. In the circumstances the main source of credit in the busy season would have to be the Reserve Bank.

Loans to the banking system against the pledge of Government securities will have to be on an increasing scale. Open market purchase operations will be likely to aggrevate the inherent inflationary forces and may have to be restricted. The bill market scheme will have to be liberalized further. The scheme has already begun to impart greater flexibility to the money market. It has grown so popular that the Reserve Bank raised its lending rate under Sec. 17 (4) (c) of the Reserve Bank of India Act from 3 per cent to 3¼ per cent from March 1956 and withdrew the concession on the stamp duty.[17]

Rural Savings: the Solution

The real solution of the problem, however, lies in the increase in the resources of the banking system. A large amount of money tends to remain in the pipe line. With the development of rural areas and rising money incomes of the rural people large amounts of cash are likely to be absorbed which may not readiiy come back to the banking system. Banks have no suitable agency for mopping up the rural resources at present. An all out effort should be made to tap the savings of the rural people and to bring them back into the fold of the organised banking system. A large amount of money, consisting inevitably of currency, is also lying in hoards in the shape of concealed income. Mr Kaldor has estimated the amount of income tax lost through tax evasion to be of the order of Rs 200—300 crores.[18] That gives us an idea of the extent of the fraudulent concealment of income.

The possibilities may be explored of the device of "bearer bond issues" for tapping this hidden money and bringing it back to the banking system. A well known banker had sometime ago suggested the adoption of a scheme of "bearer deposits" and "bearer certificates" to meet the hoarding habit of the illiterate and ignorant people. Provided no questions were asked, the issue of "bearer bonds" is also likely to induce the return of the concealed income to the banking system. Through the more widespread extension of branch banking and through a greater degree of organization in marketing, warehousing and other trading activities throughout the country the deposit component of the money supply may also be increased to some extent.

Restrictive Monetary Policy

A reference may be made in this connection to the question of the adoption of a restrictive monetary policy by the Reserve Bank in view of the potential threat of credit inflation. In recent months the Federal Reserve System, confronted with a rising trend of bank advances under the pressure of a continued heavy demand for funds has followed a policy of restraint and raised the discount rate 1|4 percentage point to 2.3|4 per cent at 10 Reserve Banks and ½ percentage point at the other two.[19] Should the Reserve Bank adopt a policy of mild restraint and raise the Bank Rate? Or should the Reserve Bank take recourse to the device of the variable reserve ratio, with which it has been armed recently. The rate of interest on bills of exchange under the bill market scheme is theoretically 3½ per cent. As the stamp duty has been increased, it works out in practice at 4 per cent. In the circumstances the Bank Rate has been virtually revised.

Selective Credit Control

The Reserve Bank has not announced a raising of the Bank Rate straightaway only to avoid its repurcussions over the psychology of the people. In view of the far-reaching repurcussions that the variable reserve ratio is capable of producing, unless its application is hedged round by various restrictions, it would not be advisable for the Reserve Bank, inexperienced as it is in the handling of the instrument, to resort to it at the present moment when the Second Plan is unfolding itself and a high degree of stability in the money market and of confidence in the private business sector is called for. Reliance should be placed to

the tendency of personal savings to be accumulated in the form of fixed savings deposits. Such deposits represent relatively longer term resources and have come to be regarded both by the banks and the authorities as funds which can be appropriately employed in longer term investments. In underdeveloped countries banks, as already noted, have been expressly permitted by the banking laws to furnish term loans upto three years, and even beyond that period, to agriculture and industry. In several Latin American countries commercial banks are also extending medium term and long term credit to industry either directly or through the official entities such as the Development Corporations. In Brazil and Chile they have combined commercial with investment banking functions. In Mexico under the banking law of 1949 steps were taken to secure increased participation by commercial banks in the financing of industries, but restrictions have been imposed on the total of such loans and investments.

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Money Supply and Bank Credit

Since the impact on money supply of a budgetary deficit is the opposite of that of a balance of payments deficit, the expansion in money supply during 1956-57 was much smaller than in the preceding year.

The extension of bank credit in the private sector was nearly of the same order as in 1955-56. But there was a change in the composition of the credit. In 1956-57, apparently a larger proportion of expansion was through advances against capital goods and raw materials.

THE magnitude of variations in money supply and bank credit during the last one year reflects two fundamental developments in the economy, namely, a large budgetary deficit and an unprecedented heavy deficit in balance of payments. Both the phenomena are directly attributable to the rising tempo of investment activity in the economy, as part of, and induced by the Second Five Year Plan, which is so much larger than the First. Since the impact on money supply of a budgetary deficit is the opposite of that of a balance of payments deficit, the expansion in money supply during the financial year 1956-57 was much smaller than in the preceding year, being Rs 118 crores as compared to Rs 264 crores (see table). It is interesting to note that the major part of the expansion in 1956-57 occurred in deposit money in contrast to the usual trend. Whether this was connected in anyway with the mode of financing of the balance of payments deficit or not, it is difficult to say.

The deficit in the balance of payments during the year, as measured by the decline in the Reserve Bank's Sterling assets (without taking credit for the purchase of Rs 61 crores from the I M F), amounted to Rs 280 crores. In 1955-56, there had actually been a surplus of Rs 16 crores. On the other hand, budgetary deficit was much larger than in 1955-56. Budgetary deficit is taken here roughly as Reserve Bank lending to Government, comprising mainly the Reserve Bank's additions to its rupee securities (mostly ad hoc Treasury bills), with suitable adjustments for variations in Government's balances with the Reserve Bank, loans and advances by the Reserve Bank to Government and finally the commercial banking system's investment in Government securities. According to this definition, the deficit in 1956-57 amounted to Rs 208 crores as against Rs 184 crores in 1955-56. These figures are, however, calculated with reference to the Reserve Bank's weekly statement which relates to the last Friday of the year and not to the last day of the financial year.

The concept of budgetary deficit as used by the Finance Ministry, however, is somewhat different from what has been given above. According to the Finance Ministry, the budgetary deficit is equivalent to the creation of Treasury bills with suitable adjustment for variations in Government's cash balances. On this definition, the deficit for 1956-57, of the Central Government, is estimated at Rs 216 crores as against Rs 160 crores in 1955-56. Corresponding data for the State Governments are not available as not all the State Governments have yet presented their final budgets. But judging from the decline in their balances with and their borrowings from the Reserve Bank, it would seem that the

VARIATIONS IN MONEY SUPPLY AND RELATED DATA

(Rs crores)

	Variations during the financial year 1955-56 (Mar. 26 to Mar. 30)	1956-57 (Mar. 31 to Mar 29)	March 1957 to June 21*	Outstanding as on June 21, 1957	Outstanding as at end-June 1956	Variation over the year end June 1957
1 Money supply with the public						
(a) Currency with the public	+ 193	+ 45	+ 26	1,577	1,511	+ 66
(b) Deposit money	+ 70	+ 72	— 2	749	681	+ 68
(c) Total money supply (a+b)	+ 264	+ 118	+ 24	2,326	2,191	+ 134
2 Central Government's deposits with the Reserve Bank of India	+ 8	— 3	— 11	54	57	— 3
3 State Governments' deposits with the Reserve Bank of India	+ 2	— 30	— 30	2	13	— 10
4 Foreign assets of the Reserve Bank of India	+ 16	— 219	— 63	464	682	— 218
5 Rupee investments of the Reserve Bank of India	+ 173	+ 280	+ 121	1,127	752	+ 375
6 Loans and advances to Governments by the Reserve Bank of India	— 1	+ 8	+ 16	24	2	+ 22
7 Banks' time liabilities (net)	+ 43	+ 61	+ 75	608	511	+ 97
8 Bank credit	+ 148	+ 155	+ 21	1,004	831	+ 173
9 Banks' investments in Government securities	+ 21	— 13	— 14	371	387	— 16

*Data relate to scheduled banks only.

State Governments also had a sizeable deficit in 1956-57.

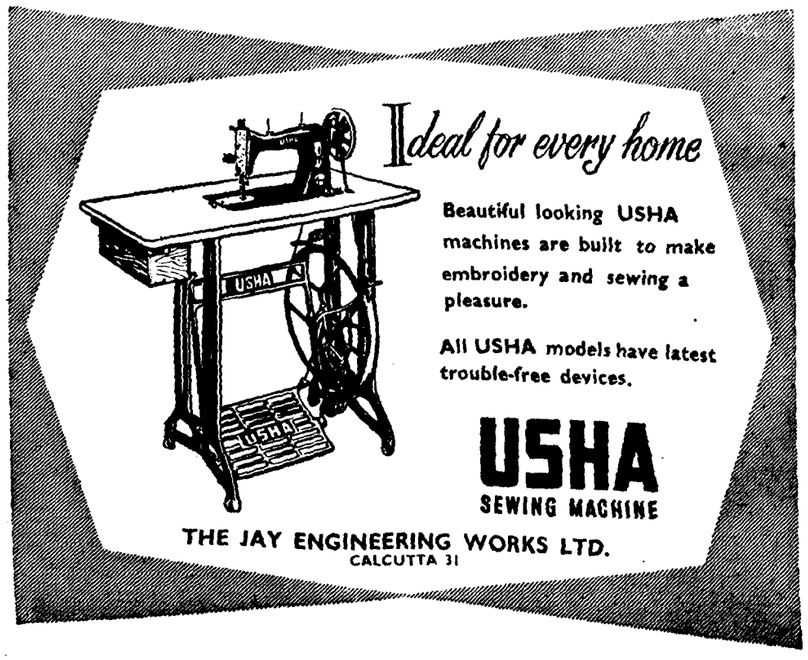
The extension of bank credit in the private sector was more or less of the same order as in 1955-56, namely, around Rs 150 crores, though there was a change in the composition of the credit. In 1956-57 apparently a larger proportion of expansion was through advances against capital goods and raw materials.

In the first 3 months of 1957-58, both budgetary deficit and balance of payments deficit have continued to assume considerable proportions.

For the year ended June 1957, the foreign assets of the Reserve Bank declined by Rs 218 crores, even after obtaining short-term credit for about Rs 100 crores from the I M F. During the same period the Reserve Bank's rupee investments (in the issue and Banking Departments taken together) have gone up by Rs 375 crores and bank credit to the private sector by Rs 173 crores.

In spite of these large increases in bank credit and money supply, the economy has been experiencing acute financial stringency. This has been reflected in a rise in the general pattern of interest rates. Notwithstanding substantial increase in the deposit resources of scheduled banks (contrary to prevailing impression generally), they increased their borrowings from the Reserve Bank, the outstanding sum exceeding Rs 100 crores by the end of March 1957. There has since been large-scale repayment, of course but as against this, the banks have also been continuously selling Government securities, presumably by way of preparation for the next loan issue of Government. The advances-deposits ratio of banks has continued to remain very high around 75 per cent as compared to about 70 per cent a year ago; the investments-deposits ratio has come down by about 7 points to 27 per cent. Another significant banking trend is the relatively larger increase in time liabilities, which is probably due to the prevalence of higher rates on time deposits, but is difficult to reconcile, at sight, with the prevailing high level of investment activity.

In view of the signs of strain in the economy, in particular the continuous rise in prices for about two years, (the Economic Adviser's general index of wholesale prices is now 438 as compared to 340 two years ago) and the enormous drain on foreign exchange reserves, effort has been made to pursue a disinflationary policy on the monetary and fiscal fronts. The Reserve Bank in the course of the last one year has raised its lending rate by ½ per cent in the case of Government securities and by nearly 1 per cent in the case of usance bills (taking into account the enhanced stamp duty). Selective credit controls have also been imposed in respect of advances against food grains, cloth, shares and lastly sugar. Finally, the Bank has advised the scheduled banks to bring about a positive reduction in the level of bank credit so as to relieve their own burden and in particular to reduce their dependence on the Reserve Bank for accommodation. On the fiscal front, action has been taken to raise a much larger volume of resources through taxation and small savings. As a result of the tax proposals introduced in the 1957-58 budget, the overall deficit for the year is expected to be reduced from the original figure of Rs 365 crores to Rs 275 crores. The State Governments, however, have done pretty little to raise resources.



Development of Electricity

R P Aiyer

Economic development in the modern world has become so intricately entwined with the availability and use of electric power that the shortage of one seriously affects the development of the other. The Five-Year Plans have laid great emphasis on power development; indeed it constitutes an important element of the "hard core" of the Plan and the future pattern of growth of the electric supply industry has been well defined.

THE factors contributing to the growth of the electric supply industry have been the widening applications and new uses of electricity. This pattern of growth is expected to continue during the years to come, and demand is expected to double at least during the next three Five-Year Plan periods.

The effect of this development will be a broadening of the economic base. It is an industry, however, where no matter how optimistic may be the forecast in demand, actual results have tended to exceed the expectation of experts. In fact the growth pattern in future years may be such that the hindsight a few years from now may well show that what was considered optimistic in 1957 was a niggardly under-estimation.

Future Sources

With the increase in energy requirements, what would be the sources from which large blocks of power would be obtained? The country's hydroelectric potential capable of economic development has been estimated at 35 million kW. A similar quantity of power could be tapped from the Brahmaputra loop, but the locations of many hydro sites being away from load centres, it will make power from them comparatively costly.

Thermal stations using coal as fuel now form the backbone of many power systems in the country, and their expansion, as also installation of new stations at suitable centres, is an integral part of power development policy.

For some years to come, India's power needs will continue to be met by conventional power generation methods, viz, from hydro sources or from fossil fuels, and as economic sources of hydro-electricity decrease, and demand for power increases, in areas away from coal fields nuclear generation should come to redress the balance. Also, in spite of the various multipurpose river valley projects maturing, a sizeable portion of the country's energy requirements will continue to be met by thermal generation. During the period 1951-1955, the output of energy by steam plant has been well ahead of hydro generation. While hydro generation has been stepped up from 2859.698 million kWhrs in 1951 to 3,742.238 in 1955, thermal generation has maintained its lead with a figure of 4,618.863 million kWhrs in 1955 against 2779.059 million kWhrs in 1951.

The development of nuclear energy is now definitely accepted as the answer to many of the western countries fuel shortage problem, and India embarking on an ambitious industrialisation programme cannot afford to neglect this modern genl. The arrival of nuclear energy as a supplementary energy source is to be devoutly wished for and the country's power planner should also pay some attention to this development, instead of leaving it altogether to atomic scientists.

Regional Development

With the country's development based on a planned economy, power expansion has rightly been given a regional emphasis. The Damodar Valley Corporation's projects are examples as to what integrated development can achieve in a river valley, regardless of State boundaries. The grouping of States into zones which could be developed on regional basis has therefore become a matter of more than economic importance.

Movement of large blocks of power from generating sites to load centres is an important aspect of regional development, and work on interlinking the power systems in the Southern zone (already so interlinked to some extent) is expected to commence shortly.

Capital Intensive

The capital requirements of the electric supply industry is a factor which has to be appreciated in assessing the importance of the industry in the nation's economy. In 1953 the total investment was of the order of Rs 210,49 lakhs (of which the private sector's share was Rs 98,69 lakhs); at the end of 1954, it rose to Rs 268,26 lakhs (share of private sector Rs 107,01 lakhs). This forcefully underlines the extent of new capital required year after year.

It is a curious paradox that measures taken to tighten the costs and flow of money as a curb on inflation produce an adverse effect on costs, and this is particularly so in the regulated segment of the industry comprising the investor owned utilities. The problem is further aggravated because plant investment is very high in relation to sales turnover.

Fair Regulation

From these points of view, the rise in the cost of money in recent months, while it has to be philosophically accepted, has posed a number of problems, the main ones being difficulty of raising finance for development and the decline in equity values. The problems are interlinked, and the situation could only be eased by permitting the electric supply industry to maintain a favourable relationship between investment, productive capacity and revenue, so that net earnings could be kept at a level that attracts investment in a highly competitive capital market.

The problems therefore project themselves into the field of regulation, making it necessary for the regulatory process to attune itself to the needs of the situation. The country's economic growth, and consequent increase in the people's standard of living are largely bound up with the pace of industrialisation and this pace is best set or marred by growth in power development.

As the future unfolds, there is no reason to doubt about the capacity of the electric supply industry to meet the obligations cast upon it. This, however, will be doubly assured if the pattern of regulation marches in step with the needs of the industry.



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Stock Exchange

Deficit Financing Played Out

The Stock Exchange cannot be regarded as a dependable barometer of the country's economic weather in a controlled economy.

Aggregate savings of the community are growing under the impact of rising development expenditure but they are not having any visible effect on the volume of funds available for employment on the Stock Exchange for speculative purposes.

Is it not high time for the Stock Exchange to start thinking how best it can adjust itself to the changing institutional set-up?

"WHAT difference does it make for me or for that matter to anybody if shares go up and down?" asked Shri T T Krishnamachari in a valedictory address to the Commerce Association of the Vivekanand College in February. Surely the Finance Minister could not have been very serious when he asked that question. For, that would imply that the stock market was more of a gambling den where the up and down movements in shares concerned only bulls and bears who were trying to live merely by fluctuations.

It is true that the stock market cannot be regarded as a dependable barometer of the country's economic weather in a controlled economy. But New Delhi's socialism continues to have an important place for the private sector. And stock exchange trends matter quite a good deal for the private sector. Normally it is easier to raise capital when the stock market is in good temper. Of course a declining trend in equity prices is not incompatible with a growing economy. Economic development can take place even without a stock market but that stage has not been reached in India.

It would be rash to suggest that equity prices do not reflect the fluctuating fortunes of industry. For, even a casual glance at the indices for variable dividend securities for Bombay, Calcutta and Madras over a period of years will convince any one that the movements in these regional indices broadly reflect the changing fortunes of textile industry, jute and coal and plantings. The relative movements in the variable dividend securities for different industries indicate that these industries have not been marching in step.

To consider that the changing fortunes of an industry have an important bearing on the course of prices of shares of that industry is not to suggest that fiscal and monetary measures and political climate cannot seriously deflect the course of equity prices. The behaviour of Indian Iron (Clive Street's barometer) has an important lesson. These shares have been declining for long despite the company's impressive performance. Why? Because the Government is unwilling to allow the shareholders to share increased profits until the company has completed its expansion programme and discharged all its obligations to the Government and the World Bank. It is true that the company is becoming financially stronger, thereby increasing the intrinsic worth of its shares. But what is that to the shareholders? Where is the guarantee that this basic industry will not be nationalised before the shareholders are allowed to benefit from larger profits? Dividends may be strictly controlled in future.

Inevitable Fall

Dalal Street's performance provides the basis of discussion of stock market trends in these columns every week. Trends in Calcutta and Madras are not very different but those markets have their own peculiar problems and it is not possible to deal with them in this small article. Equities have been declining since about the last week of August 1956. The table overleaf gives an idea of the huge depreciation in share values between August and May. This has led the stock exchange fraternity to talk about crisis of confidence and T T K has been blamed for this "crisis".

But the decline was inevitable. For nearly three years Dalal Street had been gambling heavily on the inflationary implications of deficit financing under the First Plan. By about August, equity prices had been bid up to levels which reduced yield on first class issues to barely three-and-a-half per cent when call money fetched that much. Equity prices were marked up despite the declining profit margin, as indicated by the relative movements in the index numbers for prices of industrial raw materials, manufactured goods and food articles. Between September 1955 and August 1956 the price index for manufactured articles rose only by 22 points from 368 to 390 while the index for industrial raw materials advanced by 114 points from 392 to 506 and that for food articles rose by 96 points to 402.

"Crisis of Confidence"

Guardians of shareholders' interests and champions of investor's cause, who are now playing up the "crisis of confidence" and are cursing the Finance Minister for his taxation measures to finance the Plan, took no serious notice of the speculative rise in equity prices to levels which had reduced the yield to even below the Bank Rate. They did complain about the continued stringency in the money market and also expressed their dislike for New Delhi's socialism but they did not care to draw investors' attention to the speculative boom in prices.

One does not have to conduct a very searching inquiry to conclude that speculative activity provides the mainstay of Dalal Street. Genuine investment business handled by the stock exchange is hardly sufficient to enable fifty brokers to make a living. The volume of speculative business has been steadily declining in recent years because political and fiscal trends are not conducive to the accumulation of big private fortunes. Although so much is often heard about the small middle class shareholder constituting the backbone of joint-stock enterprise, he has never been considered an important client by a stock-broker. Not many brokers care to woo the small investor and

Power to Grow Electrically

A Nation's onward march is a travail necessitating constant widening of its citizens' opportunities for advancement. In other words the watchword is to grow. Growth is a challenge and its life blood is electricity flowing through the arteries of industrial plant and distribution systems serving the people in diverse ways.

The Electric Supply Industry organized through the Federation of Electricity Undertakings of India are endeavouring to meet the challenge of India's growth by making available electric power as economically as possible.

few of them are really competent to guide him.

End of Bull Market

To come back to the story of fluctuations, the three-year-old bull market came to an end in August 1956. The decline between August and November was regarded generally as an important correction of the preceding upward trend. The cloth muddle following the excise duty rise in September did cause serious misgivings about the outlook for the cotton textile industry but it was only the sharp break in equities after the Supplementary Budget on November 30 that market commentators began to think seriously in terms of a change in the major trend.

As sentiment deteriorated with the decline in prices, Dalal Street began to show increasing awareness of acute monetary stringency which compelled the authorities to raise the official lending rate and necessitated an upward revision of market ideas about yield on industrial shares. Few had bothered about yield in a rising market, because of gains from capital appreciation. The stock market may not have found much difficulty in reconciling itself to the Capital Gains Tax and enhanced Dividend Tax but it was scared by the compulsory deposit scheme, which is not merely intended to prevent frittering away of reserves by the companies but also to direct industrial development in the private sector along particular lines.

Sharp Rebound

The downward trend in equities, which started in August 1956, came to an end with a panicky sell-off on May 16, a day after T T K had disclosed his taxation measures. Dalal Street never had any serious doubts about T T K's firm determination to raise domestic resources to the maximum for financing the Plan. Wealth Tax and Expenditure Tax had been anticipated even in the previous year but few had imagined that companies would also come within the purview of Wealth Tax. An increase in bonus tax had been generally forecast but the rise was more than most market men had bargained for. Increase in corporate taxation outweighed concession in dividend tax and earned income relief.

Errors of optimism and pessimism account for the periodic swings in stock prices against the primary trend. Technical forces assert themselves when the major trend has been in progress for too long. Bears had been dominating Dalal Street for nearly nine months. They exploited New Delhi's socialism almost with a vengeance. T T K's taxation measures came in very handy. That the technical position had become extremely vulnerable became evident when the Life Insurance Corporation entered the market soon after the May-Budget shake-out.

Whether the Life Insurance Corporation's selective support was intended to restore confidence in the investment market, it is difficult to say. But it did help to stem the rot because it came at a time when technical considerations favoured recovery. Bulls had been watching carefully the steady improvement in the technical position of the market. They became aggressive when the Finance Minister told representatives of the business community that New Delhi was anxious to encourage private enterprise, which had a very important role to play in the Plan.

Blissfully Vague

Shri Krishnamachari was also reported to have said that compulsory deposit scheme and excess dividend tax were temporary expedients and that there was scope for refinements and modifications in wealth tax and expenditure tax. Take away the compulsory deposit scheme, excess dividend tax and wealth tax on companies; there will be a boom on the stock exchange. Dalal Street's remarkable buoyancy in recent weeks, therefore, may not seem surprising. But Dalal Street's reaction to the Finance Minister's talks with business men in Calcutta and Bombay seems impulsive. It is true that T T K spoke in a very conciliatory tone but he made no promises. All that he said was blissfully vague.

PRICE TREND ON STOCK EXCHANGE

Name of the Co	Highest in 1956	Pre-Interim Budget Closing on 30-11-56	Closing on 1-12-56	Pre-Budget rates on 15-5-57	Next Day of Budget Lowest on 16-5-57	App. Fall in percentage on the basis of highest in 1956
Tata Ordy	216.00*	192.50	180.75	165.75	146.00	32.35
In Iron	39.16	34.03**	31.44**	19.50*	16.55	48.00§
Tata Loco	185.00	171.00	158.00	150.00†	134.50	27.00
Alcock	385.00	318.75	301.25	256.25	240.00	38.00
In Copper	7.59**	4.19*	3.50	3.42†	3.12	37.50§
P Const	224.00	212.50	191.50	149.00†	134.50	40.00
B Dyeing	702.50	625.62	586.87	531.00†	491.00	30.00
Century	609.50	550.50	510.50	444.00‡	390.00‡	36.00
C I Spg	171.00	132.50	128.50	111.00	102.00	40.00
Finlay	385.50	338.00	316.00	276.00†	262.00	32.00
Indu Ordy	14.56	12.19	11.62	9.95†	9.45	35.00
Kohinoor	402.00	345.00	323.50	316.50†	292.00†	27.35
N Rayon	276.25	262.25	248.00	222.50‡	198.00‡	28.00
Simplex	229.00	195.50	185.00	168.50	160.00	30.00
Standard	500.00	476.25	445.00	415.00‡	374.50	25.00
Svadeshi	277.00	253.50	236.00	211.25‡	197.25‡	29.00
Scindia	19.69	19.19	18.12	18.25†	16.60†	15.70
H Motors	10.81	9.19	8.69	7.15	6.70	38.00
P Auto	118.00	114.50	103.00	90.00†	85.00	28.00
A C C	226.50**	194.75*	185.00	158.75†	142.00	28.75§
Belapur	356.00**	257.50	245.00	220.00†	205.00	16.00§
B Burma	800.00	701.25	633.75	548.00†	485.00	39.35
B I C	13.20	10.22	9.69	6.30	5.85	55.70
B B Petrol	4.59	3.25†	3.00	2.58	2.34	49.00
Tata Chem	20.90	19.59	18.37	16.35†	15.25	27.00

*—XR **—CR †—XD ‡—CD §—On Ex-right basis.

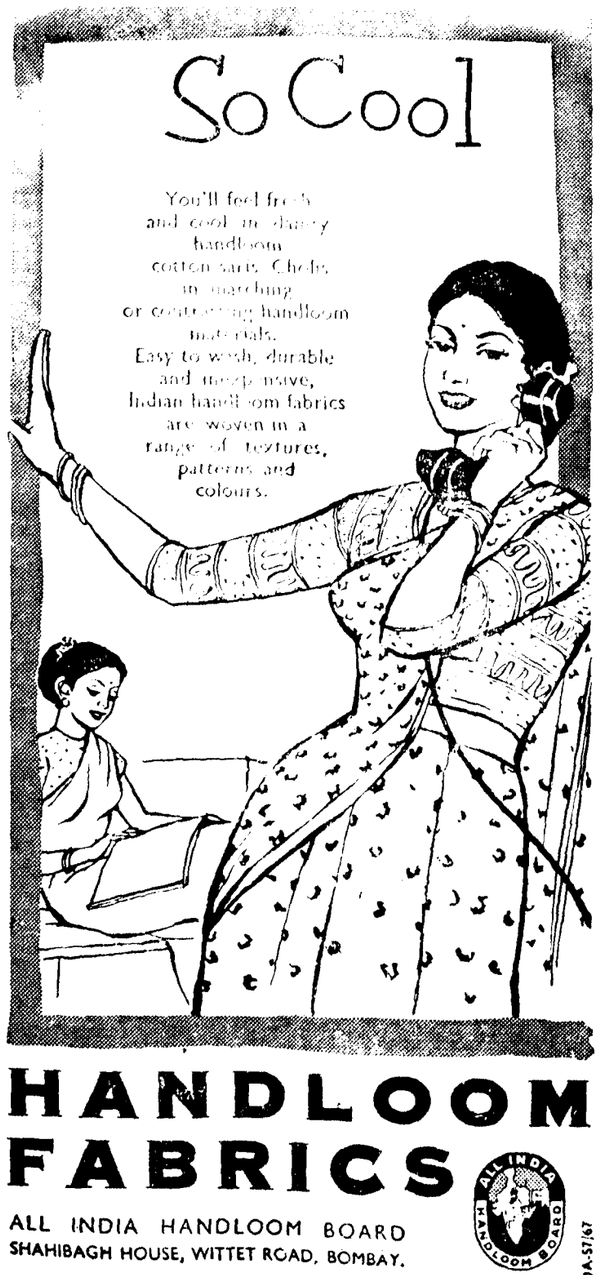
Dalal Street, which had been parading the acute crisis of confidence for quite some time, has retraced nearly 40 per cent of the decline since August 1956 in barely three weeks. This is the magic of fluctuations. It would be unwise to assess the investment outlook on the basis of the Finance Minister's hint that the compulsory deposit scheme and excess dividend tax are temporary measures. As for modifications in the wealth tax, the Select Committee's verdict will be available in a few weeks. It is unlikely to meet market's expectations.

This is not to suggest however, that the recovery in equity prices after the Budget shake-out is unwarranted. Improvement is essentially technical and it would be idle to suggest that it reflects a change in the Finance Minister's attitude towards the private sector. The increase in retention prices of steel announced on July 1 is likely to have a further tonic effect on the market because of the popularity of Steel shares. Technical analysts think that Dalal Street is having a mark-up phase of a secondary rally. It is risky to forecast how a secondary movement will progress week after week.

Basic Change in Yield

Few observers expect Dalal Street to cross its August 1956 mark because of a basic change in yield ideas. Indian speculators are quite an aggressive lot and they can play havoc with prices once they gain control over the market. Even so, equity prices cannot be sustained for long at levels where they fetch even less than the Bank Rate. Monetary stringency has virtually come to stay. Bulls cannot derive much comfort from the inflationary implications of increased development expenditure because the banking authorities are determined to see that credit is not used for speculative purposes. Of course it is not easy to ensure the ultimate use of credit. There is no indication yet that price trends of food articles, industrial raw materials and manufactured articles are favourable for an increase in industry's profit margin.

Equities will continue to fluctuate. But the stock exchange is unlikely to regain its prosperity, despite the rising tempo of economic development under the Plans. It is not that stock exchange is not interested in the country's prosperity but it is even more interested in the methods adopted to bring about that prosperity. Aggregate savings of the community are growing under the impact of increasing development expenditure, but these savings are being progressively institutionalised. In any case they are not having any visible effect on the volume of funds available for employment on the stock exchange for speculative purposes. Is the stock exchange trying to devise measures to popularise and sell investment to the small man? It must, if it is not to remain merely a battlefield for bulls and bears.



Labour's Role in a Developing Economy

S D Punekar

Labour has to make a choice: It can either insist on its rights by making higher and higher wage demands, ignoring the development of the country, the well-being of the community, and the success of the Plan.

Or, while claiming its rights, it can perform its duties towards higher production, and fit its wage policy with the requirements of development, accepting the fact that the welfare of the nation demands some restraint upon its monetary benefits.

"Rights that do not flow directly from duty well performed are not worth having. They will be usurpations, sooner discarded the better".

—Gandhiji in **Harijan**, 6-7-1947.

INDIA is in the process of economic growth. Condemned to servitude for centuries, her economy till recently was geared to the band-wagon of another country, which exploited her for its own purpose. She was not allowed to develop her own basic industries and to utilise fully the productive potential warranted by the existing state of technical knowledge. Her backward economy was marked by such features as the concentration of ownership of land by a few rich people, growth of commerce and trade in respect of consumers' goods, excessive dependence on exports of raw materials, inadequacy of transport facilities, subsistence peasant economy and the development of consumers or semi-raw materials industries with substantial foreign capital. Her agriculture suffered from a large mass of landless labourers living below the poverty line, on the one hand, and prosperous intermediaries, absentee landlords and unscrupulous money-lenders, on the other.

After Independence, it became obligatory on the part of the State to devise ways and means to take the country on the path of economic development. The backwardness of our economy which had remained stagnant for the last few decades, offered a formidable challenge which had to be accepted. Out of this acceptance came the First Five Year Plan. It made proposals for initiation of institutional changes and for meeting certain urgent problems that had arisen out of the war and partition. It gave certain assurances to labour in recognition of its rights which had long been neglected. In return, it sought labour's co-operation in having more production. The Second Five Year Plan, though a continuation of the first plan, made the objectives of planning more clear. It affirmed that the benefits of economic development must accrue more and more to the relatively less privileged classes of society. The objectives of the plan were an increase in national income with consequent higher standard of living. rapid industrialisation, particularly of basic and heavy industries, large expansion of employment opportunities, reduction of inequalities of income and more even distribution of economic power. Labour, not only as a vital section of the community, but as the most important factor in production, is directly concerned in these objectives.

The plan's commitment to progress towards a socialist pattern of society follows the ideal for which our labour movement strived. It is, therefore, in the interest of our labouring classes to get the plan implemented successfully and to achieve their material well-being through such implementation.

Labour's Traditional Role

The labour movement and the trade union movement in India have grown as a response to the challenge thrown by the modern capitalist system. They have been a natural and inevitable reaction to the development of large scale industry. Modern industrialisation, with its impersonal character and loss of cordial relations between the manager and the managed created complex labour problems, which have been channelised through organised movements. Capitalist enterprise in India has naturally created a gulf between Capital and Labour, and this gulf has been widened so much during the course of industrial development that, at present, employers and employees are being viewed as two distinct classes with divergent interests. This divergence of interests has resulted in mutual distrust and suspicion, unhappy industrial relations, reluctance to negotiate on a voluntary basis and recourse to State machinery for settlement of disputes. Workers are not only not interested in higher productivity, but they do not mind obstructing the implementation of measures for higher production like rationalisation, production committees, work measurement studies, re-organisation of wage structure, vocational training schemes, production planning and control, simplification, standardisation and specialisation, proper maintenance of machinery and efficient plant lay-out. Workers' interests are mainly on the consumption side, as seen in demands for higher and higher wages and allowances, for more amenities, for less hours of work and for more rest-intervals. This has been the traditional role of labour, which has been strengthened by the concept of class-conflict. The worker demands a larger and larger share of the cake, without in any way striving for the enlargement of the cake. The employer has vehemently opposed this demand, because it cuts straightaway into his profits. This struggle of getting the maximum spoils with minimum effort has adversely affected industry and, consequently, its two partners—Capital and Labour.

Labour's New Role

The traditional attitude of labour of demanding an increasing share in the produce, without increased production, must be modified, if the country is to progress on the path of economic development. The traditional role of labour as an adversary to capital in the field of industrial relations may prove a serious hindrance in the process of economic growth. The concept of class-conflict has to be

given up for that of class-collaboration. Labour and Capital are to be considered as equal co-partners in industry and as such should claim similar rights and perform similar duties in the development of industry. The interests of the industry and of the nation should have priority over class interests, either of the workers or of the employers.

India's urgent need of the day is rapid and balanced economic development which necessitates more production, more money for investment and more employment. Both labour and capital have to contribute their mite towards this development and it may be necessary for both of them to lay some restraints on themselves—on wages and on profits. The changing nature of industrial and economic problems in an expanding economy necessarily shifts labour's emphasis from consumption to production—from simple problems like wage increase and better working conditions to complex problems relating to distribution of national income, productivity, technological change, reduction in inequalities of income and distribution of economic power. Demands for betterment of working and living conditions of wage-earners should be fitted into the economic development of the whole nation and should not come in its way by causing financial and industrial unrest. Any increase in workers' share in consumption through higher wage demands, without corresponding increase in production, would only stimulate inflation and hamper economic growth.

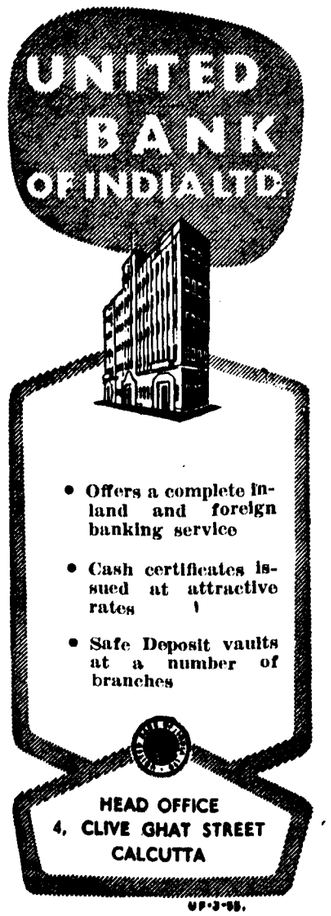
Pre-requisites

It may be necessary to fulfil certain pre-requisite conditions, before Labour is asked to make some sacrifice for the sake of national development. Firstly, the living conditions of an appreciable proportion of workers, who are at present living below the mean subsistence line, must be raised at least to the minimum accepted level of living. Secondly, minimum standards of social security and welfare should be embodied in legislation and implemented in action. Thirdly, employers' profits should be adequately taxed to make available an appreciable amount for ploughing back in industry. The Second Plan proposes to reduce inequalities in income through progressive adaptation of the tax system, though in actual practice the system appears to be regressive, as evident from the latest budget measures. Fourthly, the role of employers should be suitably modified to fit in with the changing problems of economic development. They should treat employees as co-partners in industry and should be willing to negotiate with them in a free and cordial atmosphere. All measures leading to higher productivity, including workers' participation in management, joint machinery, healthy trade unionism, training and propaganda, should be actively pursued. The employers should also put restraints on profits. Lastly, the State's policy in labour matters should be re-oriented. State intervention in labour matters should be avoided, except in emergent conditions and the State should normally concern itself with merely providing the machinery within which both the parties can function effectively. The State should also implement a progressive labour policy in the public sector.

National-minded labour leadership has to play an important but difficult persuasive role in convincing the workers that they have a responsibility towards the national economic system as a whole and that it is in their interest that this system should be prosperous, so that with increased production as a basis for still further improvements in the living standards, the cake to be distributed for consumption may be enlarged. This does not come in the way of the traditional objective of labour organisations to get higher wages for their members, but this objective should better be achieved from the production side rather than from the consumption side, i e, by co-operating with the employers and the State to secure an increase in production. This co-operation is necessary to give to the workers their proper share of benefits of increased production and to raise their real wages and living standards. It may also be necessary to check technological unemployment caused by profit-seeking employers.

Conclusion

Labour has to make a choice: It can either insist on its rights by making higher and higher wage demands, ignoring the development of the industry, the well-being of the community, the prosperity of the State and the success of the Plan; or while claiming its rights, it can perform its duties towards higher production, and fit its wage policy into the general interests of the people, accepting the fact that the welfare of the nation demands some restraint upon its monetary benefits. The first is the traditional role, popularly accepted. The second is the new role, modified according to the necessities of economic development of the country. It does not prevent the worker from pursuing his economic interests, but only urges that these interests can have a priority only after the national interests. It expects the worker to do his duty towards the nation, before he puts up his claim for his rights.



Bombay Fort Office :
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Company Meeting

The New India Assurance Company Limited

Speech of the Chairman, Mr Ambalal Sarabhai

ADDRESSING the Shareholders at the Thirty-Eighth Annual General Meeting of the New India Assurance Company Limited, on 26th June, 1957, Mr Ambalal Sarabhai said that 1956 had been a very difficult year for the Indian General Insurance business. Nationalisation of Life Assurance gave a rude jolt to the base of every composite company leading to a severe dislocation of the entire organisational set-up. A complete reshuffle of the organisation and realignment of the administrative patterns was an uphill task for all the units, but particularly so for those with a large Life portfolio—like the New India.

Mr Ambalal Sarabhai observed that in order to explore and utilise the vast potential which existed in the field of General Insurance in India, it was absolutely imperative to have a well-organised and integrated General Insurance Market, composed of strong indigenous units, having high administrative standards and capable of rendering efficient service. The procuration cost had also to be brought down so that premium rates could be made more attractive. The Industry had made vigorous efforts, through self-discipline and self-denial, to eliminate wasteful competition. Till now, reliance was mainly placed on publicity and fear of public criticism but without satisfactory results.

Revised Code of Conduct

The Executive Committee of the General Insurance Council, therefore, introduced a revised Code of Conduct, earlier this year. Mr Ambalal Sarabhai thought that if the Code were properly supported by the members and enforced by the Executive Committee, it should put the General Insurance Industry in India on a sound and healthy basis.

The basic idea behind the Code is that rebates should stop, and procuration and administrative costs should be reasonable and within legal limits.

Record Premium Income

Reviewing the working of the Company, Mr Ambalal Sarabhai expressed his satisfaction that the Premium income of the Company touched a new high at Rs 5.64 crores in 1956, representing a marked improvement of about Rs 66 lacs over the previous year. This, he felt, was particularly commendable in view of the fact that operations of the Company were adversely affected by the nationalisation of Life business, which completely disrupted its organisational set-up, and other factors like the reduction in premium rates for two consecutive years, and loss of more and more business to the Pool and Syndicates. The Miscellaneous Department played an outstanding part in stepping up the Premium income of the Company in 1956. Its Premium income, at Rs 1.44 crores, showed a marked rise of Rs 35 lacs, as compared to a rise of about Rs 15 lacs recorded by both the Fire and Marine Departments.

Disbursements

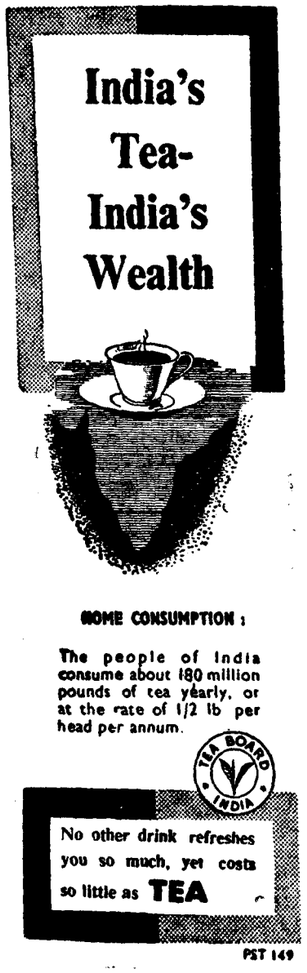
On the disbursement side, claims increased by 1.7 per cent to 50.6 per cent, while Commission, Expenses and Tax Ratio remained constant at 38.0 per cent. The profits, inclusive of interest earnings of the Departmental Funds, amounted to Rs 43.9 lacs, maintaining the level reached in 1955. As a result of the year's operations, the Departmental Funds stood at Rs 4.45 crores as against Rs 4.11 crores in the preceding year.

The overall result of the operations in 1956 led to a further strengthening of the financial resources by Rs 52.9 lacs. The Capital and Reserves stood at Rs 7.60 crores.

Compensation

Referring to the compensation available to the Company under the Life Insurance Corporation Act (Rs 48,72,443) and under the Life Insurance (Emergency Provisions) Act, (Rs 1,50,983), Mr Ambalal Sarabhai said that the Company had referred the compensation under the Life Insurance Corporation Act to the Tribunal constituted under the said Act. He felt that the Company was also entitled to higher compensation under the Life Insurance (Emergency Provisions) Act. Regarding the issue of one fully paid-up bonus share of Rs 15/- for every three shares held, he informed the Shareholders that the Directors were pursuing the matter with Government.

Note :- This does not purport to be a record of the proceeding of the annual general meeting.



Patterns of Communication

Communication of Modern Ideas and Knowledge in Indian Villages by Y B Damle.

Indian View of China before the Communist Revolution by 'Hindi-Cheeni' in collaboration with D Maba Bai.

The Journalist in India by Krishnalal Shridharni in collaboration with Prakash C Jain.

Unemployment among the University Educated by D N Majumdar assisted by S K Anand.

"IS communication a one-way process? Is it two-way? If so, what are the factors which make it so?"—This is the vital question which Mr Damle raises at the end of his study on 'Communication of Modern Ideas And Knowledge in Indian Villages'. He claims that certain broad conclusions emerge from his study of seven villages near Poona undertaken with a view to find out how far certain modern ideas have penetrated into them. These conclusions pertain to the theory, practice and methods of communication. As for theory, Mr Damle feels that his study reveals "the necessity of analyzing the dependent, independent and interdependent variables." As regards methodology, "it has been proved that the problem of communication can be adequately tackled from the structural-functional point of view." As for the practical aspect, the study suggests that "creating motivation without corresponding effort to create the necessary conditions for the fulfilment of the same leads to frustration". Otherwise, the usual spectacle of discrepancy between subjective motivation and objective consequences will persist". These conclusions plus the fact that Merton's paradigm is validated should entirely satisfy the reader. The problem of communicating modern ideas to villages is a central one for India's development programme, and a study like this would have been of immense value had Mr Damle kept away from Professor Merton and his sociological jargon.

The problem of communication exists not only within a country but also between countries. 'The Indian View of China before The Communist Revolution' is limited both in dimension and detail. The authors had apparently little data on which they could base their study. Two entire chapters are devoted to an analysis of how 'The Hindustan Times' and 'The Hindu' viewed the Sino-Japanese War and the Civil War in China. The scarcity of material is not surprising since there was in fact very little contact between India and pre-Communist China. The interest in China was really confined to a few members of the Indian National Congress. Nowhere except at Shantiniketan was Chinese language or Chinese history taught. The only two Indians of any repute who visited China before Independence were Rabindranath Tagore and Dr. Radhakrishnan. Though the authors speak of the medical mission led by Dr Atal, no mention is made of the film "Dr Kotnis ki Amar Kahani" (The Immortal Story of Dr Kotnis) or the book about Dr Kotnis, which must have to some extent influenced the Indian image of China.

Towards the beginning of the paper the authors assert that India has always had friendly feelings towards her great neighbour, and that India's relations with China before 1949, as after, bore little relation to China's internal politics. In the Epilogue, however, they say that British-educated Indians always had a slight contempt for China, and that it is because the Chinese under Communism have achieved what the Indian never thought they were capable of that the admiration for China is so great. There seems a contradiction between these two points of view.

It is a big jump from the Indian view of pre-Communist China to 'The Journalist in India'. This paper is lucidly written but one wonders how much reliance is to be placed on a report based on the experiences of two journalists and replies to the 22 copies of questionnaires (only 18 replied) which they sent out. If even 17 of these 18 read the 'New Statesman and Nation', it hardly proves that the 'New Statesman' is the most widely read foreign periodical among Indian journalists.

The authors mention the different journalists' organisations but make no attempt to find out how far these act as media of communication between journalists.

The study of unemployment among the University educated in India was undertaken as a sort of pilot survey. A sample of 36 per cent of students from among those who completed their course for the Master's degree, in any of the Faculties of Arts, Science, Commerce and Law during the years 1949-1953 inclusive, was selected by means of random sampling. Only about 40 per cent of these replied to the questionnaires. The monograph consists mainly of tables but few useful inferences can be drawn since the method of calculation is rough and ready. For instance table 3 shows that there is a steady rise in unemployment incidence since 1948. Unemployment rose from 1 in 7 in 1949 to 1 in 3 in 1953., and those failing to achieve the minimum expected income rose from 38 per cent to 62 per cent. However, we are not given the figures of the total number of students seeking employment and the total number of jobs available in 1949 and in 1953. Also, as the authors themselves acknowledge, there is often a considerable time-lag between completing the University course and getting a suitable job; hence, while the 1949 class has had 5 years to look for employment, the 1953 class has had only a year.

All the four publications under review deal with entirely unrelated topics, and one wished there were greater co-ordination between the various projects sponsored by the Center for International Studies. This apart, however, the M I T has done a great service in setting young Indians to investigate social questions relating to their own environment. Though the first fruits of these efforts may not be very satisfying, the training and experience will no doubt be of great value.

A. M.

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Why Drain on Foreign Reserves?

Though the Planning Commission had expected to utilise only Rs 200 crores worth of sterling balances during the entire Plan-period, about Rs 218 crores have already been utilised during the first year of the Second Plan period. If the I M F assistance of about Rs 61 crores had not been obtained, the drain on the reserves during 1956-57 would have been of the order of Rs 279 crores.

With our reserves now at a level only little above the minimum required by the law, it is quite obvious that this rate of resources drain cannot be allowed to contue. In that case, given the present policies, shall we have to cut the size of the Second Plan?

Before one can answer this question, it is necessary to analyse the factors which were responsible for this reserve-drain and find out whether the different Government policies were consistent with the plan policy and were effectively oriented towards the implementation of the Second Plan targets.

THE very provisional foreign exchange budget for the Second Five Year Plan drawn up by the Planning Commission was expected to close, at the end of the Plan period, with a deficit of Rs 200 crores. That is to say, at the end of these five years, our sterling balances, had things gone according to the Plan, would have been drawn down by this amount. In the very first year of the Second Plan, however, the sterling balances are down by Rs 218 crores and, if the I M F assistance of about Rs 61 crores utilized during the period is included, the drain on our reserves during 1956-57 has been of the order of Rs 279 crores. With our reserves now at a level only little above the minimum required by the law, it is quite obvious that this rate of resources drain cannot be allowed to continue. In that case, given the present policies, shall we have to cut the size of the Second Plan?

Before one can answer this question, one has to ask whether the loss of foreign exchange is all on account of the Plan? If not, the question would be whether the present policies cannot be changed without affecting the size of the Plan, or whether both the policies as well as the Plan have to be suitably amended in order to maintain our solvency in international payments.

Lack of Payments Data

In analysing the issues involved, one is faced with an initial difficulty. The balance of payments data for the full year 1956-57 are not yet available; only the data for the first three quarters have been published so far. Further, there is no detailed breakdown of either private or Government imports even for the first three quarters of the year.

The first task, therefore, is to make estimates regarding the various items of the balance of payments during 1956-57. Table I attempts such an estimate, on the assumption that the third-quarter's rates of the current account items continued to hold good during the fourth quarter also. The same assumption has been made about the composition of private imports during 1956-57. The breakdown of Government imports is based on data on food imports released separately and pure guesswork. (Table II). It is presumed, however, that the error in all these estimates would not be so significant as to affect the main lines of argument in this article.

Imports Cause the Drain

From Table I, it is obvious that the excess of current deficit during 1956-57 over the actual deficit during 1955-56 and the expected deficit during 1956-57—of the order of Rs 304 crores and Rs 181 crores respectively—were entirely on account of the increase in imports of Rs 314 crores and Rs 279 crores respectively, as compared to the level of imports during 1955-56 and the expected level of imports during 1956-57.

Of the total increase in imports of the order of Rs 314 crores as compared to the level of imports during 1955-56, about 47 per cent was due to an increase in the imports of capital goods—metals, machinery and vehicles—about 26 per cent due to the increase in food imports, and about 27 per cent to an increase in 'other' imports (Table II). Since the main item of capital goods and raw materials are shown separately, it is reasonable to assume that a part of imports under 'others'—say, a quarter—would be of consumer goods. (Only a small part would be 'other Government imports'). Further, it is likely that nearly 50 per cent of imports under cutlery, hardware, etc, are those of consumer goods. Under these assumptions, the increase in the imports of consumer goods would account for about 16 per cent of the increase in total imports. Thus higher imports of food

Table I—Balance of Payments

(Rs. crores)

	Actual	Expected		Estimated
		Plan Period		
	1955-56	1956-57	Annual Average	1956-57
Imports c i f	750.6	786	868	1065
Exports f o b	641.1	573	593	631
Trade Balance	—109.5	—210	—275	— 434
Invisible (net) (excluding official donations)	+ 84.4	+ 62	+ 51	+ 105
Current Account	— 25.1	—148	—224	— 329
Aid, Loans, other capital transactions and loan commission	+ 40.1	—	+174	+ 50
I M F Assistance	—	—	—	+ 61
Movement in foreign reserves (Increase +, Decrease —)	+ 15	—	— 50	—218

and consumer goods were as much responsible for the increase in the total imports as those of capital goods.

How does the import performance compare with what was expected or desired by the Planning Commission? The Second Plan does not give a detailed breakdown of imports expected year by year but it does give a breakdown of the imports expected during the last year of the Plan 1960-61. Since the aggregate imports during 1956-57 and 1960-61 were expected to be of the same order, it is probably not unreasonable to assume that the breakdown of imports for 1960-61 would also hold good for 1956-57. Under this assumption, the imports during 1956-57 (estimated) can be compared with the imports expected in the Plan (Table III.)

From this comparison, it appears that capital goods accounted for about 41 per cent of the excess of imports over what was expected, while food and consumer goods accounted for about 21 per cent and 28 per cent of it. Thus, food and other consumer goods were as much responsible for the draft on reserves are were capital goods. In fact, if food imports and imports under 'others'—mainly consumer goods and Government imports other than food and capital goods—had behaved as expected—one cannot very well say 'planned'—the current deficit would not have been larger than anticipated by the Planning Comission. And in that case, the drain on foreign exchange reserves during the first year of Second Plan would have been only of the order of Rs 100 crores, instead of Rs 279 crores (including I M F assistance). This degree of pressure on the reserves in the first year of the Second Plan would be nothing unusual as the Plan did not begin with the full amount of the foreign aidloan required for its implementation and even the foreign aid|loans already obtained were tied to specific projects.

Capital Goods Import

What are the possible reasons for this higher than expected level of imports? The question naturally arises how far price increases were responsible for the increase in the value of capital goods. The index of import prices is not a very reliable guide as it is based on the 1952-53 composition of imports. Also, machinery prices are not adequately reflected in this index. However, from a study of the movement of the individual import prices of iron and steel and other commodities, it does not seem that the import prices level could have risen by more than 6 to 7 per cent during the year and hence the price factor would explain at the most only an increase of say, Rs 55 crores in the value of imports. The bulk of the increase, therefore, must be due to quantity increase rather than price increases.

Steel Imports

The excess of capital goods imports during the year was almost entirely due to the higher level of steel imports (Table III). This suggests that domestic investment — particularly investment in construction activities—was taking place at a higher than expected rate. This is also supported by what the Finance Minister said at the Budget session of the Lok Sabha. For the rest, we have to go by hints and

Table II—Imports

(Rs crores)

	1955-56			1956-57			Excess of 2
	Private	Govt	Total 1	Private	Govt	Total 2	over 1
Machinery & vehicles	142	48	190	195	40	235	+ 45
Iron & Steel	58	30	88	125	50	175	+ 87
Other Metals	24	2	26	39	4	43	+ 17
Grains, Pulses & Flour	—	18	18	—	100	100	+ 82
Oils	67	—	67	79	—	79	+ 12
Chemicals	22	—	22	30	—	30	+ 8
Dyes & Colours	16	—	16	15	—	15	— 1
Paper, Paste Board & Stationary	18	—	18	15	—	15	— 3
Cutlery, hardware, electrical goods etc	41	—	41	54	—	54	+ 13
Raw cotton	58	—	58	53	—	53	— 5
Raw Jute	18	—	18	10	—	10	— 8
Others	148	40	188	196	60	256	+ 68
Total	611	140	751	811	254	1065	+ 314

Sources: Reserve Bank of India Bulletin, December 1956 and March 1957
India's Balance of Payments 1948-49 1955-56

Table III—Imports

(Rs Crores)

	Expected				
	1956-57	Plan Annual Average	Estimated 1956-57	Excess of 3 over 1	Excess of 3 over 2
Machinery & Vehicles	250	300	235	— 15	— 65
Iron & steel	60	86	175	+ 115	+ 89
Other Metals	40	44	43	+ 3	— 1
Grains, Pulses & Flour	40	48	100	+ 60	+ 52
Sugar	7	7	—	— 7	— 7
Chemicals, Drugs & Oils	90	82	79	— 11	— 3
Medicines	33	32	30	— 3	— 2
Dyes & Colours	15	17	15	-	— 2
Paper, Paste Board & Stationery	10	11	15	+ 5	+ 4
Cutlery, Hardware, Electrical goods etc	29	29	54	+ 25	+ 25
Raw Cotton	54	54	53	— 1	— 1
Raw Jute	18	18	10	— 8	— 8
Others	140	140	256	+ 116	+ 116
Total	786	868	1065	+ 279	+ 197

guesses. The breakdown of the Plan expenditures in terms of rupees and foreign exchange are so vague and change so often that anything like a process estimation in a particular period can be attempted only by the Government departments concerned. Even the Planning Commission does not seem to be applying its mind to this task. Official explanations, however, have given out some hints from which it appears that the estimates of outlay in the published Plan were incomplete. For example in the case of the steel plants, some of the things necessary to complete the projects (cost of building the steel towns, for example) had not been provided for.

There are, besides, changes in policy in regard to such matters as the proportion of imported material to be used in a project. It is common knowledge that in the case of steel, some of the structural works had been originally intended to be fabricated in India but later these were decided to be imported because the engineering capacity within the country was fully occupied. There is, moreover, continuous upward revision of estimates, usually after a project has been taken on hand.

Apart from underestimation of investment in the public sector, there was also considerable underestimation of the investment necessary in the private sector for the realisation of the over-all Plan targets. As inter-industrial demand for commodities was not properly worked out in the Plan, it is very likely that the complementary investment needed for implementing 'approved projects' had never been adequately provided for.

Increase in investment because of such underestimation would have to be allowed for any way; and if the Plan is to be implemented, nobody can quarrel with the increase in its size because of these reasons. However, over and above this increase in investment, there seems to have been also a substantial rise in private outlay induced by the general momentum the economy has gained as a result of Plan investment.

The latter type of outlay does not form a part of the Plan and should have been prevented. Import licensing does not prevent such imports from coming in; neither is the purpose achieved through the control of capital issues or the distribution arrangement now in force for distribution of steel and cement.

From the keen demand for steel and cement, the substantial increases in the raw material prices and rising level of steel imports, it was clear even during the first quarter of the year under review that investment was rising at a more than expected rate. Since these indications were already present during the early part of the year, the Government should have taken firm steps to control private investment outside the Plan quite early. Why was it not done?

It will be complained that one can always be wise after the event. Import control operates on some principles which are unexceptionable. There is the industrial policy statement, there are development councils for so many of the industries, there are besides difficulties inherent in the problem of striking a balance every time, specially in the case of capital goods for which the licenses issued usually take a considerable time to mature. Finally there are problems of licensing imports which may not strictly fit in with the requirements of the Plan in order that we may be able to maintain an increase in exports.

Staggering of Construction

Besides, even the requirements of the Plan are not so rigid that they cannot be adjusted within limits. In every project, even those entitled to the highest priority, there would be some scope for adjustment in the import content through substitution by domestic resources. Construction, which forms a substantial part of almost every project, would seem to offer such scope. Since it is highly capital-intensive and a consumer of steel, it can be postponed or the programme properly staggered without any loss of productivity of the project concerned and its contribution to planned output.

A recent instance can be cited to illustrate the point. The capacity of the Churchgate station in Bombay was increased lately in record time and according to schedule, by which handling of suburban traffic, which had become an acute problem, should be greatly relieved. But, for this purpose, only the addition of platforms was strictly necessary, not the contruction of the six-floor building which would now provide office accommodation for the Western Railway.

If private investment outside the Plan and such construction as was not related to planned increase in output were controlled quite early in the year, steel imports would not have exceeded the expected level by such a big margin.

Food Policy and Imports

Food output during 1956-57 was slightly lower than the previous year's output. Further, because of rising money incomes, the demand for food was rising and as a result substantial and larger than expected food imports became necessary. A part of these imports were certainly financed out of the P L 430 loan from the United States. However, the shipments of this U S food arrived rather late in the year when substantial food imports had already been made.

The inadequate rate of increase of food output which necessitated imports may have been partly due to an unfavourable monsoon; however, admittedly it was also partly due to the lack of drive and energy in utilisation of such irrigation facilities as were already completed. Probably because of the phenomenal increase in food output during 1952-53 and 1953-54, the Government became rather complacent and thought that food would not become a bottleneck to economic development. As a result, the grow-more-food campaign weakened. This has resulted in inflationary pressures at home and also has to a certain extent been responsible for the reserves crisis. As Pandit Nehru recently so wisely advised, agriculture is the pivot of economic development and no efforts should be spared to increase its output. Why did his Government not act up to this wise principle betimes?

Import Policy and Consumer Goods

Our earlier analysis has shown that imports of consumer goods have been to a significant extent responsible for the reserves crisis. They have been about Rs 100 crores more than what should have been permitted according to the Plan schedule. Why were they allowed to increase over what were provided for in the Plan?

The import licencing authorities must have been aware of what the Planning Commission expected them to do. If their policies were properly coordinated with the Plan programme the imports of consumer goods would then have been restricted to the level suggested in the Plan. Since that was not so, the

only conclusion that emerges is that the two branches of the Government were pursuing contradictory policies.

In retrospect it appears that the liberal import licensing policies pursued with respect to consumer goods during the last three years of the First Plan period were not wisely conceived. However, at that time we could afford such mistakes. But while drawing up the import programme for the first year of the Second Plan, it should have been clear to the licensing authorities that such mistakes would cost dear. At least, it should have been abundantly clear by the first quarter of this year. Even after June 1956, some of the import licences for not so essential consumer goods could have been cancelled. Not only was this not done, but on the contrary, fresh licences were issued during July—December 1956 and January—June 1957. The decision not to issue fresh licences during July-September 1957 also would not be very effective in the short run in view of about Rs 120 crores worth of accumulated licences.

Uncoordinated Policies

From the analysis so far, it appears that the present reserves crisis could have been avoided if the Government had taken steps in time to check private investment outside the Plan, to postpone construction activity forming part of the Plan but not related to the productivity of the Plan, to make completed irrigation projects usable in increasing food output and to restrict the imports of consumer goods to the level indicated in the Second Plan. It appears that because of organisational and administrative inadequacies, the controls which are already instituted are not properly exercised with a view to checking investment unrelated to the Plan and to restrict imports of consumer goods. The same inadequacies prevent the Government from maximising the country's food resources.

Policy Implications

This analysis suggests the adoption of the following policy measures during the remaining years of the Plan period.

(1) Private investment unrelated to the Plan should be checked;

(2) Such construction activities which though part of the Plan do not directly lead to planned increase in output, should be postponed;

(3) Vigorous steps should be taken to increase domestic food resources;

(4) Import of consumer goods should be restricted to a level lower than what was indicated in the Plan so that the average annual import of consumer goods during the Plan period may be just of the order expected by the Planning Commission;

(5) Export promotion should be energetically pursued. The cotton textile industry and the sugar industry should be asked to export, say, 10-20 per cent of their annual output and the gap, if any, in the domestic availability of cloth and sugar should be met by the output of cottage industries. Iron exports also could be easily increased if sufficient transport facilities are provided quickly. Adequate salesmanship abroad of our handicrafts too could result in substantial exports.

If all these measures are adopted and if the foreign aid/loan that could be reasonably expected does materialise, foreign exchange resources, it seems, would not prove inadequate for fulfilling the Plan targets. Under these circumstances, it would be quite defeatist and unwise to talk of reducing the size of the Plan. At the same time, it would be rash and unwise to think of instituting fresh controls, which could only mean rationing of food and clothing, the psychological effects of which might prove so detrimental to the Plan as to offset their economic advantages. We have already enough controls. The problem is to exercise them effectively.

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Euthanasia of Enthusiasm?

THE more forward-looking [illegible]'s budget proposals are getting diluted more and more. The latest series of structural modifications in the wealth and expenditure taxes further tone down the more markedly bold features which made for the wide intellectual approbation the budget received two months ago. Is it that the spell of courage is already over, and the theme song, for erstwhile admirers of the T T K sweep, from now on has to be 'Lo! the fair dead'?

Some of these developments, of course, could be anticipated. Economic and financial policy cannot wander very much beyond the political centre of gravity, and where kinks and jerks develop, quiet, behind-the-scene parleys pave the way for restoring the equilibrium. It is not possible to move away from the central truth that, even though the Finance Minister springs from their own ranks, the business circles in the country will not fail to neutralise, as much as is decently feasible, some of the sharper tenets of his newly acquired fiscal philosophy. It may be a sad reflection but the fact remains that in an overwhelmingly free-enterprise economy, public finance cannot jump off the rails which run along the wishes, prejudices and predilections of the politically vocal big industrialist class, who continue to maintain strategic holds over the major levers of progress.

What is particularly disquieting is that, since the last week of May, the series of concessions announced on the original budget proposals have been consistently unilateral. With the exception of the slight revision in the postal rates, the rest of the modifications announced by the Finance Minister have been to accommodate the business and commercial sections or, more generally, the upper-income brackets. It is also revealing in more than one way that during the past month, while Parliament was not in session, the Finance Minister took trips to Bombay, Calcutta and Madras to meet representatives of business circles to discuss possible ways to smoothen the burden of the new imposts on them. There were no reports of the Finance Minister meeting representatives of the trade unions, teachers, lawyers or clerks, to talk over the implications of the additional tax burdens introduced by his May proposals. That such meetings did and did not take place were not, perhaps, deliberate. But then one cannot stop people from putting two and two together.

Of the three concessions in regard to the wealth tax announced by the Finance Minister, one exempts individual investments in new firms for a period of five years. The Finance Minister explained that this particular concession was an extension of the concession already being given to individual investors in regard to income tax and does not therefore introduce any new principle.

One of the objections raised by the Taxation Enquiry Commission against the then existing provision in the Income Tax Law giving exemption to profits of new undertakings was that as the concession applied to all industrial concerns, it lost some of its effectiveness as a stimulus to capital formation. The Commission was of the view that the concession could operate as a powerful incentive provided it did lead to some actual exemption and was "applied to a selected and therefore limited number of industries". It was suggested that the tax holiday concession should be admissible only to new concerns in the selected industries.

These industries, according to the Commission, "must obviously fall within the group of producers goods and capital goods industries", and, even among this group, the industries selected for favourable treatment should be small in number. From the press version of the Finance Minister's announcement it is not clear whether the concession in regard to the wealth tax shall apply in respect of investments in all new industrial undertakings or only to a few selected industries of the type recommended for favourable treatment by the Taxation Commission. The latter should be the case if the idea is to give further incentive to private investment in industrial undertakings in the fields to which the Second Five Year Plan accords priority. The Select Committee will have to go into this question and make the position clear.

While it may be conceded that concessions of the tax holiday type operate as powerful incentives, it would be inadvisable to ignore the possible pitfalls in the path of such concessions. In order to avail themselves of the concession, there might be a movement away on the part of individuals from old investments to new investments, because it is only in respect of the latter that the tax holiday is permissible. A switch-over from old to new investments does not by itself add either to the sum-total of national saving or to that of investment. No doubt the fact that new industrial ventures carry higher yields net of tax because of a tax holiday will be a factor which promotes investment. But we also have to reckon with the possible contingency mentioned above, i e, the tendency to dislodge old investments. To the extent this tendency reflects itself in depressed equity prices, it is likely to distort investment perspective and therefore have an adverse influence on new investment decisions as well.

The tax holiday granted in respect of income tax is now proposed to be supplemented by that in respect of the wealth tax. This should therefore reinforce the tendency to move from old to new investments with the consequences referred to above. In order that the adverse effects are kept within bounds, it becomes very important that the concession contemplated in respect of the wealth tax is restricted to a very limited set of industries.

The other concession announced by the Finance Minister proposes the reduction of the rate of the wealth tax to 50 per cent of the rates applying generally, in respect of the property owned in India by foreigners. Even in the original Bill for the wealth tax, foreigners got favourable treatment because the tax on them was required to be calculated with reference only to the property they owned in India regardless of their holdings abroad. If the tax were to be calculated with reference to their total 'world wealth', as it should be in terms of equity, foreigners resident in India would have had to pay at a higher rate. This underlines the extent to which the Government of India is now prepared to go in wooing foreign investors.

The third concession relates to household effects other than jewellery. It is proposed to exempt household effects altogether from the wealth tax. The original Bill provided for an exemption of personal wealth up to a limit of Rs 25,000. It appears that the concession now announced replaces the exemption originally provided for. Is it that now a person's household effects can be of any value and still not attract the wealth tax? Clarification will be needed on this point also.

There has been a further move away from Kaldor in the new modifications in the expenditure tax. The exemption limit has been raised from Rs 24,000 for an individual and his wife, and Rs 5,000 each for two dependents to Rs 30,000 for an individual inclusive of his wife and a dependent plus Rs 5,000 for one additional dependent. No doubt this will mean a further reduction in the number who would be assessable under the tax and consequently, a further drop in the revenue yield. Some may argue that the main virtue of the expenditure tax lies in its powerful symbolic force, and the radiation of abstinence that it would help to spread all around. But at a certain point people may begin to feel that the symbol was only a dull, irritating kind of joke, or, worse, a political clap-trap.

As a realist, the Finance Minister must appreciate that the biggest danger in such one-way concessions is that it makes it increasingly difficult in the subsequent years to coax the general mass of people to shoulder further additional burdens which must necessarily be regressive in their incidence. And, he may have to present three more budgets before the Second Plan runs its course.

GoluboiButon

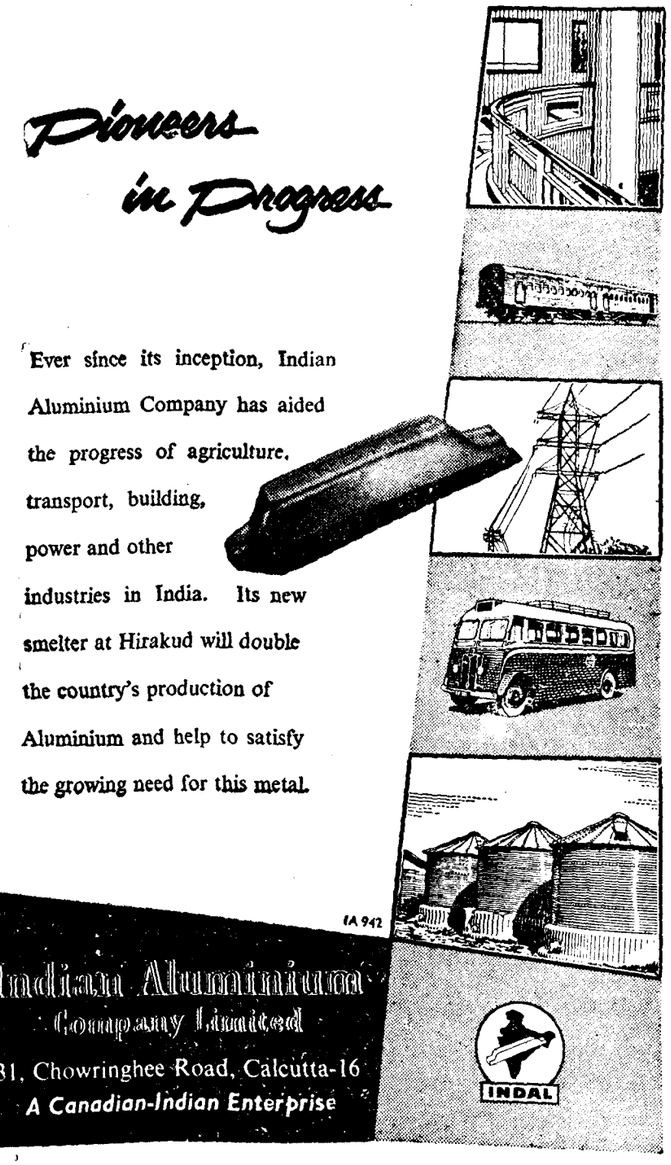
MANY have succumbed to the temptation of suspecting Khruschev as another aspiring Stalin. Any such interpretation of recent political changes in Russia would seem to ignore certain fundamental facts. Stalin was opposed to the principle of "collective leadership". Khruschev swears by this principle. Stalin purged his rivals on the pretext of "anti-party" activities. But it soon became evident that his main motive was to firmly establish his supreme authority over the State by subjugating the Party to his iron will. With Stalin, the insistence and emphasis on the supremacy of the Party was a mere ruse to perpetuate his personal dictatorship. Khruschev and his group within the party are, on the contrary, determined to rebuild the Party as a "vigorous, voluntary, democratic organisation". Because Malenkov, Molotov and Kaganovich were opposed to the policy enunciated during the 20th Congress, these leaders had to be dismissed. They have been dismissed, but not purged.

Though the so-called Russian experts seem to be confused, neither President Tito nor Mr Dulles is hazy about the implications of the recent political changes in Russia. Not only President Tito, but many students of Russian affairs have been anticipating some such development. Since the 20th Congress, a struggle has been going on between, what Mr Dulles picturesquely but faithfully describes as 'modernists' and 'fundamentalists'. Molotov had to go because he obstructed the foreign policy of peaceful co-existence. Molotov and Kaganovich were opposed to de-Stalinisation and to a reversal of Stalin's policy of rigid control over Eastern European countries. This explains why President Tito has promptly welcomed the political changes in Russia.

On a close analysis, Mr Dulles's explanation seems to be more theoretical and appropriate. Once Mr Dulles's interpretation is properly appreciated, the dismissal of Malenkov and the planners, Pervukhin and Saburov, becomes intelligible. Even as Molotov was the leader of political fundamentalists, Malenkov and the Moscow planners were opposed to Khruschev's policy of economic decentralisation. If Stalin used the party to establish one-man rule, the planners and technocrats had succeeded in creating a state within the State. It has been one of the damaging criticisms of the Soviet regime that it has encouraged the emergence of a privileged class of technocrats and bureaucrats. Socialist theoreticians have been critical that Communism has not succeeded in abolishing class rule. Apologists of Capitalism have argued that if there is class rule in capitalist countries, the Soviet Union is not a classless society. In the circumstances, Khruschev's successful bid against the combined group of political and economic fundamentalists will seem to be a desirable development.

Much has been sought to be made of the continuing struggle for power within the Soviet Union. What else goes on in so-called democratic countries between the Government and the Opposition? If Malenkov, Molotov and company have been purged, what happened to Sir Anthony Eden or to Lord Salisbury? Both Sir Anthony and Lord Salisbury resigned as they found that the people and the Government rejected their policies. Similarly, Malenkov, Molotov and company have been dismissed by the Central Committee because of their constant sniping of the official policy. There has been nothing unconstitutional in their dismissal. They had, and exploited, the opportunity of convincing the Central Committee of the justness of their actions. But they did not succeed. So, they had to go. So far, Khruschev's move is both constitutional and democratic, though it must be emphasised that rejected leaders are not allowed to propagate their views in the Soviet Union.

To stress that the Soviet Union is not a democracy in that sense, is to emphasise the obvious. Khruschev, a Leninist, is out to establish the supremacy of the Party. As a Leninist, it should also be his policy to try to attain and to maintain cordial relations with all countries and with all "nationalities" within the Soviet Union. Khruschev is for de-Russianisation of the Soviet Union. His preference for peaceful co-existence with capitalist countries, his policy of political and economic decentralisation within Russia and his support to the theory of "various ways to Socialism" follow logically from his adherence to Leninism. These aspects of his policy have the active support of President Tito, even as the latter endorses the former's emphasis on the supremacy of the Party. But [illegible] events in Moscow's Lomonosov University and in Leningrad colleges suggest that the intellectual student community is far more progressive than the Khruschev group in the widest interest of individual [illegible] growing evidences that discussion and criticism of even Party-rule are not muzzled will be welcomed.



Weekly Notes

Cement Exports

PARTICULAR interest attaches to the latest activities of the State Trading Corporation in the matter of import of cement which have not received the same publicity as the earlier exploits of the Corporation in the field of manganese and iron ore exports, in respect of which powerful vested interests have taken the trouble of keeping the public informed or mis-informed. The Corporation, it appears, has been negotiating re-export of cement from Eastern Europe to Ceylon, the idea being to convert some of the imports from the 'rupee currency area'—this covers the countries with which we have trade agreements which leaves us this much of latitude—in order to earn some badly needed foreign exchange. But there has been no proposal yet for export of domestically produced cement to our neighbouring countries where Indian cement is much needed and would fetch a considerable premium.

As is well known Indian cement is so much cheaper than foreign cement. In fact, this is what makes it possible for the State Trading Corporation to import higher priced cement and still sell at a remunerative price by operating a price pool. (The latter, incidentally, has been largely a one way affair and the premia collected professedly to equalise prices must have accumulated into a sizable fund in the absence of much imports!) Now, since talks of phasing the Plan are so much in the air, a Correspondent argues the case for token export of cement as follows:

"Since independence no industry has made as spectacular a progress as cement. In less than 10 years, production has risen three times from 1½ to 5 million tons. Productive capacity continues to rise steadily. Admittedly consumption of cement is also rising at a very fast rate with the result that scarcity of cement continues unabated, but it is far from clear whether all uses of cement serve equally important purpose. It should therefore be possible to examine closely whether lower priority cannot be given to some of the schemes for which cement is needed. This is essential in order to release 5 to 10 per cent of our production for export.

"The possibility of earning foreign exchange of about Rs 10 crores per year by earmarking not more than 10 per cent of cement production is all the greater when it is remembered that we can sell at Rs 140 per ton while producing it below Rs 70 per ton".

The Correspondent argues persuasively enough, but nevertheless it is difficult to be convinced that cement exports at this stage could help the progress of the Plan. The question is that even if non-priority investment is restrained, as it should be, would the statistical position of cement permit some little surplus to be squeezed out for export. The answer is by no means clear and unambiguous. The general criticism is valid that the Minister of Commerce and Industry has been much more forthright in restricting imports than in promoting exports. In fact, he may be accused of being over-pessimistic in assessing the prospects of export promotion and extremely reluctant in actually pushing it for fear, which is unfortunately not altogether unfounded, of adding to the pressure on internal prices. This criticism applies particularly to the continuation of export restrictions which could well be done away with. The point was made in these columns in the article "The Challenge and the Response" in the last Special Number that "if we are even now prepared to tighten our belts a little further, we can easily earn another Rs 40 to 50 crores of foreign exchange per year by relaxing our export restrictions on some of the staple commodities like vegetable oils, oilcakes, etc. Any speculative rise in prices as distinct from that due to actual short supply could be partly guarded against by channelling these exports through the State Trading Corporation".

But in the case of cement, the question will naturally arise: Would we not be putting the cart before the horse in permitting exports before we have succeeded in effectively weeding out construction outside the Plan, or not needed for the hard core of the Plan? If we do that we will only raise the black market prices of cement and intensify the difficulties of distribution without any proportionate gains on the other side.

Metal Box Expands

METAL BOX made record sales last year and was able to maintain profits at the same level, despite considerable increase in costs. What is more, it reports an uninterrupted progress in developing new lines of production of which of particular interest is the manufacture of industrial components and the development of canning of processed foodstuffs. For the latter, the company has brought out an expert from the U K and has presented to the Central Food Technological Research Institute a mobile demonstration van for helping a pilot scheme for popularising canned food. A proposal is under consideration for a Government subsidy to the cost of cans for the processed food industry. In his review of the operations of the company, Mr H Chiswell Jones particularly emphasised the problem of raw materials, their steadily rising costs and the necessity of keeping adequate stocks in view of the growing uncertainty of supply. Not that the company actually experienced serious difficulty during the year, but the future looks more uncertain, depending on the Government import policy.

The main raw material used by Metal Box is tin plate. Despite the expansion of capacity of the tin plate industry by the addition of a rolling mill, domestic production has not yet increased substantially and the company had to import 40 per cent of its requirements during the year. Mr Chiswell Jones complained in his last year's review that the company suffered from a price disadvantage in respect of imported tin plate; he has not referred to it this year and it is to be hoped that in view of the encouraging export prospects of Metal Box products, this handicap has been or will be removed.

Both in export promotion and in import saving, Metal Box has a role to play. It has now a self-contained unit for manufacturing industrial components, new equipment has been installed for the manufacture of aluminium tubes and the company has recently entered the field of aluminium components for the radio industry.

Rajaji Defends the Poor

INSPITE of T T K's disclaimer, Rajaji insists that he is T T K's friend and therefore it is his duty to point out to the Finance Minister 'what he has not done', and also 'that what he has done is not good,' because 'harsh, true criticism is due from the real friend'. And Rajaji is T T K's real friend!

According to Rajaji there is 'strong disapprobation through the country' of the Central Budget just presented. He is getting letters and telegrams from people congratulating him on his 'bold' stand on behalf of the people and asking him to take the leadership once again. But Rajaji is a good friend. He certainly is not going to heed these tempting calls to leadership. Also, 'it is not the office of an old colleague after he has retired to go on agitating and leading the agitation from town to town'. It is those who are hit by the Budget that have to agitate. And, according to Rajaji, 'they are competent to do it if only they will wake up and cast aside the delusion of fear that is hanging over their heads.'

Rajaji has no doubt that the Budget hits the poor badly. 'Out of 99 crores, the receipts expected from the new taxes on the rich are about 25 crores, and the balance is borne by the poor'. According to his economics all indirect taxes impinge on the poor and direct taxes on the rich. Of course, he is indignant that the Finance Minister has reduced the rate of super tax applying to the highest income brackets and has tried to make up for the loss arising on that account by lowering the exemption limit, to Rs 3,000. The lowering of the rates on the higher ranges of the income tax is to be welcomed, provided 'they could do it without taxing the wrong type of people, but they have lowered at the same time the income tax minimum gathering in together a number of people who can't afford to pay income tax really under present conditions'. Reduce the taxes, if you think you can. But don't put more of them and that too on the lower income groups. That is the sum and substance of Rajaji's criticism.

If someone were to tell Rajaji that even the poorer section of the community have to shoulder a part of the burden imposed by the Plan, he is not easily taken in. 'What is so sacrosanct about this Plan of yours?', he asks. 'This Plan of yours is really the great mischief maker'. 'Our affairs have been robbed of all their necessary flexibility by reason of our monolithic structure due to this Plan'. And then according to our great sage in retirement, plans can succeed only in communist countries where they can rely upon forced labour. It is not possible to do such a thing in this country where we swear by democracy. So, why have a Plan at all?

Even if the Government were to insist upon pursuing the Plan, Rajaji considers it inequitous that its burden should be distributed on the present basis. The Plan consists of certain definite projects in certain definite places. 'Is it right' he asks, 'to impose indirect taxes and rates on transport and things like that which put a burden upon everybody in the country, without reference to the advantages attained in any particular area where the taxation hurts?' Rajaji thinks that it is fair to impose cesses only in areas 'where large plans have been done and which will give immediate advantages to the people in that area by way of employment, prosperity, higher value of land, every thing'. It amounts to saying that if Hirakud Dam is going to benefit the Oriyas, it is the Oriyas who must pay for it. Why should a Madrasi be made to contribute to what is going to make an Oriya happy? Ultimately, the argument can be extended to ask, if a school is to benefit the 'non-Brahmins', why should the 'Brahmins' be required to pay for it. It looks like Rajaji did not go deep into the implications of what he was advocating. For his argument would lead him into the camp opposite to the one in whose defence he has reared up out of his forced retirement.

Repression—No Solution

SENATOR KENNEDY of the United States has provoked M Lacoste, the French Minister for Algeria, to reiterate the adamant French policy to Algeria. Senator Kennedy had suggested some days ago that Washington should initiate negotiations on the Algerian issue through N A T O or the friendly mediation of Tunisia or Morocco. In rejecting Senator Kennedy's peaceful gesture, M Lacoste was deliberately rude to the American Senator for his alleged ignorance of the situation in Algeria. M Lacoste defended the French policy to Algeria on the argument that it had the support of Washington. Both President Eisenhower and Mr Dulles had recently had occasion to state that Algeria was, and is, an internal problem of the French Government.

Much has been sought to be made of the juridical aspect of the Algerian issue. Even if it be conceded that Algeria is an integral part of France, it does not necessarily justify the French policy to Algeria. Algerian Muslims are in the majority. Deprived of elementary rights, they refuse French citizenship, and are opposed to accepting the status of Algeria as an integral part of France. Both M Lacoste and M Bourges-Maunoury, the new French Premier, are agreed on a policy of repression in Algeria. Recently, the French Government has introduced a Bill to extend its special powers in Algeria to include even those Algerians residing in metropolitan France. To suppress occasional manifestations of the Algerian national movement in Paris and in some other metropolitan towns, is the main aim of this Bill. Even as such measures have not succeeded in Indo-China, a policy of repression is no solution to the Algerian issue.

Elections in Egypt

EVEN President Nasser does not suggest that the recent elections in Egypt have been democratic. Though the total number of those who voted was not quite unsatisfactory, the candidates had no free choice, and were selected by President Nasser's National Union Party. President Nasser may be as popular in Egypt as President Tito is in Yugoslavia. But neither in Egypt nor in Yugoslavia can the elections be regarded as democratic. President Tito has a sophisticated explanation for the political system in his country. But President Nasser is more frank. He implies that a strong Opposition cannot be encouraged yet as the "revolution" is still in its infancy. But a start has been made. For the first time, soldiers and women exercised their voting rights. Results of the elections indicate President Nasser's popularity and prestige. Debates in the new Egyptian Parliament will be scanned carefully even outside Egypt to have some idea about the people's attitude to President Nasser's ecohomic and foreign policies.

Letters to the Editor

Has West Bengal Defaulted?

IN your editorial article, "The States Default" appearing in your issue of June 15, 1957 *it is* stated as follows:

> "West Bengal....were supposed to raise, over a period of five years, additional tax revenue to the extent of Rs 14 crores.... *In the first two years they have done nothing in this direction*".

The details of the additional tax revenue of Rs 14 crores which the Government of West Bengal were expected to raise during the five year period are as shown in table 1.

Item 1, viz, Entry Tax is a new tax which the Government of West Bengal imposed in the very first year of the Second Five Year Plan. If you care to look at the Civil Budget Estimates of West Bengal for 1957-58 you can find that the Revised estimate of revenue from *this new* tax in 1956-57 is Rs 1.75 crores and that the Budget estimate of revenue from the same tax is also Rs 1.75 crores in 1957-58.

Items 2, 3 and 4, viz, Sales Tax, Agricultural Incometax and Irrigation Rates are old taxes. But by adopting various measures the State Government were expected to raise additional revenue from them to the extent noted against each in five years. The increases which the State Government have effected under these heads during the first two years of the Second Plan together with the revenue from the Entry Tax which is a new tax are shown in table II.

Thus the additional revenue during the first two years is Rs 9.13 crores against Rs 14 crores which the State Government are required to raise in five years. The State Government have therefore not only fulfilled their task in this respect but have actually done considerably more than what was expected of them.

In the editorial article referred to above, you proceed to say about West Bengal Government and another State Government:

> "It is obvious, however, that these State Governments do not take their commitments under the Plan very seriously. If they were concerned they would make at least some effort or even a gesture, to raise additional revenue. These two States typify that category which would like to lean entirely on the Centre for making up the deficiency in their own finances. They do not seem to be bothered how the Centre meets their demand".

It is hoped you now appreciate how incorrect and unwarranted your comments are.

It is also hoped that you would be able to publish this letter in the next issue of your journal and to amend your comments accordingly.

N K Pal
Deputy Secretary
Government of West Bengal,
Finance Department,
(Budget) Branch,
Calcutta.
July 4.

[Is the West Bengal Government entitled to take credit for "additional income from existing sources of revenue" against the Rs 14 crores referred to in the editorial? Shri N K Pal may recall that in the Plan separate estimates were given for "additional income from existing sources of revenue" and "income from new taxation".

Further the position of West Bengal Government is that non-development expenditure has increased to a level higher than what was assumed for purposes of the Plan. Accordingly, it should have raised much more revenue than assumed in the Plan. It is no good under such circumstances to claim that additional revenues have been raised as shown in the Plan when all the money is eaten up by increased non-developmental expenditure and nothing is available for the Plan—**Ed.**]

Table I—Estimates of Additional Tax Revenue

Estimate for five years (1956-61)
(Rs crores)

1	Entry Tax on Tea, etc..	..	7.00
2	Sales Tax..	..	5.00
3	Agricultural Incometax..	..	1.20
4	Irrigation Rates..	..	0.40
			13.60

Or in round figure, 14.00

Table II—Increases in Tax Yield Effected by West Bengal

(Rs crores)

	1956-57 (Revised estimate)	1957-58 (Budget estimate)
Entry Tax	1.75	1.75
Sales Tax	2.21	2.27
Agricultural Incometax	0.90	0.25
Irrigation rates	nil	nil
	4.86	4.27

Or Rs 9.13 crores in two years.

Entrepreneurship and Economic Growth

THIS letter is meant to be a protest against some formalistic-apologetic ways of thinking in the discussion of economic growth.

As you know, in Schumpeter's theory, the entrepreneur is the bearer of economic development, the latter term denoting a discontinuous change in the circular flow of economic life. 'Development in this sense is defined by the carrying out of new combinations'—the introduction of a new good or a new quality of a good or of a new method of production, the opening of a new market, the conquest of a new source of supply, the carrying out of new organisations of industry. An entrepreneur is one who does one or more of these new things.

Schumpeter disclaimed any responsibility for the historical role of the entrepreneur: to him the entrepreneur was simply the mechanism of change. But the concept has been used to explain—or rather to describe—the emergence and development of capitalism. The precise function of Smile's 'Captains of Industry' is illuminated by the use of this concept.

Recently the entrepreneur has come to occupy a central position in certain "theories" of economic growth. According to these, the emergence of an entrepreneurial class is the key factor of economic development of underdeveloped countries. And the main reason why the entrepreneur is not appearing is, according to the said theories, the influence of the social environment which imposes values inappropriate for saving and productive investment.

Now, if it is claimed that the prior existence of a class of persons fitted for the entrepreneurial functions as enumerated, for example, in the U N publication, "Processes and Problems of Industrialization"—technical innovation or adaptation, business promotion, capital provision and risk-bearing, and finally business management—is necessary for economic development, then the claim is obviously false. To take two extreme examples: Japan had no entrepreneurial class worth the name when she embarked upon her policy of "beating the west"; the young Samurai utilised all the powers of the State machine to channel resources into the hands of the few business houses there were, and thus created that concentration of economic power which is essential for economic development. The Soviet Union deliberately eliminated many members of the entrepreneurial class and, moreover, when the existing managerial personnel could not carry out the assigned tasks properly, she put Communist Party members at the head of factories and carried out her plans.

To cover these cases the hypothesis is modified a little and it then stands: Whoever the entrepreneur is —it may be the State or any private person or group of persons —it does not matter: What it has to do for economic development is to be endowed with certain particular types of valuations and to carry out the entrepreneurial function properly. Does this not come a little close to saying whoever is responsible for the job of economic development, it does not matter; in order to develop, the men responsible must will it so and carry out the tasks of economic development properly?

There is another string to the bow of these people. They say (among whom Professors Rostow and Lewis must be counted) that in order that economic development may take place, there must be a group of persons who must save and invest productively (presumably in a private enterprise economy). Prof Lewis calls them 'capitalist'. But he fails to give any precise definition of what constitutes a 'capitalist'. As Bauer has pointed out in a review of Lewis's **Theory of Economic Growth**, 'This reduces to saying that only capitalists save productively, and those who save productively are capitalists'.

The truth of the matter seems to be this: every scientific hypothesis properly so called must exclude certain possibilities. The entrepreneurship hypothesis tries to cover all forms of economic development — and thus becomes virtually empty of content. The concept is redundant in an economy where the State bears risks, mobilises resources and appoints men for carrying out certain tasks. For carrying out the tasks of business management and technical adaptation (for in an underdeveloped country, technical innovation has a very small place), a certain type of training and talent and a devotion to 'economic accounting' is necessary. But for this there is no need for the prior emergence of an entrepreneurial class.

Secondly, some hypotheses including the entrepreneurship hypothesis claim that the growth of a certain kind of psychology is a **sine qua non** of economic growth. But this explains nothing. For, except perhaps a Nietzschean, everybody will agree that a mere 'will to develop' does not land a nation in El Dorado. The material conditions are the main thing. These material conditions must not be taken to mean simply the stock of natural resources. The point is whether men with a will to develop have control of the natural resources.

Of course, this is not meant to minimize the human factor. The human factor is certainly important. But it is more complex than what is conveyed by such phrases as 'entrepreneurship' or 'commercial values'

Amiya Kumar Bagchi

25, Beadon Row,
Calcutta-6
June 22.

"Stresses and Strains"

MAY I in my ignorance suggest with simple-minded assurance that the "stresses and strains" through which the Indian economy is passing are due chiefly to three original failures on the part of the Government, viz:

(1) failure to tax agricultural incomes effectively and adequately;

(2) failure to shift relative emphasis from railways to road transport; and

(3) failure to build up and maintain an adequate stock, particularly of foodgrains, to be able to intervene in the market, timely and energetically, to check rising prices.

On the first of these three points, may I take shelter behind two wise quotations, one from your leading editorial of June 1, 1957, viz, that

"what had induced the grower to sell in the past was not primarily his own demand for other things, but a number of institutional factors such as the demands he had to meet for payment of rent and money lenders' interest"

and another from a review article by Mrs Hicks, viz, that

"the failure to extract an adequate revenue from land incomes has contributed in no small measure both to the present difficulties of the revenue and to the inadequacy of urban food supplies" (E W, July 6, 1957).

Regarding the second point, may I suggest that, by a shift of emphasis from railways to road transport, transport requirements of the necessary order could have been met on the basis of investment with a smaller immediate import-content and the pressure on foreign exchange reserves might have been reduced, not to mention other palpable advantages, such as, improvement in the total employment-creating capacity of the Plan.

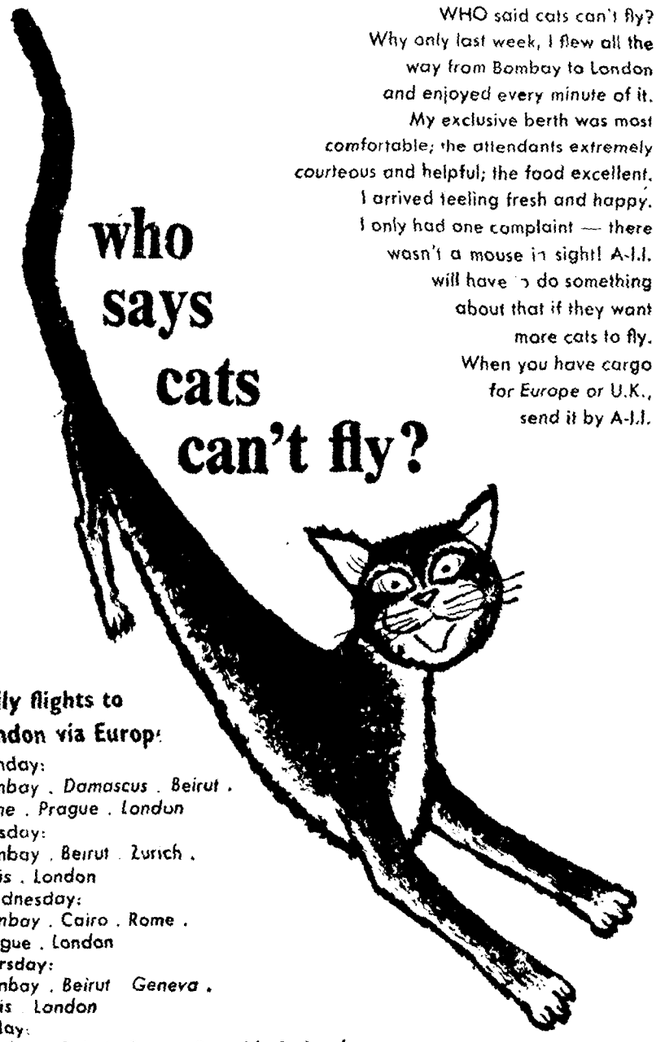
Finally, may I point out that to the extent that the Government fails to invest sufficiently in inventories to build up a centralised stock to ensure price stability, private speculators find it worthwhile, from time to time, to invest inordinately in inventories to take advantage of, and add to, instability. By neglecting investment in stocks on the ground that it is "unproductive", the Government helps increase the total of such "unproductive" investment undertaken by the community

and, finally, is driven to atone by accepting an equally "unproductive" investment on setting up a machinery for direct physical controls.

While academic economists, burdened with their learning write long articles explaining the infinite complexity of the economic situation, is it too much to hope that there are simpler people in the Government who have the sense of essentials and the boldness to fix on a few crucial points and reformulate policy in terms of these? With regard to the last of the three points his a start seems to have be but what about the other t

Simpl

Calcutta,
July 14.



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A Calcutta Diary

The Politics of Successful Men

THERE is a story that the Prime Minister once spoke to Dr B C Roy thus before the elections, "Look, why is it that the only Bengali M P's I ever want to hear are all Communists? Can't you get some intelligent men to represent the Congress in Parliament?" The compliment to the Communists was deserved as was the criticism of the general run of Bengali Congressmen. It is some time since the West Bengal Congress ceased to matter in the national context. The cause or the effect—was that good men, who will be defined in a moment, either kept away from politics or joined parties other than the Congress. By good men is meant here those who have succeeded in their own right in some other department of life than politics. Congress politics to be precise. In recent years the Congress Party has been dominated by manoeuvrers, with a few good (in the ordinary sense now) men here and there who stuck on to the old party out of sheer habit. Intriguers remain, the duds are still there, but there are a few men in the Congress now who can claim some title to recognition besides the fact that they are 25 years of age and, for medical purposes, not mentally unsound.

Dr Roy himself represents this other breed of politicians. Many may think that the loss to medicine consequent upon his return to politics is greater than the gain to politics, but there is no denying that he was an immensely successful physician. Of him at any rate it could not be said that out of office, he would be sitting all day on a hard bench in some public park. He remains in office because he can afford to walk out of it at any time. This, which indeed was the tradition of Bengali politics before its sorry decline, makes a bigger difference than many realise. Having made a mark in some other sphere of life, you speak in politics with greater confidence; you may also be above petty temptations.

Shankar Das Banerjee, the new Speaker of the West Bengal Assembly, is another example. Everybody agrees that he has made an excellent Speaker, and so he has. The reason, I suggest, is that he was successful at the bar before coming into the Congress. He can refuse to be bullied by the Congress Party whip, even by the Chief Minister. A not wholly frivolous additional reason why he has been able to manage the House so well is his relative fluency with the English language. (You would be surprised how effective it still is with Members who never went to school or went to school but never left it with a school leaving certificate.) The basic fact is Banerjee's success in his profession.

A new Minister, Siddhartha Sankar Roy, has also made something of an impression. Again, the reason is that he had done reasonably well as a barrister-at-law before becoming a Minister. He had been inside a club, been asked to parties, seen life as it is lived by "gentlemen". Another Minister, Bimal Sinha, is not a new-comer, but he too belongs to this category. He had walked on carpets with his shoes on even before entering Writer's Buildings. He is also a serious student of economics and does not have to get his speeches written by ghosts. All this makes him able, generous, tolerant and ungreedy.

☆

Undemocratic? Government by the privileged? No root in the masses? None of these accusations would be wholly wrong. It is possible to argue that these gentlemen have no place in a democracy. Sinha frankly belongs to a feudal family. So, probably, does Shankar Banerjee. On the other hand, if success in politics is not to mean the success of only those who have failed in everything else, even elementary examinations at school, there is much to be said for attracting such men to politics. Kings have been known in history to stand by the people against the aristocracy. It is not impossible that those describable as imperfect democrats can do a little more for democracy than the former tram conductor. (Such a one, incidentally, was the Chief Minister's rival in the last elections and polled only 540 votes fewer than Dr Roy).

In varying degrees, every government has its own class character, and it will not be entirely beside the point to contend that Dr Roy's Government has been of some advantage to a class that could not have hoped to profit from say, a government headed by Dr P C Ghosh or Mohammed Ismail. In the latter event, the advantages would have gone to the latter's own classes, and it is perfectly legitimate to argue that the latter classes deserve more in a democracy. These possibilities, however, are capable of exaggeration, and by and large Bengali politics may have gained from its recent acquisitions from among successful men.

☆

Two more considerations remain. One, whether these "successful" politicians can be successful politicians. Two, whether their stay in politics will not be as short as an Indian summer is said to be. The answer to the second will depend largely on that to the first. Men successful in medicine or law may get fed up with the party managers—necessary animals, but animals still. And success in politics has often to be bought at a price. The men we have been discussing may do either of two things: to pay the price or not to pay the price. The latter will mean that they will be out of politics before long; the former will mean that the advantages of having them in politics will be gone, and chances are that the post-corruption "successful" man will be a greater danger.

My own bet, very small, is on the possibility that Ashok Sens and Shankar Banerjees (the former is the foremost example of successful men in politics) will prove to have been very temporary intruders in the Congress Party, just passengers. The party managers will not have them if they remain themselves, **sahibs in khadi.** They will change their clothes? A thorougher conformity, a closer proximity to the norm of Congressmen may be insisted upon. Those who will do the insisting will be entitled to claim that they have taken the country nearer to democracy. But what a democracy it will be!

—**Flibbertigibbet**

July 16.



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From the London End

A Looser Commonwealth?

THE Commonwealth Prime Ministers Conference like the Commonwealth association itself must for ever remain an enigma. On this occasion your Correspondent took the opportunity of following the course of the Conference through press conferences and official but "non-attributable briefs" and by visiting Ministers on what the Conference was all about. And the only definite impression obtained throughout this tortuous journey was the remarkable ability of these Ministers and of the drafters of the official communique to express themselves with consummate banality. Apart from the communique, all views, impressions and interpretations of the Conference must be largely speculative.

The first pertinent question that arises is the reason for the tight-lipped attitude of the Prime Ministers themselves—why are they so keen to avoid public knowledge of at least some of the features of the Conference? When one surveys the background to the Conference, however, the essential reasons for the lack of information become clear. The Commonwealth is no longer what it was. The direction in which the world situation has been moving over the past year has caused a greater diversion and greater conflict in the interests of Commonwealth countries. The British press had, long before the Conference, been defining new group interests within the Commonwealth, partly as a reaction to the lack of cohesion and complete Commonwealth support to the British intervention in Egypt and partly to establish the need for a clearer policy towards the Communist world. There has been much play of the alleged fact that there was no post-mortem on the Suez War at the Conference. This is certainly not correct. The impression one got was that the Anglo-Australian combination took the initiative in establishing justifications for the British policy in the Middle East and for obliquely attacking those who have opposed this policy. The oblique attacks, it appeared, took the form of retorts and references to the points of weakness in the position and status of those Commonwealth countries which opposed the Suez policy of Britain.

On more than one occasion, Pandit Nehru referred to the pained experience of witnessing a new attitude to Indian problems—an attitude framed in terms of hostility and ill-will. He expressed his surprise that the Kashmir question should in "high places" be judged with such ignorance of the true facts. There are still elements within the British administration which find it difficult to appreciate the consequences of Indian independence. The public discussion (and we must recognize that much of the discussion was officially mooted if we are to be realistic) on India's foreign exchange difficulties reflected pleasure that such difficulties existed rather than helpfulness. The question of aid or credits to India was invariably related not to the need for assisting towards bringing a rising standard of living to the Indian people but more to the Indian subcontinent being made a political counter-weight to what has been termed as the Sino-Russian dominance of the Asian heartland. When the Indian Prime Minister declared that the Commonwealth should no longer be taken for granted, this was certainly the clearest indication that group interests and a balance of power within this institution was taking shape and that the institution itself is therefore no longer what it was.

The Times declared in an editorial that "the fact is that on two of the main issues of the world today, the division of the world into Communist and free, and racial questions, there is serious division. The future of the Conference needs to be reviewed in the light of this". And it is well to examine these questions. In Europe the essential "policy of advantage" being pursued by the United Kingdom and supported by the majority of the Commonwealth appears to be one of the maintenance of military pressure against the Soviet Union—the strengthening of NATO bases from Turkey to Northern Europe. Faced with this pressure and the internal dissensions within the Communist countries, the Soviet Union may be forced into a position of agreeing to couple accord on disarmament with a reopening of the German question, that is, of the reunification of Germany. Such a cynical pursuit of policy particularly of linking disarmament with the question that is fundamental to the European balance of power, could certainly not receive any support from either India or Ceylon.

The reported anxiety of the United Kingdom at the growth of Chinese power in two directions and the counters to this as agreed to at Bermuda equally smacked of nullifying the basic claims of the Panch Shila. The Chinese have consolidated their military strength to the point of being regarded as a first rate power—their army is alleged to possess modern weapons and joint Sino-Russian planning is said to be a fact. Secondly, the 90 per cent rise in Chinese exports of consumer goods to South-East Asia between 1955 and 1956 indicated an expanding influence in that area. How to balance this and to ensure security in the Far East appeared to have raised the sharpest differences among the Ministers. The Americans had persuaded Australia to conclude a trade agreement with Japan because the United States regarded the economic health of Japan as vital to Far Eastern and hence Australian security. The strengthening of the allied forces in South Korea and providing them with nuclear weapons was to be construed not only as a redress to the Formosa riots but part of intensification of the policy of containing the alleged Chinese expansion.

Similarly, the estimation of what constituted peace and security in the Middle East not only raised questions of considerable complexity, but it also disclosed sharp differences of interpretation. The American incursion through Lebanon and Saudi Arabia for a basic change in the balance of power in that area was regarded by Britain not necessarily as a displacement of Britain in the Middle East but rather as an assumption of responsibility by America together with Britain to maintain Middle Eastern stability and contain Russian expansion. It is true that the American entry in the military committee of the Baghdad Pact was made on the condition that Britain ceased exercising any further influence or interest in Jordan but in British eyes this was inevitable. To India this movement was

necessarily one designed to break Arab unity, isolate Egypt, create a revolution in Syria and so reduce the area into one of permanent dependence on the West—a movement that flew into the face of Arab nationalism.

Such a background of disagreement certainly reduced the Conference into a demonstration of disunity and it would therefore have been very much wiser for the communique to have admitted, as **The Times** remarked, "that there are significant disagreements within the Commonwealth" than to present a dull catalogue of meaningless and, indeed, worthless platitudes. More important, the political disagreements, by the very nature of their seriousness, had pushed out the economic issues into the background and this was noticeably indicated by the fact that the Ministers in their press conferences made little mention of the economic matters before the Conference. Indeed, the impression one obtained was that while there might have been some examination of the European Common Market and Free Trade Area, the Ministers themselves had little knowledge of what these were all about. It was clear, however, that the provision of capital for investment in the Overseas Commonwealth and Empire was a subject dear to the heart of at least some of the Ministers. That Mr Peter Thorneycroft, the British Chancellor of the Exchequer, had presented to the Conference a particularly pessimistic essay on capital availability from the United Kingdom, was equally clear. He appears to have said that some £150m was currently being invested annually by the United Kingdom in the overseas Commonwealth and Empire and that the sparing of British resources to this extent was being achieved only by the most relentless control over investment within the British economy. Very little however of this annual capital availability is going to the non-white dominions and territories. The Canadian Prime Minister strongly indicated that he was expecting to counter-balance the weight of American capital interests in Canada by securing an ever larger proportion of the available capital from the United Kingdom. In a word, this crucial aspect of the Commonwealth talks remained inconclusive, if not unsatisfactory, particularly for countries like India and Ghana. The supposedly revolutionary proposal for a new Ottawa Economic Conference appears to have impressed some of the Ministers to an extremely limited extent. Finance Ministers who will meet in Ottawa after the September session of the I M F will only be concerned with the question whether there was a need for a new Commonwealth Economic Conference or not.

And so this session of the Commonwealth Prime Ministers' Conference has ended with little done but with a wide range of disagreements. The merit of a Commonwealth with this newer feature is difficult to appreciate and this is all the more so when a new constellation in the political balance within the association appears to be shaping.

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From U N Headquarters

The Report on Hungary

A SAD, sad thing, the Hungarian Revolution. They keep talking about it here all the time. Sometimes with a degree of heat, sometimes with a tinge of sorrow. Often with regret that a great struggle for freedom was strangled before it was a weekold. The two-volume report issued by the Special Committee on Hungary—that is its official title—has already become a best-seller among all United Nations publications. And no wonder. It reads like one of the old cloak-and-dagger mysteries of Philip Oppenheim. It is well-written, possibly with the definite purpose of reaping political advantage out of a tragic situation, but its readability cannot be challenged. It has all the elements of a best-seller: it deals with revolution, fighting and grim tragedy; it involves Eastern Europe and has the aura of political intrigue and double-crossing. Its hero is a long-suffering man who has the manner of a martyr and the indecisiveness of a Hamlet. And there is about the entire story a touch of greatness. And so they talk about Hungary, angrily, conscious of the fact that nothing can be done at the moment, conscious also that when the events themselves unfurled nothing useful was done either. So far as the western nations are concerned, the Hungarian Revolution was an exercise in frustration.

The Report, of course, has no hesitation in condemning the Soviet juggernaut for stamping out freedom's flowering in Hungary. But was the Soviet Union really so frighteningly despotic as it is made out? Did the Soviet rulers have second or even third or fourth thoughts on the subject? Were the schemers in the Kremlin evil per se or were they forced by circumstances to do the dirty job? The Report gives glimpses of the Soviet men in Hungary and especially members of the Soviet army. Take this, for example:

"At times the Hungarians met with sympathy from Soviet troops. Soviet forces normally stationed in Hungary or in Romania had been affected by their surroundings. Many a Hungarian had learnt some Russian—either at school, where it was a compulsory language or in a prisoner-of-war camp. They were able to reproach the Soviet troops, when occasion offered, for their interference in Hungarian affairs. The Soviet soldiers were, indeed, in a situation of some embarrassment. The civilians whom they fought included women, children and elderly people. They could see that the people were unanimous in their fight against foreign intervention.....some Russian officers and soldiers appear to have fought and died on the Hungarian side. . . . In some centres where Soviet garrisons were present but isolated, relations with the local inhabitants were amicable enough. On 28 October, Free Radio Gyor announced that the Soviet Military Commander had denied any intention of interfering 'in your internal political affair' adding that 'the rising of the Hungarian people against oppressive leadership is justified'. The Soviet Commander thanked the population for supplying milk to the children of the Soviet garrison and requested the people to notify him of any violation of regulations by Soviet troops. In conclusion, he assured the people of Gyor that the Soviet troops were not preparing to attack the city."

And again: "in Veszprem, the Revolutionary Council, hearing of rumours on 28 October that Soviet troops at the Hajmasker barracks were preparing to attack the city in order to reinstate the former officials, sent a three-man delegation to the Soviet Commander. The Commander deplored that at Varpolota, three Soviet citizens had been killed, but he recognised the right of the Hungarian people to choose their own form of government and to remove leaders who did not perform their tasks properly. He gave the assurance that, if the Hungarians refrained from attack, the Soviet troops would make no attack on Veszprem. The same Commander refused to give asylum to members of the AVH (the hated Hungarian Gestapo) who had sought refuge with Russian troops".

And yet again: "In the provinces, the evidence suggests that the Soviet forces were concerned rather to avoid conflict with the Hungarian people."

Reading between the lines it would seem that the Hungarian Revolution almost had the support of the Soviet Occupation Army. The Hungarian people had had enough of the Rakosi regime. Even after the abortive revolution of October 24—on November 8 to be exact—Sandor Ronai, Minister of Trade in Mr Kadar's Government was speaking of "the unscrupulous, sinfull policy of Rakosi and his clique". And Mr Kadar was saying in a broadcast on November 11: "I can affirm, speaking from personal experience, that there is not a single man or leader in Hungary today holding State or Party office, who would wish to restore the old mistaken policy or methods of leadership. But even if anyone should still wish to restore the old methods, it is certain that there is no one capable of doing this; for the masses do not want the return of the old mistakes and would relentlessly sweep from power any leader who might undertake such a task".

Kadar with Nagy

So, even before October 24, there was disagreement in Hungary with the official Hungarian policies, its subservience to the Soviet Union and the disagreement was rapidly developing into something like marked discontent. The discontent was local and did not need to be fanned, but the Report does not mention whether outside agencies did indeed fan the embers. Would there have been an uprising, if the people had not felt that they may get something more than moral support from the outside world? The Report does not answer this question fairly. That there was a strong movement to oppose the Rakosi regime there is no doubt. But would the movement have turned violent, if it was left to itself to resolve its own problems? This is a hypothetical question, but vital nevertheless.

That Kadar who subsequently opposed Nagy was completely with him during the first stages of the Revolution, no one questions. The Report, for example says this: "It appears that on November 1, following Mr Imre Nagy's abrogation of the Warsaw Treaty, a meeting was held between Premier Nagy and the Soviet Ambassador, Mr Andropov, in the presence of Mr Kadar. A discussion is said

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to have taken place between Mr Nagy and the Ambassador in the course of which the former indicated that his government stood firm regarding its declaration of foreign policy. In the discussion, Mr Kadar is reported to have given support to Mr Nagy, stating to the Ambassador that he realised that his future was now obscure, but that as a Hungarian, he would personally be prepared to fight, if necessity required it. He has been quoted as saying: "I will come down into the streets and us my bare hands to fight against your tanks". If Mr Kadar was so completely one with Imre Nagy, what made him turn round on his Premier? "In the main" the Report says, "the evidence indicated that Mr Nagy and his colleagues did not entertain suspicions of disloyalty on the part of Mr Kadar at that time. Witnesses have declared that Mr Nagy, upon hearing in the early hours of the morning of 4 November that Mr Kadar has established a Government, showed astonishment and even disbelief".

This is becoming, as Alice would have said, interestinger and interestinger. On the basis of the Report, the following facts are indisputable:

1. There was wide discontent in Hungary before October 24.
2. The Soviet Union was sympathetic towards this discontent and considered the expression of this discontent an internal question that the Hungarian people alone, without Soviet interference, were competent to solve.
3. The Soviet Army, stationed in Hungary, was not anxious to attack Hungary and indeed showed, in some cases, active sympathy for the Hungarian people.
4. It was admitted on all sides—including Hungarian leaders who left Hungary as refugees—that Hungary's natural ties were with the Soviet Union.
5. Both Imre Nagy and Kadar were agreed that there was no place for Soviet intervention where Hungary's internal problems were concerned.

Kremlin's Suspicions

In the face of this, the big question that the Report failed to answer is: Then why did the Soviet Union, knowing fully well that the world was watching it, take recourse to violence in Hungary? Competent observers, who have studied the Central European political scene for a number of years have an explanation. They say that somewhere along the line, the Soviet Union must have suspected, rightly or wrongly, that the Western Powers were actively interfering in the affairs of Hungary and possibly with promises of financial aid trying to "seduce" the administration from the Soviet orbit. They also say that the Imre Nagy Government—such as it was—was too hasty in proclaiming its 'independence' from the Soviet Union, without waiting to realise how that would be received in Moscow, ever suspicious that any 'defection' from the Soviet bloc would not only start a chain reaction, but might bring Western striking power closer to the Soviet border.

They further say that the Hungarian regime did not show the same sense of accommodation that the Polish people did and the same sense of diplomacy in easing out of the Soviet orbit.

Nagy's Haste

Hypothetical questions are again asked: had the Imre Nagy Government, instead of unilaterally denouncing the Warsaw Pact, first negotiated the withdrawal of Soviet troops from Hungary and then, along with other members of the Warsaw Treaty, sought to have it annulled and softened, would the Soviet Union have been frightened into intervention? Then again, had the Imre Nagy Government, when it proclaimed its "neutralism" defined the term in clearer terms as not meaning getting away from the Soviet Union, would there have been a stampede in Moscow? These questions are not answered. The Report says that witnesses deposed that many Hungarians who had been taken to concentration camps had been treated kindly by the Russians.

Again, in its conclusions, the Report has this to say: "The Committee has not found that feelings and aspirations were antagonistic to the Soviet Union as a state or to the Soviet people as individuals or that they excluded sympathy of a great many Hungarians for a number of features of the Soviet economic and social system." And then: "Although the idea of neutrality has been put forward, the precise implications of such an international status were not defined; it appeared to the Committee to be only one of the expressions of the desire of the Hungarians for vindicating the sovereign independence of a country virtually subjected to military occupation. Hungarian leaders who appeared before the Committee or whose statements have been examined have asserted the necessity for their country to maintain with the Soviet Union correct, and even friendly, political, military and economic relations and have indicated their readiness to give, in that connection, all the necessary guarantees".

Could to God all these were made more explicit right at the beginning how much of suffering would have been saved: the Report does not explicitly say this: but in one context it makes it fairly clear that the rulers in Moscow themselves did not seem clear about what action was necessary in the circumstances. In fact, at his Press Conference held



at the United Nations prior to the release of the Report, the Committee's rapporteuer, Mr Shann (the Australian delegate) said that it seemed to the Committee that there was a sharp rift on policy matters between the Soviet Army and the Soviet politicians. The Army—the Soviet Army, that is—was, apparently, reluctant to get into action. One report goes that when Mr Imre Nagy's representatives went to the Soviet Army Headquarters in Hungary to negotiate the withdrawal of Soviet troops ,they were received by the Soviet Commander with the utmost cordiality. Indeed, the Report says that the Hungarian negotiators, General Maleter, the Minister of State Ferenc Erdei, the Chief of Staff General Kovacs and Colonel Szucs attended a banquet given in their honour by the Soviet Military representatives at Tokol and the party evidently was going on famously when it was interrupted by the arrival of the Chief of the Soviet Security Police who entered the room accompanied by NKVD officers and ordered the arrest of the Hungarian delegation.

At this stage, it would seem, the Soviet Commander protested, saying that negotiations had gone on well for the withdrawal of the Soviet troops and that it was scandalous for his guests to be arrested without his receiving instructions from his superiors. He is believed to have been taken to an adjoining room, informed that instructions were specially received from Moscow and that he had better behave. How come that the Army leaders were not aware of Moscow's mind? According to one theory, Moscow was stampeded into action by the stream of propaganda from Radio Free Europe and hit back blindly. The Report does not describe the role of Radio Free Europe fully.

Radio Free Europe

On the role of the Radio Free Europe, the Report is indeed almost apologetic. It says: "Listeners had the feeling that Radio Free Europe promised help, although witnesses said clearly that it gave no reason for expecting military help.... It would appear that certain broadcasts by Radio Free Europe helped to create an impression that support might be forthcoming for the Hungarians. The Committee feels that in such circumstances, the greatest restraint and circumspection are called for in international broadcasting." It is hard to believe, in view of reports that appeared in the American press about the role of Radio Free Europe, that the Radio is not guilty of (1) giving the Hungarians false hope of military succour from the West and (2) giving the Soviet politicians reason to believe that if such help was forthcoming soon, they had better move in to consolidate their position before it was too late.

When the General Assembly or a special session of the Assembly is convened to discuss the Report, the role of Radio Free Europe might no doubt come in for more detailed examination. One question that many, who are by no means sympathetic to the Communist regime in the Soviet Union and who have the utmost sympathy for the Hungarians and who have felt outraged by Soviet action have often been asking is: are Western hands clean in this whole affair? Granting that the Russians were trying to put down an honest, spontaneous rebellion against tyranny, was it proper, correct and wise on the part of the West to give cause for the Russians, howsoever mildly on their own admission, to intervene? Western sources do not feel called upon to answer this embarrassing question.

West Also to Blame

The cause of freedom in Hungary, it would seem, has now received a setback, but impartial observers say that the blame rests not only on the Soviet Union, but also on the Western Powers who have for long been seeking even rightly to foment insurrection in the Communist countries. The lesson of Hungary seems obvious: It is that a people living under tyranny, must work out their salvation under their own steam and the rest of the world must be content to watch the struggle, patiently, ever trying to be constructively helpful, never seeking to goad the tyrant to more acts of tyranny. There are many who feel that this is the counsel of frustration; but considering that the Western world dared not actively interfere in Hungary without provoking a Third World War, and all that it succeeded in the matter was to encourage the Hungarians to invite suffering on their heads, there is much to be said even for the counsel of frustration. What is sad to observe is that this lesson does not seem to have been taken in Western circles. They still think in terms of calling the Soviet Union over the coals and the Kadar Government to question. What concrete things will be achieved by this performance is not known but it is an eloquent commentary on how the West proposes to solve the ills of the world by its well-meaning but blind ways.



Tea as Weather Maker

R K Hazari

THE problems faced by plantations, including, among other things, recurrent 'crises' in the tea industry, led the Government to appoint the Plantation Enquiry Commission in 1954. Its Chairman was Shri Madhava Menon, I C S and its other members were Prof M V Mathur of Jaipur and the late K G Sivaswamy. Its voluminous Report was published in 1956 with a long minute of dissent by the late K G Sivaswamy, who did not feel that he need be over-polite to the industry.

India is the largest producer and exporter of tea in the world. Production in 1956 is estimated at nearly 664 mn lbs against 668 mn lbs the year before and only 606 mn lbs during 1950. Corresponding figures for exports (in mn lbs) are 523.6, 367.5 and 403.2; these earned for us foreign exchange worth Rs 143 crores, Rs 114 crores and Rs 72 crores during the respective years. The industry employs more than a million workers and contributed about Rs 33 crores to the Central exchequer during 1956-57.

The principal problems of the tea industry are the excessive concentration of ownership and control in foreign hands, high prices for the consumer at home and abroad, high managerial costs, difficulties of finance for the smaller producers and, most important of all, the urgent need of replanting to replace old tea bushes.

Foreign Control

Though the earliest Indian-owned tea plantation is said to date from 1876, the Indian share in the industry is still quite small. Sterling companies control 63 per cent of the acreage under tea; together with foreign-owned Rupee companies, their share comes to 70 per cent. Another 12 per cent of the acreage is controlled by companies which are partly Indian and partly non-Indian.

Thirteen leading agency houses in Calcutta control over 75 per cent of tea production in the North; out of these, seven companies control more than 50 per cent and five companies as much as 36 per cent of production.

Eight agency houses of producers in Calcutta with their associate firms purchased over 50 per cent of the tea auctioned at Calcutta in 1954.

85 per cent of retail distribution of packaged tea is controlled by two leading firms.

Auctions are in the hands of four European brokers about whose charges the Indian section has some complaints. They earned a profit of more than 100 per cent on their paid up capital and lent Rs. 2.5 crores to producers, thereby controlling their produce for sale. They act as brokers for buyers as well as sellers.

Warehousing is a monopoly in the hands of a single company which is a producer and exporter as well.

Transport from the Northern gardens to Calcutta is in the hands of a foreign steamer company and the Indian section is said to be dissatisfied with its services.

In 1952, only 12 per cent of tea exports were on account of Indian firms. 99 per cent of exports by non-Indians and 88.6 per cent of those by Indians were sent through British exchange banks which played an important role in internal finance as well. The U K wholesale market is concentrated in the hands of a few buyers on whom the London principals of Calcutta agents exert considerable influence

Between 1939 and 1953, non-Indian shareholding in most leading companies has come increasingly into the hands of institutional investors while Indian holdings continue to be principally in the hands of individuals. At the end of June 1954, of the total amount of Rs 113 crores (paid up capital and reserves) invested in the industry, Rs 72.55 crores or 64.2 per cent was non-Indian and the remaining was attributable to Indian nationals.

Out of a total number of 6,569 registered tea estates in India, more than 80 per cent are less than 100 acres but these account for only 4.47 per cent of the all-India total acreage and 1.34 per cent of the total production. The largest number of estates below 100 acres are found in Madras, Kerala, Kangra (Punjab) and Himachal Pradesh.

High Costs and Profits

Compared to 1950, costs in 1953 were 11 per cent higher for the country as a whole, but they were lower than in 1952 when a depression intervened to force a cost reduction, a generous portion of which was borne by Labour. Costs in the South are lower than in the North since production in the latter is possible for only eight months in the year. There are considerable differences of costs among the tea gardens in the North, where costs vary from Rs 162 per 100 lbs for Director-controlled public limited companies to Rs 136 in the case of sterling companies, and only a part of this difference is attributable to variation in quality. The yields and costs are, in general, lower on small compared to large estates. The costs of non-Indian estates are particularly high under General Charges and Selling Expenses. Of profits after tax, including commission to managing agencies, the latter formed 19.4 per cent in 1950, 14.5 per cent in 1953 and 11.5 per cent in 1954—the proportion diminished in the last two years because of boom profits.

Gross profits (including managing agents' remuneration, etc, but excluding depreciation) as per cent of gross sales amounted to 33.5 in 1950, 17.2 in 1951, 2.6 in 1952, 35.0 in 1953 and 48.9 in 1954, giving a period average of 30.5 per cent; dividends as per cent of paid up equity capital for the respective years have been 18.6, 12.0, 6.9, 16.7 and 34.1, with a period average of 17.9 per cent. During these five years, 58.8 per cent of the profits after tax were distributed, a figure higher than in shipping (40.8), iron and steel (42.7), paper (43.4) and engineering (49.8).

High Prices

While the Commission expressed the hope that reduction of costs through lower managerial expenses and Indianisation of senior staff would facilitate expansion of the home market and the maintenance of our competitive position abroad, the dissenting member had a different tale to relate. Sivaswamy held that this high-cost, high-profit structure with depleted reserves was being maintained deliberately through

The search is on...

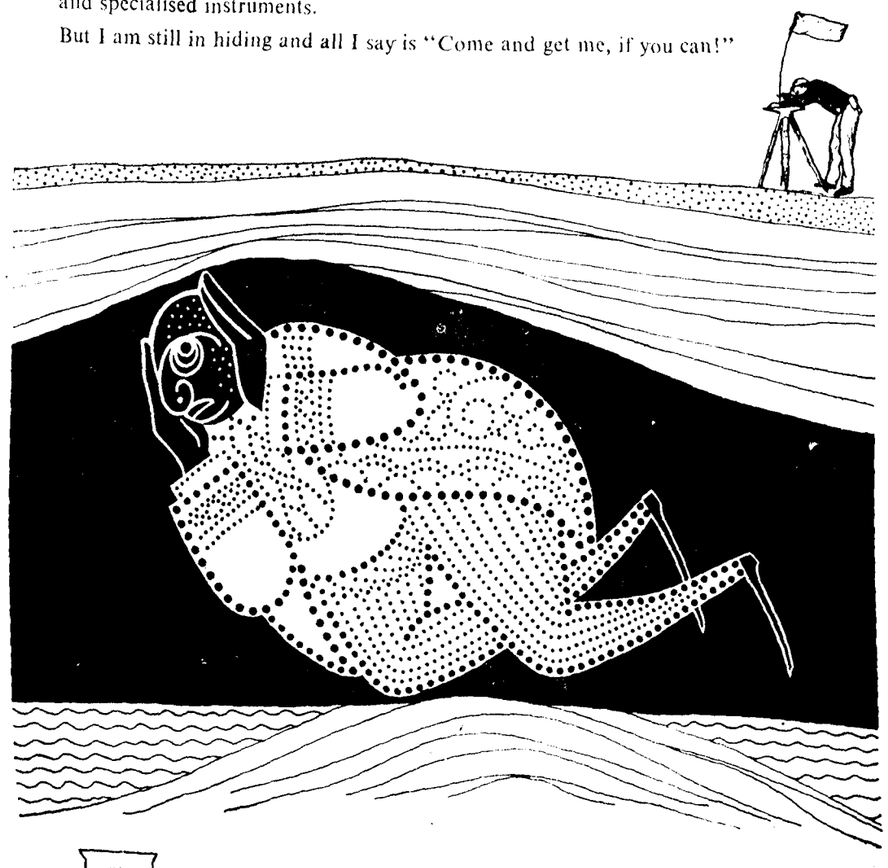
by Adipocere

(Pronounced 'adi-po-saire')

I am all over the world, but hidden well inside the earth's crust. They keep on looking for my various forms, particularly petroleum...and in fact, at this very moment, a search is going on in India. In West Bengal, STANVAC are trying to pin-point me in an area of 10,000 square miles. They have been at it for 3 years and their top geologists and scientists have brought along a whole stream of complicated instruments and equipment and are spending enormous sums of money (I overheard, way above me, some talk of their having spent fifteen crores of rupees already). They think they'll find me!

I never went to College, but years and years of experience with these tough oilmen crawling all over has taught me the methods they use to trap me. Broadly speaking, surveys are geological and geophysical. The first is like X-raying the earth below, and the second is an instrumental and scientific method of locating my actual hide-out. Such terms as Seismic, Gravimetric, Magnometric and other jaw-breaking words cover this process and mean a whole lot of highly complex and specialised instruments.

But I am still in hiding and all I say is "Come and get me, if you can!"



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a high price achieved by collusion among the leading firms controlling the London and Calcutta auctions. The International Tea Agreement of 1933 among producer combines in India, Indonesia and Ceylon prohibited expansion till 1948 except to the extent of ½ per cent. and that too only "where the existence of a tea estate would be otherwise imperilled". Along with voluntary restrictions, the effect of this Agreement has been to keep supply consistently below demand and thus fetch high prices.

Given this objective, the industry has naturally been allergic to expand investment by ploughing back its earnings. This concentration of control has enabled the oligopolists to raise the prices of average and low grade tea at home as well as in the U K, and thus cover their high costs. That these are no fantasies is confirmed by the U K Monopoly Commission Report and by such statements from industrial spokesmen as, that in 1956 "the balance of overall supply and demand seemed to be in danger of favouring the consumer at the cost of the industry"; thereupon, it was decided that plucking should cease three to four weeks earlier. This "self-discipline", among other things enabled prices to "improve" (sic).

Arrears in Replanting

Perhaps the most serious consequence of this restrictive policy is the tremendous backlog in planting new tea bushes to replace those dating before 1910, which account for more than one-half of the total tea acreage. This lack of attention towards the primary requirement of the industry's productive assets amounts to nothing less than systematic dis-investment and repatriation of capital, for the proportion of old bushes is much higher on non-Indian compared to Indian estates. The Commission's explanation is that this higher proportion is "due to the fact that they were the first in the field to take up tea planting. The Indian section came into the field much later." This is rather naive.

If the economic life of an average bush is taken at 60 years, replanting should take place at an average annual rate of 1.67 per cent. The actual rate of replanting during the 10 years ending 1953 was less than 1 per cent. The Commission was given to understand that the main reason for this slow progress is that "replanting has become so expensive that large sections of the industry are unable to launch on a programme on an adequate scale". In the plains, the tea bush takes about 5 years to start giving yield. In the hills, this period of waiting is longer and varies from 7 to 10 years. During this period, large expenditure has to be incurred, but no income is received. Since, however, the same considerations hold equally good in Kenya and Nyasaland where capital is flowing into from tea gardens in India, the financial difficulty which co-exists with high dividends appears to be only a part of a rather complicated story.

At an average rate of Rs 2,500 per acre, replacement of the pre-1910 bushes would cost non-Indian plantations about Rs 57 crores, while the working funds available with them are only Rs 35 crores. To make replantation compulsory as well as financially feasible, the Commission had recommended that tea gardens must lay aside a certain sum to be specified by, and deposited with, the Tea Board every year. Liability towards the Fund should not cease with the transfer of an estate and non-Indian companies should not be allowed to repatriate profits or pay large dividends without making provision for clearing arrears of replanting.

One of the difficulties in replanting is the shortage of quality seeds. The existing capacity of specialised seed companies would prove inadequate if the replanting programme is carried through. The Commission suggested that the Tea Board should take upon itself the responsibility of augmenting the supply of seeds.

Government Resolution

The Government of India, after giving "due consideration to the views expressed by the various interests concerned" has announced its decisions on the Plantation Commission's recommendations on the tea industry. The Government has rejected such suggestions as the abolition of managing agency for Indian owned gardens, the prohibition of withdrawals from reserve funds to distribute dividends and the lowering of the remuneration of senior executives. The justification advanced for this rejection is that "the facts elicited by the Commission do not justify the singling out of the tea industry for being treated in a way different from that applicable to all industries in general". The Government has also refused to abolish the system of transferable export quotas, but has declared its intention to eliminate or reduce its abuses.

The Commission's recommendation that the export duty on tea should be levied on the basis of the previous six months weighted average price of Indian Tea sold at London instead of the existing practice of taking only the preceding month's average price has not found favour with the Government. Among other important recommendations rejected are (i) the imposition of a ceiling of annual turnover of 6 million lbs of tea or the average of the last three years business (whichever is more) on packing firms; (ii) the early reduction of the proportion of tea sold in loose form, (iii) retail distribution by the Tea Board of 50 per cent of the packaged tea consumed in India. The implementation of these recommendations, in the opinion of the Government would not be in the interest of consumers.

Sivaswamy's dissenting recommendations that (i) large gardens, i e, those around 800 — 1000 acres, should not be allowed to expand, (ii) private sales and forward contracts should be enquired into, and (iii) a replanting target of 20,000 acres per year for the next 15 years should be fixed, have not been accepted because they would tend towards rigidity and restrictionism.

In Labour matters, the Government has practically rejected nearly all the recommendations of the Plantation Commission. Lawyers will continue to be barred from appearing before Industrial Tribunals, the recruitment and training on the job of workers will continue to be the exclusive responsibility of employers, while the initiation of time and work studies, and the further augmentation of welfare facilities have been labelled as 'premature' measures.

Packaged Tea

The Government has, however, proved quite amenable so far as the less 'radical' suggestions are concerned—particularly those which involve leaving perpetually crying babies with the Tea Board. It has been agreed that the Board should study the price structure of retail tea packets and "adopt appropriate methods or make recommendations to Government when prices are disproportionately high"; it will also be

asked to investigate the difficulties of small packaging firms and of economically weak gardens. Further, the Tea Board will study the circumstances in which Indian-owned companies have from time to time been wound up and will maintain close liason with trade bodies in lieu of regulatng auctions at Calcutta and Cochin as the Commission had desired. Among other duties to be performed by the Tea Board would be to assist the formation of primary credit cooperatives of small producers. In the meanwhile, the Tea Board has yet be reorganised to discharge all these onerous duties.

So far as the problem of finance is concerned, the Government has agreed, in principle, that the Industrial Finance Corporation and the State Finance Corporations in respect of long term finance and the State Bank in respect of short term finance should be more sympathetic towards the needs of the tea industry, provided the security offered against loan is satisfactory. The idea of a Land Mortgage Corporation for the tea industry alone has not found favour with the Government since the fortunes of such a corporation would be tied much too closely with a single industry.

Some recommendations of the Plantation Enquiry Commission, e g, "Tea Replanting Fund", are still under consideration. But the "Government do not consider it practicable to prescribe a rigid target of replanting as an annual figure or over a period of years".

Tea Makes Weather?

The impression will be created in some quarters that the Government has decided to give the longest possible rope to the foreign-controlled tea industry, not on its merits but in order to maintain and create a suitable climate for foreign capital.

Tea as a weather-maker may or may not have its points. To extend to it a privileged position would be to invite the criticism that other industries would find in it a convenient means of escape from public criticism. How good was the expert probe on which such criticism is based? The present decision of the Government of India should best be taken as a pronouncement on the findings of the expert Committee rather than on the doings or misdoings of the industry itself. And while doing so, it is better to remember that it was the then Minister of Commerce and Industry who was eager about this enquiry which, however, was not sponsored by the Planning Commission. It is no wonder then that the Government of India is not fearfully impressed by the Report.

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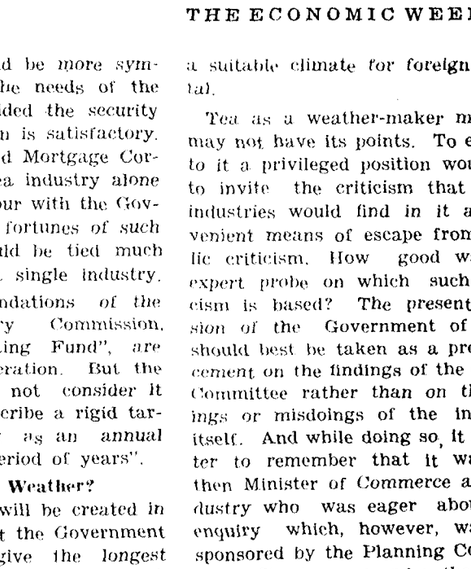
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Concept of National Income for an Underdeveloped Country

— A Reconsideration

Sukhamoy Chakravarty

THE purpose of this paper is to find out an operationally significant concept of national income for a developing yet under-developed economy. The word underdeveloped carries in this context its usual connotation viz. a low level of reproducible wealth per head of the population[1]. Underdevelopment is here regarded as basically a function of the deficiency of the capital stock of the community, while all other symptoms of underdevelopment such as low level of income per capita, stagnancy of techniques, etc., are subsidiary[2]. Now it is for such an economy, which is seeking to cut through the vicious circle of poverty by means of development planning, that we are trying to find out a suitable concept of national income. We assume that the process of development has already started and we would like to emphasise this point. In our opinion we may have altogether different concepts of national income depending on the structure and the stage of the economy we envisage. If the economy were completely stuck in a situation of underdevelopment equilibrium—this has only a partial resemblance with the classical economists' concept of a stationary state[3]—it is quite possible that our choice of national income and the dictating considerations would have been very different. But we are actually envisaging in this context some sort of development planning. Our task, then, is to relate the conceptual basis of national income studies with the rationale of development planning. Since the purpose of such planning is by definition none other than economic growth, it holds a fortiori that the national income totals relevant for planning should also be growth oriented.

In what follows we shall be concerned for the most part with the conceptual issues, leaving out for the present the task of finding out suitable empirical correlates. This, however, does not imply that the whole discussion is going to be conducted in a rarefied world of abstraction as is sometimes done in certain types of deductive economic theorizing. On the contrary, we believe the discussion will be largely operational for two main reasons. In the first place, we shall be concerned with only such concepts as are operationally meaningful in the basic logical sense of the term (P. W. Bridgman). And, secondly, we shall try to isolate those fields of economic activity which are relevant for purposes of development planning from those which are connected with it only in an indirect fashion.

The scheme of our discussion is as follows. In the next section of this paper we shall discuss some of the basic problems in national income analysis. The significant conclusion that emerges out of this discussion is that the most suitable concept of national income for a developing, yet underdeveloped economy is one which emphasises the crucial role of the process of capital accumulation. Having arrived at this conclusion, in the third section we shall subject the current national income concepts and practices to a searching criticism to make sure if the latter satisfy the growth requirements. The answer is in the negative. As such, we shall see if any alternative concept can be devised. With this end in view, the Soviet concept of national income will be examined. This will serve as a passage to the fourth section which discusses the classical concept of 'productive labour'. The operational significance of the concept of productive labour will be stressed. Finally the classical analysis will be so modified as to provide us with an appropriate 'field' for national income purposes. In conclusion, the uses and limitations of the redefined concept of national income will be explicitly pointed out.

II

The first point to note about the concept of national income is that there is no such thing as the national income. In academic pursuits we have been prone to use the word national income in the sense of the total net value of goods and services produced in an economy within a certain definite period of time (usually a year), after having maintained capital intact. This total has been looked at both from the income angle and from the angle of the value added. In the social accounting models, a third view-point is added, the expenditure aspect, thus providing us with a triple-entry balancing account. Recent works on national income analysis have been concerned with showing how the three views of the national accounts match. They have further sought to disaggregate the global amount of national income into sector components.

Since all the national income models are final demand models, this type of disaggregation is to be differentiated from the disaggregation a la Leontief which places its primary emphasis on delineating the physical characteristics of the industrial structure. Whatever may be the nature and extent of disaggregation, it is, however, evident that the sort of economic logic applied here is merely one of consistency. In other words, national income analysts do not generally raise the question, what does the national income seek to measure from the economic viewpoint? Rather, after having adopted a definition of national income from neo-classical economic writings, they try to find out certain rules which serve as checks on the internal consistency of the structure of items composing what they believe to be national income.

This practice has led to an exaggerated importance being attached to the formalism of the subject under consideration rather than to its context. The root of the trouble lies in the fact that the character of national income is not sufficiently unambiguous, unless we make clear the purpose for which the national income figures are to be used. No single overall measure of economic activity can provide us with information regarding every aspect of the total economic process.

As a matter of fact, the choice of any particular concept of national income hinges on four different types of basic considerations.



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First, which economic activities are to be included and which left out. Answer to this question enables us to delineate the universe of discourse within which we shall have to move. For the sake of brevity this may be called the problem of choosing the appropriate 'field'. (The word 'field' is used here in the fundamental logical sense of the term, and does not carry its usual mathematical connotation.)

Secondly, there is the question of finding out the appropriate principle of aggregation to be applied within the field. The necessity of this is obvious when one bears in mind the essentially heterogeneous character of the economic manifold. To ensure comparability, it is imperative that the basis of valuation should be the same in all cases. Since in economics, valuation coefficients for forming aggregates are generally dependent on the price-cost relationships, this brings into the picture all questions connected with the process of price-formation. The famous Hicks-Kuznets controversy on the concept of national income centred on whether to take market prices for the sake of consistent valuation or to use factor cost, if we want to interpret the national income figure as an index of productivity[4]. The debates regarding the question of including the government sector in national income calculation also bear on this issue of 'aggregation'[5].

Thirdly, we have the genuine index number problem when we want to ensure consistent valuation as between different years. This problem is usually confused with the earlier problem of aggregation. While both are related to the question of consistent valuation, the index number is specifically the problem of establishing intertemporal comparability. The idea behind this is to assess the performance of the economy in certain desired respects at successively different points of time. As is well-known, the problem is a particularly intractable one, especially in the context of change in preference patterns or methods of production. The way out is to tether it by making specific assumptions.

Finally, we have another intriguing problem: the problem of 'netting'. National income total is generally considered to be 'net' total. The emphasis on 'net' is due to the economists' preoccupation with the horizontal distribution of resources. In case we are interested in the question of the general vertical equilibrium of the economy, we need a gross production model, such as Marx's social product concept or Leontief's Tableau. In the current discussions of national income, however, we have two distinct concepts of national income, the 'gross' and the 'net', the gross differing from the net only to the extent that it includes the provisions for depreciation of fixed capital. This is an unduly restricted use of the term 'gross'. It is difficult to see how the problem of 'netting' can be satisfactorily resolved without explicitly bringing into consideration the purpose of economic activities. Whether we shall use the G N P or N N P in the usual sense of the terms will depend largely on the problem we have in view.

It should be apparent from the above discussion that there is nothing in the field of economic analysis to suggest that there is only one way of answering these questions. There may be several different yet equally legitimate answers to the above questions, each suitable for a particular purpose. Accordingly, there will result several different but equally meaningful concepts of national income. It is quite likely that they will overlap to a certain extent and thus form an interpenetrating set.

Now, the crux of the problem is whether the concept of national income from the point of view of economic growth is qualitatively a different one or whether the difference is just quantitative, concerned only with the denotational aspects of the question. The process of economic growth, however, does not take place in a sort of vacuum. There is no such thing as growth simpliciter, but growth taking place in an economy having for example a significant non-monetized subsistence sector, etc. There is the further question regarding the aegis under which the growth is fostered.

We do not envisage a fully planned economy having power of direct commandeering of resources.[6] As such, we have a combination of precapitalist and capitalist economies with a further breakdown into private and state. This thorough delineation of the specific institutional features of the economy we are considering is necessary as will be shown in the course of subsequent discussion.

Economic development is the contradictory of economic underdevelopment. Since a state of economic underdevelopment has been defined by the low level of reproducible capital per head of the population, economic development necessarily implies in the stock sense a high level of capital per head of the population. In the flow sense this may be expressed by the transformation of a low saving, low investing economy into a high saving, high investing one.[7]

The crux of the process of economic development, therefore, consists in raising the share of realised investment to national income.

Our discussion has brought into the forefront the classical problem of the accumulation of capital. Accumulation of capital is important in as much as it sets the pace of a self-expanding economic process. It follows, therefore, that the national income which is relevant as an indicator of economic growth is basically one which fits best into the model of capital accumulation. Let us now seek to examine the currently accepted definition of national income in Western countries and in India. Do the estimates of national income that serve as empirical correlates of this fundamentally neo-classical definition answer our quaesitum? Our answer is in the negative. We have got to elaborate the reasons. The current definition includes within its scope all that is produced in a certain community which is scarce in relation to demand. In other words, national income is the net value of

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such goods and services as are generally exchanged for money or are potentially capable of being exchanged for money. This provides us with a sufficiently comprehensive field within which to apply the principle of aggregation or as is commonly known, the method of weights. The weights generally are the market prices or factor costs. But the use of the word factor-cost is very innocuous. It means nothing more than the market prices minus indirect taxes. It never seeks to disentangle the genuine factor returns from quasi-rents or the regular monopoly gains from abnormal monopoly profits. Now, such a choice of field is singularly inappropriate for tracing the course of economic development. The weights are also designed more to confuse than to enlighten the real criterion of homogeneity that, indeed, makes the different items really commensurable. The justification from the traditional point of view has been a tacit unanimity regarding the nature of the economic problem. This unanimity was a historical phenomenon. After the central insight of the classical school had been lost, the neo-classicals proliferated a good deal on the allocative efficiency of the economic system. While the classical economists had been concerned with the maximisation of the rate of growth of income, the neo-classicals were preoccupied with the static maximization problem. Hence arose the reverence for the given consumers' preferences and the efforts to judge the performance of the economy with reference to its ability to satisfy individual's needs. This was the logical basis of the writings of such masters as Marshall and Pigou. What has been done subsequently is to erect an impressive formal structure of national income accounting relying on two internal checks provided by Keynes viz Y=C+I and S=I. But a rethinking of the foundations shows that these recent social accounting studies have a somewhat fragile basis. As has been already indicated, the nature of the economic problem in development planning is altogether different from the way the neo-classicals posed the economic problem. Hence the inappropriateness of the neo-classical concept. So much by way of general discussion. Let us now seek to analyse the deficiencies of the neo-classical approach from the point of view of long-term economic growth.

(To be continued)

References

[1] Creamer: **Income & Wealth Vol III.** Creamer has examined various possible definitions of underdevelopment and has finally hit upon the above definition as the most appropriate one. The merit of the above definition lies in focussing attention upon that particular feature of underdevelopment that is common to all the underdeveloped economies. Hence this may be regarded as basic.

[2] Undoubtedly there is a two-way relationship between low income and low capital stock. Compare, for example, the treatment in R Nurkse's **Problems of Capital Formation in Underdeveloped Countries** (capital-income). But we consider the one-way relationship stressed here to be more significant from the operational point of view.

[3] The resemblance is only partial because in the classical case both labour and capital cease to grow when the stationary state has been reached. But in an underdeveloped economy we have usually fastly expanding labour force coupled with a stagnant level of capital stock. The literature on the classical stationary state is extensive. Compare J S Mill: **Principles;** Baumol: **Economic Dynamics;** Pigou: **The Classical Stationary State.**

[4] Kuznets S: **Economica,** 1948, Hicks J R: **Economica,** 1940, 1948.

[5] Kuznets S: **National Income,** A summary of findings—N B E R.

[6] Schumpeter: **Theory of Economic Development.**

[7] A high saving, high investing economy does not imply a low consumption economy. High saving rates may be attained both in the course of as well as at the end of a process of economic development. But the difference between the two situations is that in the former we may not have a high level of consumption while in the latter we are likely to have high saving coupled with high consumption, for the steady level of realised income in that context will be high.

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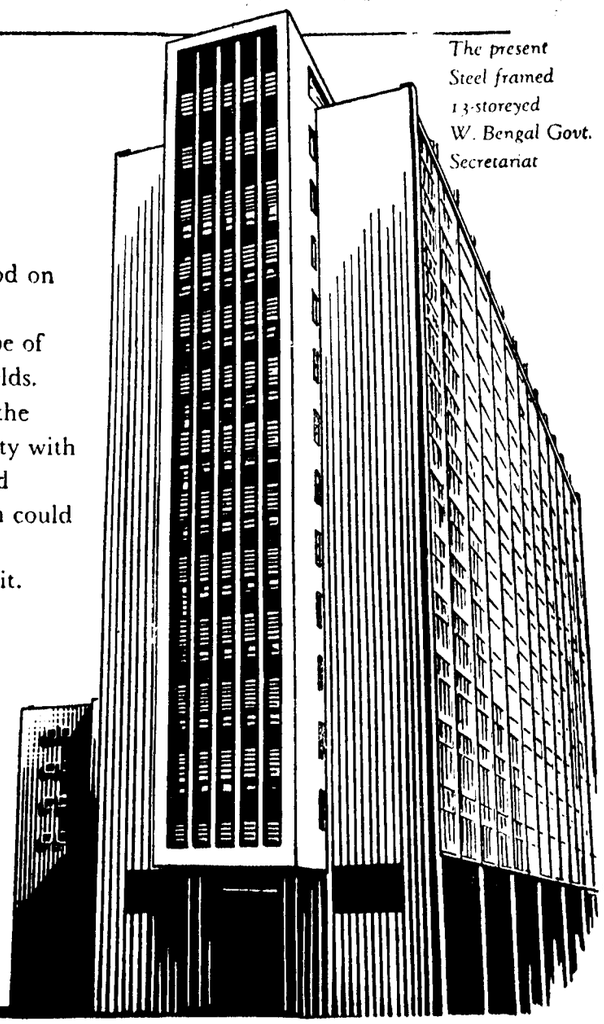
" Where now the city stands,

there was once naught but the city's site. " OVID

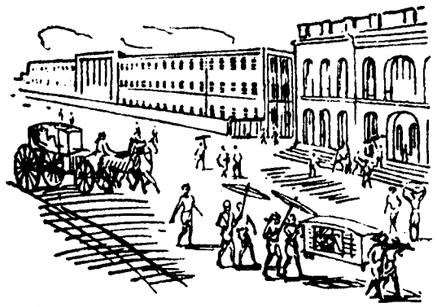
Calcutta

On August 24 1690, when Job Charnock stood on the banks of the Hooghly, he saw before him a depressing landscape of mud hovels, swamps, and paddy fields.

On that very site has risen in the course of the years a pulsating city with heavy industry, modern transport and busy docks—a metropolis which could have made little progress but for STEEL—thousands of tons of it.



The present Steel framed 13-storeyed W. Bengal Govt. Secretariat



Scene before the old Secretariat—18th century

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INDIAN IISCO STEEL

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From the Chair

The Metal Box Company of India Limited

Review by the Chairman — H. Chiswell Jones, O.B.E.

THE Twenty fourth Annual General Meeting of The Metal Box Company of India Limited was held on Thursday, 18th July, at 59C Chowringhee Road, Calcutta.

The following is a copy of the Review by the Chairman, Mr. H. Chiswell Jones, O.B.E., which has already been circulated to members.

Sales

Sales for the year were a record at Rs. 567 lakhs compared with Rs. 495 lakhs last year. All Branches showed commendable initiative in attracting and meeting the increased volume. Government spending continued at a high level and not unnaturally as the economy expanded considerable strains appeared; the prices of consumer goods advanced over a wide front and the foreign exchange situation deteriorated sharply. In fact, the last quarter of the year was dominated by foreign exchange considerations affecting the fortunes of our customers as well as our own raw material supply. Restrictions were imposed in January on the import of a variety of consumer goods calculated to save many crores of rupees in foreign exchange, creating a gap in the internal supply of packed consumer goods which must be bridged by increased local production. This is a challenge which your Company and its customers can readily meet provided sufficient raw materials particularly tinplate, are available.

We recently explored the more promising of the South East Asia markets and secured initial orders worth some Rs. 2½ lakhs. Substantial exports to these markets in the face of keen competition from U.S.A., Japan, Hong Kong and Europe could be realised through intensive sales promotion provided that a special allocation of tinplate for export was made available.

Also on the export front, goods packed in our containers are making an impressive showing. In the year to March, 1957, goods to the value of Rs. 4 crores were exported in containers of our manufacture, the quality of which was, in every case, an important selling point. Prepared spices, cashews, edible oils, paint, pharmaceuticals, foodstuffs and toilet goods went to all five continents and there is still scope for a considerable expansion of these exports. Additionally there is the opportunity to increase the value of exports of products which at present are exported mainly in bulk. India is well equipped to supply consumer-packed goods of the highest quality and it is the export of these that should be officially encouraged so that this potential can be fully exploited with benefit to the foreign exchange position.

Profit

In my last Review, I said that despite rising costs we hoped to maintain profits by increasing sales. Our efforts were successful and profits were held at the level of the previous year on a turnover increased by Rs. 72 lakhs. We began this financial year with a record order book and if we are not deprived of raw materials we should earn satisfactory profits.

Raw Materials

For most of the past financial year we were free from major anxieties in the supply of raw materials, though steadily rising costs and the necessity to keep an adequate stock level have produced their own financial problems. The value of our stock policy in these days of international anxiety and crisis may be judged against the American Steel Mill strike of two months last year—the Suez Canal closure with consequent disorganisation and delay in shipping schedules—and now import cuts here. Our stocks saw us safely through the 1956 crises. Our later performance will be determined by Government's import policy.

The production capacity of indigenous tinplate was expanded towards the end of the year by one additional rolling mill. Output, unfortunately restricted by labour trouble, was almost unchanged from the previous year and provided us with about 60% of our total needs—the balance came from imports. Further success has attended our efforts to achieve local production of other raw materials hitherto imported, and our dependence on imports is now near the irreducible minimum. Desirable as it is to conserve foreign exchange and support local enterprise, it is to be hoped that the policy will not be pressed to a point where quality and efficiency will suffer, as well they may, if consumers are forced to accept local substitutes without regard to quality or performance.

The past year has seen further substantial price advances in almost every raw material we use, either on account of higher manufacturing costs or increased freight charges following the Canal closure. Enhanced customs duties, and price increases through shortage of supplies resulting from import restrictions, have also contributed to raising our cost of production.

Employee Relations

The clamour during the reorganisation of the States and more recently, the General Elections, had an unsettling effect upon labour. Despite this, we have had another year of industrial peace at all factories. There was a steady increase in the consumer price index throughout the year, and adjustments were made in the emoluments of our employees.

Training in all its aspects and at every level, continues to receive a great deal of our attention. Qualified T.W.I. instructors are working at our two largest factories, and the continuous training classes there will shortly be extended to the other factories. Members of our staff have taken courses in scientific management at local Universities and the Company is working closely with Management Associations in four States. Our U. K. consultants, The Metal Box Company Limited, afford unique training facilities for our young Indian managerial, technical and scientific staff. More than thirty have now received training in this way, and many more are planned for the next few years. We have special apprenticeship schemes covering all skilled operations in our factories, and we have recently offered to train a number of skilled artisans for the Government Steel Plants.

All this adds up to an expression of our belief and faith, that, given

education, training and opportunity, workers will through their own efforts and initiative demonstrate their fitness to play an increasing part in management. All our full-time Directors, and the majority of our senior executives and technicians began their careers with us in junior positions. We are proud of their success and we believe it is a major factor in our good employee relations, and in the high level of production in our factories.

Last year we introduced a Long Service Award for employees who have completed twenty years continuous service with the Company. On the occasion of the first presentation no less than thirty-two employees received a Rolex watch and certificate. To all employees whatever their length of service, I send my thanks for another year of sustained effort.

Development and New Projects

We made progress with our development items during the year. Our industrial component section was improved with the opening of a new self-contained manufacturing department. In Calcutta equipment was installed for the manufacture of aluminium tubes and we have recently commenced the extrusion of aluminium components for the radio industry.

To meet the demand for quality printed polyethylene bags a new three colour printing machine was installed and further equipment for producing pouches from laminated materials is due to arrive shortly.

The R. S. or Roll Seal Pilferproof and Non-pilferproof Closures continue to gain popularity and are now generally accepted as attractive, easily-applied and, in the case of the former, effectively tamper-proof seals. Our Technical Development Section have designed and produced two new closing machines with rotating heads which keep the bottle or can stationary to avoid spilling during the sealing operation. They are already popular with customers and in considerable demand.

In pursuance of our efforts to foster the canning industry we have engaged an expert from the U. K. who will assist in the solution of the problems of the industry. His services will also be available to those government organisations pursuing processed foodstuffs development. We have presented to the Central Food Technological Research Institute a mobile demonstration van in connection with a pilot scheme aimed at educating the urban population on the wholesomeness and use of canned foods. Government have been examining a proposal to subsidise the cost of cans for the processed food industry, to the extent of one-third of the cost of the tinplate used. This scheme aims at saving a considerable proportion of the present wastage of fruits and vegetables, estimated at between 15% and 20% of the total crop, stimulating horticultural production and providing the public with a round-the-year supply of fruits and vegetables at reasonable prices.

Our Research Division has made good progress in the task of improving finishes and developing indigenous materials to replace products hitherto imported.

Consultants

During the last year our consultants, The Metal Box Company Limited, London, have made available to us the services of a number of their Directors and senior staff in connection with revaluation of assets, training of staff in the U.K., research and the overhauling and recalibrating of all our printing ovens. I take this opportunity to express to them our appreciation of their continued valuable services.



Company Meeting

Shree Digvijay Cement Company Limited

Speech of the Chairman, Shri B D Somani

THE following is the extract of the speech delivered by Shri B. D. Somani as Chairman of the Twelfth Annual General Meeting of the shareholders of Shree Digvijay Cement Co. Ltd., held at Sikka on Thursday the 11th July, 1957.

Gentlemen,

The profits for the year under review are Rs. 20,92,170|- after making a provision of Rs. 17,02,689|- for depreciation. I may mention here for your information that this year's profit will not be liable to tax on account of development rebate and depreciation allowance to which the Company is entitled.

Last year's production of Clinker and Cement was 2,36,598 tons and 2,47,174 tons respectively.

Since 1st November 1956 the Power House at Sikka has been taken over by the Bombay State Electricity Board and I hope the extension programme undertaken by them would soon be completed to relieve one of our major difficulties to meet our full requirements of power which has no doubt affected our production as well as smooth and regular working of the factory.

The Railway transport situation has considerably improved in the year under review, but still difficulties do exist and we hope that with the active co-operation of the Railways we would be able to improve the working of this factory still better than before. I may also add that due to shortage of coastal shipping we have been experiencing difficulties in transporting our cement from Sikka Port to the consuming centres like Bombay City and other places.

The second extension programme undertaken by us has been more or less completed and now our actual rated capacity has reached over 4 lakh tons per annum. However, the Company would be able to achieve full production according to rated capacity only after the completion of the power extension scheme as well as the sea-sand reclamation programme already under execution.

Sand Rope-ways and other equipments have already arrived at site and the Jetty construction work, which was considerably delayed due to shortage of necessary crafts, has now taken a concrete shape and before the end of this year we should be able to complete this programme which will remove one of our major hurdles in bringing sea-sand which is our main raw material.

It will not be out of place to mention here for your information that the progress of your subsidiary Company—The West Coast Paper Mills Limited—is quite satisfactory. The factory construction work is going on with full speed and already the Plant and Machinery have started arriving at site. Barring unforeseen circumstances it is hoped sometime by the end of next year the Paper Project should also be able to go into production.

Over and above this, your Directors have also thought it proper to launch a new scheme which is very closely connected with the cement industry and that is manufacturing of Asbestos Sheets and Pipes. The whole scheme has already been put before the Government and the matter is under active consideration of the authorities. You are no doubt aware that in a tropical country like ours, Asbestos Sheets as well as Pipes have a very important role to play in all development programmes more particularly for the development of industries and townships. There is an acute shortage of these products prevailing in the country and we hope the project that is going to be sponsored by your Company would play its due role in the development programme of the country.

The country has embarked upon a gigantic and ambitious nation building programme in the Second Five Year Plan in which both cement and steel play a very prominent role. The target laid down for the cement industry in the Second Five Year Plan is 16 million tons and the development of this industry is exclusively reserved for the Private Sector. There is no doubt that given the necessary resources as well as facilities for import of Plant and Machinery the cement industry is capable of achieving this target during the Second Plan period.

The cost of manufacturing Cement continues to rise steadily from all directions. Over and above the increase in the Railway freight and cost of Coal, Diesel, Petroleum, Oil and other increase in labour cost etc., the additional imposition of other taxes like dividend tax, wealth tax and the tax on bonus issue are some of the measures which to my mind are going to adversely affect the capital formation in the Corporate Bodies and Private Sector who are to-day in great need of the requisite resources to finance the expansion and development programmes of their respective industries.

I hope that the Tariff Commission which is now examining the price structure of the Cement Industry would sympathetically consider and take into consideration

Table Showing Price Structure of Cement

	Rs.	Rs.
Price of bulk cement paid to the manufacturer ex-works		53.50
Excise Duty	20.00	
Equalization Fund levied by the State Trading Corporation for the purpose of subsidising the imported cement	12.78	
Sales Tax & General Tax payable to the State Government	7.34	40.12
Packing charges		13.72
Average Railway freight		15.00
Selling organization		2.50
		Rs. 124.84

the actual need of the industry particularly for expansion and development programme which has already been laid down before the industry as the target to be achieved in the Second Five Year Plan.

Due to abnormal increases in the prices of Plant and Machinery and very meagre resources left with the Private Sector due to heavy incidence of present day taxation it is becoming more and more difficult for the existing as well as new comers to expand or to start new factories. May I therefore request the Government to realise the magnitude of this problem and the same must receive the immediate attention of the authorities if the actual industrial development has to take a concrete shape as envisaged in the Second Five Year Plan. Ways and means must be found out for strengthening the internal resources of the Corporate Bodies as well as setting up of other machinery to assist the industry in overcoming the financial difficulties experienced by the Private Sector more particularly for the deferred terms of payment as acceptable to the foreign countries.

The actual price of loose cement paid to the cement manufacturer ex-works is to-day more or less on the same level as that of 1948|1949



in spite of the fact that the cost of manufacturing has gone up in almost all the elements, such as wages, fuel, stores, spare parts and transport. It will be really interesting to give a picture of the present price structure of cement in the industry (see Table).

One can reasonably ask how far such a prohibitive levy of Rs. 40.12 per ton can be justified for a commodity which plays such a vital role in all development programmes.

I submit that the cost of cement and steel should not be increased in such a manner which will put a heavy additional burden on the development of the new projects.

N.B. The above extract of the speech does not purport to be the report of the proceedings of the Twelfth Annual General Meeting of the Company held on 11th July 1957.

Around Bombay Markets

Equities Recover

Thursday, Morning

OVER the past one month, equities have done more than recover their values; they have become steady once more. The predominant mood in Dalal Street now is one of subdued optimism, fortified to some extent by the feeling that the Finance Minister is eager to cultivate the capital market on the eve of floating a large new loan. The market actually expects two loans aggregating Rs 100 crores, one short-term of about 5 years at 3.75 per cent and the other maturing not later than 1975 at 4 per cent. Among the States, Bombay has a reasonable chance of success at around 4.75 per cent. There is a strong probability that all loans except the 5 years' loan may be offered at a slight discount. At present, the gross current yield on 1970-75 Paper stands at 3.50 per cent while the gross redemption yield stands at 4.12 per cent.

It is difficult to assess how generously the Life Insurance Corporation and the State Bank will support the new issues, but so far as the scheduled banks are concerned their improved liquidity holds out favourable prospects for the loan programme. The cash ratio of scheduled banks now stands at 9.60 per cent compared to 8.50 per cent at the corresponding period of last year, while their investment ratio is significantly lower at 26.38 per cent against 32.14 per cent. The Reserve Bank's circular advising contraction of credit during the current slack season and the expected increased tempo of deficit financing should help banks replenish their gilt-edged portfolio.

Significant Recovery

The accompanying Table shows that the prices of leading equities are now higher than they were before the Budget. Most of them are actually 10 to 24 per cent higher than their post-Budget bottom levels. Apart from technical factors like the relative paucity of floating stock, the principal reasons responsible for this improvement are the seasonal easing of monetary stringency, the announcement of the IBRD loan for railway development, the possibility of some credit from London, absence of new taxes in the Bombay budget, and hopes of tax relief held out by the Finance Minister. Bullish sentiment has, of course, played its part, too, as may be expected. At present levels, nevertheless, there appears little room for any further improvement in values, for yields of market leaders are already down to around 5 per cent.

Increased turnover at Dalal Street is reflected in the fortnightly Clearing List for settlement on July 6, the number of scrips in which exceeds that in six previous Lists. The expansion is due principally to greater trading in Great Eastern, Indu Ordinary, B B Petrol, British India, Scindia Steam, Indian Copper and Ahmedabad Electric, the results of which have not come up to market expectations. There has been an impressive decline, on the other hand, in the sales of all Tata shares (except Tata Oil), Indian Iron and other leading scrips.

Money Eases

Over the four weeks ending July 12, the note circulation has declined by Rs 38 crores to Rs 1543 crores and 'Balances held abroad' by Rs 32 crores to Rs 29 crores. The drain of our exchange reserves thus continues more or less unchecked. Unadjusted deficit financing over these four weeks amounted to only Rs 13 crores (Central Government deposits + 1, Re coin + 2, Investments + 12).

Returns of scheduled banks for the four weeks ending July 5 indicate that net demand deposits have declined by Rs 2 crores, while net time deposits have risen by Rs 14 crores. Cash has gone up by Rs 10 crores while Investments and Advances (including inland and foreign bills purchased and discounted) have gone down by Rs 6 crores and Rs 20 crores, respectively. The greater availability of liquid funds is reflected in the increase of Rs 3 crores under Call and Short loans. Borrowings from the Reserve Bank have declined by Rs 14 crores, of which borrowings against usance bills account for Rs 8 crores.

Cotton

Activity Revives

VIJAY June terminated officially at Rs 783 on Monday, June 24 after shooting up on hectic bear covering from Rs 800 to Rs 872 the previous Saturday. The new Moglai contract opened at Rs 690 on Sunday, June 23 and hovered around that level for a week till it was reported that the Forward Markets Commission had given an assurance of non-interference. The daily turnover at Kalbadevi during this period varied from 5,000 to 12,500 bales; the latter figure was reached on Friday, June 28 when Ahmedabad interests purchased 10,000 bales of U S cotton at Sewri. From Monday, July 1 onwards, bulls dominated the market but took care to realise profits at short intervals, thus making for irregular movements. The underlying trend, however, remained unmistakably upwards, the contract moving up from around Rs 695 on Saturday, June 29, when the Commission's assurance was said to have been received, to between Rs 715 and Rs 720 at the end of the period under review.

The alternation of buying and realisation is attributable largely to two conflicting factors. On the one hand, the carry-over this year is re-

latively small and the next year's crop is expected to be delayed by three to four weeks on account of late sowings, while, on the other, reports of satisfactory rainfall in cotton growing areas hold out hopes of a significantly larger crop. Whichever way this conflict is resolved, there is no doubt that Kalbadevi has regained its pristine enthusiasm for speculation. The daily turnover has never been less than 5,000 bales over the past week.

Oilseeds

Professional Support

THE underlying trend in Groundnut and Castor has shown some divergence over the past four weeks. The former has been firm, barring periods of bull realisation, on ready support influenced by vanaspati demand at high prices for even inferior grades. The latter has remained steady only due to self-inspired speculative support and sympathy with Groundnut, for there are still no signs of a revival of foreign demand. Groundnut August has moved between Rs 171 and Rs 180 and Castor September between Rs 158 and Rs 179.

The market in oilseeds, particularly in Groundnut, is volatile and displays two characteristics. The first is that while buyers are many and diffused—even the leading vanaspati manufacturer accounts for less than 10 per cent of the total vanaspati demand—sellers are few and extremely fond speculation **qua** speculation, an activity that derives support from fluctuating export demand. Secondy, the control of oilseeds trade, in addition to high concentration, has close links with all oilseeds, with the result that seed prices generally move up or down together, with little attention to the real statistical position of individual seeds. So long as these conditions continue, there is little hope of stability in the market.

Caltex Refinery

The Caltex Oil Refinery at Visakhapatnam has placed in operation the Polymerization Unit. This marks the completion of all major process units.

All processing units of the refinery are now in operation and about 4,50,000 Imperial gallons a day of high grade petroleum products are being produced for the Indian market.

PRICES & YIELDS OF LEADING SCRIPS

	Closing Rates (Rs) July 16	May 31	% change + or -	Current net yields % June 30	Apr 30
Gilt-edgeds :					
3% Conversion	73.00	73.40	- 0.6	3.02	2.96
3% 1970-75	85.20	86.95	- 2.0	2.51	2.50
3% 1966-68	91.00	91.70	- 0.8	2.43	2.40
4% Bombay 1967	99.25	99.50	- 0.3	2.94	2.93
Banks & Insurance :					
Baroda	102.50	102.00	+ 0.5	6.8	7.0
Central	55.00	51.75	+ 6.3	6.5	6.9
Pb-National	55.25	52.50	+ 5.2	7.3	7.6
India	139.50	137.00	+ 1.8	5.7	6.0
New India	42.75	45.00	- 5.0	6.8	6.2
Textiles :					
B'bay Dyeing	579.50	524.50	+ 10.5	4.3	4.6
Century	443.00	402.00	+ 10.2	5.0	4.8
Kohinoor	279.00	290.00	- 3.8	6.1	5.6
Nat Rayon	236.25	216.25	+ 9.3	6.0	6.2
Engg & Mines :					
Tata Steel	178.50	156.00	+ 14.4	6.0	6.1
Tata Loco	157.00	142.00	+ 10.6	3.8	4.1
Indian Iron	20.40	18.35	+ 10.2	4.8	5.0
Hind Motors	7.20	7.10	+ 1.4	-	-
Premier Auto	89.50	87.00	+ 2.9	6.4	6.8
Indian Copper	3.56	3.40	+ 4.7	7.5	11.0
Shivrajpur	82.50	78.25	+ 5.4	9.6	8.7
Others :					
ACC	160.25	154.50	+ 3.7	6.2	6.2
B B (Old)	608.00	534.00	+ 13.9	6.7	7.0
B B (New)	217.50	200.00	+ 8.8	7.2	7.5
Tata Chemical	18.15	16.30	+ 11.4	4.1	4.7
Belapur Sugar	234.50	220.00	+ 6.6	6.6	7.0
Walchandnagar	257.00	244.00	+ 5.3	8.0	8.4

United Nations

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Around Calcutta Markets

Precarious Balance

Wednesday, Evening

FOR the first time in recent weeks, equities listed on the Calcutta Stock Exchange developed a hesitant trend, though Dalal Street remained relatively firm. There are reasons for the relative steadiness in Dalal Street. In recent weeks, the Life Insurance Corporation has devoted more attention to Dalal Street. This is not because the head office of the Corporation is located in Bombay. But, on comparison, some shares quoted in Dalal Street are better "buys". T I S C O, for instance. At current levels, T I S C O yields more than I I S C O. Why, then, should the Corporation not purchase T I S C O in preference to I I S C O?

In retrospect, it is apparent that the Life Insurance Corporation has succeeded in stabilising equities at around the eight per cent yield level. With Bank Rate at four per cent, with bank advances rate at between 5½ and 6½ per cent, an eight per cent yield level for equities is not too high. Current levels for equities discount fully the recent increases in taxation. Other things remaining the same, the current level of equity yields can, and should, be maintained, and should induce investment support.

Slump Halted

It is not the function of the Insurance Corporation to generate a boom in equities. T T K seems to have a preference for Rooseveltian ideas. That explains why he hopes that the Corporation's policy should lead to a gradual and permanent elevation of equity values. It will be readily admitted that the Corporation's activities have succeeded in halting the slump in equities. There has been a decided change in the market sentiment. T T K, who was regarded at the time of the budget as an enemy of industry, is now occasionally congratulated on his concern for the rentier.

So far, not so bad. But has there been a genuine revival of confidence in markets? That is doubtful. Whenever the Corporation enters the market, speculative scrips steady-up. In sympathy, sound cash scrips also look up. But the improvement is almost always short-lived. And equity values recede as the Corporation withdraws from the market. To date, it is clear that the Corporation has succeeded in placing a bottom for the market. But investors still remain timid.

Questionable

Purchases of sound equities by the Life Insurance Corporation have had a healthy effect on stock markets. To start with, the Corporation purchased only blue chips like T I S C O, I I S C O, A C C and similar other "growth" equities. It was a wise policy. It helped to regain stability in equities. Such support by the Corporation was justifiable by the strict principles of investment. With purchases by the Corporation, the floating stocks of these active scrips have dwindled. Speculators are less able to manipulate price movements. To support the Corporation's policy is, however, not to concede some of its latest activities.

That technical market factors should be taken into consideration in shaping the Corporation's policy of lending support to the market, will not be denied. But such considerations are not the sole or prime governing factors. To lift the load of floating stocks from the market, is not the main motive of purchases of equity by the Corporation. Yet, in recent weeks, the Corporation is reported to have bought shares of a certain group of the engineering industry, whose main motive can only be to remove the hanging cloud of stocks over the market. Nor is the reported move by the Corporation to buy outright some groups of shares through secret negotiations beyond controversy.

Tea Shares

Three weeks ago, it seemed that the spurt in Tea shares might have a sustaining influence on Lyons Range. Speculative scrips were then moving up. Purchases of equities by the Life Insurance Corporation were then in full swing. Both these influences acted and reacted upon each other to cause a firm trend in equities. But subsequent developments have indicated that the strength in Tea or in any other group of shares alone cannot maintain steadiness in equities without occasional and timely support to the market by the Insurance Corporation. In the absence of such support, equities have developed an irregularly lower trend. Tea shares have also turned hesitant.

Weekly auction prices continue to be steady. But, in the current week, both the demand and prices of tea have eased slightly. However, the demand for tea is expected to be satisfactory. Dividend disbursements are also anticipated to be encouraging. In the main, however, the recent spurt and the current steadiness in Tea shares are due to the Government's rejection of the main recommendations of the Plantation Enquiry Commission. Assured of the continued existence of the managing agency system, there is now more optimism about the tea plantation industry.

Coal and Jute Shares

That the Government's decision to allow an interim rise in coal prices had no "bullish" effect on Coal shares, was not surprising. Such an interim increase in prices had been discounted long ago. Never firm, Coal shares have developed a sagging trend in sympathy with the easier tendency in equities in general. Coal shares have become a problem for Lyons Range. A further rise in coal prices is likely. That may cause a temporary spurt, but the long-term outlook for Coal shares does not seem to be promising.

That Jute shares continue to be inactive is not as surprising as the resilience in jute goods. Despite an increase in stocks of jute goods with mills over June last, in spite of a sharp fall in production in that month, the gunny market has quickly recovered the ground lost a few days ago. In a way, holders of Jute shares may welcome the recent behaviour of the gunny market. But the strength in gunnies seems to be mainly speculative. Overseas demand is not improving. Meanwhile, raw jute continues to be firm, though prices have tended to be easier along with the progress of the monsoon.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1551.49	1542.17	1587.94	1482.50
2. Rupee Coin	125.67	126.58	124.15	107.33
3. Deposits				
a) Central Government's	53.18	51.80	54.65	54.23
b) Banks'	75.89	82.14	68.62	50.56
c) Other Governments'	4.47	8.25	1.41	4.77
d) Others'	149.69	119.78	87.18	12.64
4. Foreign Securities	412.52	412.52	412.52	636.61
5. Balances held abroad	37.41	40.82	33.95	41.87
6. Rupee Securities	924.81	924.81	949.81	718.62
7. Investments	218.52	216.81	170.49	37.31
8. Loans and advances to Governments	26.40	23.88	24.80	2.95
Scheduled Banks				
1. Demand liabilities (net)	712.13	701.09	719.04	632.00
2. Time Liabilities	553.02	551.01	523.03	452.88
3. Cash on hand	42.38	40.80	39.40	40.67
4. Borrowings from Reserve Bank	62.09	64.40	80.79	53.22
of which against Usance Bills	50.21	52.08	58.16	37.57
5. Advances and Bills discounted	864.93	864.60	874.46	710.01
of which State Bank's	182.74	183.80	189.19	134.26
6. Invst. in Govt. Sec.	332.71	332.96	340.63	347.63
of which State Bank's	105.51	105.51	105.60	100.33
Cheque Clearance	153.28	150.05	138.46	132.05

†For Reserve Bank and Cheque Clearance week ended 5-7-57. Scheduled Banks week ended 28-6-57.

Bombay Money Rates

	28-6-57	21-6-57	31-6-57.	29-3-57
Call Money	$3\frac{1}{2}$-$4\frac{3}{4}$	$3\frac{7}{16}$-$4\frac{3}{16}$	$3\frac{7}{16}$-$4\frac{7}{16}$	$3\frac{7}{16}$-$3\frac{11}{16}$
From banks	4-$4\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{5}{16}$	$3\frac{3}{4}$-$4\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{7}{16}$
From public	3-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{5}{16}$	3-$4\frac{7}{16}$	3-$4\frac{5}{16}$
Three Months	2-$4\frac{5}{16}$	2-$4\frac{5}{16}$	2-$4\frac{7}{16}$	2-$4\frac{5}{16}$
Six Months				

Bombay Bullion

(In Rupees and Annas)

	18-7-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	106-10	105-13½	106-6	101-1
Forward	105-15	105-8½	105-1	100-11½
Silver (per 100 tolas)				
Spot	179-6	177-3	182-10	171-11
Forward	180-2	177-15	180-6	172-4

JUTE STATISTICS

(1956-57)

	May	Apr.	Mar.	July '56 to May '57
Production ('000 tons)				
Hessian	35.6	36.2	36.0	396.0
Sacking	45.0	44.8	43.1	484.5
Others	6.7	5.8	5.6	64.6
TOTAL	87.3	86.8	84.7	945.1
Total production in the Corresponding months of:				
1955-56	101.7	98.9	99.3	996.1
1954-55	81.7	85.7	88.9	917.6
Stocks at the end of the month ('000 tons)				
Hessian	40.4	35.1	29.8	—
Sacking	57.7	58.3	56.5	—
Others	10.6	10.8	11.4	—
TOTAL	108.7	104.2	97.7	—
Total Stocks at the end of the Corresponding months of:				
1955-56	119.7	107.9	95.0	—
1954-55	94.9	103.4	94.6	—
Despatches:†				
Hessian	30.5	30.6	31.3	394.8
Sacking	46.2	43.1	48.4	511.8
Others	6.0	5.3	4.3	53.1
TOTAL	82.7	79.0	84.0	958.7
Total despatches in the Corresponding months of:				
1955-56	89.0	81.3	92.8	956.5
1954-55	89.6	76.0	76.7	904.1
Raw jute consumption: (lakh bales of 400 lbs each)				
1956-57	5.12	5.17	5.17	55.54
1955-56	5.89	5.45	5.79	57.86
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	47	32	23	4.41
In corresponding months of:				
1955-56	21	27	18	1,162
1954-55	95	100	73	954
Indian	416	386	294	5,208
In corresponding months of:				
1955-56	385	376	405	4,592
1954-55	179	219	255	4,110

† 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 29-6-57	22-6-57	1-6-57	30-6-57
Food Articles	**438.1**	**430.5**	**436.3**	**373.4**
Cereals	563	553	562	475
Pulses	401	403	402	361
Others	286	280	283	245
Industrial Raw Materials:	**540.9**	**539.9**	**541.7**	**481.8**
Fibres	528	532	534	470
Oilseeds	594	590	581	537
Minerals	580	555	586	435
Others	396	396	401	421
Semi-Manufactures	**413.0**	**410.6**	**413.5**	**395.5**
Leather	400	400	414	401
Mineral Oils	223	223	230	208
Vegetable Oils	603	605	600	553
Cotton yarn	482	480	480	473
Metals	345	344	347	328
Oilcakes	461	428	429	426
Others	373	373	374	361
Manufactures	**391.6**	**392.4**	**392.5**	**377.4**
Textiles	413	415	415	409
Jute	434	443	433	381
Cotton	416	416	416	419
Rayon & Silk	406	406	424	453
Woollen	283	283	283	264
Metal Products	407	407	407	379
Others	316	316	316	286
Miscellaneous	**601.5**	**563.5**	**570.7**	**545.4**
All Commodities	**441.2**	**437.3**	**440.1**	**402.1**

INDUSTRIAL DISPUTES IN INDIA

Year/Month	Disputes	Workers involved	Working days lost
1953	772	466,607	3,382,608
1954	840	477,138	3,372,630
1955	1,166	527,767	5,697,848
1955:			
Mar	112	70,042	334,696
Apr	105	32,432	333,275
May	120	68,441	961,776
June	152	91,269	1,144,011
July	111	55,260	660,492
Aug	236	90,218	533,999
Sept	251	92,619	580,031
Oct	134	47,600	214,214
Nov	99	48,609	178,112
Dec	129	45,277	239,550
1956:			
Jan	107	61,050	349,655
Feb	122	69,450	786,768
Mar	146	133,188	678,716
April	140	83,524	569,087
May	137	65,037	549,582
June	153	71,047	4,439
July	150	100,335	529,151
Aug	138	64,767	2,173
Sept	184	130,667	922,687
Oct	150	113,404	819,619
Nov	138	59,451	499,636
Dec	145	65,851	407,166
1957:			
Jan†	150	126,995	390,852
Feb†	114	82,320	205,196
Mar†	111	100,654	678,716

†Provisional

Sources: Deputy Labour Commissioner, Govt. of Bombay
Labour Bureau, Delhi.

WAGON LOADING

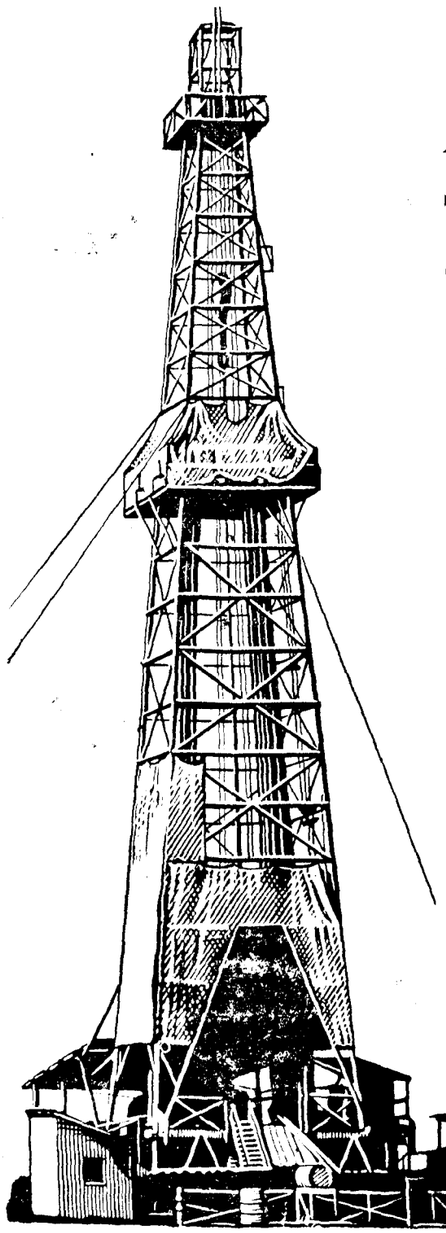
(In terms of 4-wheelers)

	Broad Gauge			Metre Gauge		
	May '57	April '57	May '56	May '57	April '57	May '56
A Revenue Earning						
Coal & Coke:	85,718	88,050	78,712	19,891	20,851	17,458
(a) For Public	240	254	278	—	—	—
(b) For Non-Govt Rlys	40,713	36,130	30,997	34,513	30,697	25,430
Grains and Pulses	6,469	7,024	7,834	7,634	8,217	7,291
Oil seeds	3,676	3,502	4,222	3,538	2,811	4,157
Cotton (raw)	2,597	2,315	2,091	1,701	1,275	1,200
Cotton (mfd)	6,109	5,634	4,192	5,655	4,456	3,208
Jute (raw)	642	655	392	659	648	487
Jute (mfd)	5,739	7,216	4,202	7,788	9,001	5,418
Sugar	9,044	11,902	10,426	16,222	28,469	16,051
Sugarcane	14,208	14,177	14,496	9,586	10,466	8,588
Cement						
Iron and Steel	1,174	1,276	940	509	571	554
(a) Pig iron	15,846	15,026	12,769	3,658	3,719	2,831
(b) Others	686	666	968	496	490	1,103
Tea						
Metallic Ores	6,230	7,999	4,570	2,132	2,035	1,627
(a) Manganese	16,557	17,650	14,259	3,472	3,094	2,541
(b) Iron Ore	1,601	1,420	1,570	1,160	670	1,122
(c) Others	141,453	143,778	129,779	118,419	119,911	103,724
Miscellaneous full wagons	35,035	37,186	34,597	27,699	27,647	29,472
Miscellaneous smalls						
B Non-Revenue Earning	22,571	20,946	20,330	19,519	18,599	13,577
(a) Coal for home line						
(b) Coal for other rlys & mfg units	34,196	32,590	27,268	626	792	520
(c) Other stores	15,189	15,347	15,756	8,917	9,066	10,225
Total	464,693	470,743	417,776	293,794	303,485	256,654

Source : Ministry of Railways

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Education in Kerala

THE controversy aroused by the Kerala Education Bill has spread far beyond the confines of the State. It naturally raises a doubt whether E M S was wise in departing from the convention of Cabinet Government of having only amateurs at the top in selecting Shri Joseph Mundassery as his Education Minister. For there is nothing really controversial in the Bill itself; it is the mover of the Bill who rouses controversy. Shri Mundassery is a distinguished educationist. For more than 25 years, he was a teacher in a private college in the State, and he was not just a teacher. An able speaker and a talented writer, he had rare courage which often brought him into clash with the management of the college and with his fellow litterateurs. Finally, he had to leave the college under unhappy circumstances. This background of his had naturally made some people ask, whether Mundassery would be able to take a dispassionate view of the teacher-management problem which has been brewing for quite a long time in Kerala as also in other States. This doubt in the public mind, Opposition has been trying to exploit. But for the Education Minister's past, Opposition would not have succeeded in working up an agitation even before the text of the Bill had been published.

A study of the Bill which has now been referred to the Select Committee does not show anything particularly new or revolutionary or even tendentious. A reform of education in the State had been long overdue and the present Bill minus Mundassery and the Communist Party would have raised no storm. It would have been accepted as a matter of course, except by the vested interests which were intended to be hit. The principles enunciated in the Bill are already in operation, in one form or other. The Bill seeks to codify them and to give proper directives for action.

Shri P T Chacko, the leader of the Congress Opposition in the Legislature, in his laboured address could not deny the existence of any of the evils for which remedies are sought in the Bill. The burden of his song was that this Government could not be trusted and that it would misuse the rules to be framed under the Act to further the interests of the Party. What Shri Chacko forgot was that under the Constitution, education is the responsibility of the State and no State can possibly escape that responsibility and yield to pressures from the private management. It is the failure of the Congress to carry out this and other long needed reforms which brought the Communists to power. Would it not be too much to expect the Communists to commit the same mistakes as the Congress? Far from going too far in curbing private management of educational institutions, the Communists have to heed the warning of P S P leaders like Shri Nambiar and Kurup that the Bill is not progressive enough! Shri Nambiar went so far as to ask for the abolition of private management of schools and colleges altogether.

The main object of the Bill is to give the teacher his rightful place in the scheme of things. Today nearly 50 per cent of the schools in Kerala are under private management. Government is giving private managed schools financial aid which runs to crores of rupees. It is paying to the management the full salary of the teachers but complaints are not infrequent that the teachers are not paid in full. There is no security of service for the teachers. In their appointment also, there is a lot of

nepotism and corruption. School buildings are not properly maintained. Many of the private managed schools, to say the least, are quite unfit to impart sound or any kind of education.

The Bill empowers the Government to pay their salaries directly to the teachers instead of paying through the management. All teachers are to be allowed pension, gratuity, insurance similar to those now enjoyed by teachers in Government schools. A third important provision is to eliminate corruption and favouritism in the appointment of teachers. The State is to prepare a list of qualified teachers and appointments have to be made from the panel of names selected from this list by the District educational authorities. Finally, Government will have the power to take over the management of any school which is not being properly managed, after paying legitimate compensation as required under the Constitution.

The main criticism against the Bill as may be suspected emanates from the vested interests and relate to the provisions in regard to the appointment of teachers and managements. There is one provision in the Bill, however, the criticism against which has been raised to the high level of constitutional propriety and basic principles. It is the proposal for restriction on the powers of the Court to hold up the implementation of these policies which has become the crucial issue. To ignore what is becoming increasingly evident, namely that pre-conceptions of a laissez faire State and economy have to be modified in a Welfare State, is to deny the inevitable. If Courts are free to issue injunctions and hold up the implementation of educational reform, the schools that are in the hands of corrupt and incompetent management could never be brought up to any kind of standard.

It is not in Kerala alone that educationists in their private capacity have rendered pioneer and yeoman service in the cause of education. But while recounting the services to the cause of education, one is apt to forget the greater sacrifices made by the poor school teachers. The Bill merely tries to lift the school teacher from his present fallen state to the status which is his due.

If religious sentiments are not dragged into the controversy, there is nothing objectionable in the Bill which cannot be set right at the Select Committee stage. The weakness of the Bill is that it is a compromise and that it tries to accomodate too many vested interests—private management, religious sects, etc—to the extent circumstances permit. It is, however doubtful whether the private management and the Catholic Church will appreciate it. No Government, whether Communist, Congress or Praja Socialist will be able to retrace the steps that Kerala is going to take. It is now for the private management to play the game.

Expertise of Import Control

SKILL formation is also a dynamic process like capital formation. Some skills one is born with, others are developed through long training and experience, still others come up under pressure, willy nilly, though here, as in other spheres of human endeavour, natural talent comes up in the end through a process of trial and error. In the process of capital formation to which planning, even partial planning is devoted and in that of administration of controls which accompany it, a new type of expertise is born. It may not be always rated high or even win much respect, but that it is necessary for sheer survival can hardly be gainsaid. One such is that of handling of import licenses. To repeat, this class of expertise may not command much social esteem but its usefulness cannot be called into question.

For those who lack this expertise, to try to read the Red Book which is the trade name for the publication of the Ministry of Commerce and Industry which bears the title "Import Trade Control Policy" or even the "Weekly Bulletin of Import and Export Trade Control" issued under the authority of the Chief Controller of Imports and Exports can be a misadventure that may land the unwary in hopeless confusion if not worse. But for those who have taken it upon themselves to watch and report on the economic scene as it unfolds itself week by week, such misadventures cannot be entirely avoided. It is part of the day's work.

The present essay in the mysteries of import control is doubly difficult because the license to which our notice has been drawn must be of more than usual complexity and not only because the licensee happens to be T T Krishnamachari and Co. The license in question appeared in the aforesaid Weekly Bulletin (for the week ending 18-3-57) issued on June 1, 1957 and the particulars are as follows:—Serial No 47; License No and dt: A 999246/57; The name of the party (already mentioned); Address 331/33, Thambas Chetty St, Madras; Country on which license issued: S C A (which presumably is an abbreviation for soft currency area); The value of the license Rs 50,500; and Description of Goods: Prestige Pressure Cookers in c k d condition; S No I T C Schedule—267 (A) /IV

Trouble begins from this point. According to available expert opinion (experts, of course, of the non-official variety), import of pressure cookers is completely banned. Many heads were put together to unravel the mystery of this particular license which is understandable, because of the name of the licensee and the reference to the Red Book also suggests this interpretation to the layman's understanding. The following details are given against I T C Schedule 267— "domestic hardware and stoves made of aluminium". Below this head there are two items (a) domestic hardware, against which for established importers is noted *nil*, and the remark that "applications from actual users will be considered only for 'Heat insulated cooking ranges' required for use in Railway dining cars, Tea gardens and canteens of large industrial concerns." And (b) "stoves and parts thereof", against which there is provision for 10 per cent of imports for established importers, quota for which will be calculated against this item on the basis of imports of "stoves of all types and parts thereof". There is also provision for actual users for burners for pressure stoves. Pressure cookers, particularly the ones bearing the trade name "Prestige" can hardly be defined as stoves. So this explanation is ruled out. This is also confined by the other condition of the license which has not been mentioned so far:— the

category of the importer is defined as that of "Actual Users". A commonsense interpretation could be that the party in question might be running a chain of canteens, hotels or hospitals for which all these pressure cookers were necessary. But if this be so, why should they be imported in c k d condition which suggests, again to a lay mind, some show of assembling (for there is nothing much to assemble) as preliminary to some manufacturing programme.

Now from Serial No 267 in the Red Book, if one moves down to 288, one comes across the following entry: "Domestic hardware and stoves not made of aluminium: (a) domestic hardware" Against this occurs the remark "... (iv) A U Applications from approved manufacturers of Pressure cookers for import of parts of Pressure cookers will be considered ad hoc by C C I in consultation with the Development Wing". It is possible that the printer's devil played a trick and all the expertise of the importing fraternity has been on the wrong trail. There is no means of checking up, for the Ministry does not publish anywhere a complete list of the manufacturers whose manufacturing programmes have been approved by it.

It is learnt on high authority that all applications from this firm which bears the Finance Minister's name go to others and that the Finance Minister himself has nothing to do with them. True enough, Caeser's wife must be above all reproach but it is difficult to stretch this principle to the point of demanding that no one who is connected with any Ministry on any business which he may choose freedom to make a living or carry on any business which he chooses and for which he may be best fitted. While it is not possible to cure people of their 'irregular' imagination or to remove prejudice for which there is no basis in fact, it is surely desirable that imagination should not be given a greater scope than is its legitimate due by allowing the printer's devil to play tricks or by withholding the full light of publicity from murky corners which need to be lighted Modern factory practice is to keep all corners and crevices shining clean. Experience has shown that unlit corners and dark crevices induce spitting.

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For those you leave behind

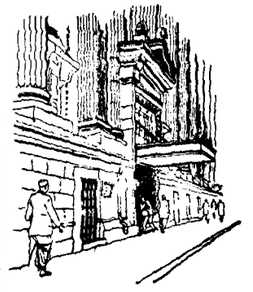
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Weekly Notes

New Loan Well Timed

THE new loan announcements have been well timed. For during the last two weeks there has been some evidence of the money market returning to form and showing those symptoms of the slack season which had virtually disappeared during the last two years. There has been some return of currency and though the money rates may not yet fully reflect it, stringency has lost its edge or looks like losing it pretty fast and banks are in a more comfortable position than they have been for a long time.

All this, needless to say, promises complete success for the new loans of which there are going to be only two and not three, which was one too many last year. Also the borrowing target is more modest this year being Rs 100 crores compared to Rs 150 crores last year, though the Government has reserved the right, which is sensible in the light of past experience, of increasing the loan amount by 10 per cent, if it wants to.

The loans that have been announced are one medium and one long term intended for the banks and other institutional investors respectively. The first carries interest at 3¾ per cent with a maturity of 10 years, being repayable in 1967 and the issue price for this loan, as expected by the market, has been put at a slight discount, viz, Rs 99.50. The other loan is of longer maturity, 15 years, and is repayable in 1972 and carries interest at 4 per cent but it is to be issued at par. The interest rates more than maintain the **status quo** and the yields are a shade higher than current yields on comparable stocks. While the three loans issued last year carried interest of ¼, 3½ and 3¾ per cent respectively, the new loans will carry an interest which is roughly half of one per cent higher.

Has there been much rigging up of the market for ensuring these flotations? Not really, considering the favourable turn in the shape of a return to the pattern of the slack season which had nearly been forgotten. But students of the money market might ponder over a certain significant development which has gone unnoticed so far, namely, the sudden and substantial increase in 'Investments' in the Banking Department of the Reserve Bank which started rising from the beginning of the financial year—the figure was around Rs 92 crores in the returns for April 5—by more than Rs 150 crores within barely four months. In the latest returns of the Reserve Bank 'Investments' stand at above Rs 246 crores. What does it really mean?

Investments in the Banking Dept

DURING these months, scheduled banks have not appreciably unloaded their investments. In fact, the investments of the scheduled banks in government securities have remained steady on the whole, and dropped only slightly from Rs 347 crores in the first week of April, to Rs 332 crores on July 12, the latest week for which returns are available. What does, then, this substantial increase in the 'investments' of the Banking Department really mean? Normally, one would expect Government borrowings from the Reserve Bank against treasury bills to be fully, or nearly fully, reflected in the rupee security holdings of the Issue Department. But there has not been any substantial increase under this head. Particularly intriguing is the decline—fairly substantial in the light of recent experience—under this head in the latest returns of the Reserve Bank. And it is even more intriguing, since it synchronises with a fall, again for the first time since the beginning of the financial year, in the foreign securities held in the Issue Department.

Barring a change in the technique of Government borrowing from the Reserve Bank, the substantial increase in 'investments' in the Banking Department can admit of only one explanation, namely some undisclosed changes in the Cash Balances Investment Account which, in any case, is always a mystery to the money market. It is possible that the various Government departments, in the States as well as in the Centre, have been liquidating their security holdings during this period, but one would never know. The magnitude of the investments would seem to rule out the only other plausible explanation, viz, that in anticipation of the new loans, the Reserve Bank had been buying up the maturing loans, though it is no secret that the bulk of the maturing loans has already been taken off the market. The payment for the new loans would be accepted either in cash or in 3 per cent 1957 or 3 per cent 1958 loans, the former at par and the latter at a slight discount, viz, Rs 99.70.

Cement Exports

THE contention that a limited quota of cement exports should be permitted which was discussed in these columns, last week has drawn the following rejoinder from "H P":

"While disagreeing with your correspondent in his plea for token export of cement you appear to have omitted to quote and answer his main argument. That is, in the present circumstances, what is more valuable, cement or foreign exchange? From the balance of payments crisis through which we are passing, it seems to me obvious that we are suffering from scarcity of foreign exchange even more than from scarcity of cement, for the former is threatening to shake the value of the rupee. Within modest limits if cement can buy foreign exchange, to that extent the gap in balance of payments deficit would be narrowed and we can only hope to close the gap by self-denial in different directions, however difficult such decisions might be. The growing pains of a developing economy compel us to sell commodities which are themselves in short supply, if the earnings from their sales can be put to a better use."

"H P" then goes to say:

"I will admit that this necessity has arisen only now in view of the rapidly dwindling foreign balances; if this fall is arrested and foreign exchange shortage is met from any other source, export of cement could not be defended under conditions of great internal shortage. This course obviously exposes us to other risks which we have got to face. But I submit we must fashion our list of priorities to suit changing conditions. Does not planning of economic development by best utilisation of scarce resources force us at each stage to take difficult or unpalatable decisions?"

Why No Exports of Bicycles?

AMONG the recommendations of the Tariff Commission on the bicycle industry, the most important, in view of the present foreign exchange difficulties, is the one calling upon the leading producers "to find out export markets for their bicycles in the neighbouring countries where Indian manufacturers enjoy a measure of goodwill". Though most important in the present situation, this is also the recommendation that seems to have the least chance of being implemented. This is not the first time that export of Indian bicycles has been suggested. As a matter of fact, the Development Council of the bicycle industry had set up an export target, beginning with a modest 1/4 lakh bicycles in 1956-57 going up by stages to a lakh machines in 1959-60 and an ambitious target of 1.80 lakhs in 1960-61. But not a single Bicycle has been exported so far, at least not up to January this year, the latest month for which export statistics are available. On the contrary, steady imports of bicycles have been recorded, imports for the 9 months to December 1956 being 1,15,464 cycles imported entire or in sections costing Rs 1,20 lakhs, the imports for the corresponding period of 1955 being 1,09,095 complete cycles valued at Rs 1,06 lakhs.

It is not that the high cost of bicycles made in India price them out from export markets. It may, but it is not clear from the data presented in the report that it does; for the heavy import content of bicycles made in India, particularly of the bicycles made by the bigger producers, leaves some scope for price reduction through the draw back on import duty on the materials which go into their making. There are the usual procedural difficulties of getting this draw back, of course. But these are not especial to this industry alone.

What appears to rule out India made bicycles from foreign markets is the tie-up of the leading manufacturers with their foreign principals. The existing agreements of Sen-Raleigh, T I Cycles and Hindustan Vehicles with Raleigh, Hercules and B S A respectively, debar them from selling outside the 'territories' for which they have been given manufacturing rights, the respective territories being in the case of T I Cycles Pakistan and Nepal and in that of Sen-Raleigh, Pakistan and Afghanistan. Politics rules out Pakistan as a market and there is hardly any export market left for either. These restrictive agreements are a bane of the sort of foreign collaboration which Indian industrialists were so eager to seek at one stage. But is it not high time to realise the folly of building up production capacity at a heavy social cost, the full exploitation of which is prevented by restrictions on export markets by prior agreement? In the case of the bicycle industry, this must be particularly frustrating since the Commission came to the conclusion that present capacity if fully worked, i e, worked double shift, would leave a substantial excess over estimated domestic demand.

Apart from price disadvantage, there is the same consumer preference for foreign makes which even today the Indian manufacturer finds such a handicap. And needless to say, as in other light engineering industries, manufacturers who find ready demand at home have little incentive to look for foreign markets. But this could be taken care of by suitable excise duties or a permissive measure of compulsion, e g, through a tie-up of the permits to import raw materials with the condition of compulsory export of a certain quota of production, the quota being suitably fixed so as not to press too heavily on the manufacturers.

Protection to Continue

THE bicycle industry was granted protection for the first time in 1947. In 1949, the general and preferential ad valorem rates were raised from 36 and 24 per cent to 70 and 60 per cent respectively and protection was extended to components as well. Their continuance till 1960 has been recommended by the latest Tariff Report. Since the last Enquiry in 1954, production in large units has almost doubled from 3.73 lakhs to 6.69 lakhs in 1956. Small units, the production of which is not available for the earlier year, produced 22,000 making a total of 6.91 lakh bicycles in 1956. The licensed capacity on the basis of single shift of large units expanded from 3.90 lakhs at the end of 1953 to 9.54 lakhs in 1956; including licences issued for small units, installed capacity will aggregate 17 lakhs bicycles a year, if all licensees fulfil their commitments.

There are at present over twenty makes of bicycles produced by large units and several others by small producers, most of whom concentrate in supplying spare parts for replacement demand. Though there are still some complaints about the poor finish, hard and difficult running, poor enamelling, etc, of indigenous makes, the Tariff Commission has concluded from the evidence available that (i) there has been considerable improvement in quality, (ii) manufacturers are increasingly quality conscious, and (iii) techniques of manufactures have improved perceptibly.

On account of the wide divergence of conditions in the industry, the Tariff Commission found it impossible to fix on a 'representative firm'. The fair ex-works prices of four indigenous makes, exclusive of tyres, tubes and accessories, for which cost data have been computed, vary from Rs 88.84 to Rs 126.52. To protect the latter against English competition, the duty required would be 46 per cent and against Japanese competition, 88 per cent. The principal reason for the high cost is that a large proportion of raw materials and components has to be imported by the industry. This proportion varies from 25 to 100 per cent, depending upon the quality of the bicycle and the scale of production. In the case of Sen-Raleigh and T I, the percentage is 100; for Hind and Atlas, it is 78 and 60 per cent, respectively. Since the four largest firms contribute nearly 70 per cent of the production, costs are inevitably high.

Now that many components are being progressively manufactured at home, and licences are being issued for the manufacture of other components, the Commission feels that standardisation and specialisation, with the necessary shelter of a tariff wall, will help the industry to attain self-sufficiency and to lower costs. Among the other measures suggested by the Commission to accelerate the industry's growth are (i) the encouragement of vertical disintegration to achieve economies of scale and specialisation, and (ii) greater liberality in the issue of import licences for raw materials and components to the smaller producers.

The Commission is distressed to find that the "consumer's" preference for bicycles of British make is so great that most buyers are pre-

pared to pay heavy premiums for them, and any English bicycle, irrespective of make," offers competition to any Indian bicycle of any grade". It does not therefore believe that the measure of protection granted to the industry is excessive and takes away the incentive to reduce costs and prices. In reply to the latter charge, the Commission argues that "internal competition in the industry is very considerable. Consumers are becoming increasingly conscious both of quality and price", and that this will ensure progressive performance.

Sales of bicycles in 1956 are estimated at 8 lakhs and are expected to rise to 14 lakhs by the end of 1960, increasing at the rate of 1.5 lakhs per year. Earlier estimates made by the Commission have proved wrong—the forecast for 1956 was only 4.50 lakhs and even if the present estimate proves to be correct, it will raise the problem of proper utilisation of capacity, in the light of which the possibility of exporting bicycles should be seriously considered.



Dakota's Successor ?

THE all purpose Dakota, a famous veteran of the air, the DC-3, released in very large numbers and at very low prices at the end of World War II, brought civil aviation within the reach of many countries just as the 'T' model Ford cars had done in the case of motoring a generation earlier. It was adapted to many and varied roles. But as its jobs are now gradually taken over by different other planes, its replacement—says the Society of British Aircraft Constructors—will have to conform much more closely to operators' individual requirements.

Viscounts, Herons, and Doves—to name but a few types—have partially replaced the Dakota in many parts of the world, but not yet fully satisfactorily. Now there is news of two more aircraft designed to supersede the aging DC-3. One is new, and the other just going into service.

The Accountant, built by Aviation Traders, made its first flight recently. It is, perhaps, the closest approximation to the DC-3 of all "replacements". Qualities such as sturdiness, long life, and flexibility go hand-in-hand with vastly improved performance and comfort. Powered by two Dart turbo-prop engines, the Accountant can accommodate up to 28 passengers, but can be easily converted to carry freight or a mixed freight/passenger load. It has a range of up to 2,500 miles and a speed of 295 mph.

Technical details of the Accountant were sent to all DC-3 and DC-3 type operators throughout the world in 1954. Since then there has been widespread interest in this aircraft, particularly in the Americas, including Canada.

There are two sorts of operators to whom the Accountant should make an instant appeal—those who expect their present traffic of about 22 passengers each trip to remain fairly constant, and operators averaging 15 or 16 passengers each journey who expect an increase over the next few years.

Aviation Traders say there are some 6,000 DC-3 and DC-3-size aircraft operating in the world, and a further 5,000 executive aircraft in the United States alone. Due to enter service in 1959, the Accountant will be available at a time when many of the operators of these aircraft are seeking new equipment.

Unstable Nepal

BECAUSE Cabinet crisis is not infrequent in Nepal, or because no single Party is yet in a position to form a stable Government, it does not necessarily mean that democracy is not likely to take root in that country. Two facts emerge clearly from developments since the abolition of Rana Rule. All the political parties and the people are interested in establishing a representative system of government. In their joint efforts, they have the active support of the present King who, like his father, King Tribhuvan, is a source of inspiration to political progress. But for the stable influence of constitutional monarchy, Nepal might have been plagued by worse political troubles. There is no unity among political parties. But they are all united in their faith in constitutional monarchy.

That Dr K I Singh has not succeeded in his first attempt to form a coalition Ministry, will not cause any surprise. Neither Shri B P Koirala's Nepali Congress nor Shri Regmi's Nepali National Congress is inclined to cooperate with Dr Singh's United Democratic Party. But King Mahendra has shown statesmanship in encouraging Nepal's political leaders to continue their efforts to establish democracy. Dr Singh, who had to flee the country as a rebel leader, is a tactful politician. He has openly disowned his former Communist inclinations. He is no longer hostile to close ties between Nepal and India. He accepts constitutional monarchy as a basis on which Nepal's democracy should thrive. That political parties would have different party platforms is only natural. But their common adherence to parliamentary government is encouraging.

King Mahendra is wise in insisting on holding the elections in October next. Only after the elections can it be known which Party has the support of the majority of the people. Only a general election can end the frequent Cabinet crises. In the circumstances, it is rather odd that the Gorkha Parishad alone is enthusiastic about the coming elections while other political parties are reluctant to seek a firm mandate from the people. Whether elections should be for Parliament or for Constituent Assembly is not as important as that elections should be held according to schedule. Meanwhile, political parties have a responsibility to form a caretaker government so that the King is not forced to continue to administer the country until the elections.

From Cyprus to Kenya

IT is not as surprising that Britain has, again, shifted her west-Asian military headquarters from Cyprus to Kenya as that this decision has not yet been accompanied by a gesture to Cyprus. Long before Britain quitted the Suez Canal Zone, London was preparing to fortify Cyprus as a military base. But it was not until after many years of tension and acrimonious debate that Britain finally quitted the Canal Zone on the argument that the Zone was no longer of much importance in these days of global atomic strategy. On the same argument, Cyprus should have been abandoned as a military base long ago. But this island continued to be occupied and fortified as a base. This policy aggravated tension in Cyprus. It led to estrangement between Britain and Greece. And all this was justified on the ground that amicable relations had to be ensured with Turkey, the main pillar of the Baghdad Pact.

Britain is sadder by the experience of using Cyprus as a base for launching aggression against Egypt. It was an unhappy reminder to Britain that a military base was of no use in hostile surroundings. But she is no wiser, for Britain has now decided to transfer her west-Asian military base to Kenya. Africans will not welcome this decision.

Errata

The Plan and the Budget
—A K Dasgupta
Special Number, pp 799-801.

Para 1, line 22-23. For "which are at once time consuming" **read** "which are at once time consuming and foreign exchange consuming".

Para 7, line 30. For "there is therefore ground for caution already" **read** "there is therefore caution already".

Para 8, line 4-5. For "imports have to be stopped" **read** "imports of luxury and semi-luxury goods have to be stopped".

Letters to the Editor

The Concept of Subsistence

I CANNOT help feeling that some amount of looseness still remains in Ashok Mitra's analytical effort in defining the term "Subsistence". His definition puts both the Smithian model of the 'rude state of society' and the Ricardian stationary economy in the same bracket. But, both historically and analytically, the initial level of the Smithian model and the final level of the Ricardian model have a vast deal of qualitative difference. Ashok Mitra is quite content in observing only the formal resemblance between 'the beginning and the end'.

The unqualified equation of 'subsistence' to 'the absence of surplus' is to my mind the source of all confusion. We cannot logically say that the economy 'emerges from subsistence' and 'finally slides back to subsistence' because, certainly, the 'beginning' and the 'end' are just not alike.

When Mitra writes that the Ricardian stationary state 'returns to the level of subsistence' he is taking an undue privilege of using the term 'subsistence' to designate a situation which has nothing to do with the traditional notions of 'subsistence.' There is, however, nothing wrong in denoting the stationary level by the term 'subsistence,' but then the same denotation must not apply to any other level. For Ashok Mitra, the absence of surplus becomes the essence of subsistence only tautologically. He would have felt less attracted by 'the lack of surplus at both termini' if he had given more thought to the fact that 'over this period of evolution the scale and character of production change tremendously'—to which he has made just a passing reference.

Samir Dasgupta

78, Harrison Road,
Calcutta-9.
June 4.

Ministers Being Duped

IN continuation of my letter published in the E W of October 6, 1956, I have to say that after a sincere effort and detailed study of the working of our Ambar Charkha Centre for a month and a half, we came to the conclusion that it could not fetch more than six annas per day to an average worker after 8 hours work. The claim that it would give 12 as to Re 1 per day for 8 hours work could not be proved. The village workers (women and girls only) felt grievously disappointed and we had to return 7 Ambar Charkhas out of 10 as surplus.

The Centre I had seen functioning last year at Patiala has also been closed for identical reasons.

I am surprised that Government is going in for another 1,76,000 Ambar Charkhas and is about to waste a colossal sum on this venture. I feel a good deal of bungling is going on at the top and Ministers are being duped.

A K H

Raipur,
Dehra Dun.
July 10.

Stanvac's New Oil Terminal

ADEN is expected to become the world's leading oil bunkering port outpacing New York, the present leader.

Ever since the dispute about Abadan, ships passing both ways through the Suez Canal had been increasingly refuelling at Aden where bunkering facilities have been greatly expanded in recent years. Thanks to its geographical situation and proximity to low cost refineries on the Arabian sea and Persian Gulf, Aden's bunkering trade has grown by leaps and bounds.

Tankers from Persian Gulf now feed this port and the new oil bunkering terminal built by Stanvac—the largest installation of its kind put up anywhere by the company—which went into operation last week will add considerably to these facilities. Price of both 'diesel and fuel oils' at Aden is much cheaper than at any of the other ports touched by the ships on the eastern run. Ordinarily, about 400 ships a month bunker at Aden.

U K Jute Prices Cut

UK JUTE Control has reduced the mark-up for hessians from 40 per cent to a flat 30 per cent. Announcing this decision in the House of Commons on July 17, the President of the Board of Trade said that :

"As a result, sacks made out of imported jute cloth will be cheaper. This will affect the production of the home industry unless it can reduce its costs. But if no reduction in the price of jute sacks is made, the market for them will inevitably be lost to substitutes."

The jute industry in Britain is protected by State trading. Jute Control is the sole importer of the great bulk of jute goods.

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A Calcutta Diary

Miss University, 1957

NEWS of the dispute over the age of Miss Gladys Zender—Miss Universe 1957—*came at about* the same time as the different constituencies were electing a senate for the hundred years old Calcutta University. The elections are over, *and there is no doubt* at all that the University is 100 years old—at least. There is something musty about the whole business, and the campaigning that preceded the counting of votes reminded one oftener of municipal elections. There was nothing in the least bit academic about the whole proceedings, and not a few of the participants were as far removed from University affairs as the Sudra used to be from the temples in the south. *Against* this background, Dr. Roy's *recent* denunciation of the entry of "politics" in the sacred field of education sounded rather empty except when it seemed *full* of *a wholly unintended meaning.* In the latter acceptation Dr. Roy was taken to mean that men with suasions different from his own or the Congress' were seeking *to disturb* the University's permanent settlement. A common error is to think that this system of tenure obtained only on land.

As for politics, they are no strangers in the University situated above the cloth shops and stationery stores opposite College Square *which has not only been* the unofficial retiring room for generations of students but also *the* venue of some of the best political speeches ever heard this side of Suez. Politics, let us face it, have never been absent *from* the thoughts of the thinking Bengali for a long long time, whatever the institution on hand, and Dr Roy's condemnation of politics in education was itself a political statement. Indeed, as one thinks of what has gone on one is inclined *to welcome politics in* university education even as one is ready to prefer open professionalism in Calcutta football to *the sort* of demi-*mondaine hypocrisy* of today.

* * *

Such pleasure as one has in repeating an unpleasant thesis proven right is entirely morbid, I have no pleasure at all in saying again that our poorest record is *in* the *self-governing institutions* and that Calcutta University is as good, meaning as bad, an instance of our national failure in this department as *any. In spite of producing some* of the greatest Indians in the past *hundred years—though most of them* before *self-government* came —the fact remains *that in its* management Calcutta University was *singularly* unfortunate even when it could take some pride in its academic attainments. The man responsible for making the *university one of* the best in the country in many ways cannot be wholly absolved of the *responsibility for* not a few of the evils which reign today *without* the relieving sight of countervailing virtues.

The fact is that as soon as you admitted the principle of non-academic control of this seat of learning *you admitted* a series *of forces* the nature of which began to manifest itself *in its* full ugliness only *with the* passage of time. The University became one more "position *of strength*" to capture from which to fight the battle of your choosing. The enemy could be the British, in which event you proceeded to produce graduates by the thousand in complete disregard of *academic* standards—for the *more frustration* you had, the *more your* recruits for *non-cooperation* or civil disobedience or what had *you.* Sometimes the battle was communal. *Never never was it* academic.

* * *

Politics, as I was saying, came *early.* And it was then but inevitable that the University *should go* through the same tortuous processes as politics did. The Muslim League tried its *worst to* weaken the vested interests in the University; the strength of the attack *astonished even the* attacker. As the Congress Party took over the administration *after independence, it too* sought to extend its control over the Univer*sity; and* Dr Roy, whose association with the *University,* especially its *finances,* was already close, can well claim that his writ runs in the University *too—as long as* it is not too much in conflict with the *interests which had entrenched* themselves earlier. It would have been surprising if the growing strength of the Left had not also *come into the arena.* This last element is what Dr Roy calls "politics."

In the *outgoing* senate the Left was represented *in* reasonable *strength;* the earlier vested interests remain where it was their birthright *(in more senses* than one) to remain. but the Congress had been caught napping. Not so this time. The Left, calling *itself Education* Reforms Association—for the pretence must be maintained that there is no politics—has this time been routed good and proper, and now we have a fusion of what may be called the vested interests and the investing interests. The University's financial dependence on the Government makes a mockery of academic independence, for our governments have not yet learnt to give without extracting a *rake-off in terms* of control.

Better or worse? Perhaps neither, Or, perhaps both. Leftist criticism, however loud, had not succeeded *in* securing the publication of the Sir B. L. Mitter report which is believed to have exposed the original vested interests in some detail. Now we *will hear* the criticism no more. The loss may *be only of our ears.* The massive Mookerjees remain, and Dr Roy co-exists with them. Did I hear somebody speak of education? The subject, sir, *is not* on the agenda. Order, order.

—Flibbertigibbet

July 23.

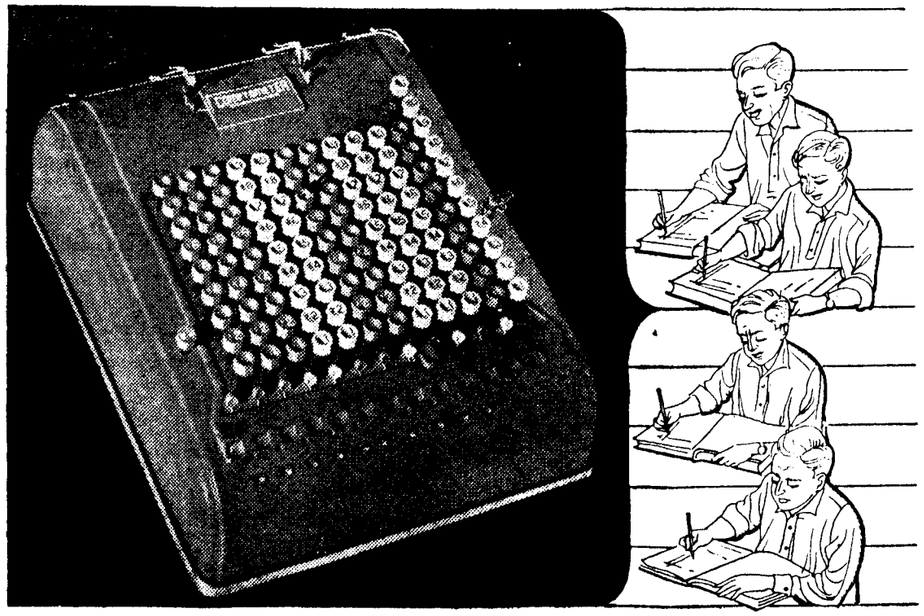
Punjab National Bank

THE working of the Punjab National Bank Ltd., for the half year ended 30th *June,* 1957 shows *all round* progress. *Deposits* as on 30th June, 1957 exceed Rs 117 crores showing an increase of Rs 11 crores. The total working funds of the bank exceeds Rs 152 crores as against *Rs 141* crores as on 31st December, 1956.

Subject to audit, the net profits for the half year, after providing for contingencies, amount to Rs 62.92 lakhs *including Rs 6.20 lakhs* brought forward from previous year's account as against Rs 49.23 lakhs (which included Rs 2.35 *lakhs* brought forward) for the corresponding *half* year in 1956.

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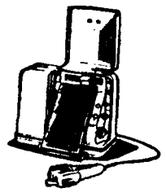
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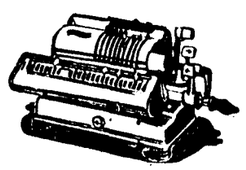
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From the London End

Socialism through the Stock Exchange

THE eagerly-awaited Labour Party policy statement on the nationalisation of industry affirms the growing influence of the "new-thinkers" in the Labour movement—the group who believe that contemporary capitalism possesses within its structure features which Socialists should accept if not support. The statement itself must rank among the more important of Labour documents published since the war. It concedes in print a viewpoint which has been held by many of the Party's "leading lights", but about which few have dared to be explicit. More than that, the statement accepts an interpretation of contemporary capitalism which completes the break which has been going on for some time with the thinking of the more conventional Socialists. The Labour Party now accepts the characterisation of A A Berle that "the capital is there and so is capitalism—the waning factor is the capitalist." From this premise flows the analysis justifying the most cautious and moderate policy on Socialist ownership of the means of production.

The Labour statement, **Industry and Society**, claims, as the first significant point of departure, that the one major development which now demands a new policy is the emergence of the large firm. Quoting from the work of the National Institute of Social and Economic Research, the statement shows that just over five hundred large firms to-day account for about a half of the profits made and over a half of the investments in the whole of private industry. These large firms and their dominating position in the economy are described as "a new and distinctive form of business organisation." This new form of business organisation possesses certain important characteristics. There is the almost complete separation of ownership from control—this is explained partly by the enormous size of modern business enterprises, and also by the fact that investors, even wealthy ones, tend to spread their investments and hold relatively few shares in any one company. The separation of ownership from control has enabled the rise to power of a new class of technocrats. The technical and managerial experts who control industry, particularly large-scale industry, are not necessarily wealthy themselves. They, however, provide a body of skill and knowledge which has enabled capitalism to develop to its present concentrated form. Underlying this development are three important factors. In the first place the very size of the large enterprise has made it increasingly difficult for the individual shareholder to hold any more than a tiny percentage of the total capital. The statement cites the example of the Shell Oil Company—the current market value of 1 per cent of the issued share capital is over £5m. It is claimed that wealth on this scale is extremely rare in Britain. Secondly, there has been the far-reaching effect of death duties—large individual investments which may be accumulated during a lifetime cannot be expected to continue into subsequent generations. Thirdly, the rich, according to the Labour Party, do not normally invest all, or even a substantial proportion, of their wealth in a single enterprise. These factors, therefore, tend to enhance the claim that there exist today no substantial capitalists who could become, as in the days of old, the target of the Socialist movement.

Does this estimation then demand of the Labour Party (if the estimation is a correct one) a policy on social ownership? It is certain that no Labour Party can in fact accept the existing situation, no matter how much it wanted to maintain the existing forms of economic organisation. The demand for change has become part of the political situation and it is inevitable that the Labour Party should put up some demand for change. The changes recommended, however, are of such trivial significance that for Britain the long-term perspective is now one whereby the large firm will continue in the main, and that the Labour Party will do little to change either the nature of the control or of the ownership of such enterprises.

Wherever change is becoming part of the Labour Party's policy, these changes are broadly being based on how far they will be able to assist towards a reduction in income inequalities and of a possible redistribution of income and wealth. The Labour Party believes that the large firm has in a rather peculiar manner tended to increase income inequality—this apparently has been made possible by the ability of company directors and the new class of technocrats to obtain from the firms that they manage special facilities and financial resources for personal advancement which are not available to the broad masses of the people. The statement cites the rather exceptional case of one company enabling its senior executive staff to send their children to special schools against the firm's pension and staff provident funds. In this way, the Labour Party claims, the perpetuation of class distinction is pursued. These undesirable features will come in for change when the Labour Party comes into power.

The central weakness of the policy now recommended by the Labour Party is that the changes to be brought about concern some of the more trivial consequential features of the large firm rather than the firm itself. The Labour Party hopes to assist the shareholders in controlling the technocrats and managerial experts. In this way it hopes that the more undesirable features with regard to this new class of persons gaining special privileges not available to others will be done away with. The more fundamental feature of the large firm, that is, the firm's ability to control vast sums of money, to undertake large investments and to concentrate increasing power within its hands remain under the Labour Party's proposals, virtually untouched. The old Socialists had always claimed that the foundations of social ownership was the belief that profits provided the motive for capitalist enterprise and that by and large this motive was inconsistent with what could be construed as the public interest. To many in the Labour Party such an estimate is still correct and still prevails.

The large firm is able to spend considerable funds on advertising. And this advertising to-day veers

consumer tastes into directions which not only provide for a planned basis for industrial investment but assures industry of its profits. The large firm creates its own market by the amount of money it spends on advertising. Such profit considerations and industrial investment are however not necessarily in line with what the Labour Party claims to be its policy of "economic planning for social advance." This patent fact, however, does not come within the purview of the Labour Party's policy statement. What is recommended is that the State itself, through such State agencies as the State Pension and Superannuation Fund which possess large sums of money, should invest such funds in the equities of large firms and in this way enable State representatives to sit on the Board of Directors of the 500 firms. There will be no discriminatory treatment, against such firms—indeed the Labour Party sees in these firms a quality of economic organisation which provides little reason for change. In this way the Labour Party, when it does get back into power, will be able to obtain for the State the capital gains that arise from speculation that normally goes with Stock Exchange transactions. By maintaining State representatives on Company Boards, the new class privileges which the technocrats and managerial experts are gaining will be avoided.

If the Labour Party needed any evidence how the large firm has come into existence and has been able to distort the process of reward for enterprise, then it could have delved into the many reports of the Monopolies Commission which the Party itself had set up in 1948. In those industries which are dominated by one or two firms, the consumers have become subject to the whims and fancies of such firms. Price fixing and price maintenance arrangements as well as controls over sources of raw material supply have reduced the competition that would otherwise have operated towards bringing down prices or enabling the normal processes of reward to prevail. In fact the Labour Party's statement on social ownership provides little comfort to the consumer of mass produced goods.

There can be little doubt that the policy enunciated in this important document will find little support from the mass of the Labour Party. This is certain if account is taken of the resolutions that are before the forthcoming Conference of the Party. According to the list of resolutions that have been presented by Labour Party branches for discussion at the Conference in October next, almost every branch of the Party has called upon the Conference to affirm its belief in the common ownership of all basic industries and a number of resolutions express anxiety "at the present tendency to deviate from these accepted Socialist principles".

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From U N Headquarters

Pak Premier in Washington

OLD hands at the United Nations have a saying about Kashmir. They say: so long as the Kashmir issue stands, the Security Council shall stand; when the Kashmir issue is solved, the Security Council shall be dissolved. This is not to say that they are sceptical about the solution of the Kashmir problem. Generally speaking they are sceptical about any major problem being solved within the foreseeable future. So long as World War III is ruled out, the United Nations will remain the forum for wordy conflict and those who work within the precincts of this spacious glass house have come to adopt a somewhat devil-may-care attitude towards what are admittedly controversial issues. But nonetheless these have to be debated and periodically one hears rumblings within the Security Council Chamber as the French furiously defend their rights to kill Algerians, the British to station their troops in Cyprus and the Pakistanis to stay put in occupied Kashmir.

Of late, indeed, the Pakistanis have been proclaiming loudly that they will drag the Kashmir issue back to the Security Council, God and the United States willing or not. There are indications that the United States, at least, is unwilling. And it has fallen to the lot of Pakistan's Prime Minister, Mr Shaheed Suhrawardy to shake the United States out of its unwillingness. Mr Suhrawardy's trip to the United States, as a matter of common knowledge, was to persuade the United States to line up with him on the Kashmir issue. After the last meeting of the Security Council it was widely known that the United States was not willing to further annoy India in this regard. The State Department was conscious that it had done little to improve Indo-American relations during the Kashmir debate. India had been deeply hurt by the 10-1 vote on the Kashmir resolution and it was being whispered in the United Nations corridors that on this subject the United States felt that enough is enough.

Pakistani representatives certainly were not unaware of this feeling in American circles and feeling themselves disappointed over the Kashmir resolution—which in at least one Pakistani diplomat's opinion was neither fish nor flesh nor good red herring—they were hell bent to get the United States committed to stronger action. Apparently, after the Jarring mission ended there was a good deal of sparring between Karachi and Washington maintaining with equal fervour that it had gone as far as it could go. Mr Feroze Khan Noon meanwhile kept shuttling between the two capitals with apparently little success. From all available evidence, Karachi kept pressing for sterner action against India and Washington kept murmuring, not without some show of irritation, that it will not budge an inch. The Pakistani stand, of course, was that, despite pressures from internal sources, it was standing solidly behind the United States in the East-West struggle and that it should be suitably rewarded for its support to the West in the shape of a western resolution in the Security Council condemning India in much the same manner as the Soviet Union was condemned over Hungary.

But Washington reportedly told Karachi that American financial support—which is about 40 per cent of Pakistan's total budget—was already propping up the Suhrawardy administration and to ask that India be deliberately hit under the belly was to ask for the impossible. Mr Noon's missions to Washington failed and Mr Noon played his last card: Will President Eisenhower at least see Mr Suhrawardy and be convinced of Pakistan's stand? This request, made probably in desperation, could hardly be brushed aside, especially since the White House had been host to India's Prime Minister Jawaharlal Nehru not to speak, in more recent weeks, to Germany's Adenauer and Japan's Kishi. Mr Suhrawardy was attending the Commonwealth Prime Ministers' Conference in London and would the White House ask him to fly over to the States? Obviously, this request was pressed on Washington and the White House must have grudgingly acceded to the request. The announcement of Mr. Suhrawardy's trip to Washington was made in London—and the story broke later here. News stories said that the State Department was working overtime to get ready for Mr Suhrawardy's visit—a clear indication that the visit was not scheduled and was foisted on the White House. Significantly, the President did not send his personal plane to London to fetch Mr Suhrawardy, as he did to fetch Pandit Nehru. The Columbine III picked Mr Suhrawardy only at New York—and it is anybody's guess how Mr Suhrawardy took this.

Mr Suhrawardy apparently came with a three-pronged proposal: One, that the Western Powers call a Security Council meeting and pass a resolution condemning India along much the same lines as the Soviet Union was condemned over Hungary. Two, that the United States cut its aid to India. Three, that the United States step up its military support to Pakistan.

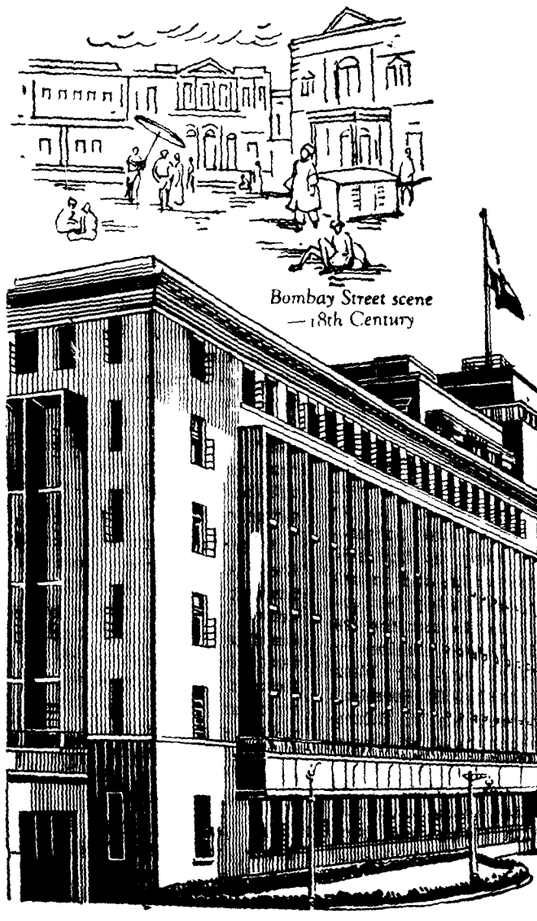
Even before Mr Suhrawardy could have private conversations with the President, inspired reports were appearing in leading newspapers, notably the "Washington Star" and the "Baltimore Sun," that the Pakistan Prime Minister will be told that he would get nowhere on the first two proposals.

As if these hints were not enough the press almost unanimously ignored him. Mr Suhrawardy's arrival was noted with a picture on the front page and having done that, the press seemed to have thought it had done well by the Pakistan Prime Minister. The radio and television announcers ignored his presence the first two days. The press shunted him to the social columns.

But how was Mr Suhrawardy faring with the White House? There is no knowing. But some indications are available. As for example, take the case of the Undelivered Address. Mr Suhrawardy was scheduled to address the House of Representatives, and the Pakistan Press Officer dutifully distributed copies of the speech Mr. Suhrawardy was supposed to deliver to pressmen in the gallery. Came Mr Suhrawardy and pressmen rushed to their telephones to send their first 'snap' reports of the speech yet to be delivered and

" Where now the city stands,
there was once naught but the city's site." OVID

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which consisted of some juicy references to India. But the speech remained undelivered. Mr Suhrawardy spoke extempore, and not a word was mentioned about India. What was the mystery of the Undelivered Address? One theory is that Mr Suhrawardy was discreetly informed that an attack on India in a formal address to the Congress was just not cricket. The fact that the Pakistan Prime Minister came to the House directly after a meeting with President Eisenhower lends some credence to this theory. Certainly, on that date, at least, the Prime Minister held his fire.

It was only after his formal meetings with the President were over and he was to address the National Press Club that Mr Suhrawardy loosened his tongue. Then he had plenty of nasty things to say about India. Did he expect the United States to go along with him on Kashmir, he was asked. He would be surprised if it did not, glibly answered Mr Suhrawardy. With that, he must have thought, he would put the United States in the spot.

Next day, the papers again ignored him. Painfully and with almost obvious intent the press ignored him. His barbs against India, his diatribes, his accusations, were for all purposes, lost on the press. Why? Could it be that the press thought he exceeded his limits? Could it be that the press found nothing of news value in his utterances? Or was it, that word went round that the State Department would appreciate if Mr Suhrawardy's attacks on India were played down?

It is possible to draw two conclusions from these happenings. One, that having failed to win the support of the State Department and the White House, Mr Suhrawardy was trying to go over the heads of the American leaders to appeal to the American people and the State Department took effective steps to see that this did not happen. Two, that Mr. Suhrawardy gambled and failed.

Is this presuming too much? The joint communique issued by the White House gives out nothing. And what transpired at the many meetings between Pakistani officials and their counterparts remains as well-guarded a secret as can be expected. But many questions remain starkly unanswered: Did Mr Suhrawardy receive any private assurances from the State Department in regard to Kashmir? If so, what are they? If not, how long can Mr Suhrawardy survive as Pakistan's Prime Minister. And does the State Department want Mr Suhrawardy to remain as Prime Minister or not? Mr Suhrawardy is reputed to have staked his Prime Ministership in making his trip to Washington. Should he have nothing to show to the Pakistani people by way at least of assurances, what are his chances of remaining in office? One draws blanks to these questions.

There is a school of thought which firmly believes that the United States is marking time to see what will come out of the disarmament talks and that much of the United States attitude towards many questions—including that of Kashmir—will depend on how soon the cold war will thaw. Should the two big Powers, it is maintained, come to agreement on many essentials, then the lot of the satellites in both camps will hardly be enviable. Pakistan, no doubt, realises it and wants to press its point when there is still a ray of hope. If there is general agreement on disarmament, then why should the United States arm Pakistan to the teeth? Arming Pakistan in the face of general disarmament will only lay the United States open to the charge that it wants to help Pakistan against India on the Kashmir issue. Will it be worth America's while to do so? If Pakistan is not armed, to the saturation point, with what face can any Prime Minister turn to his countrymen and say that a policy of alignment with the West had paid off?

Clearly Mr Suhrawardy is up on a limb and knows it, though he may not show his disappointment too openly. He is too shrewd a man to give his opponent a chance to throw him out, but he could hardly have been satisfied with the kind of reception that the public gave him here. The Press is no respecter of persons in this country and it is certainly no respecter of petty politicians who are no better than satellites. At the National Press Club luncheon, Mr Suhrawardy was introduced to the august gathering of international correspondents as a man who loves the good things of life, has a concrete dance floor on the top of his house and has more than a thousand American records in such a subtly fun-poking manner that Mr Suhrawardy himself was forced to say that he wished these references to his likes were not made! He must have been greatly piqued that he was treated with such jocularity. Whether the Pakistan Embassy's refusal to invite Indian correspondents to all functions arranged by it was due to similar pique against India is not known, but certainly Pakistani officials are behaving as if they are fighting a losing battle. Where once they used to greet Indian correspondents at the United Nations with a smile, today they turn their faces away.

There is, of course, the other school of thought, which insists that all this is Pakistani make-believe, that Suhrawardy has received sterling assurances from the west in regard to Kashmir and that this will become apparent when the Security Council meets again. Improbable though this may sound at the moment, it is difficult to find—at least among Indian officials—some one who will not admit such a possibility. Every conceivable argument that might have been thought of on both sides, has now been advanced and nothing it would seem remains to be said. The Jarring Mission accomplished nothing. The Security Council, if it wishes, can attempt to condemn India, as it has been prone to do in the past, or at least seek to discredit her in the eyes of the world. That is what Pakistan is seeking to do in its impotence. But will the Security Council go along? Or will Pakistan agree to acceptance of the present status quo? Those who saw the almost overnight solution of the Trieste issue keep their fingers crossed. Insoluble problems, they say, have a strange manner of resolving themselves. But it will be a brave prophet indeed, who predicts that Kashmir will out-Trieste Trieste.

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says Adipocere (*Pronounced 'adi-po-saire'*)

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1 Drilling party	Rs. 6,00,000

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Concept of National Income for an Underdeveloped Country

—A Reconsideration

Sukhamoy Chakravarty

III

IN the current estimates of national income, goods and services are treated alike. The sector of the economy producing services is generally known as the tertiary sector. In the developed western countries, this tertiary sector contributes a great deal to the total. As a matter of fact, in the case of countries like the United States, additions to national income have mostly taken the form of increase in services, explaining to a certain extent the fall in the capital-coefficient in recent decades.

Since on the neo-classical reasoning the economic problem is how to satisfy consumers' needs with given scarce resources, there has been no logical fallacy in including services in estimating the national product. As a matter of fact, it would have been rather inconsistent not to include services for that would have violated the only criterion of homogeneity postulated by the neo-classical economists, viz, the scarcity of supply in relation to demand. In the national income accounting of the post-General Theory period, no attempt was made to subject the basic issues to a fresh consideration. As a matter of fact, it was hardly deemed necessary for the General Theory was basically in the neo-classical tradition.[9] Of the two major problems of economic growth, the supply of real capital and the supply of labour, Keynes assumed away the first by postulating a short period in which capital stock did not change. Regarding the other, he assumed the labour supply curve to be perfectly elastic but only up to the point of full employment, beyond which it sharply turned upwards. Thus he was actually postulating a situation of labour scarcity. The twin assumptions of labour scarcity and abundance of capital stock are just the opposite of what prevails in an underdeveloped economy seeking to initiate growth. Here there are strong reasons, contrary to what has generally been supposed, to exclude the so-called tertiary sector from the calculations of national income.[10]

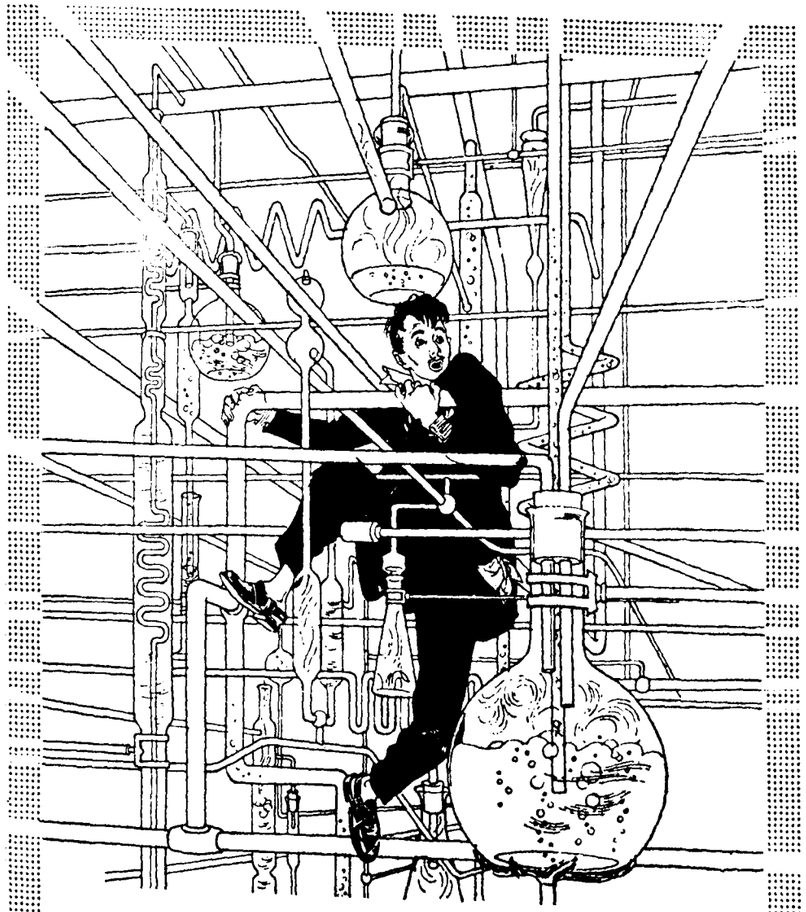
The tertiary sector, as it prevails in an underdeveloped economy, is very heterogeneous. It includes organised banking and insurance side by side with small traders and domestic servants. Now, the plethora of domestic servants and small traders etc, illustrate the basic economic phenomenon of underdevelopment, viz, the unlimited supply of labour at subsistence wage. They are indicative of the basic shortage of real capital in the economy. As such, if in a time series of national income estimates we find that the proportion of the total income going to this class is going up, we have to read the figures as showing a gradual weakening of the structure of the economy rather than the other way round.

There is another reason for neglecting these services, even after assuming that they are wholly performed within the monetized sphere of the economy, viz, that they are very often cent per cent labour intensive. As such, they do not make any or scant demand for the reallocation of the capital resources of the community. Now, from the point of view of development, it is the objective of stepping up the rate of accumulation that matters, and the real economic criterion for the present purpose is whether the scarce capital resources are to be deployed or not.

Coming now to those services which have such an important position in the economic structure of the developed countries, e g, banking and organised insurance, there are cogent reasons for excluding them too. First from the point of view of general economic theory, they represent certain necessary expenses for the circulation of the product. They may be called in the present day terminology, an intermediate products or in Prof Kuznets's words, "an offset to the centralisation of production in an industrial society". No one suggests that such services in themselves are of importance in augmenting the capital stock of the community. All that is meant is that such services are necessary for offsetting certain disadvantages from which an industrial society suffers, e g, the anarchy of capitalist production, the absence of economic security, etc.

Finally, it may be urged that the demand for such services are a result of the income generated in the primary and secondary sectors of the economy. Conceptually, such services cannot exist unless there has been prior growth of the primary and secondary industries, while it is possible to conceive of primary and secondary industries without these auxiliaries. Historically, it has been observed that it is the development of commodity production that has given rise at a certain stage to service industries. From the point of view of a short-term model of the economic process, such an argument may be considered to involve a non sequitur and hence logically fallacious.[11] But what we are interested in is a long term process of economic growth meaning thereby a long process of accumulation of capital. As such, we should naturally seek to isolate those factors having a direct bearing on the problem we are considering from those which are indirectly connected. This is by no means to suggest that such services can be dispensed with or it is desirable that they should in all cases be dispensed with. All that is meant is that they are irrelevant variables for our present purpose.

In general, we may say that the course of tertiary production does not indicate the course of economic development registered by a developing yet underdeveloped economy. It is entirely misleading to accept the generalisation concerning economic progress a la Colin Clerk as has been so forcefully argued by Bauer and Yamey.[12] The main reason is that the proportion of total resources devoted to tertiary production plotted against the current definition of income is bimodally distributed[13]. We have seen that a failure to distinguish between tertiary incomes that are poverty induced and those that are prosperity induced and lumping them up together in the national income totals makes the current practice particularly unsuitable from the growth standpoint.



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The current practice also confuses the growing points of the economy with those which are not growing or actually hinder the process of growth. In an underdeveloped country, there are certain types of goods and services, demand for which follows from the highly unequal distribution of incomes (most of it being caused by the existence of vested interests in land), which receive an exaggerated amount of importance in the calculation of national income. The growing points of the economy are precisely those spheres of production in which reproducible wealth is used and where the use of reproducible wealth raises the productivity of hired labour. In contrast, the stagnant parts are precisely those which use little or no capital and the products of which are generally not susceptible to accumulation.

The valuation of the output of subsistence farming raises all sorts of awkward questions so far as the Anglo-American practice is concerned. difficulties raised by the existence of a subsistence sector have been discussed notably by Frankel and others. But as long as we stick to the current set of national income conventions, it is difficult to justify its exclusion from national income totals. Viewed in the light of the process of accumulation, the problem gets transformed. Subsistence by its very definition implies the absence of any surplus and some sort of surplus is essential if the economy is to develop along a trend path. It may be argued that the subsistence sector may be used as a pool from which to draw unskilled labour and thus act as a causative factor in the process of development. But in that case, the economy can no longer be regarded as a subsistence one. It becomes a part of a developing economy, although the direction of development may be such that the relative position of the sector continually deteriorates. The argument in favour of excluding subsistence sector from national income calculations is therefore clear on theoretical considerations. But, the practical difficulties in ascertaining any subsistence sector in the above sense of the term are immense. The main point, however, is that the current national income practices are not sufficiently clear on this question.

Historically also, economic development has proceeded by continuously restricting the scope of this sphere, either by the development of capitalist relationships in agriculture or under socialism, by the introduction of cooperative or collectivist agriculture, engaged in the task of commodity production.

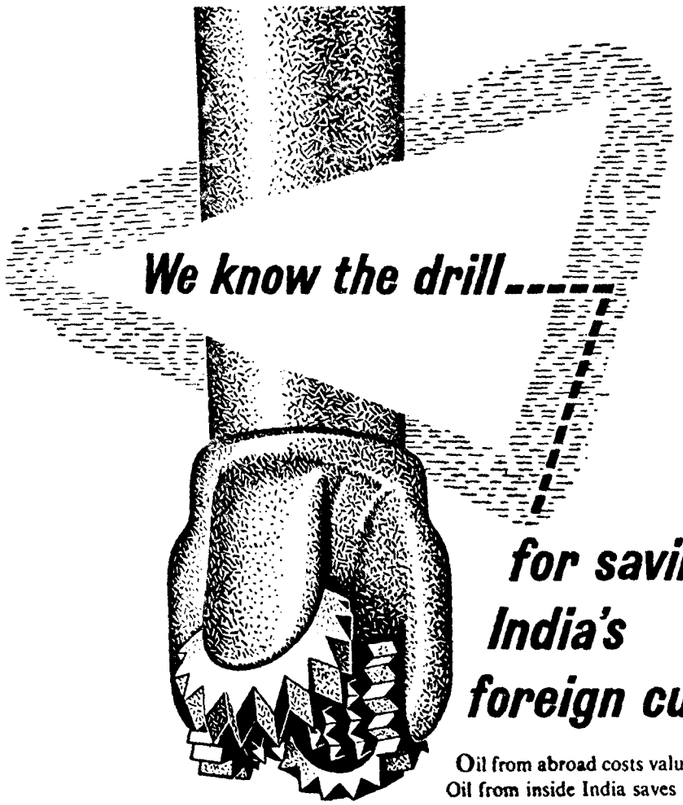
It appears, therefore, that the categories of accumulation do not apply to the subsistence farmer. As a matter of fact, the course of accumulation of capital is inversely related to the course of subsistence farming through time. Since our objective is to find out a concept of national income most appropriate from the accumulation angle, it is difficult to see how the present practice in regard to this problem is justified.

The inadequacies of this Anglo-American approach in the context of the problem we are discussing here must by now be quite obvious. There is yet another point to be made explicit. There is a tacit assumption underlying the western methods of calculation, viz, a kind of distributional equilibrium prevailing in the economy. What it means is that the total resources of the economy have been so distributed among the different sectors of the economy that the returns that accrue to labour in agriculture are more or less equal in value to what can be earned in, say, personal services. This places all the different sectors on a sort of par and to a certain extent justifies the inclusion of all the various kinds of economic activities in one comprehensive national income total. But the same does not hold good in the case of a developing yet underdeveloped economy. There the disequilibrium in the distribution of resources as between the different sectors of the economy is quite acute. We may notice, for example, the huge supply of labour into the services sector while the industrial working force is all too small. The basic reason is that in underdeveloped countries due to the shortage of real accumulation, capital does not figure at all in certain branches of production while in developed countries, even services are being capitalized and brought within the sphere of commodity production.

This, then, is another reason for being critical of the current practice.

Having shown the inapplicability of the Anglo-American concept of national income in the case of developing yet underdeveloped economy, if our purpose is to measure economic growth we should now try to find out if there is any suitable alternative to the present set of conventions. In the light of our foregoing considerations, let us see if the concept of national income followed in the USSR or the Eastern European countries in general is any effective guide in this regard. We shall not enter here into a detailed discussion of the national income statistics of the USSR for this has already been done by experts having access to original sources. We may refer in passing to the articles by Paul Studenski in **Studies in Income & Wealth**, Paul Baran in **Review of Economic Statistics, 1947**, A Nove in **Soviet Studies 1955**, and an article by E. F. Jackson on the 'Social Accounts of Eastern European Countries' in **Income & Wealth** Vol IV. We shall be concerned mainly with the conceptual basis of national income calculations in USSR. National income may be defined both from the product angle as well as from the income angle and the two sides are identically equal. But income in USSR means only income generated in the course of material production and the products refer only to the net outputs of the productive sectors of the economy, viz, those sectors which participate in material production. The incomes of all the other sectors of the economy which turn out non-material output are thought of as resulting from redistribution of primary incomes generated by the productive workers. These incomes are on a par with what the Western economists call transfer payments. From a purely formal point of view, it may then be said that the Soviet concept enlarges the scope of transfer incomes and correspondingly diminishes the scope of production incomes. But the real crux of the matter is to be found in the distinction between 'productive' and 'unproductive' labour. It is this exclusive emphasis on 'productive' labour that sharply differentiates Soviet practice from Anglo-American set of conventions. Our object will be to pursue this concept of productive labour and to see if it provides us with a solution to the difficulties we faced earlier in connection with the Anglo-American practice.

In the Soviet Union, labour is said to be productive only when it produces material output. What precisely constitutes material out-



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put has been the source of very lively controversies among the Soviet economists themselves. As is usual with any type of definition, there are certain border line cases where it is rather difficult to classify any particular activity as productive or not. The general practice is to regard the following sectors as productive: (a) manufacturing, (b) mining, (c) agriculture, (d) transport (freight), (e) communications, connected with material production only, (f) forestry, (g) trade, (h) construction. In eastern Europe, it appears a wide range of activities is classed as productive. In Poland, for example in addition to the sectors regarded as productive in USSR, credit institutions which serve productive industries, wholesale and retail distribution and catering and passenger transports, communications serving final consumers, laundries and other services within the sphere of the "communal economy" are regarded as productive[14].

The sectors excluded are Government and those services falling "outside the scope of communal economy". These differences arise apparently because it is rather difficult to draw any satisfactory line of distinction between production of material goods and non-material goods production. The word 'material' by itself does not connote any economic significance nor does it provide us with a criterion for classifying economic activities. The fact of the matter is that material production concept of productive labour is at bottom nothing but an approximation to the more basic definition of productive labour suggested by Marx in his "Theorien Uber den Mehrwert". This is not the place to discuss the validity of this approximation under the specific conditions prevailing in USSR. But it appears that from the operational point of view, the approximation serves its purpose well in USSR, for it helps to isolate that broad segment of the economy which lies within the arena of policy making from that part of economic activities which depends on other factors.

But we are interested in finding out a growth-oriented concept of national income for those economies which differ in structural essentials from a full-fledged socialist economy like USSR. As such, we are not so much interested in the specific approximation adhered to in USSR as in the principle underlying the approximation. In his appendix to the chapter on Adam Smith in **Theories of Surplus Value,** Marx clearly regards[15] the material production definition of productive labour as a subsidiary, although useful, definition under certain circumstances.

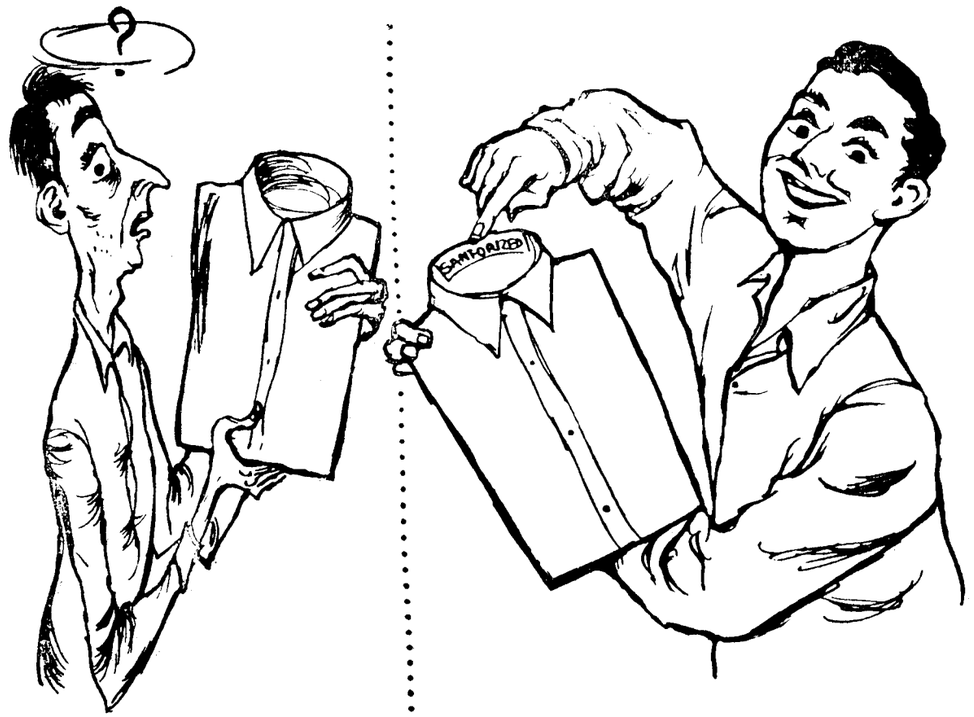
IV

A full theoretical discussion of the concept of productive labour must start with Adam Smith. As is well-known, the concept of productive labour occupies a crucial position in Smith's analysis of the Wealth of Nations. Along with division of labour, the augmentation of the productive labour force is thought to be vitally connected with the process of accumulation. The chapter dealing with productive labour in the "Wealth of Nations" indicates the close relationship in which Smith held them. But Smith's treatment of the concept was rather confused. As in the theory of value, he appears to have held several alternative definitions of productive labour which were conflicting. But the main purpose of this distinction as has been so ably pointed out by Ronald Meek was to isolate that part of the economy that was being organised on the capitalist principles from that conducted on pre-capitalist lines. Since economic growth was held characteristically to be a function of the capitalist system, Smith with his interest in the problem of growth found an enlargement of the physiocratic concept of labour an eminently useful one.

Marx criticised in detail Smith's handling of the problem but he was quick to appreciate Smith's central insight. Although he regarded any labour in the abstract as productive, but from the point of view of the process of capital accumulation, only such labour was regarded as productive that exchanged with capital. The chief characteristic of all labour that exchanged with capital was that it yielded a 'surplus'. As such, productive labour could also be defined as labour that yielded a surplus. But there is one important point to note. The surplus here is not a physical surplus, a mere conglomeration of 'use values', but a surplus in the 'value' sense of the term. Value surplus and the physical surplus can together be meaningful only in agriculture. Hence the strength as well as the weakness of the physiocrats. But they should not in any case be equated. Schumpeter considered productive labour as labour paid out of business capital[16]. But the main point about productive labour is not merely that it is paid out of business capital, but also that it helps to augment capital. Since accumulation constitutes the essence of the whole process, productive labour may therefore be defined as labour that furthers accumulation as distinct from the labour that merely shares in the fruits of accumulation.

We shall now point out the significance of the above discussion from the point of view of the problem that we have set to ourselves.

The general relevance of the above discussion from our point of view should be apparent. It has often been stated in connection with formulating a theory of economic growth that we should try to recapture something of the classical vision for a meaningful orientation. What we have tried is to examine the concept of productive labour in order to isolate that part of the economy which is most important from the accumulation angle. Since productive labour is labour which directly furthers accumulation, we should naturally regard those sectors of the economy as productive which are directly connected with the process of capital accumulation. Now, accumulation is economically significant only when the productivity of labour is higher than what is needed for labour's maintenance or productive consumption. This is possible only when labour is assisted by scarce capital resources. Only such sectors of the economy are to be regarded as 'productive' as utilise reproducible wealth and help to augment total reproducible wealth. It is not significant from the present point of view whether the development of labour and capital takes place under the aegis of the state or that of the private entrepreneur. What matters is the isolation of those sectors that are capitalistically oriented from those that are essentially pre-capitalist in nature. The principle behind this may be called the principle of finding out "irrelevant" sectors (analogy with Tinbergen's 'irrelevant variables' may be noted). All that it means is that if we are interested in analysing certain aspects of the economic process, we should do well to



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concentrate on those parts of the economy which happen to be connected with the process and exclude all other parts on the assumption that internal changes in those other sectors are unlikely to affect the particular process which we seek to explore. With regard to the question of excluding 'housewives' services, Tiber Barna echoes the above principle. He writes, "The reason for excluding housewives' services apart from the difficulties of computation is that the policy-maker is not interested in the distribution of incomes within the family."

The usefulness of the classical concept of 'productive labour' lies precisely in enabling us to apply the above principle. The first line of distinction should then be drawn between the sectors that are called 'capitalist' and those that are 'pre-capitalist'. Further, even within the capitalist sector we should make a distinction between the sectors which are engaged in production as distinct from those which are engaged in circulation. There may be certain cases, e g, freight transportation where the process of production extends into the sphere of circulation but, in general, circulation is a phenomenon essentially distinct from production. Circulation no doubt forms a part of the whole process of 'reproduction' in the Marxian sense of the term. But that does not imply that if a higher proportion of total resources is devoted to the process of circulation, we should be probably having a higher rate of growth. Quite the contrary. In advance economies, distributive services have such an important place precisely because they put a sort of check on an otherwise too high a rate of accumulation. With regard to the other types of tertiary industries, enough arguments in favour of their exclusion have already been put forward. With regard to the current administrative activities of Government ,it is difficult to see how they can be regarded as 'productive' in our sense of the term. It should be apparent from the above discussion that some of our suggestions have a striking similarity with certain of the suggestions Prof Kuznets makes in his article "National Income and Industrial Structure". But the difference between the two approaches is too wide to need any mention. We may thus sum up our suggestions regarding the most appropriate concept of national income for the underdeveloped countries: Isolate the sectors of the economy that are organised on the 'capitalist' lines. Within the 'capitalist sector' find out the activities that are typically connected with the process of production as distinct from those concerned with circulation. Now, national income should mean the net value generated in these sectors and the incomes of all the other sectors of the economy should be viewed as the redistribution of these primary incomes.

It may be urged that for a country like India, this will result in too low a figure of national income. But this should be no surprise as our economy is precisely one in which the range of growth oriented activities is very small indeed. One important test of economic development is then the extent to which the scope of such activities enlarges as time passes. In the circumstances, the way we interpret national income should serve as a better index of economic progress than the currently adopted procedure.

It may very well be asked if we really gain anything by adopting the change proposed above. This is quite natural, for the current practice appears to have established itself so securely that most people would find it difficult to adjust themselves to the changed perspective we are trying to set up. As we have seen, the choice of an appropriate concept of national income hinges on four basic sets of considerations. The very first consideration we have noted is the choice of an appropriate field. It is on this issue that the approach suggested here departs sharply from current practice. With regard to the other three questions, we are not here suggesting any different answer. Even on those points, deliberate deviations may be needed but we are not in a position to say anything now before making a detailed investigation. In general, the four considerations are independent of one another. As such, a different answer to one does not automatically necessitate different answers to the others. Some people may say that all that we have done is to change the denotation of the concept of national income. That is to say, the meaning of the concept has changed only in its extensional aspect. We are only substituting a part for the whole and deluding ourselves into thinking that the part is the whole.

This is not correct. The various estimates of the G N P in order of their comprehensiveness stand on an altogether different conceptual footing from the approach suggested here. The main thing to understand in this connection is that national income is, indeed, a broad genus, having many different but related species. The species we are considering here is the national income from the growth angle. Bearing in mind the basic idea of a growth oriented national income, we may conceive of a number of measures centering round the basic total, just as we have all the different variants of the G N P in current national income literature.

A community may be interested in many things other than economic growth as we have defined it above. For example, it may be interested in maximizing an index function of 'social welfare' however defined. The national income that will be relevant in that context will depend necessarily on how the social welfare function itself is defined. Similarly, for purposes of finding out the taxable capacity of a community or for ascertaining its spending potential we may have to use somewhat different concepts of national income. It is by no means suggested that answers to all possible questions that may be asked concerning the macroscopic aspects of economic processes will be satisfactorily given by the concept of national income we have recommended. It is however claimed that the reorientation of the concept on the lines suggested earlier will enable us to understand better the process of economic development in an underdeveloped area. By refusing to lump up the growth-inducing activities with those that are not connected or at best only remotely connected with the process of growth, it will serve the very important operational purposes of isolating the factors that are crucial for understanding and initiating the process of economic growth. Models of economic expansion based on postulated relationships between income, savings and investments will acquire a greater degree of meaningfullness if the very basic concept of national income is redefined in our way. From the point of view of the collection of data, we have rea-

sons to believe that the exclusion of the pre-capitalist sectors will help largely in improving the accuracy of the relevant statistics. Errors in official estimates arise for the most part because of the huge imputed totals that have to be taken account of, even when we have a very slender basis for making legitimate guesses. Since we have nowhere suggested that the pre-capitalist sector lies outside of the economy, our decision to exclude it from national income calculations does not mean that no information about this sector need be collected at all. On the other hand, we need much more detailed information on the nature and composition of the sector which may be obtained only by means of very intensive surveys of the rural areas. But in order to be meaningful, the procedure for surveying these areas will necessarily be different from that pursued in the capitalist sectors.

In the course of this paper, we deliberately abstracted from all considerations relating to the statistical problems of measurement and estimation. This was done because we did not believe in putting the cart before the horse. That is to say, we thought it more logical to delineate the concept first before going on to measure the complex of activities for which the concept stands. There is little doubt that when confronted with the practical job of estimating the national income on the lines suggested by us, we may have to make adjustments or approximations here and there. That has been so with any economic concept and is quite in the nature of things.

The next most important task from the theoretical point of view would however be to investigate the interdependence between the choice of a field and the choice of the corresponding set of weights. If it can be shown that the 'weights' are invariant with respect to the choice of a field, or in other words, the weights remain the same whatever may be the nature of the 'production boundary' to use Stone's term, the theoretical cogency of the above thesis would be to a certain extent impaired. The total that we consider to be relevant from the growth angle would still retain its validity but it would not be qualitatively different from other national income totals. It is in this case doubtful if we are justified in calling this total a measure of national income if the total we are referring to is the growth inducing part of national income. It is, however, contended that weights themselves would vary with changes in our economic view point and the corresponding changes in the 'field'; variability of weights would make the resulting totals qualitatively different. A discussion of this rather complicated logical question is not attempted here. We hope to take it up sometime in the future.

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[9] We consider Keynes to be in the neo-classical tradition for he assumed away in his own posing of the economic problem the two major issues that worried the classical economists including Marx, viz, supply of labour and the supply of real capital.

[10] On the neo-classical reasoning all the economic resources were deemed to be scarce, ex-definitionae. Hence they failed to understand one of the basic phenomena of underdevelopment, e g, the unlimited supply of labour at subsistence wages. An underdeveloped economy being characterised by labour surplus and capital shortage, there are strong reasons for excluding the so-called tertiary sector from the calculations of national income. Refer in this connection to W A Lewis: 'Economic Development with Unlimited Supplies of Labour', **Manchester School** 1955 and the same author's **Theory of Economic Growth, Economic Survey of Europe since the War,** Geneva, 1953.

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Insurance in 1955

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THE forty-second issue of the **Indian Insurance Year Book 1956** compiled from the returns for 1955 submitted by insurer companies to the Department of Insurance is the last of its kind. A new chapter in the history of the business was opened on January 19, 1956 with the promulgation of the Life Insurance (Emergency Provisions) Ordinance I of 1956 vesting the management of the controlled business of the insurers and provident societies in the Central Government. This change-over has been hailed by the Controller of Insurance in his report prefacing the Year Book "as a momentous development" affecting Indian Insurance since the publication of the last issue of the Year Book. After a period of six months, during which the business of Indian insurers was supervised by Custodians appointed by the Ministry of Finance, the controlled business was transferred to the Life Insurance Corporation of India, established by an Act of Parliament on September 1, 1956. On the day preceding the establishment of the Life Insurance Corporation of India, there were 312 insurers registered under the Insurance Act 1938, of which 102 were non-Indian companies. The number of Indian insurers transacting life, life and general, and purely general insurance during the period was 107, 38 and 62 respectively. The corresponding figures for non-Indian insurers were 3, 12 and 90 respectively.

Life Insurance Business

Compared with 1954, there has been an increase of nearly 46,000 in the number of policies issued, Rs 76 lakhs in the sum assured and Rs 38 lakhs in the yearly renewal premium income in the new life insurance business transacted in India by Indian insurers in the year 1955. Out of the total new sum of Rs 238.3 crores assured in 1955, the share of non-Indian insurers was Rs 17.4 crores. The net total life insurance business in force in India at the end of 1955 amounted to 44,43,000 policies insuring a total sum of Rs 11,23 crores (including bonus additions) yielding a total premium income of Rs 51.18 crores. Of this, the share of non-Indian insurers during the year amounted to 2,27,000 policies assuring a total sum of Rs 139 crores with a yearly premium income of Rs 7.53 crores. The average sum assured per policy of Indian and non-Indian insurers amounted respectively to Rs 2,950 and Rs 7,859.

Compared to the steep rise in the volume of new life business underwritten in 1954, the business in 1955 did not show such marked progress. This is probably due to the fact that the field force of insurers slackened somewhat after the intensive business drive given by them to exploit the reduced premium rates introduced in 1954. An appreciable percentage of the new life business in 1954 was secured by replacement of policies issued prior to 1954 at the old rate of premiums. The discontinuance of staff insurance schemes by the middle of 1955 also affected new business to a certain extent. Table I below shows the new business and total business in force for the decennium 1946-55.

Table I—Life Insurance Business 1946-1955

(Rs crores)

Year	New sum assured	Total sum assured in force (with bonuses)
1946	153.8	651
1947	139.6	706
1948	134.6	724
1949	142.2	765
1950	139.5	780
1951	147.9	873
1952	146.7	922
1953	155.2	966
1954	236.3	1086
1955*	238.3	1123

* Figures incomplete.

Income and Out-go

The combined experience of all Indian insurers in the matter of lapses, classified according to mean duration, shows that lapses continued to be heavy in 1955. The ratio of total amount of lapses to the mean gross direct business in force during the year works out at 9.0 per cent as against 8.5 per cent for 1954. The total revenue income of life insurance business of Indian and non-Indian insurers in 1955 was Rs 64.07 crores and Rs 9.94 crores, respectively. The corresponding figures for out-go by way of claims, surrenders and other disbursements were Rs 36.94 crores and Rs 7.63 crores. The balance of Rs 27.13 crores and Rs 7.63 crores, respectively, was added to the life funds of the insurers.

Table II shows the sources of income and out-go in respect of life insurance business of Indian and non-Indian insurers for 1955. On the out-go side, it will be noticed that payments to policyholders by way of claims, surrenders and annuities by Indian and non-Indian insurers in 1955 amounted to Rs 17.98 crores and Rs 4.95, respectively. The ratios of over-all expenses of management to the premium income of Indian and non-Indian insurers in 1955 were 33.4 per cent and 21.3 per cent respectively. The net renewal expense ratio of Indian insurers in 1955 was 17.3 per cent as against 14.7 per cent for the previous year.

Asset Pattern

The controlled funds of Indian and non-Indian insurers at the close of the year stood at Rs 325.75 crores and Rs 54.98 crores, respectively. Table III below gives the distribution of investment of the assets of Indian and non-Indian insurers. As on December 31, 1955, Indian insurers held 48.5 per cent of assets in securities of the Central and State Governments. The corresponding figure for non-Indian insurers was 28.5 per cent. The average net rate of interest earned on mean life funds of Indian and non-Indian insurers in 1955 were 3.56 per cent and 3.21 per cent.

On the same date, the total deposits held in trust under the Insurance Act 1938 by the Reserve Bank of India amounted to Rs 9,75,03,000 in Rupee Securities, £ 2,12,000 in Sterling Securities, Rs 12,32,000 in Co-operative Bank Debentures guaranteed by State Governments, and Rs 4,49,000 in cash. On August 31, 1956, there were 71 provident societies registered under the Insurance Act 1938. The new business of these societies amounted to 25,349 policies insuring a sum of Rs 2.20 crores and yielding an annual premium of Rs 6.32 lakhs. The total sum assured (with bonuses) in force at the end of 1955 amounted to

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Rs 52.8 crores. The total assets of the provident societies as on December 31, 1955 stood at Rs 1.20 crores. The net rate of interest realised on the mean Life Funds of the societies in 1955 was 3.63 per cent and management expenses formed 42.5 per cent of the total premium income.

General Insurance

The controller of Insurance, while reviewing the trend of non-life insurance business during the year 1955, remarks that the gross direct premium written in India registered a sharp increase compared with the previous year. (See Table IV). The total net premium income of Indian insurers transacting non-life business was Rs 7.49 crores inside India and Rs 9.49 crores outside India. The corresponding figures relating to gross premium written direct were Rs 13.55 crores and Rs 5.37 crores, respectively. The net premium income of non-Indian insurers inside India was Rs 6.70 crores and the gross premium income written direct in India was 9.18 crores. The claims ratio to the net premium income of Indian and non-Indian insurers together was 31 per cent for Fire, 67 per cent for Marine and 47 per cent for Miscellaneous. The ratio of expenses of management (excluding commissions) to net premium income was: Fire 34 per cent; Marine 27 per cent and Miscellaneous 27 per cent in the year under review.

A notable development in 1955 affecting general insurance was the formation of the Indian Re-insurance Corporation Ltd with a capital of Rs 10 crores to absorb the excess risk hitherto placed abroad. The equity of the Corporation has been subscribed by Indian and non-Indian insurers. The Head Office of the Corporation is in Bombay.

Insurance Agents

At the close of 1955 there were 3,12,896 agents licensed to canvass insurance business in India, of whom 86,050 were new entrants. Besides, the number of certificates in force to act as Special Agents, Chief Agents and Principal Agents were 6,359, 323 and 802, respectively. The appointment of Chief Agents and Special Agents has since been terminated by the Life Insurance Corporation. The net commission earned by non-salaried field workers of Indian and non-Indian insurers in 1955 is as follows:

Particulars	Commission (Rs lakhs)
Life Insurance	4,87,32
Fire (on Direct Business)	1,70,67
Marine (-do-)	71,09
Miscellaneous (-do-)	85,30

On account of nationalisation of Life Insurance business in India, the Life Executive Committee, Insurance Association of India formed under Part 11A of the Insurance Act 1938, was dissolved and the rules and conditions framed have not been made applicable to the Corporation. The General Executive Committee has evolved a fresh code of observance for general insurers and has recommended that the Insurance Act 1938 be amended to empower the Government to carry

Table II—Income & Out-go of Indian and Non-Indian Life Insurers, 1955

(Rs crores)

	Indian Insurers	Non-Indian Insurers
Income		
Premium (first year) ..	11.59	1.27
-do- renewal ..	38.93	6.48
Interest, dividends & rents ..	10.01	1.61
Other receipts	3.54	0.58
TOTAL ..	64.07	9.94
Out-go		
Claims by death ..	4.38	82
-do- maturity ..	10.78	2.59
Annuities ..	0.19	0.10
Surrender values ..	2.53	1.46
Expenses of management ..	16.86	1.65
Depreciation etc ..	1.60	0.08
Miscellaneous ..	0.22	0.87
Transfer to shareholders' Reserve & dividends ..	0.38	0.06
TOTAL ..	36.94	7.63
Excess of income over out-go ..	27.13	2.31

Table III—Assets of Life Insurers as on 31-12-55

(Rs crores)

	Indian Amount	Indian %	Non-Indian* Amount	Non-Indian* %
Central Government Securities	1,30,08	39.9	27.19	50.9
Securities of Part A States	24.59	7.5	1.24	2.3
Securities of Part B States	4.84	1.5	0.12	0.2
British, Colonial & Foreign Govt Securities	4.97	1.5	7.78	14.6
Municipal, Port Trust & Improvement Trust Debentures	20.71	6.4	2.15	4.0
Mortgages on Property	14.62	4.5	0.68	1.3
Loans on Policies	27.98	8.6	5.29	9.9
Loans on Stocks & Shares	0.05	—	—	—
Other Loans	1.55	0.5	—	—
Debentures of Indian Companies	18.72	5.8	4.71	8.8
Pref Shares of Indian Companies	11.97	3.7	0.97	1.8
Ordinary Shares on Indian Companies	20.88	6.4	1.65	3.1
Land & House Property	16.75	5.1	0.76	1.4
Agents' Balances, Outstanding Premiums etc	8.26	2.5	—	—
Deposit, Cash & Stamps	13.89	4.3	0.62	1.2
Miscellaneous	5.89	1.8	0.25	0.5
	3,25.75	100.0	53.41	100.0

* The figures of non-Indian insurers pertain to Controlled Fund only.



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out periodical inspection of all general insurers to see if specified minimum departmental reserves and minimum security margins of investment are maintained, and to enforce the collection of premiums before covering the risks in certain classes of insurance.

The Year Book contains the usual features of windings up and convictions by Courts for contravention of Sections 11 and 15 of the Act in 1955. Two insurers, viz, the Bharat Insurance Co Ltd and the Jupiter General Insurance Co Ltd continued to be managed by Administrators in 1955.

Table IV—Gross & Net Premium Incomes of Non-Life Business of Indian & Non-Indian Insurers in 1955

(Rs crores)

	Gross Premium			Net Premium		
	In India		Outside India	In India		Outside India
Class of business	Indian Insurers	Non-Indian Insurers	Indian Insurers	Indian Insurers	Non-Indian Insurers	Indian Insurers
Fire	5.91	4.36	1.93	2.75	2.80	5.74
Marine	3.28	2.67	1.64	1.45	1.93	1.87
Miscellaneous	4.35	2.15	1.80	3.29	1.97	1.88
TOTAL	13.54	9.18	5.37	7.49	6.70	9.49
	(+ 1.09)	(+ 0.29)	(+ 0.09)	(+ 0.37)	(+ 0.37)	(+ 0.42)

(Figures in parenthesis indicate gains over the previous year)

Association Meeting

Indian Insurance Companies' Association

General Insurers Urged to Tap Vast Potential Market

THE view that the progressive implementation of schemes for the economic development of the country was bound to result in a gradual improvement in the general living standards of the people, thereby providing ample opportunities for insurers to add to their premium income, develop new lines of business and improve further the lines they were engaged in, was expressed by Shri R M Desai, Chairman of the Indian Insurance Companies' Association, while presiding over the 29th Annual General Meeting of the Association, held on Tuesday, the 23rd July, at Bombay. Shri Desai emphasised that in order to explore and utilise the vast potential market, they required strong indigenous units with high administrative standards, capable of rendering efficient service.

Foreign Exchange

At the outset, Shri Desai stated that a disquieting feature of the national economy was the decline in foreign exchange resources, necessitating the imposition of severe, and in some cases total, restrictions on imports and foreign travel. It would be necessary to step up our exports—both visible and invisible—if this problem was to be tackled effectively and on a long-term basis. In this connection, he mentioned that Indian insurance companies, through their operations abroad, had proved a valuable source of foreign exchange earnings. The Association, he said, had decided to set up a separate Wing of Member Companies who might be directly or indirectly interested in operation of overseas business. Referring to the recently set up India Reinsurance Corporation Limited, he remarked that it was a happy augury that Indian and other insurers were co-operating in a joint venture which was intended to meet a long-felt want for providing adequate reinsurance facilities to the trade.

Principal Agents

Proceeding, Shri Desai referred to the imminent termination of the principal agency system which, under the existing provisions of the Insurance Act, would come to an end after 31st August 1957. He stressed that the chief agents in the past and the principal agents of today had rendered signal service to the insurance industry and the insuring public and they provided a useful link between the insurers and the insured. "Discontinuation of Principal Agents," he said, "would have far-reaching repercussions and should be deemed particularly unfortunate at the present juncture when major efforts are under way to put the insurance business on a sound and healthy footing."

Code of Conduct

The Chairman next alluded to the Code of Conduct for general insurers which had claimed the special attention of the Executive Committee of the General Insurance Council almost from its inception. He recalled how a Code of Conduct was evolved in 1952 with a view to setting up standards and sound practices for conducting the business and an administrative machinery was also created to ensure proper observance of the Code. The hopes entertained at that time did not, however, come true, the Code having failed by and large to produce the desired result. The Committee thereupon reviewed the whole position and a revised Code had come into operation since 1st January 1957. He declared that the Code represented a determined effort on the part of general insurance industry to set its house in order and should receive the "earnest support of all those who wish that this important business should continue as a free enterprise in the private sertor".

Emphasising that the stabilisation of the market on the basis of new standards would imply avoidance of competition among insurers for securing one another's business, for a period of two or three years, the Chairman observed that such a course would create the confidence that no company would lose through adherence to the Code. He urged that at least top Indian units should, besides conserving their business, devote their energies entirely to creating new business.

Need for Strong Units

The future growth of general insurance, said Shri Desai, was bound up with the progress of industrialisation and the diffusion of insurance consiousness among the mass of the people. In this connection,

he emphasised the need for a well-organised and integrated market formed of strong indigenous units, with high administrative standards, capable of rendering efficient service. Further, the premium rates also would have to be economic and attractive enough to induce people at all levels to insure their properties and their commercial activities against various types of hazards encountered from day to day. In the fire, miscellaneous and marine sections, where the rates were tariffed, the Tariff Committee, representing the trade was alive to this need and was trying to bring the tariff rates in line with loss experience.

The Chairman pointed out that with the expanding scope of insurance in India, there would be a growing demand for trained personnel, both in the Office and on the Field, qualified to give efficient service to the insuring public. He said it was very heartening to note that the Insurance Institutes in India were providing the requisite training facilities to insurance personnel. Finally, Shri Desai felt another matter which deserved their earnest consideration was proper publicity designed to spread the "gospel of general insurance".



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Firm Undertone

Thursday, Morning

DALAL STREET is more or less back to normal. Tata Steel dividend of Rs 9.50 together with the Chairman's assurance that the yield would be maintained at 5 per cent brought cheer to the market and lifted the scrip by nearly five rupees to Rs 178 before long liquidation brought about a modest recession. Among other factors responsible for the firmer undertone were the tax concessions announced by the Finance Minister and keen support for Bombay Dyeing in expectation of a favourable dividend. Most other Textile issues however, remained somewhat friendless owing to a string of unfavourable reports from mills. Selective buying dominated towards the end of the week and the counters that attracted attention were A C C, Telco and Texmaco.

Earlier, rumours that tax evasion would be treated as a criminal offence had a depressing effect but by the time the report was officially confirmed, a more sober appraisal was helped by the realisation that such a penalty has existed for a long time in the U S A.

The Clearing List for settlement on July 19, consisting of 3,57,422 securities, is remarkably small due partly to the diminution of floating stock and partly to the proximity of dividend in a large number of cases. The List has expanded significantly only in respect of Apollo, Indu Deferred, Walchandnagar, Hindustan Motor, Larsen & Toubro and Tata Loco. The delivery of Tata Steel has declined from 17,160 shares for the post-Budget settlement of May 24 to as low as 6,405 shares; the comparable figures for ACC are 8,055 and 2,840, respectively. Selling pressure may thus be said to have abated in nearly all leading non-Textile scrips.

Banking Returns

The 'Balances held abroad' by the Reserve Bank in the Banking Department showed a rise after a long time by Rs 2.5 to 31 crores during the week ended July 19. For the first time after many months 'foreign Securities' have been withdrawn from the Issue Department, the last withdrawal being in the week to February 1. Foreign securities in the Issue Department, to which alone the statute applies, are now at the minimum required by the amended Reserve Bank Act.

The returns also indicate a substantial fall in the note issue, 25 crores in the notes in circulation and 3 crores in notes held in the Banking Department. Against this decline of Rs 28 crores in the liabilities of the Issue Department, the corresponding changes in the assets of the department are a decline of Rs 12 crores in foreign securities and a decline of Rs 18 crores of Government of India rupee securities and an increase of Rs 2 crores of rupee coin.

The returns for the week also show that bankers deposits have gone up by Rs 9 crores while their borrowings from the Reserve Bank (shown under 'Other loans and advances') have gone down by Rs 11 crores, of which Rs 8 crores are for advances against usance bills.

Deficit financing during the week rose to Rs 11.5 crores (Re coin + 2, Central Government balances + 0.5, Investment + 10) against around Rs 2 crores during each of the preceding two weeks.

The net demand liabilities of scheduled banks have risen during the week ended July 12 by Rs 4 crores almost entirely at the expense of time liabilities, while borrowings from the Reserve Bank and State Bank have together gone down by Rs 5 crores. The cash and gilt-edged ratios stand at 9.22 and 26.40 per cent, respectively, while the credit ratio continues high at nearly 72 per cent. Call and short loans at more than Rs 24 crores are higher than at any time since the end of 1955. The velocity of demand deposits has declined from 0.25 for the week ended June 21 to 0.18 for the latest week. Though banks are more liquid than before, interest rates show little evidence of easing to any significant extent.

Cotton

Interest Flagging

FORWARD cotton suffered from apathy through the greater portion of the week owing principally to (i) the announcement of an import quota for 50,000 bales of 1"—11/16 staple length from soft currency areas, valid for shipment before September 30, and (ii) the continued pouring in of favourable reports from cotton growing areas. The daily turnover at Kalbadevi declined from 5,000 to 2,000 bales around mid-week but spurted to 10,000 bales on Wednesday to make up for the previous sluggishness.

Sewri, on the other hand, remained active throughout, helped partly by reports that the floors and ceilings of popular varieties would be revised in the near future.

Oilseeds

New Contracts Open

THE opening of new contracts in both Groundnut and Castor last Thursday gave further impetus to speculation in oilseeds during the week. While Groundnut August changed little from its opening level, Castor September gained more than four rupees in a burst of enthusiasm at the end of the week. Groundnut February opened at Rs 153, a discount of Rs 24 on the current contract and closed on Wednesday at Rs 157.25. Castor May commenced at Rs 151.25 at a discount of Rs 16 and terminated at Rs 157.25.

Bullion

Smuggling Goes On

THE bullion market remains a speculators' paradise. Bull interest in silver which had earlier waned somewhat, owing to heavy arrivals and periodic uncertainty about payment of import duty on Tibetan coins, waxed towards the end of the week on influential support from Calcutta and Delhi.

The large scale drive against smugglers in Punjab and Saurashtra and police raids elsewhere affected the financial position of some bulls and tended to weaken their influence in gold, albeit temporarily. But trade ingenuity found a way out pretty soon, and prices rose again. That prices did not rise further was because supplies were reported to have trickled in across the Goa border which has been reopened recently.

Around Calcutta Markets

Process of Digestion

Wednesday, Evening

THAT equities have turned hesitant, after weeks of "bullish" activity, is not surprising. Such a pause is a natural market phenomenon. Though the upward movement has been halted, equities are not sagging. There is no selling pressure. Current stock market hesitancy is mainly due to lack of fresh buying support. In thin markets, price fluctuations tend to be narrow. Investors are biding time. Nor are speculators active. That is how and why, markets continue to be dull.

Dull market conditions are not unusual at this time of the year. For the first few weeks of the monsoon, equities have a habit of behaving irregularly. There is speculation about the progress of the monsoon. While traders are not busy predicting the pattern of the monsoon, they indulge in the pastime of forecasting the terms and conditions of the new loan. This raises the immediate problem of the divided attention of the Life Insurance Corporation. It has been nursing the gilt-edged market for some time. To that extent, equities are being neglected. Hence the irregular trend in shares.

Tata Dividend

Left without active support for a while, equities are trying to settle down to the changed pattern of yields. There is nothing much alarming in the way stock markets are undergoing the process of consolidation. It has not yet involved any landslide. Any appreciable setback is unlikely, as that would hasten the re-entry of the Insurance Corporation into the equity market. Assured of this secure bottom, buyers are not in a hurry to cash in; "bears" are unwilling to sell short. Recent developments relating to watering down of original tax proposals are helping the market to sustain itself.

For the first time since the uptrend in equities, as a sequel to purchases by the Insurance Corporation, stock markets received a jolt a few days ago. TISCO dividend forced a pause in the upward journey of equities. In retrospect, it is considered that the dividend is not unsatisfactory. But pessimistic anticipations had already dealt the damage. And equities are still recovering from the bruises. There is some re-thinking about long-run effects of capitalisation of reserves. Currently, there is not much optimism about the IISCO dividend. So, operators are in a chastened mood.

"Gilts"

While equities remain stagnant, "gilts" continue to be relatively steady. Yet, it is rather strange that there is hardly any enthusiasm in the gilt-edged market. For one thing banks have no surplus cash to invest in "gilts". Other institutional investors are equally apathetic. Only the Insurance Corporation is occasionally performing the functions formerly undertaken by all private insurers. Nor is there any enthusiasm about the forthcoming loan. In any case, it will be a small and tame affair. On balance, the money market is not likely to be vitally affected by the loan operation. Net withdrawals will not be heavy.

Even so, the Centre is taking all the necessary precautions. It has a poor opinion about the market's absorptive capacity. That is why, it has warned States not to enter the loan market openly, but to rely on small savings. This is not an irrelevant issue, but still a tactical issue. More important is the wider loan policy of the Government. It does not seem to have any policy. It has ceased to believe or have any faith in dynamic open market operations. That needs a firm interest rates policy. And yet, the continuous increase in the volume of extra-budgetary funds should have enabled the Government to dictate its terms to the loan market.

Bank Shares

Neither equities nor "gilts" may be buoyant. But Bank shares are. Indeed, during the current phase of dullness, Bank shares alone have met with consistent investment support. This is the time of the year when Bank shares either move up or down. Half-yearly accounts have been published. Banks are making continuous progress. Profits are higher, interim dividends are tempting. Bargain-hunters are picking up Bank shares to pocket dividends. Investors' faith in Bank shares is a strange commentary on the widespread concern about banks' troubles. Experts may be worried about the rising ratio of bank advances to deposits. But is is good to know that investors are not overconcerned about bank's liquidity.

If Bank shares are firm, Engineering shares continue to attract investment support. There is some revival of demand for Engineering shares at the moment. Reasons are not far to seek. Exports of engineering goods are being actively encouraged. So also output. Up to seventy per cent of their export earnings, engineering industries will be allowed to spend in importing plant and machinery. On their exports, they will be allowed a drawback on imported materials needed for production. That is what they have been demanding so long. Speculative-investors have been prompt in exploiting the disclosures of the Chief Controller of Imports.

Tea Boom?

A few weeks ago, Lyons Range was preparing itself for a coming boom in Tea shares. It was about time for the tea industry to stage another boom. In recent years, it has been having a two-year trade cycle. On that theory, 1957-58 should be a boom season. New Delhi obliged by fanning the "bullish" flame. It rejected all the unorthodox recommendations of the Plantation Enquiry Commission. Since the start of the season, rising auction prices seemed to confirm predictions about the coming boom in the tea industry.

Just at the moment, there is less optimism. Both demand and auction prices are drooping. Tea planters and traders are talking about the urgent need for reviving the International Tea Agreement. That, in effect, means, tea dealers and brokers are agreed about an agreement with Ceylon. Investors may not be in a position to appreciate the full implications of the Tea Agreement. But they are intrigued with the traders' preoccupation with Ceylonese tea output and exports. Ceylon is India's main export rival. And Ceylon produces quality tea. So, that's that.

Company Notes

Bharat Line

THE Eleventh Annual Report of the Bharat Line Ltd for the year ended December 31, 1956 reveals that the gross block of the Company stands at Rs 422 lakhs and the net block at Rs 276 lakhs. The paid up capital (consisting entirely of equity shares) is Rs 100 lakhs and the general reserve Rs 80 lakhs. The freight earnings during the year were lower at Rs 220 lakhs against Rs 234 lakhs last year. The net profit before tax is not indicated in the Accounts but it is stated that a gross profit of Rs 39 lakhs against Rs 31 lakhs has been made. Since the extent of the grossness in these figures is not known, it is not possible to calculate the profit margin on the freight earned.

The net profit after tax has risen to Rs 11.14 lakhs from Rs 6.65 lakhs, indicating an improvement in the net earning per share from Rs 6.65 to Rs 11.14. The dividend has, however, been raised from Rs 5 to Rs 6 only. Out of the amount of Rs 12.69 lakhs available for distribution this year (including Rs 1.55 lakhs brought forward from the previous account), dividend absorbs Rs 6 lakhs, Rs 4.76 lakhs are taken to general reserve and Rs 65,000 to staff gratuity reserve, while the balance carried forward is Rs 1.29 lakhs.

The ordinary meeting called on August 17 would be requested, among other things, to pass 15 special resolutions to fulfil the requirements of the new Company Law.

Larsen & Toubro

THE Twelfth Annual Report of Larsen & Toubro Ltd for the year ending March 31, 1957 discloses a net profit, subject to tax, of Rs 17 lakhs against less than Rs 15 lakhs last year. Taxes absorb Rs 9.40 lakhs against Rs 6.63 lakhs in the previous year. Sales have gone up from Rs 280 lakhs to Rs 327 lakhs, but the profit margin on sales has declined fractionally from 5.4 to 5.2 per cent largely due to higher bonus and depreciation.

The paid up capital of the Company now stands at Rs 60 lakhs consisting of 15,000 five per cent Preference shares and 450,000 Equity shares. The net earning after tax per equity share amounts to Rs 1.7 against nearly Rs 2.0 in the previous year when the equity capital was smaller and the wage bill had not been inflated by a larger bonus. The distribution has been maintained at Re 1 free of tax. Together with the dividend of 5 per cent on preference shares, the total amount distributed this year comes to Rs 4.88 lakhs. Rs 1.90 lakhs are transferred to retiring gratuity reserve, Rs 1 lakh to dividend equalisation reserve and the balance of Rs 27,000 is carried forward. Net block now stands at Rs 16 lakhs against Rs 11 lakhs.

At the current market price of Rs 15.30, Larsen & Toubro shares yield 6.5 per cent net.

Digvijay Cement

SHREE Digvijay Cement Co Ltd made a net profit for the year ending December 31, 1956 of nearly Rs 21 lakhs subject to tax, after allowing Rs 17 lakhs for depreciation against Rs 25.56 lakhs and Rs 18 lakhs, respectively, last year. Sales amounted to Rs 193 lakhs against Rs 210 lakhs. The profit margin on sales has consequently declined from 12.2 to 10.9 per cent.

No provision has been made for taxation for 1956 in the Annual Report as the company was not liable to any taxation that year. The company's share capital presents a rather complicated picture owing to the considerable difference between subscribed, called up and paid up share values; forfeited shares and new shares issued at a premium confuse the picture still futher. The total share capital amounts to Rs 1,63,88,547 of which equity accounts for Rs 1,14,39,147.

A dividend of 9 per cent on ordinary shares has been distributed this year, absorbing Rs 7.5 lakhs. The dividend on preference shares absorbs nearly Rs 2 lakhs, the general reserve gets Rs 4.5 lakhs and contingency reserve Rs 11.5 lakhs. The company does not maintain any separate taxation reserve. The general reserve now stands at Rs 40 lakhs, and the net block at Rs 103 lakhs against Rs 30 lakhs and Rs 118 lakhs, respectively, last year.

At the current price of around Rs 146, Digvijay Ordinary yields more than 6 per cent net.

West Coast Paper Mills, Ltd, more than 51 per cent of the equity of which is held by Digvijay, has not commenced production as yet but its net fixed assets amount to Rs 6.67 lakhs.

India United Mills

THE Annual Report of the India United Mills Ltd for the year ending December 31, 1956 reveals a fall in the net profit, subject to tax, from Rs 87 lakhs to Rs 49 lakhs, after allowing Rs 10 lakhs and Rs 5.19 lakhs for depreciation and managing agents' commission against nil and Rs 5.18 lakhs, respectively, last year. Sales during the year declined to Rs 9,12 lakhs from Rs 11,38 lakhs while stocks rose from Rs 1,99 lakhs to Rs 3,05 lakhs. The profit margin on sales has thus declined from 7.6 per cent to 5.4 per cent.

The gross block of the company stands at Rs 4,91 lakhs and the net block at Rs 1,37 lakhs. The share capital amounts to Rs 2,50 lakhs, consisting of 20 lakh ordinary shares of Rs 10 each and 50 lakh deferred shares of Re 1 each. The reserves and surplus stand at Rs 64 lakhs.

At current prices, the net yields on Indu Deferred and Ordinary are 10.3 and 8.1 per cent, respectively.



CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1617.90	1542.92	1559.24	1460.01
2. Rupee Coin	128.06	126.24	125.56	109.96
3. Deposits				
a) Central Government's	54.02	53.45	53.45	83.42
b) Banks'	87.82	78.71	71.51	53.01
c) Other Governments'	3.09	1.41	2·30	13.69
d) Others'	149.48	148.91	121.68	11.88
4. Foreign Securities	400.52	412.52	412.52	616.68
5. Balances held abroad	31.19	28.55	51.86	47.96
6. Rupee Securities	906.81	924.81	939.81	718.56
7. Investments	246.37	218.46	187.47	59.19
8. Loans and advances to Governments	27.79	27.58	23.95	4.64
Scheduled Banks				
1. Demand liabilities (net)	715.70	713.14	712.67	644.30
2. Time Liabilities	559.87	563.76	538.11	456.43
3. Cash on hand	41.32	41.30	40.94	37.26
4. Borrowings from Reserve Bank	51.29	55.76	70.03	38.50
of which against Usance Bills	45.29	46.70	54.75	33.97
5. Advances and Bills discounted	848.98	860.15	872.70	701.92
of which State Bank's	177.19	182.07	186.39	131.03
6. Invst. in Govt. Sec.	332.25	332.64	334.88	345.98
of which State Bank's	105.63	105.53	105.52	100.27
Cheque Clearance	126.29	153.28	126.58	128.90

†For Reserve Bank week ended 19-7-57. Scheduled Banks and Cheque Clearance week ended 12-7-57.

Bombay Money Rates

	12-7-57	5-7-57	14-6-57	12-4-57
Call Money				
From banks	$3\frac{1}{2}$–$4\frac{5}{16}$	$3\frac{1}{2}$–$4\frac{1}{2}$	$3\frac{7}{16}$–$3\frac{11}{16}$	$3\frac{1}{2}$–$4\frac{7}{16}$
From public	$3\frac{11}{16}$–$4\frac{7}{16}$	4–$4\frac{7}{16}$	$3\frac{5}{8}$–$4\frac{7}{16}$	$3\frac{7}{16}$–$4\frac{7}{16}$
Three Months	$2\frac{1}{2}$–$4\frac{5}{16}$	3–$4\frac{7}{16}$	$2\frac{1}{2}$–$4\frac{7}{16}$	3–$4\frac{7}{16}$
Six Months	2–$4\frac{5}{16}$	2–$4\frac{5}{16}$	2–$4\frac{5}{16}$	2–$4\frac{7}{16}$

Bombay Bullion

(In Rupees and Annas)

	25-7-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107-13	106-10	101-9½	102-4
Forward	107-4	105-15	100-5½	100-12
Silver (per 100 tolas)				
Spot	182-8	179-6	172-14	171-9
Forward	183-4	180-2	172-14	171-3

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August, 1939 = 100)

Group and Sub-Group	WEEK ENDED 29-6-57	22-6-57	1-6-57	30-6-57
Food Articles	**438.1**	**430.5**	**436.3**	**373.4**
Cereals	563	553	562	475
Pulses	401	403	402	361
Others	286	280	288	245
Semi-Manufactures	**540.9**	**539.9**	**541.7**	**481.8**
Leather	528	532	534	470
Mineral Oils	594	590	581	537
Vegetable Oils	580	555	586	435
Cotton yarn	396	396	401	421
Metals	**413.0**	**410.6**	**413.5**	**395.5**
Oilcakes	400	400	414	401
Others	223	223	230	208
Industrial Raw Materials:	603	605	600	553
Fibres	482	480	480	473
Oilseeds	345	344	347	328
Minerals	461	423	429	426
Others	373	373	374	361
Manufactures	**391.**	**392.4**	**392.5**	**377.4**
Textiles	413	415	415	409
Jute	434	443	433	381
Cotton	416	416	416	419
Rayon & Silk	406	406	424	453
Woollen	283	283	283	264
Metal Products	407	407	407	379
Others	316	316	316	286
Miscellaneous	**601.5**	**563.5**	**570.7**	**545.**
All Commodities	**441.2**	**437.3**	**440.1**	**402.1**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Average or Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads*
1954	3,073	2,669	3,601
1955	3,185	2,745	3,617
1956	3,287	2,912	2,764
1955 : April	3,230	2,693	4,066
May	3,175	2,744	4,095
June	3,077	2,659	4,129
July	2,959	2,757	3,902
Aug	3,118	2,880	3,696
Sept	3,380	2,804	3,786
Oct	3,084	2,879	3,516
Nov	3,097	2,771	3,450
Dec	3,388	2,782	3,617
1956 : Jan	3,207	2,794	3,586
Feb	3,358	2,697	3,814
March	3,363	2,839	3,811
April	3,224	2,866	3,814
May	3,316	2,870	3,833
June	3,195	2,878	3,712
July	3,165	3,017	3,372
Aug	3,311	3,176	3,023
Sept	3,126	2,819	2,881
Oct	3,177	2,940	2,662
Nov	3,325	3,028	2,565
Dec	3,674	3,026	2,764
1957 : Jan	3,628	3,139	2,780
Feb	3,508	2,841	3,029
March	3,652	3,251	3,000
April	3,731	3,158	—

* At or about the end of each period —Not available

Source : Directorate of Industrial Statistics, Calcutta

INDUSTRIAL PRODUCTION

		1957		1956			Monthly Average		
		Mar	Feb	Jan	Dec	Nov	Oct	1956	1955	1944
I Consumer Goods :										
1) Cotton textiles	mn yds	453.3	435.1	483.7	479.3	430.1	443.4	442.8	424.5	416.5
2) Woollen and worsted fabrics	,,	1.1	1.0	1.2	1.3	1.4	1.5	1.4	1.2	1.1
3) Matches	000 cases	45.5	45.1	50.7	48.1	48.2	46.4	49.1	51.3	44.1
4) Soap	000 tons	—	9.0	10.5	9.7	8.3	8.9	9.1	8.2	7.3
5) Electric lamps	mn	2.5	2.3	2.4	2.5	2.4	2.1	2.1	1.6	1.6
6) Hurricane lanterns	000	—	367.9	421.3	509.8	459.2	419.4	401.6	457.3	415.6
7) Razor blades	mn	32.0	34.0	42.3	32.6	27.2	26.7	22.1	14.5	10.9
8) Sewing machines	000	14.6	13.1	13.8	14.1	12.3	8.9	10.9	8.4	6.7
9) Vegetable oil products	000 tons	27.9	25.0	28.6	26.7	16.2	16.4	24.9	21.3	21.7
II Raw Materials or Intermediate Goods										
1) Cement	000 tons	—	427.7	459.0	459.1	412.1	410.8	410.7	373.9	366.1
2) Coal	mn tons	3.7	3.5	3.6	3.7	3.3	3.2	3.3	3.2	3.1
3) Jute manufactures	000 tons	84.7	80.2	88.8	84.9	83.8	80.4	91.1	85.6	77.3
4) Cotton yarn	mn lbs	150.5	143.2	156.4	155.2	139.5	142.5	139.3	135.9	130.1
5) Paper & paper board	000 tons	17.3	16.0	17.5	17.6	16.0	16.0	16.1	15.4	12.9
6) Asbestos cement sheets	,,	13.2	12.6	13.8	11.6	11.0	10.2	10.0	8.7	6.6
7) Chemicals:										
(i) Sulphuric acid	000 tons	—	13.8	13.0	13.9	13.6	13.9	13.8	13.8	12.6
(ii) Caustic soda	,,	—	3.3	3.9	3.8	3.6	3.5	3.3	2.9	2.4
(iii) Soda ash	,,	8.5	6.6	9.1	8.8	8.2	8.0	7.0	6.4	4.0
(iv) Chlorine liquid	tons	1,426	1,343	1,446	1,419	1,280	1,375	1,256	965	815
8) Paints & Varnishes	tons	—	3,026	3,449	3,617	3,951	3,257	3,467	3,253	3,068
9) Rubber Products										
(i) Footwear	lakh pairs	28.6	27.9	35.8	35.1	34.5	29.0	30.1	29.1	26.0
(ii) Tyres										
(a) automobile	000	82.3	82.0	87.6	82.5	86.2	57.4	78.2	73.5	69.4
(b) cycle	,,	565.2	586.4	654.1	603.1	610.6	342.6	526.7	479.0	435.5
(iii) Tubes										
(a) automobile	..	82.0	77.5	91.2	87.2	88.4	60.4	76.5	65.5	62.4
(b) cycle	,,	553.7	559.5	638.3	596.7	602.2	305.1	531.1	466.1	464.8
10) Insulators:										
(i) High tension	000	—	4.1	5.9	4.6	3.4	4.4	5.2	21.0	42.3
(ii) Low tension	,,	—	336.6	374.8	423.2	439.5	240.4	394.2	355.9	222.9
11) Non ferrous Metals:										
(i) Copper (virgin)	tons	735.0	665.0	381.0	680.0	608.0	655.0	635.7	606.8	596.8
(ii) Aluminium	,,	—	592.3	646.7	674.9	643.4	454.5	541.7	602.1	407.2
(iii) Lead (virgin)	,,	235.5	243.5	177.2	284.0	263.8	236.4	208.1	186.2	149.0
(iv) Antimony	,,	33.0	43.0	40.0	65.0	47.0	46.2	49.1	42.0	44.9
12) Iron & Steel:										
(i) Pig iron	000 tons	—	145.4	159.4	161.0	149.5	156.5	150.6	146.4	149.4
(ii) Steel ingots & castings	,,	—	135.1	152.4	152.0	139.9	149.7	144.8	142.0	140.4
(iii) Semifinished steel	,,	—	118.5	135.2	127.9	123.1	133.0	123.7	121.4	121.0
(iv) Finished steel	,,	—	102.9	126.4	113.3	114.3	110.1	109.7	105.0	103.6
III Capital Goods										
1) Diesel engines	nos	—	1,007	1,039	1,054	1,037	1,220	998	852	721
2) Power driven pumps	000	—	4.5	4.8	4.3	4.2	4.1	3.9	2.9	2.4
3) Machine tools	000 Rs	—	1,666.4	1,732.1	1,425	1,347.9	944.0	839.7	620.0	416.9
4) Twist drills	000	—	141.6	174.5	155.7	139.5	135.5	129.1	64.9	44.9
5) Calico looms	nos	239	268	290	242	278	211	239	228	157
6) Ring frames	,,	118	124	123	128	122	95	93	72	30
7) Grinding wheels	000 lbs	293.0	261.3	311.3	324.0	239.5	246.1	207.6	119.9	94.5
8) Carding engines	nos	92	79	68	68	67	64	61	50	36
9) Arc welding electrodes	lakh ft	180.4	153.3	76.1	181.0	178.2	161.0	156.3	100.8	72.5
10) Dry cells	lakhs	141.6	150.5	166.5	179.1	160.5	129.2	151.2	134.2	123.9
11) Storage batteries	000	27.2	26.3	28.3	27.8	25.1	23.1	26.2	19.6	15.7
12) Electric motors	000 H P	36.0	33.2	35.1	41.3	35.1	27.7	29.9	21.0	15.6
13) Power transformers	000 KVA	105.2	93.6	91.8	94.7	88.1	81.4	75.9	47.1	33.3
14) Insulated cables	lakh yds	83.9	78.5	85.9	86.7	83.0	95.4	88.0	71.8	52.3
IV Transport Equipment										
1) Automobiles (total)	nos	3,154	3,161	3,025	2,881	2,638	2,828	2,678	1,924	1,205
of which:										
(i) Cars	,,	970	1,144	1,134	1,160	924	983	1,082	791	—
(ii) Jeeps	,,	577	533	141	336	381	412	345	278	—
(iii) Trucks & Buses:										
(a) Petrol	,,	337	189	373	281	255	560	366	406	—
(b) Diesel	,,	1,227	1,252	1,353	1,104	1,037	922	828	385	—
2) Bicycles	000	—	65.2	61.8	70.9	66.1	63.6	55.3	40.9	31.0

Source: Directorate of Industrial Statistics.

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Credit Control in Retrospect

MONETARY and credit policy during the year, according to the latest *Report on Currency and Finance*, was one of controlled expansion, based on the twin considerations of assisting economic growth and restraining inflationary pressures. The Report does not add much to what had already been known about general credit control. The raising of the Reserve Bank's lending rate under the Bill Market Scheme, linked with higher stamp duty on usance bills and the raising of the lending rate on advances against Government securities, and the subsequent retreat from the untenable stand that the 'bank rate' had not been changed, all these tortuous processes have been chronicled with meticulous attention to detail.

Greater interest, however, attaches to the experience in the use of selective credit control. Restraint on credit expansion was also exercised for the first time, says the Report, "through directives under the powers conferred by the Banking Companies Act, particularly in the field of credit for the purpose of trading in foodgrains". In the section on Money Market Trends, the Report says:

"Thus, during the period May-October 1956, advances against foodgrains declined by Rs 22.8 crores and those against industrial raw materials by Rs 40.6 crores. Advances against other securities and clean advances of banks, on the other hand, rose by Rs 67.1 crores".

It is the juxtaposition of these two sentences which will cause a little disquiet, for it is natural to expect that in a situation of rising prices when there is, admittedly, a tendency to stock grains—why else qualitative control?—there will also be a temptation to get round the directive by borrowing under some other head. Direct substitution of the kind of advance objected to by the banks by another is naturally not to be expected under these circumstances, but something circuitous. And it has been asked on more than one occasion in these columns whether the Reserve Bank has studied the scope for such substitution and the effectiveness of qualitative control generally. That advances for foodgrains and industrial raw materials should decline by Rs 63 crores while those against other securities and clean advances, should rise by Rs 67.1 crores raises some doubt about the effectiveness of this kind of control.

Considerable ingenuity is exercised in beating controls, particularly, when the prospective gain from successful evasion is expected to be considerable. Banks would, of course, have a ready explanation that clean advances are only given to parties with the highest credit rating. It is not suggested that market manipulations would be that simple. But a monetary policy which will simultaneously assist development and yet restrain inflationary pressures is not easy to devise under the most favourable of circumstances. It is to be exercised through instruments like these and when the authorities do not even bother to check their working carefully, the chances of a successful or effective use of such a policy must be remote indeed.

Another notable contribution of this Report is the light it seeks to throw on the effects of imports of American surplus produce under P L 480 on bank deposits. The subject is complex and the Report has done well in drawing attention to it. Referring to the rise in bank deposits during the year which at Rs 132 crores was Rs 31 crores larger than that in the preceding year, the Report says that "this rise was largely accounted by counterpart funds in respect of imports of commodities from the United States under P L 480". But it does not say how much of the increase in deposits was due to this particular factor. The point needs some clarification. For counterpart funds are usually regarded as a convenient instrument for effecting disinflation. Surely, this would not be the case if they inflate bank deposits to the extent that they did during the year under review. The explanation for this apparent anomaly probably lies in the neglect of the first stage in the utilisation of these funds, at the stage at which they still remain the property of the U S Government and have not yet been allocated as provided for in the agreement. In the P L 480 Agreement for $ 360 million for the import of surplus U S wheat, cotton, etc, which was signed in last August, out of the sale proceeds, the rupee equivalent of $ 55 million are to be retained by the U S Embassy for its expenditure in India and that of $ 234 million are to be allocated, as loan, for schemes of economic development, and the balance of $ 71 million will be given to India as a gift. Now, until the sale proceeds have been allocated according to the Agreement which was signed some time later and has not apparently yet been given effect to, the sale proceeds are to be deposited on U S account, by their own choice, mainly with the State Bank of India. This explains the steady rise in the deposits of the State Bank from Rs 234 crores at the end of November 1956 to Rs 299 crores at the end of March 1957.

That is to say, of the substantial increase in the deposits of the scheduled banks in the last quarter of the financial year, the bulk of the increase went to the State Bank. Taking the period from December 1956 to March 1957, the total increase in the deposits of the scheduled banks was Rs 61 crores out of which the State Bank received some Rs 57 crores. Subsequent to March 1957, however, the rise in State Bank deposits, though still continuing, has tapered off. It is not possible to be sure, however, that this is on account of slowing down of imports under P L 480, in the absence of any published statistics on the subject.

The role of P L 480 in augmenting the deposits of the State Bank pointed out in the Report has prompted a correspondent to challenge the statement of the Chairman of the State Bank made in a press conference in Calcutta last month that the bank had turned the corner and that public confidence in the State Bank had been restored. This was naturally supported by reference to the increase in deposits during the year to June 30, 1957 from Rs 226 crores to Rs 316 crores. If this increase was "partly" (page 27 of the Report) or "largely accounted for" (page 29) by P L 480, does it not deflate the claim made by the Chairman of the State Bank? Not really, until one knows the exact volume of deposits that originated from P L 480. But making due allowance for the latter, the State Bank appears to have gained deposits substantially and it may also protest mildly that if the U S Government chooses it in preference to other banks for keeping such a large deposit, running to Rs 60 or Rs 70 crores, is it not a sign of strength and of the confidence which others have in the bank?

Germany and Disarmament

DOES Washington speak with two voices? Or, is there a rift between America and her allies on the issue of disarmament? There has been diplomatic shadow boxing over both Germany and disarmament for more than two years now. Why has the diplomatic warfare on both these issues been revived at the moment? After initial hopes of an agreement on partial disarmament, the London talks reached stalemate some weeks ago. There is speculation as to whether Mr Dulles is in London, with direct instructions from President Eisenhower, to resolve the disarmament deadlock or to prolong it. Meanwhile, developments in and about Germany are no less intriguing. That Dr Grotewohl's proposal for a confederation between the two parts of Germany, as a prelude to German re-unification, will be rejected by Bonn was a foregone conclusion. But it is significant that West Germany's Opposition parties have been prompt in rejecting the four-power declaration on Germany. Neither the Soviet Union nor Eastern Germany is likely to accept the terms and conditions included in the Western proposal on Germany. Dr Adenauer and his Party alone seem to endorse the Western plan for re-unification.

If Dr Grotewohl has anticipated the Western Powers' declaration on Germany, the deliberate timing of the West's proposal can only be interpreted as an assurance to Dr Adenauer, on the eve of the elections, that the West will not disown Bonn. This may or may not further Dr Adenauer's chances for another term. But it is already clear that the proposal will not bring the problem of Germany any nearer solution. Herr Erich Ollenhauer, the West German Social Democrat leader, is sweeping in his condemnation that there is nothing new or novel in the West's German proposal. For the first time, the Western Powers have included West Germany as a co-sponsor of their plan for Germany. That is rather odd, as the Western Powers admit that the responsibility for re-unification of Germany rests jointly on them and the Soviet Union. How can West Germany be a party to the declaration? Because, the Western Powers naively argue, the Federal Republic of Germany is "the only Government qualified to speak for the German people as a whole". Eastern Germany and Dr Adenauer's political opponents will not accept this claim. In stating their views on re-unification and the conclusion of a Peace Treaty, the Western Powers have begged the whole question.

No less confusing are the contradictory statements on the relation between disarmament and German unity. Towards the end of the joint declaration by the Western Powers and West Germany, it is conceded that "if a beginning could be made towards effective measures of partial disarmament, this would contribute to the settlement of outstanding major political problems such as the re-unification of Germany". But, in the same paragraph, it is emphasised that "the Western Powers do not intend to enter into any agreement on disarmament which would prejudice the re-unification of Germany". In a subsequent paragraph, it is further stressed that "any measure for disarmament applicable to Europe must have the consent of the European nations concerned, and take into account the link between European security and German re-unification". If that be the policy of the Western Powers, what precisely have they been discussing with the Soviet Union at the London disarmament talks?

At this stage, it is relevant to recall certain recent developments to appreciate the relation between disarmament and Germany in its proper perspective. It is no secret that Bonn has the pledged assurance from Britain and America that the solution of the German problem is a condition precedent to any comprehensive argument on disarmament. That is not the only obstacle to any comprehensive disarmament agreement. France, not yet an atomic Power, is known to have adopted a recalcitrant attitude during the London talks on disarmament. President Eisenhower's keen desire for a firm agreement on disarmament is widely known. But the President's "open skies" plan is considered by experts as impractical. Although the Soviet Union has announced its acceptance of a limited "open skies" plan, Moscow's main insistence during the London disarmament talks has been on a temporary ban on nuclear tests.

This focuses attention on Mr Dulles's sudden visit to London. Mr Stassen may share President Eisenhower's desire for some agreement on disarmament, but he is suspect not only in Pentagon but in N A T O. Though the precise issues on which there is deadlock in the London disarmament talks are rather obscure, it is known that Britain, France and some N A T O powers are opposed to the implications of the American proposal for partial disarmament. Is Mr Dulles in London now to iron out these differences or to inform Mr Stassen that Washington has agreed to abide by the views of America's allies? Britain is known to favour a postponement of the disarmament talks until after the elections in Western Germany. For different reasons, France will prefer a postponement of any solution on disarmament.

Neither in relation to Germany nor to disarmament are the Western Powers willing to discuss N A T O as a related or relevant issue. But, in the declaration made jointly by them and Western Germany, they inform the Soviet Union and other Eastern European countries that, if the all-German Government chooses to remain a N A T O member, they are prepared to offer the latter "assurances of a significant and far-reaching character" within the orbit of a European Security Arrangement. It is also hinted in the declaration that they are not unwilling to make other concessions as and when the Soviet Union responds to their proposal for Germany. Moscow is never likely to accept any European Security Arrangement with N A T O in existence, and without any firm agreement on re-united, sovereign Germany's future military status. Dr Adenauer's political opponents are equally insistent on this latter issue. And it is significant that they blame Dr Adenauer for the deliberate omission of the problem of re-unified Germany's military status from the Western Powers' plan for Germany.

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Weekly Notes

Threatened Postal Strike

NO Government can yield to the threat of even a temporary stoppage of such essential services as those of Posts and Telegraphs. When the threat of a strike in Posts and Telegraphs comes not singly but in swarms, with similar threats of stoppage of other services in the public sector, the situation is indeed alarming. It is to be hoped that necessity will not arise for the present Government to face a trial of strength and to face it when the public is clearly divided in its sympathies. For while the public would not be senseless enough to welcome the stoppage of essential services, it would be idle to pretend that the Government has carried the people with it so far, in its handling of the question through various stages.

Members of the Government are themselves divided in their attitude to the demand of wage rise. To introduce into this dispute sophisticated reasoning to link up wages to productivity and to hold up the implied stage of inflation which the latter must contain, is to ignore the primary motives which impel men and guide their attitude to basic questions of social change and economic development. To forget that it is the wage bill which puts pressure on management to improve productivity, in private industry as well as in public undertakings, is to ignore the driving force behind development. Faced with the embarassing situation, Government may choose to forget that by and large wage claims in this country arise from the primary and unanswerable demand for subsistence. Even the more sophisticated will not fail to notice this, if they take the trouble of looking up such wage data as are available and compare them after due correction for price changes with the pre-war level of wages, which is the pseudo-scientific basis of much of these disputations. But instead of beginning with a Pay Commission for its own employees and a Wage Commission for industry the Government has taken the line of least resistance, conceded only when it must and began wage revision with the appointment of a Wage Board for the Textile Industry.

The situation with regard to the Posts and Telegraphs, however, is both fluid and potent with dangerous possibilities. That last minute negotiations to avert the disaster have to take place under the shadow of police firing on sweepers in the Bhangi colony, adds inevitably a sombre tinge of tragedy which it is not possible to ignore. Pandit Nehru had once the gift of entering into the minds of people and giving them a sense of direction. This he did when he forged a tripartite agreement some years ago. A fair deal to the country which will release the energies of the people and direct them to purposive action is no climb down for any Government. There is no reason to suspect that Pandit Nehru will fail to rise to the occasion and snatch the initiative from those who have made wage disputes a matter of debating points and of 'face'.

Senior Services and LIC

TO put the right man in the right job is no easy task and what a headache it must be to the Life Insurance Corporation to find the right job for all the 3,000 officers of various categories of the Life Insurance Companies can well be imagined. After all, each company had a General Manager or managing Director and the Corporation does not have that number of No 1's. So you select one, and the other 145—there were 107 Indian companies doing life business and 38 combined offices doing both life and general business—must be more or less disgruntled. So to try to find right jobs, proper grades and suitable postings for all these men belonging to the officer cadre would be to ask for trouble any way.

All these are just common sense or hunches, if you will. There is, however, a not unimportant detail —the accident that in the interregnum when Custodians took over the management of the companies and were acting in a dual capacity, pending the full working of the Corporation, some selections were made and a fresh bias was introduced in the selection, or so it is complained. As Custodians were chosen from a few select concerns, and were subject to such weakness as flesh is heir to, there would be nothing surprising if they put in the key jobs only those whom they considered to be the best. Who will now unsettle these settled facts?

Meanwhile, pay scales and grades have been provisionally fixed. This is also a bone of contention and is bound to remain so for a long time. For unless the Life Corporation adopts the practice of UN Technical Assistance and fixes a scale according to the highest commanded by some of the would be incumbents in TCA, it is the American scale of salaries which sets the standard some of the employees, particularly those of the companies with the higher pay grades, would feel justly grieved. On the other hand, if the Life Corporation were to accept the highest grades prevailing under the old regime as the standard one, there would be obvious difficulties about costs, etc, which even a public corporation can ill afford to ignore, for fear of public criticism, if nothing else.

A Senior Services Committee was set up last May, to categorise the officer cadres of the Life Insurance Corporation. The Committee visited the principal centres and interviewed the officers but nothing appears to have been done on its recommendation. It was, nevertheless, complained that the Committee had been influenced unduly by the Custodians who had prepared their own list of officers and their own order of precedence. Any way, Opposition kicked up a row over it in the last session of Parliament with some effect, for the Committee was subsequently reconstituted and Shri T C Kapur and B C Ghosh were invited to join the Committee. The new members, after a detailed study, are reported to have laid down that experience should be given greater importance in the selection of officers rather than technical and academic qualifications. The Finance Minister, it was also reported, had accepted this basis of selection as also the other recommendations of the Committee. The Committee reported some time ago and the report must have been under consideration, but as time passes and decision is delayed, hearts grow sick of waiting and the morale of the officer cadre of the Corporation naturally suffers in consequence.

SECRETARIAT 1 AUG 1957 GOVT OF MADRAS

French Jets for SAS

COMPETITION in international air services is so keen that individual companies who participate have to maintain the same high standard of service—safety, comfort, speed—or go out of the business. This, one should imagine, would normally leave little scope for choice or variety in the basic requirements of travel such as selection of aircraft, for example. Thus when the leading air lines go in for Constellation and Super-Constellation, the others have to follow suit. Hence one finds a near uniformity of standard whoever the carriers, Americans, British or French, or one of the so called backward countries, Burma, Thailand or Indonesia, for example. It is the same type of aircraft that is used, and the same type of service, the only difference being that one may be a little, a year or so, behind the others, though trying all the time to "keep up with the Joneses." Within this pattern, however, one can see, or imagine, a slight variation within limits set by such accidental factors as the particular arrangement for financing purchase of the aircraft in question. The latter may be 'tied', though this would not necessarily mean that the choice would be any worse.

It is possible, however, that being too much obsessed with Anglo-American patterns in these things, we do not fully appreciate the freedom of choice exercised or the originality displaced by other air lines with which we are not so familiar. The choice of the Scandinavian Air Lines of French aircraft, therefore, would be a eye opener for many in this country who are not so familiar with French achievements in this particular field of engineering technique. The SAS has chosen Caravelle to enter the jet age, and it is among the first air lines in the world to do so. Caravelle, incidentally, is the name of a light Mediterranean sailing ship—current even today—of the type in which Columbus set out on his discovery of America. It is the pride of the French aircraft industry and it is powered by Rolls Royce Avon Jet Engines which have behind them a record of more than a million flying hours. It is a product of Sud-Aviation, the largest aircraft manufacturers in Western Europe and sixth largest in the world. The SAS have signed an agreement for the supply of the medium range French Caravelle Jet Air-liners for 1959 delivery with an option for nineteen more. They are ordering at the same time seven long range Douglas DC8 Jets, delivery to begin in 1960.

All the SAS Air-liners are also been equipped with the weather radar systems developed by the Radio Corporation of America. Airborne radar sees weather ahead of the plane and would be of special importance on the polar flights, between Scandinavia and U S, West Coast and the Far East, in which SAS have been the pioneers.

The Nagas

BRITISH Raj was so obsessed with Landikotal that it was not before the last World War that it discovered that India also had, and has, a north-eastern frontier. Much has gone wrong since that discovery. British Raj was replaced by the Congress. But Sardar Vallabhbhai Patel, who knew his Princes, was unfamiliar with the peoples and problems of the hill tribes. Far worse was Gauhati's haughty attitude to its immediate neighbours. New Delhi has made mistakes. Its approach to the Nagas was a psychological blunder. That was the major mistake in policy. Its subsequent police action was also a tactical error. Gauhati should never have been allowed to deal with the trouble. When troubles intensified, the Army should have been promptly brought to action. Belatedly, but only after much harm had been done, the tactical error has been rectified. General Thimayya's efforts have been successful.

It is cheering news that the end of purely military operations is in sight. Soon, political negotiations will start. New Delhi will have to be tactful. It must shed its crusading zeal. Tribal peoples have their cultures, traditions and customs. They have the right to live their own lives in their own way. Once this is fully conceded, there will be sympathy with New Delhi's efforts to persuade the Nagas to send their children to school. There must be no imposition from above or from outside. Head-hunters do not acquire preference for schools and clinics in a day. It will be a time-taking process. It will have to be achieved through willing co-operation of the tribal peoples. With not a proper psychological approach, the political problem cannot be solved. It will not be easy to solve the problem. But experience should guide New Delhi to avoid certain pitfalls. It is evident that Assam's territorial claims must be rejected firmly. Gauhati's demand for integration of tribal areas with Assam was decisively rejected by the tribal voters during the last elections. That election verdict must be respected. Pandit Nehru has indicated that he prefers the fusion of N E F A, the Naga hills, Manipur and Tripura into a single administrative unit under the Centre. The Naga demand for complete independence cannot be conceded. But it is no less clear that the tribal peoples are entitled to enjoy autonomy as a unit of the Indian Union. This is where a delicate balance has to be struck. Mainly, it is a problem of the future administrative set-up in these areas. There are other aspects to the problem. Both Manipur and Tripura have their respective claims and demands. Neither is willing to be merged with N E F A or the Nagas. Nor, it has been suggested, may it be politic to fuse the Naga Hills with N E F A. These issues are partly political and partly strategic. New Delhi will have to discover a compromise formula which will be acceptable to all the constituents of the proposed merging units.

A New Republic

TUNISIA has emerged as a new republic. The Bey has been deposed. M Bourguiba has been chosen by the Constituent Assembly as Tunisia's first President. By abolishing the monarchy, M Bourguiba has enhanced his political prestige and popularity. He may not be liked in Paris. But his achievements are impressive. Under his leadership, Tunisia was the first North-African country to wrest political concessions from France. Tunisia was an inspiration to Morocco. It was M Mendes-France's settlement with Tunisia which hastened the transfer of power in Morocco and intensified the nationalist movement in Algeria. It is not difficult to appreciate why French colons have never forgiven M Mendes-France or M Bourguiba. Paris suspects that M Bourguiba is scheming to draw Tunisia out of the French orbit.

M Bourguiba retorts that the French policy since transfer of power is an obstacle to harmonious relations between Tunisia and France. The new President of Tunisia does not lack political tact or ingenuity. He has so far succeeded in his political mission without creating any open or direct hostility from Paris. Even as transfer of power to Tunisia was the beginning of the end of French domination in North Africa, its emergence as a republic may be the beginning of another political phase in French North-Africa. That is why M Bourguiba is not quite popular in Paris.

Steel Allocation and Subsidy

THE Steel Equalisation Fund has now been made a part of the Consolidated Funds and it therefore found a mention, for the first time, in the Budget. For information about the utilisation of this fund, however, and for an intelligible account of the operation of steel control generally, one had to wait for the Annual Report of the Ministry of Commerce and Industry which has just come out. According to this report, the total availability of steel during 1956-57 amounted to about 31 lakh tons—13 lakh tons of indigenous steel and 18 lakhs imports. But the quantity available for allocation was much smaller, viz, 19 lakh tons. This was because "steel allocated and distributed against quota is subsidised and sold at the internal level of prices which is about Rs 200 per ton lower than imported prices". And the resources of the Equalisation Fund did not enable anything more than 6 lakh tons of steel to be subsidised. Consumers, however, were free to supplement their allotments by imported steel at whatever the imported cost was.

The Equalisation Fund was also used during the year for equalising selling prices for steel at all railheads, irrespective of the cost of freight. This appears to have been done in two stages. First, in order to give some relief to consumers of steel at places away from ports, the maximum freight realisable from consumers was fixed at Rs 60 per ton in May 1954; the difference between the actual rail freight and the Rs 60 charged being met from this fund. When uniform prices at all rail heads were introduced from June 11, 1956 and the prices of both steel and pig iron were increased to meet the extra cost of transport involved, the latter was met out of the Equalisation Fund.

Allotments from the steel pool were as shown in table below.

The allocation to small scale industries, says the report, was greatly liberalised and the earlier restriction of confining such allocation only to those small scale industries which had been registered under the Indian Factories Act prior to January 31, 1953, was removed during the year.

The increase in the price of pig iron by Rs 60 per ton with effect from June 11, 1956 was partly for equalisation of freights and partly for subsidising imports of pig iron. These imports, which were made for the first time in many years, were necessitated not by any shortfall in domestic production but because of increased demand. Production of saleable pig iron in 1956 is estimated at 518,000 tons as against 478,000 tons in 1955. Demand, however, was much higher and accordingly arrangements were made to import and subsidise 150,000 tons during 1956-57.

Table Showing Allotments from the Steel Pool

	(In '000 tons) 1955	1956-57
Government Demands		
Defence and Railways	310	489
Government Development Schemes (including Housing Schemes and Community Projects)	350	470
Housing Schemes for Displaced persons	17	19
Private Demands		
Industrial Maintenance and Packing	108	109
Steel Processing Industries	429	430
Private Industrial Development Schemes	82	96
Agriculture	100	101
States (Non-agricultural & Cottage Industries)	99	176
	1,495	1,890
Plus	386*	—
	1,881	1,890

* Estimated tonnage of items which were not under quota allocation during the year 1955.

Central Railway Beats Bottleneck

REVIEWING its working during the year, the Central Railway in its publication 'Some Facts and Figures 1956-57' claims: 'The year ending March 31, 1957 has been an outstanding one in the field of goods transport over the Central Railway, for it was in this year that the "bottleneck" in rail transport which developed in 1940-41 may be said to have truly been broken . . . So good has been the movement position that in the last phases of the busy season at the close of the year ending March 1957, a surplus transport capacity developed, prompting the Railway Administration to canvass with the trade for offering more traffic'. This is no idle boast. Goods traffic on Central Railway has improved considerably. Measured in freight ton miles, traffic rose by 55 per cent from 5,905 mn in 1951-52 to 9,184 mn in 1956-57; the corresponding figure in 1955-56 was 8,463 mn.

This substantial rise in traffic was handled without a corresponding rise in capacity. Thus, as compared with a 55 per cent rise in traffic during the six years ended 1956-57, wagon capacity rose by only 19 per cent and freight train miles run by only 28 per cent. This means that each wagon and each train was utilised more intensively. Locomotives, too have been utilised more effectively. While gross ton miles have risen from 21,098 mn in 1951-52 to 29,760 mn in 1956-57, i.e., by 41 per cent, the average number of locomotives of all gauges on line increased from 1,112 in 1951-52 to 1,408 in 1956-57, i e, by only 26 per cent.

Besides this improvement in operational efficiency of rolling stock, Central Railway also achieved some economy in the use of coal. Railways being the largest single consumers of coal—their gross intake is nearly one-third of the total coal production in the country—economy in the use of coal is a matter of national concern. Coal consumption by locomotives on the Central Railway rose from 2.19 mn tons in 1955-56 to 2.21 mn tons in 1956-57, i e, by only one per cent, against an increase in total engine miles of 2.5 per cent. Goods traffic accounts for the bulk of coal consumption and here Central Railway has achieved a measure of economy. Thus lbs of coal consumed per 1,000 gross ton miles hauled (broad gauge) declined steadily from 178.1 in 1951-52 to 158.9 in in 1955-56, and dropped further to 154.6 in 1956-57.

On passenger trains, however, coal consumption has been rising since 1954-55, when it stood at 168.1 lbs per 1,000 gross ton miles hauled rose to 169.1 in 1955-56 and touched a new high in 1956-57 at 178.2. This, it is explained, was due in a measure, "to the short supply during some periods of the year under review of 'A' grade mail coal used on the Mail and Express services. Because of this, use was made of lower grade coal during those periods on the mail services, resulting in higher consumption of such coal".

Cloth Exports Sag

ALTHOUGH cloth exports for the five months ending May (judged from figures of cloth passed for shipment) are considerably higher than those during the corresponding period last year, or even the first six months of 1956, the monthly figures show a downward tendency. After the decline in February to 76 mn yards from the January peak of 95 mn yards, cloth passed for shipment recovered in March to 89 mn yards. But the recovery was short lived. In April, it declined to 82 mn yards and sagged further to 73 mn yards in May.

The May trough, it now appears, is not the bottom. All-India figures for June are not available yet but cloth passed for shipment from Bombay Port amounted to only 51 mn yards during June. Since more than 90 per cent of cloth exports pass through Bombay Port, even if another 10 mn yards were added for Calcutta, Madras and Cochin, the total for June would still be in in the region of 61 mn yards, or 12 mn yards less than the May figure and 34 mn yards less than the January peak.

This means that the annual rate has fallen from the Jan-Mar level of 1,051 mn yards to around 934 mn yards during April-June. Considering that Japan, too, is suffering from the same malady—her exports during the first quarter of 1957 were 8 per cent lower compared to the corresponding period of 1956—India has not done too badly.

Japanese Cotton Textile Output

THE Japan Cotton Spinners' Association reports that the output of cotton yarn in the first quarter of 1957 amounted to 271 million pounds, about 4 per cent less than the postwar record attained in the preceding quarter but some 23 per cent more than output in the first quarter of 1956. Cotton fabric output was 867 million square yards, 3 per cent less than in the preceding quarter but 18 per cent greater than a year earlier. Exports of cotton fabrics, at 334 million square yards, were, however, 8 per cent less than in the first quarter of 1956. The supply of cotton goods for domestic use, at 164 million pounds, was 22 per cent higher than a year earlier.

The Association has estimated that yarn output during the second quarter of 1957 will exceed that of the first quarter, but that exports of both yarn and cloth will be lower. The Association emphasises that restriction of output is essential. The Ministry of International Trade and Industry has already recommended that cotton spinners curtail production by restricting the hours of work to 16 per day, remaining closed one day each week, and working no more than 308 days a year. The Ministry wishes the plan to be adopted with immediate effect. Allotments of cotton would be cut for spinners who fail to adopt the plan.

Government of India

3¾ per cent National Plan Bonds—Fourth Series (3¾ per cent 1967)
Issue Price Rs. 99.50 per Rs. 100 (Nominal)
Repayable on 1st August 1967.

4 per cent Loan 1972. Issue Price Rs. 100 per Rs. 100 (Nominal)
Repayable on 1st August 1972.

Subscriptions to the above bonds and loan will be received simultaneously and will be limited to a total of Rs. 100 crores (approximately). Subscriptions may be in the form of (i)cash/cheque, or (ii) securities of the 3 per cent Victory Loan 1957 or 3 per cent Loan 1958 which will be accepted for conversion at the following rates :-

3 per cent Victory Loan 1957 Rs. 100 for Rs. 100 (nominal)

3 per cent Loan 1958 Rs. 99.70 for Rs. 100 (nominal)

Interest will be paid on the 3 per cent Victory Loan 1957 and 3 per cent Loan 1958 tendered for conversion upto 31st July 1957 inclusive.

The new bonds and loan will bear interest from 1st August 1957. Interest will be payable half-yearly on 1st February and 1st August.

Subscription lists will open on 5th August 1957 and close on 8th August 1957 or earlier without notice.

Applications for the bonds and loan will be received at :

(1) Offices of the Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi;

(2) Branches of the State Bank of India at other places in India except at places mentioned in (3) and (4) below;

(3) Branches of the State Bank of Hyderabad conducting Government business; 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.

Letters to the Editor

Workers' Participation in Management

SHRI S D PUNEKAR'S dissertation on Workers' Participation in Management in the Economic Weekly of the 15th June calls for some provisos.

First of all, he says that the Report of the Study Team on the subject, in a large part, is not useful for immediate action because it only describes what is happening abroad. Secondly, concrete suggestions have not been put forward. Third, the recommendations have been vague.

The trouble with the subject is that it has got to be learned by the hard way. As such, the primary function of a Study Team is to probe into the nature of the problem of the countries visited and the way a solution has been evolved. Description is the only way in such a case.

A proper appraisal of the subject will convince anybody that, in itself, the subject covers only a fringe of the whole problem of labour-management relationships. If not combined with proper reward for merit, proper conditions for work and an absolute managerial freedom in this regard, mere participation in management will hardly do any good. There is a grave danger of making the whole show a mere eye-wash; for in most cases we have seen only partial appreciation of even such vague recommendations. A half-hearted application will surely make the voice of the workers subservient to that of others.

One wonders why the U S A has failed to attract sufficient notice of the Government of India and no team was sent there. Possibly only in the U S A something really useful could be seen, much more than in the countries visited where the subject is not half as mature as in the U S A. In the U S A a worker's say never goes amiss and there is no "air" in the relationship between labour and others. This is very important. No rigidity of concepts, redundancy and sluggish or reluctant assent to changes as suggested by workers or management could have got the U S industries anywhere near to what they are today. These are precisely what spoil the Indian experiment.

In India the failure of management tells heavily upon workers but when the workers really do some good work against heavy odds, this is seldom admitted. Concrete suggestions in the circumstances are not possible. Moreover, each country grows in its own way. We cannot import ready made foreign methods for application in our industrial sphere. We have to learn them through experience but the study becomes useful in showing where and how loopholes may exist and the way they have to be sealed in very broad outlines. In this latter task, we cannot say that the work of the Study Team will be of no value. The subject of Industrial Relations has got to be studied in all its aspects with an open mind.

Pareshnath Chatterjee

Quarter No T—14, Fort William,
Calcutta—21. June 24.

Saving and Taxation

IT is in the light of his earlier views on the Plan that one can appraise Prof Shenoy's latest on recent taxation. No one can accuse the professor of inconsistency. He argued from the very beginning that the Second Plan should be cut down and he continues to argue in the same vein. He is not impressed by the Finance Minister's efforts to raise additional resources through taxation for two reasons. Firstly, taxation, according to the learned professor, being but a device of appropriating for the public sector national savings, the amount of national savings does not rise just because tax levies have been stepped up. It would, according to him, reduce correspondingly the savings available to the private sector so that the gap in the Plan, viewed as a whole, remains whatever the magnitude of the tax. Secondly, inspite of the increased level of taxation, the level of deficit financing remains undiminished. This, the professor contends, conflicts with the Finance Minister's budget speech 'which was an excellent discourse on the importance of non-inflationary finance of the Plan'. Hence the need to cut down the Plan.

Professor Shenoy owes the public clarification as to why he thinks that the revenue collected through new taxation would represent a transfer merely of savings from the private to the public sector. The general assumption in regard to taxation is that barring certain particular taxes (such as corporate taxes, death duties and capital levies) the major proportion of their yield represents withdrawal of current consumption demand, and unless the learned professor has some strong basis to controvert this general assumption, it is difficult to accept his contention that the additional revenues would not add to the sum total of the national savings. Surely he does not want to contend that the limit has been reached in India where the private sector (and this means the entire people acting as individuals) cannot cut any further its current consumption? But it is only on this assumption that one can read some meaning when he refers to the extent of tax evasion existing in the country, which if prevented may "bring Rs 1,000—1,500 crores in five years rendering it wholly unnecessary to resort to fresh taxation" (from the stand-point of the Plan scheme of finance). Because, if the ultimate limit has been reached already, this additional accrual through the prevention of evasion would as well represent a mere transfer of savings from private to public hands!

The analogy of the butcher's knife and of the meat in the carcase leading up to the point that the one cannot augment the other—was it introduced merely for the delectation of vegetarians or was it also intended to elicit some principle of taxation?

I S

Baroda,
July 8.

Chartered-Eastern Bank Merger

The Chartered Bank have announced that their offer to acquire the whole of the Issue Share Capital of The Eastern Bank Ltd. has been accepted by holders of over 90% of the shares.

To enable those shareholders who have not yet accepted the offer to do so, the closing date for receiving acceptance has been extended from 31st July, 1957, to 21st August, 1957.

A Calcutta Diary

A Hundred Years Ago and Today

MONDAY'S morning papers—this is pure affectation, for Calcutta has no evening papers worth talking about—carried photographs of a statue of perhaps the greatest Bengali born, Iswar Chandra Vidyasagar. The brief report underneath said what was obvious enough, that birds' droppings had thickly settled on the head. There is an element of honesty in this neglect of the statue. After all, the present generation of Bengalis has no time at all for the values sought to be created by Vidyasagar. It would have been hypocritical to disown the man and cleanse the statue. Unreadably sloppy biographies of Ramakrishna and insufferably sentimental movies on Mahaprabhu Chaitanya are what the Bengali likes today. He has no right to take Vidyasagar's name once a year. The West Bengal Pradesh Congress is well advised to celebrate Dr Roy's birthday rather than Vidyasagar's.

The difference is brought into sharper relief by the Pradesh Congress' decision to celebrate the centenary of the Sepoy Mutiny. The celebrations will go on from August 3 to August 26 and include, in passing, the celebration of the tenth anniversary of Independence. There will be processions with torches led by a Minister, and there will be mass meetings addressed by leaders from the Centre and some States. Much money will be spent, and a good time will doubtless be had by many. The venue will be the Eden Gardens. A sort of fall Adam had not had.

* * *

Now a great deal about what happened in 1857 is obscure. Historians have still to make up their minds whether it was only a feudal revolt against the British or a national movement for freedom. Where there is no difference of opinion at all is that the Bengalis played a very insignificant part in the whole affair, although the first incident may well have taken place at Barrackpore. When the Bengali attitude was not indifferent to the mutiny, it was almost always hostile. Raj Narain Bose is on record on one point. He used to go to school with a dhoti underneath his trousers—just in case the mutineers came. The intellectual leaders of Bengal were all agreed that a reversal of history, which is all the success of the mutiny would have meant, would be a retrograde thing. Rightly or wrongly, they thought that the end of British rule in 1857 would be a step backward for India. Their confidence in the British was upheld, and the mutiny ended with the further consolidation of British rule. They immediately proceeded to see how best to take advantage of the coming of the British. Came the University, came schools for girls, came what we call the Bengali renaissance.

The correctness or otherwise of this attitude is not under discussion now. What is intended is only the reassertion of two facts: one, Bengal ignored or disliked the Sepoy Mutiny; and two, the Bengalis collaborated with the British and experienced the most creative phase of their national existence in recent history. The impact of Western culture had just begun to intoxicate the Bengali, and he was not going to change it for, let us say it, another spell of decaying Islamic culture. The leaders of the renaissance being mostly Hindus, they could scarcely be expected to forget that they were very often in a position of inferiority vis-a-vis the Moslem. It was, I grant you, unpatriotic of the Bengalis to decide that they would rather be inferior to some foreigners than to their own countrymen, but the fact remains that that is how they decided. Even as the present-day Hindus will do well to ask themselves why so many Moslems wanted a State of their own ninety years later, the Moslems in India today might ask themselves why, a hundred years ago, the Hindus preferred British rule to Mughal rule.

* * *

Whence, then, the Bengali's present enthusiasm for the Sepoy Mutiny? A very facile answer would be that the Bengalis now consider themselves a part of the Indian nation and, therefore, participate in the celebration of what the rest of the country considers a national movement to liberate the whole country. A less charitable but not necessarily less correct view would be that the Bengali has now lost all consciousness of his former—and it is former—intellectual superiority, and is only too glad to swim with the current of what passes for national sentiment. Shedding his dreadful sense of separateness can do the Bengali nothing but good, but only if certain other differences are recognised. One is that the dissociation of a hundred years ago was an intellectual and deliberate decision, and that the decision today may be one of opportunism, of expediency.

There are obvious objections to this. The distortion of history may be regarded a minor offence, although here again the Bengali should remember that the two Bengali historians commissioned to write the history of the Sepoy Mutiny as Maulana Azad would like it written declined to oblige Authority. Both retained their integrity, and one went to the extent of repudiating the official view in unequivocal terms. It is a long time, however, since Bengali intellectualism had anything to do with Congress politics in the State; and herein can be seen one of the basic weaknesses of Bengal politics. What the Pradesh Congress has done is only to extend official recognition to the fact of Bengali insignificance in Indian politics.

There is much to be said for the point of view that Bengal should fall in line with the rest of India, not only in lines of action but also in lines of thought. This country badly needs some emotional integration, and the Sepoy Mutiny could be used as an excellent unifier. There is historical evidence that in some places Hindus and Moslems fought together what was regarded as a common enemy. Except for an artificially respired phase or two—Khilafat, for instance—the Congress nationalist movement has always been dogged by dissensions between Hindus and Moslems. To buttress the secular idea of 1957 it would indeed be wonderful to prove that in 1857 at least things were different. It may well be argued that what Plato called "a useful lie" would do us good.

Iswar Chandra Vidyasagar

would probably have looked at it differently. He was more Socratic than Platonic. He had the funny notion that truth was a better thing to stick to than expediency. It may yet be seen that the *notion isn't as funny as Atulya Ghosh*, President of the Pradesh Committee, may think. It may yet be seen that the bluntly truthful *Bengalis* of a hundred years ago did rather better by Bengal than the "sharper" leaders of today. I said, "It may be," which carries with it the suggestion of the other possibility that—it may not.

Flibbertigibbet

July 29.

Book Review

Stockholders' Vade-Mecum

Investors' Encyclopaedia 1956-57. Kothari & Sons, Madras. Pages 2,329. Price Rs 20.

Investor's India Year Book 1957. Compiled by Place, Siddons and Gough. *Orient Longmans*, Calcutta. Pages 468. Price Rs 20.

THE twentieth edition of Kothari's Investors' Encyclopaedia has grown to 2,329 pages and maintains its tradition of comprehensiveness. 27 sections cover all Government and semi-Government loans, State enterprises and more than 1,500 companies in various industries. These are supplemented by sections dealing with company law, old and new, taxes, control of capital issues, procedure for the promotion of industries and the rules of the three leading stock exchanges in the country. Each industrial section, moreover, contains a brief review of the industry as a whole. The General Review at the beginning gives a compendious account of economic and financial developments of the year, together with the progress and targets of the two Five Year Plans, many of which are illustrated by graphs and charts. The annual production and employment statistics of 111 industries are presented for the seven years 1950 to 1956.

To bring out such a publication involves prodigious effort and one can speak only in superlatives of this bulky volume, even though the company information it gives generally comes up only to the end of 1955. The price remains unchanged at Rs 20 despite the larger bulk.

The Investor's India Year Book 1957 is a much older but substantially smaller publication — the present volume is its 43rd edition and contains only 468 pages in all, covering less than 700 companies. It thus makes no claim to all-India coverage, except in the matter of Government loans, other trustee securities, and perhaps railways. As with the last Year Book, it is difficult to perceive the principle on which companies have been selected. French Motor Co apparently makes the grade but Premier Automobiles fails to do so. Other notable omissions, to quote only a few, are Tube Investments, Digvijay, I C I C I *Walchandnagar, Atul* and *Calico*. As compared with Kothari's 27 sections dealing with loans and companies, Place, Siddons and Gough are quite satisfied with 12. And probably to demonstrate their exclusive interest in Calcutta, the regulations of the Bombay and Madras Stock Exchanges find no place in the Year Book.

What it lacks in coverage, the Year Book endeavours to make up in its 'critical' analysis, which is entitled 'Trials of Industrialisation', a bit of a climb down from last year's 'A Year of Socialism'. The change has resulted from the appraisal which concludes that official socialism is sobering down. The hard-headed practical men who wrote this survey place ideology and commonsense at conveniently opposite poles, and naturally proceed to expatiate on the virtues of the latter as against the vices of the former. After duly commenting upon the over-ambitiousness of the Second Plan, the Year Book states that "It is remarkable that when the goal for the rest of the economy is socialism, agriculture should be progressing along lines which are the exact opposite." One does not know what this means and whether, if this trend is really in existence, it meets with the approval of the compilers; there is no doubt, however, that the increased borrowing of the commercial banks from the Reserve Bank does not, for "such a development would put the country's private banking system firmly into the Government's hands. And from there it would probably be impossible to extricate it." Has the Bill Market Scheme succeeded so early in causing panic?

It is reassuring to investors to know all the same that the leading firm of brokers at Calcutta are now no longer unduly scared of nationalisation and that they expect the future for the share market to be at least no worse than its past. Indeed they conclude that "so much water has been shaken out of the market in the past year that it would be surprising if the present level of prices did not disguise a number of first class bargains". From which may be drawn the inference that the private sector has not gone to the dogs in spite of Kaldor and T T K.



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From the London End

Wage Claims and Inflation

AFTER almost two and half years of stagnation and of a reduced volume of industrial production, Britain once more faces the storm signals of a renewed inflationary rise in prices. The first six months of 1957 had for a time produced an appearance of relative balance in the British economy. For once the Government was able in its **Economic Survey** to declare that the policies of the credit squeeze and controls over consumer expenditure had brought about a welcome flexibility both in prices and in the supply of labour. The Chancellor of the Exchequer himself declared at the time of the Budget proposals in April last that the end to the increases in industrial production were deliberately contrived at ". . . a pause in the expansion of the economy was necessary." And now, with an almost inexplicable suddenness, inflation has raised its head. In four public speeches and in a full dress Commons debate the Chancellor of the Exchequer, supported by the Prime Minister, has expounded on this curse and has submitted proposals for a four-pronged attack designed to restore the economic balance.

The suddenness of the inflationary problem has origins which are partly political and partly economic. The political aspect arises from the particular policy of the Government to put an end to that postwar phenomenon which has come to be called the "annual wage claim" of the trade unions. Since this policy cannot, in fact, succeed in terms of a request to the trade unions for a freeze on existing wage rates, the Government has conceived of a different approach—an approach which itself has undergone considerable modifications. The Commission of Enquiry set up to investigate the labour dispute in the engineering and shipbuilding industry had recommended the institution of what was termed an independent "Super Wage Court" having the power to examine all wage claims of British trade unions before the actual submission of such claims to the employers. The Government immediately accepted this recommendation and went about canvassing support for it from the employers' organisations and the trade unions. The trade unions were openly hostile to the whole idea: it would have constituted nothing less than a veto on their claims for increased wages and this would thus impair the whole system of wage bargaining. As long as there existed no visible limitation on dividends and profits, the trade unions would not countenance a restraint on wages. Mr Frank Cousins, the new power in the British trade union movement, was particularly cruel in his denunciation of the Super Court: "as long as the Government had a free-for-all attitude as evidenced by their dismantling of controls, labour must aim to get what it can."

This avowed hostility from a party so vital to the success of any such Super Court forced the Government to make a retreat. The Super Court was quickly converted into an "impartial body", still later, an "independent council" with the vaguest of objects. This council will now neither be a "court" nor will it "arbitrate" between labour and capital. It will be concerned with the study of "prices, productivity and incomes and will report thereon." When the Chancellor was asked to explain whether the impact of recent rent increases on prices will come within the purview of the Council's studies, his reply was circumspect and non-commital. And so what was originally a most significant instrument of government policy was reduced under the pressure of trade union antipathy to a council of almost no specific importance.

The economic origins of the current inflationary scare are certainly not to be found in excessive demand. Consumer expenditure in the past six months has been no higher than in the first half of 1956. Similarly, gross fixed capital formation has remained generally unchanged and in the months of March and April had actually fallen. While the volume of imports has increased, the volume of exports has risen by the same extent. And so demand in the British economy has in fact remained broadly unchanged. The current inflation appears more to be concerned with the uncontrollable spurt in industrial costs. Mr Thorneycroft indicated in the Commons debate that in the past year wages rose by £900 million or by 9 per cent while the increase in profits was £25 million or 3 per cent. And in line with this, the whole weight of Government policy is to stop the increasing claim of labour on the national output. The four-pronged attack on the problem, however, betrayed a marked dearth of ideas, for what was now claimed to be a new policy was no more than a continuation of past policies with this possible exception. While previously the Government spoke of the need to relate wages to productivity, but did little to stop the trade unions from advancing the claims of their members, now the Government, it appears, really intends to enforce what it has preached. The four-point policy is :

1 Wages must be related to production. If saying NO to the trade unions led to disagreement, it would be "better to disagree than to drift."

2 Investment over the years is to be planned to match saving and rephased so that peak spending by the nationalised industries do not coincide.

3 The credit squeeze is to continue with added pressure from the banks.

4 Government spending is to be held down.

The evidence of inflation is certainly not solely confined to the Government's declaration that labour is obtaining a considerable sum of unearned income. In the Stock Exchange a vast movement away from gilt-edged securities reflected by the gradual increase in yields of Government bonds and the opposite movement in the yield of ordinary shares is matched by a 4.7 per cent increase in Bank advances over the last year. There must, therefore, be some belief on the part of industry that profit levels are likely to rise (as indicated by the fall in the yields on ordinary shares) and this has contributed to increased borrowing from the commercial banks. There can nevertheless be no doubt that the sharp rise in labour incomes has been a

major factor in the present crisis. What has not been sufficiently examined by the Government is the cause for the persistent rise in wage rates since 1951.

There can now be little doubt that the gradual erosion of the social services, contributing to corresponding decreases in the real incomes of the working population, has forced upon the trade unions the necessity of fighting for a policy of maintaining the standards of their members. More recently, the passage and enactment of the Rent Act has meant that some £900 million will be added to the rent bill of all tenants in the country—and over 95 per cent of the tenants are wage earners. If, therefore, the trade unions are to counter the increased burden of rents on working class budgets, they must, of necessity, fight even harder for wage increase claims. At the same time the removal of subsidies over a wide range of necessary commodities entering into working class consumption, which had been subsidised ever since 1939, has similarly reduced the real incomes of trade union members. The last budget was, from a social point of view, sufficiently unjust to invite the wrath of the trade union movement. Through fiscal measures the Government has, step by step, restored the privileges which contributed to the class structure of the country prior to 1939. All these factors cannot but produce a situation inflationary in content and sufficiently disturbing socially to produce an unprecedented tension in industrial relations. This tension must surely lead to a breaking point if the Government persists in its determination of saying No to all the demands of the trade unions as expressed by the Chancellor of the Exchequer.

A foretaste of what is to come in the industrial field has been provided by two labour disputes which in any other circumstances may have been of little consequence but which in the past week has rocked the country in view of the atmosphere of bitterness and violence which these disputes engendered. The provincial bus strike and the strike of porters in the Covent Garden fruit and vegetable market demonstrated a hardening of feeling and resort to extreme positions in the approach of all three parties to all labour questions, that is, the employers, the trade unions and the Government. Hitherto, the Government has been able to intervene in labour disputes with an air of impartiality. In these two strikes, however, few believe that the Government's impartiality was maintained. The prospects are certainly grim.

Coal Output

Coal output increased from 3,656,896 tons in March to 3,726,106 tons in April this year, according to information received from the Chief Inspector of Mines in India.

Despatches of coal during April were 3,184,079 tons as compared with 3,248,079 tons in the previous month.

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MADRAS—1.

Labour Unrest in the Public Sector

S D Punekar

LABOUR in the public sector appears to be on the war-path. Bombay municipal workers, who were appeased on the brink of strike on 24th June, went on a lightening strike on 13th July. The threatened strike of Bombay dock workers was averted at the zero hour, after granting them certain concessions by the Central Communications Ministry. Labour unrest, however, appears to be a highly contagious disease and it has spread rapidly to other sectors of public economy. Strike decisions have been taken by the all-India employees' unions in Posts and Telegraphs, Civil Aviation, Income-tax, Audit and Accounts, Central P.W.D., Overseas Communications and Central Tractor Organisation. If these threats materialise, more than half a million of Central Government employees will be affected. Discontent has already been shown among the railwaymen and bank and insurance employees. With a little persuasion, they may join what may be called the conflagration in the public sector.

Is it a mere coincidence that this acute labour unrest in the public sector has come to the surface at a time when the Plan faces a serious financial crisis? Both the Prime Minister and the Finance Minister have declared a financial emergency and appealed to the public to co-operate with the Government to secure maximum monetary resources to save the Plan and consequently the nation. The response of the Government employees to this appeal is to make more and more wage demands on the Government, whose finances are already at the lowest ebb. The employees' unions have asked for the appointment of a second Pay Commission, interim increase in dearness allowance and merger of dearness allowance with pay. These demands are thus largely monetary in character.

If the response of the workers in the short strikes of Bombay municipal and dock workers is taken as a guide, there is no doubt that strikes, if and when declared, will command a large majority of employees. Indian labour is notoriously fond of litigation and of strikes. Experience in the labour field shows that workers, who usually fail to pay regularly their small union membership dues, contribute liberally to a legal fund, raised for fighting the bonus issue in a labour court. Similarly, it is not unusual in this country for a union with low membership to declare a strike and take out workers from their jobs. It is not without significance that an unrecognised union proved to be the sole champion of the Bombay municipal employees in the recent struggle. Often the workers resort to strike in the absence of any call from the union or sometimes in spite of the union's "no strike" directive and the union "adopts" the strike. Loyalty to the union is almost invariably subservient to the urge to strike and hence even responsible unions and labour leaders find it convenient to keep the embers smouldering. It is not, therefore a matter of surprise that the Union Labour Minister who, at the last session of the Indian Labour Conference expressed such a horror of wage demands and advocated wage restraint, should also have been urging the Ahmedabad worker in his pre-election speeches to ask for a 25 per cent rise in wages. The Indian National Trade Union Congress passed a resolution to this effect.

Why Unhappy Industrial Relations?

Labour troubles in the private sector have been attributed to the employer's desire to maximise his profits with minimum resources. It has been claimed that such troubles need not arise in the public sector, where profit motive is absent and there is no lack of resources. Actual experience in India, however, has shown that the public sector has suffered and is suffering from more labour disputes than the private sector. The reasons for such unhappy industrial relations are many.

First, it may not be correct to say that the public sector is not having the profit motive. The State, like Oliver Twist, always asks for more and hence resorts to all means to maximise its revenue.

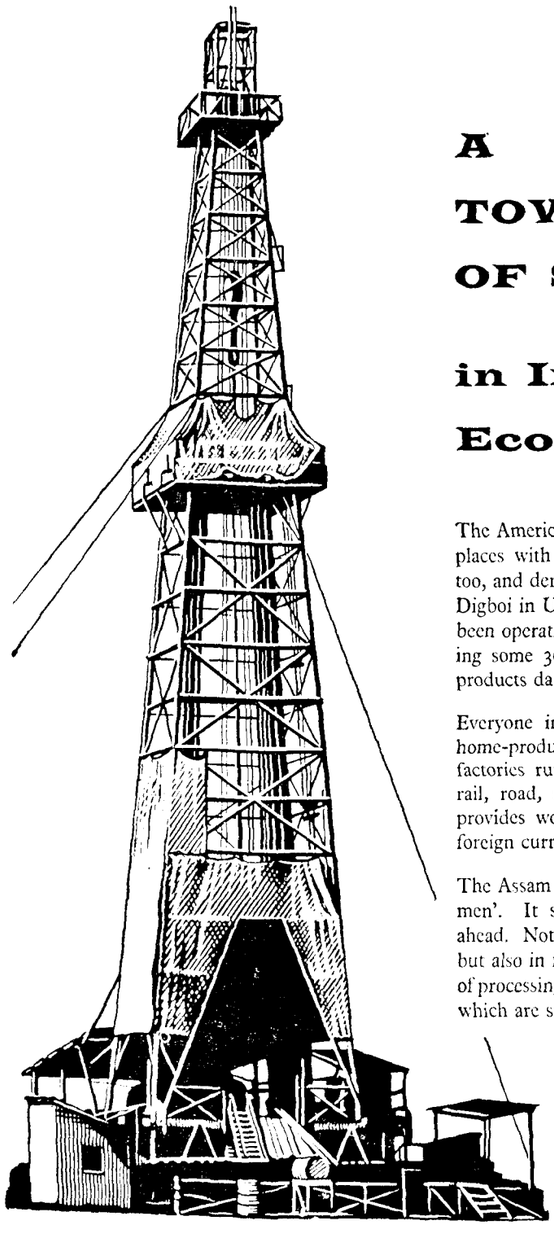
Second industrial disputes in the public sector have increased, mainly because the sector itself has expanded during the last decade. The British had followed a convenient laissez faire policy, with the result that when the Indians took over in 1947, the public sector in the industrial sphere consisted solely of posts and telegraphs, railways, and the ordnance factories. The expansion rate of the public sector since 1947 has been amazing. Vital industries like life insurance, civil aviation, shipbuilding and telephones have been nationalised. Government ownership has extended to numerous fields like fertilizers, antibiotics, machine tools, iron and steel, locomotives, integral coaches, newsprint, cables and cement. The multipurpose projects, national laboratories and atomic establishments are fresh fields covered by the public sector. The administrative staff has multiplied itself to cope with the expanding activities of the State, the biggest employer in India. However, expansion of activities has not kept pace with the increasing realisation of the value of industrial relations with the result that labour unrest in the public sector has increased during the course of the decade.

Exemption from Labour Laws

Third, there has been an increasing tendency on the part of Government factories to get themselves exempted from the operation of labour laws on flimsy pretexts. For example, many Government establishments have been exempted from the employees' State Insurance Scheme, which is a social security measure. There is often an invidious distinction between the employees of the private sector and those of the public sector, as far as social welfare measures and monetary advantage like bonus are concerned.

Fourth, public sector brings with it impersonal administration, which results in red-tapism, routine delays, lack of proper response and general inefficiency. Most of the evils of the modern industrial system can be attributed to the loss of personal and cordial relations between the manager and the managed.

Fifth, the contribution of the managerial staff in the public sector to labour unrest is not insignificant. Many of the supervisory staff are no doubt good administrators; they are, however, ignorant either of technical know-how or of personnel administration. The bureaucratic attitude to labour problems has resulted in considerable harm. The



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way in which the dispute of Bombay municipal staff and the dock workers was allowed to develop shows the incompetency of the management in dealing with human relations.

Sixth, political motives play some part in labour unrest. Most of our trade unions are managed by outsiders for political purposes and strikes are often conducted in order to gain political influence. The Bombay municipal trouble was engineered by leaders of a political party, which could not win a single seat either in the Assembly or the Corporation.

Lastly, employees in the public sector have often high hopes about the popular government and when these expectations are not fulfilled, there is some discontent.

The Role of the State

The public sector is thus under certain definite disadvantages from which the private sector is free. If labour unrest is to be avoided, then these disadvantages will have to be eliminated. The employees have some genuine economic, social and psychological grievances. The main grievance is the inadequacy of remuneration. It is high time that the whole wage structure in the public sector is rationalised, taking into consideration such factors as workload, price-level, amenities provided, scales of increment and chances of promotion. Since 1947, nepotism and favouritism have influenced selection and promotion in Government service. In a recent article in this paper, a man of position in the Government was compared to a banyan tree giving shelter to family, friends and kinsmen. It is a valid comparison. Naturally merit and honest work are at a disadvantage.

It is necessary for the high officials to discard their class-consciousness, which makes them treat their subordinates as so many menials for all practical purposes. Unfortunately, the Central Government is too much class-ridden. Even a cursory glance shows that the Government housing colonies in Delhi and even the cloak-rooms and the canteens in the Central Secretariat are divided on class-basis. It is difficult for a Class I officer to treat on equal footing his subordinate in Class II. Each man is valued according to his official status. The 'Babus' at the lowest rung, numerically strong but organisationally weak, are treated not much differently from the chaprasis. Their chances of promotion depend upon their personal relations with their superiors, who often engage them in their household work. The gap between the highest and the lowest, both in money and social status, is very wide and the whole Secretariat is polarised between the two classes—officers (Under Secretary and above) and clerks.

The same bureaucratic attitude prevails in the industrial undertakings in the public sector. Here, however, labour is organised and though white-collared workers usually care more for security of service and are reluctant to take the risks of strikes, unionism is spreading to ministerial services also. The clerks and the assistants now and then threaten to lay their pens down unless their demands are met.

Role of Trade Unions

The traditional role of trade unions in the private sector has been to put forth on behalf of their members demands for higher and higher wages and allowances, for more amenities, for less hours of work and for more rest intervals. The demands are all on consumption side and the unions' interest is in getting the maximum share of the cake, without worrying in any way about the ways and means of enlarging the cake. Employees are just not interested in higher productivity. On the contrary, they do not mind obstructing the implementation of measures for higher production like rationalisation, production committees, work measurement studies, vocational training schemes, production planning and control and such other measures for simplification, standardisation and specialisation of jobs. The growth of trade union movement as a challenge to meet the unfair practices of employers has resulted in the growth of two distinct classes with sharply conflicting interests, concentrating either on maximum profits or on more and more wages.

The role of trade unions in the public sector should be somewhat different, because here the relations are not between two opposite, irreconcilable parties, but between the employees and their Government. As citizens, the workers have got a direct stake in the public sector and hence it is in their interest to see that this sector is free from any obstacles in its efficient working. The interests of the nation, which is reflected in the public sector, should have priority over individual interests. This means that the traditional concept of labour being an adversary to management is to be given up, that class-conflict is to be replaced by class-collaboration, and that the employees should aim at more and better production. Instead of wasting their efforts purely in getting a larger share in the cake, the employees should try to enlarge its size so that in the near future they will get more.

Trade union leadership in the public sector has to play the important but difficult persuasive role in convincing the employees that they have a responsibility towards the national economic system and that it is in their interest that this system should be prosperous.



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Long-term Problems of Industrialization in India

George Rosen

This paper discusses certain general problems that have developed from the author's more detailed work on Indian industrial development in the M.I.T. Centre for International Studies, India Project. It therefore does not present the statistical documentation for certain of the statements made, since this would lengthen the paper unduly.

THE purpose of this paper is to discuss some of the longer range problems that face India if the industrialization programme of the Second Five Year Plan is to maintain the impetus of the Second Plan. This discusses both some of the problems of doing this successfully, and certain policies that might prove helpful in achieving this.

It is clear that in the past the rate of growth of the industrial sector has not exceeded the rate of increase in population growth, and while in the past some absolute growth in specific industries has taken place it has not set off a chain of growth in related industries of other areas. The growth anticipated during the Second Plan is largely based on a government demand for development projects and railroad equipment. Unless, in the period beyond 1960-1961, the industrialization is supported increasingly by the rural sector of the economy—the agricultural sector alone absorbed 70 per cent of the Indian labour force and contributed about 50 per cent of the national income in 1951—it may not have the continuously expansive effects that are desired. This means essentially that the demands of the rural population, which include more people than simply those in agriculture, for industrial goods, and services (such as housing) must be expanded—either directly or by the government acting as a substitute for individual demands—in order to supplement substantially the present level of government demand. (We assume that armaments do not become a major source of industrial demand in India.) Such a programme obviously requires as a first necessity the continued development of an agricultural surplus beyond subsistence to a point at which the farmer is willing to trade some of this additional output for industrial consumer goods; or at which some of this addition can be used as a source of funds for expanded investment projects. Beyond the production of an agricultural surplus it is also necessary that there be a widening of the farmers' demands for industrially manufactured goods (other than cotton textiles); and to encourage the exchange of goods between the industrial and agricultural sectors, the increasing monetization of the latter sector would be desirable.*

Growth Rate—Organised Industry

If demand for industrial products does continue to increase, there is reason to believe that the growth of the organised-industrial sector would be self-sustaining. There is no lack of entrepreneurship in many of the areas of India—and given favourable conditions of both survival and growth, the opportunities for expansion would be utilised. It is possible to make a very rough projection of the annual rate of growth of the existing** private large-scale industrial sector at the end of the Second Plan by assuming maintenance of the 1937-1953 rates of profit and plough-back of profits into investment. On these very hazardous assumptions the annual rate of gross investment on gross fixed capital, by plough-back of earnings, would be about 9.0 per cent. If it is further conservatively assumed that investment from internal sources is two-thirds of the gross investment in the private sector (in the 1937-1953 period it was only about 50 per cent in the five industries studied) the annual rate of gross investment in private organised industry would be 13.5 per cent (based on the gross fixed capital in any one year).† The rate of gross investment as a proportion of the gross fixed capital would be able to support a rise in the gross national product of about 13 per cent per year by 1961-1962, if we assume marginal and average capital: output ratios of about 4.0‡ This rate of increase in gross national product is well above the 5 per cent per annum increase in national income projected for the economy as a whole during the Second Plan and thereafter. This would mean that the relative contribution of this portion of the industrial sector to national income would be rising, even without considering the expansion of the government owned industrial sector—which is projected at a more rapid rate—or the entry of new entrepreneurs into the private sector.

*The failure to achieve these in the past may be the reason that the industrialization that occurred in earlier periods—such as the cotton textile and iron and steel industries—has not spread.

**"Existing" means those firms and managing agents currently operating. It would not include extension of the private sector to new industries.

†The very rough calculations for this estimate are as follows. In the 1950-1953 period the gross rate of profit after taxes on gross fixed capital (including depreciation allowances but excluding managing agents commission) was almost 15 per cent. With a rate of plough-back of about 60 per cent the gross rate of investment on gross fixed capital would be 9.0 per cent. In absolute terms with a gross fixed capital of 14.7 billion rupees in the private organized sector by the end of 1960-1961 a 15 per cent annual gross rate of return after taxes equals 2.2 billion rupees. A 60 per cent plough-back of this equals 1.3 billion rupees annual investment. If this is considered to be two-thirds of total investment in the private organized factory sector, the gross annual investment would equal about 1.9-2.0 billion rupees in 1961-1962 (the next year).

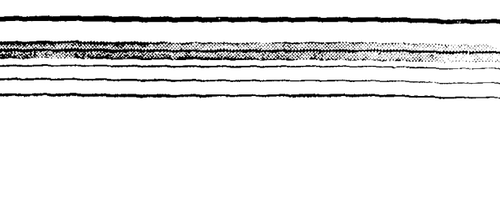
‡The calculations for this estimate are as follows. With a gross fixed capital in organized private manufacturing industry of 14.7 billion rupees in 1960-1961, and with an average capital: output ratio of 4.0, the gross product arising from this sector would be 3.8 billion rupees in this year. A projected additional investment of 2.0 billion rupees in 1961-1962 with a marginal ratio of 4.0 would result in an increase in gross product of 500 million in 1961-1962—or an annual rate of increase of 13 per cent. (This annual rate of increase is consistent with the computed rate of increase in national product from this sector in the First and Second Plans utilizing earlier gross investment figures and the same assumptions as above. These estimates are obviously very sensitive to our sectoral estimates of gross fixed capital and capital: output ratios.)

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Employment in Industry

In the field of employment the above projected level of 2.0 billion rupees gross investment in the private organised industrial sector in 1961-1962 will also lead to a relatively high rate of expansion of total employment in this sector. Under the assumptions of the previous paragraph, and using the same capital: labour ratio—about 50,000 rupees per worker—computed for the specific industries studied during the Second Plan period, the additional employment in factories in this sector in 1961-1962 would be 400,000 workers. If we estimate a total employment of approximately 3.3 million workers in private factory establishments in 1960-1961* this would mean a growth in direct employment in the existing private organised factory sector at a rate of somewhat less** than 12 per cent per year in 1961-1962.

With a projected average annual rate of population growth of about 2.0-2.5 per cent during the period from 1956-1971, and with a projected average annual rate of increase in the labour force of about 2.0 per cent during the same period, it is clear that under our assumptions with respect to industrial growth the increase in employment in this sector, will exceed the highest projected rate of increase in both population and labour force in the short run. This means that the manufacturing sector will be absorbing a steadily larger proportion of the labour force although still only a very small proportion of the total. This discussion has dealt entirely with the existing private organized manufacturing sector. It has not projected in any way the growth of the government sector of industry nor the growth of the private sector in other than existing industrial fields, or in small-scale industry; nor has it in any way estimated any of the indirect effects of factory growth upon various tertiary sectors,—transportation, public utilities, commerce, etc—of the economy. If these were considered, the employment effects of the factory growth would be multiplied under our assumptions.

Public Sector—Complementary

The major assumptions underlying the projections above are first, that the various public utilities which are necessary for the expansion of the industrial sector are forthcoming as required; and second that the rates of profit and "plough-back" (i e, auto-financing) in the existing private sector remain as summarized above. These assumptions must be relaxed since they are doubtful, depending as they do on other factors. The growth of the private sector depends upon the carrying out of those parts of the government development programme which are technically complementary to the expansion of the private sector. Examples of such government programmes, or parts of them are first, the increases in the electric power supply and extension of the network of electric power which are projected in the Second Plan; and second, the projected expansion of the existing railroad and transportation network to eliminate bottlenecks in movement of raw materials, equipment and final products. It is beyond the point of this paper or the competence of the author to enter into a discussion of these specific requirements and whether the entire programmes in these areas are necessary; these are technical questions to which research should be devoted. But that some increases are complementary to further industrial growth appears reasonably certain. (Apart from these public utilities programmes, such social programmes as the education programme are important for the creation of a supply of skilled labour, and there are many similar activities; this technical complementarity may not hold true of the entire government industrial programme.

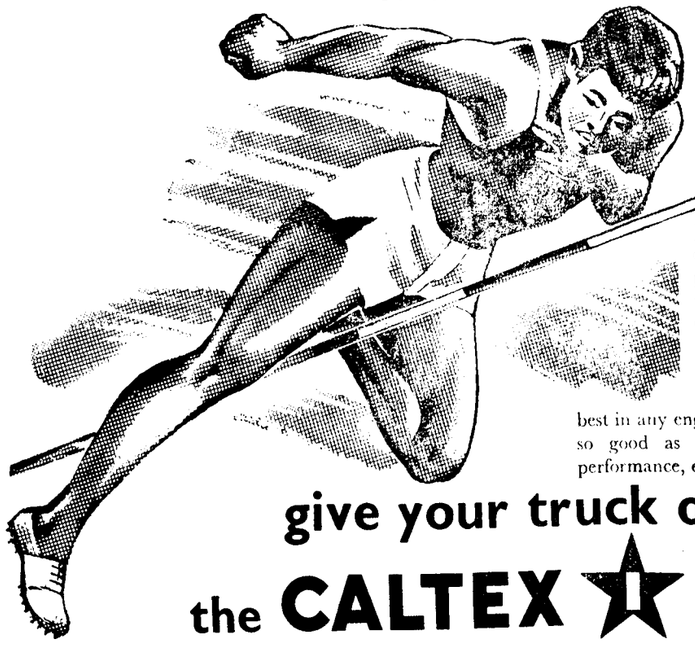
Competition for Resources

The simultaneous expansion of the government investment programme and the private industrial sector requires the mobilization of capital resources in the economy as a whole. Essentially, unless savings and tax receipts and foreign exchange sufficient to largely finance both the public and private programmes are raised it is possible that either both programmes will falter or the attempt to carry out both will have serious inflationary consequences. If the required government programmes are not carried out the shortages of facilities for the expansion of the private sector will lead to a lower rate of growth of this sector than anticipated, At the same time if the government programmes are financed by substantial diversion of capital and foreign exchange resources from the private organized industrial sector, the latter sector will be unable to expand as projected. In the short-run the government is seeking to finance at least part of its programme by diversion of capital resources—such as internal corporate reserves and foreign exchange—from the private sector; and this policy, if continued, would lead to a lower rate of growth in income of the private sector than the one projected by us. Furthermore, the effects of a present sharp cutback in the expansion of private investment could have harmful long-run psychological consequences in abruptly "grounding" the takeoff of the most dynamic sector of the economy, apart from the immediate effects of relieving a short-run financial crisis. The simultaneous expansion of both sectors to achieve an annual rate of increase of 5 per cent in industrial income thus requires a careful examination of the programmes in both the government and private sector to evaluate the degree of complementarity and to insure that capital is allocated efficiently;* (footnote on page 1023) and also, further steps to mobilize domestic savings and tax resources from both urban India (which the 1957-1958 budget does) and rural India (which is almost untouched), as well as to

*In 1951 there were almost 3.0 million workers in the factory sector. It can be rightly assumed that 90 per cent of these were in the private sector. In the First Five Year Plan it will be assumed that the bulk of the increase in factory employment, estimated very roughly at 200,000 workers was in the private sector; in the Second Plan of the 650,000 additional workers projected for this sector it will be assumed that 75 per cent will be in the private sector, since the government's major investment is in the capital intensive steel industry. This would mean an employment in the private factory sector of about 3.3 million workers in 1960-61.

**The 12 per cent rate should be reduced somewhat to allow for replacement of existing plant and equipment in the gross investment figure. This would make possible greater output with the same labour force. It would be increased if we used a lower capital: labour ratio such as the 20,000 rupee figure for investment goods industries used by Professor Mahalanobis in the Draft Frame.

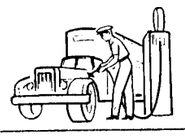
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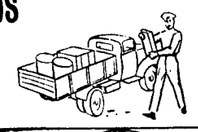
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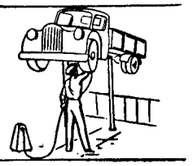
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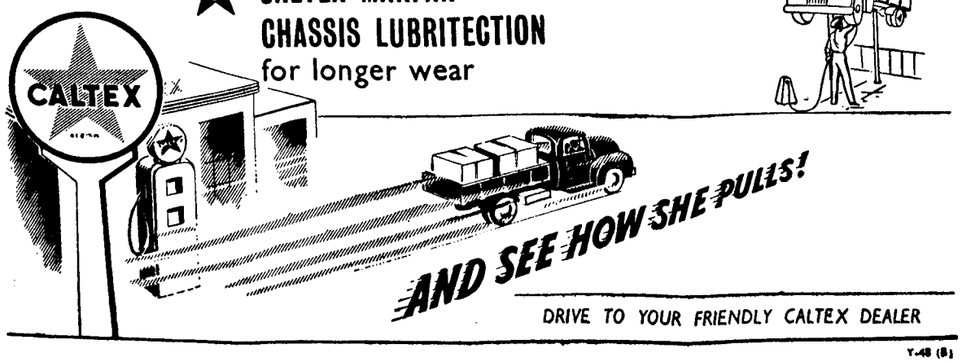


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both increase and effectively allocate foreign exchange reserves.

Extension to New Fields

Finally in our projections we have restricted our base of projection to the organized private factory sector as it will be in 1960-61. This disregards the possible extension of factory industry to new fields—or, possibly even more important, the rise and growth of initially small-scale entrepreneurs. With such a development there might be a tapping for industrial expansion of pockets of capital that are currently idle or otherwise employed,** as well as the use of more labour intensive methods than would be used in the large, organized industrial sector. The gradual extension of small-scale industry might also have an influence upon the rural sector, especially if these small plants are located around the new factories projected to go up in what are now villages, during the Second Plan period. It would also have the effect of decentralizing economic control and spreading private economic power among a larger group of entrepreneurs. Thus the expansion of small-scale industry fits in with many of the goals of the government in its programmes of economic development. But this expansion, it is clear from our one examination of small industry in Bombay as well as other studies in other regions, does require conscious government policy and assistance. A good deal of assistance is currently programmed and in fact being offered in India at present. However, stronger policies may be required to assist small-scale industry to start and to grow, and to extend the relationship between small and large-scale industry during this crucial period of rapid growth of large scale industry.

Small Scale Industry Board

Of the present major programmes the planned expansion of the electric power and transportation networks should be of major assistance to small industry. Also, more specifically related to small-scale industry, the programmes of the Small Scale Industry Board to make available new equipments for use, or on a purchase and hire basis, should be of help. The role of the various government organizations to make credit available to these small firms may also help.

However, as yet this programme has probably had a marginal effect upon the businesses it wishes to help. The speeding up of the processing of applications for financial assistance is important. The provision of short and medium term credit for working capital purposes would be an even more important stimulus to growth. For this the adaptation of existing banking institutions, by a mechanism which would permit the government to rediscount or guarantee short and medium-term loans by private banks to small scale industries, might provide a speed and flexibility in dealing with small businessmen that a government institution would not be able to achieve.

To encourage subcontracting of parts, a requirement that for a trial period a certain proportion of the value of output of the larger engineering firms, which have either been started or financed by the government or government institutions, must be subcontracted would stimulate purchase of parts outside the large firm. This would also discourage the practice or aim of building 100 per cent of the machine within a single plant.

Government tariff policy might also be used toward the same ends. Apparently at present the effect of tariffs on automobiles and parts is to encourage the automobile manufacturer either to produce the entire car within his own factory, or to import what he cannot produce himself. This reflects the low tariff rate on automobile parts, and the high tariff rate on "completely knocked-down" cars, (as pointed out in the March 2, 1957 **Economic Weekly**). A potential domestic producer of parts thus faces foreign competition while the producer of a complete car does not. Without entering into the question of whether the production of automobiles or parts is economical in India, a change in tariffs to encourage production of parts, might have a stimulating effect on potential domestic producers of those parts.

Economies of Scale

Finally, the government's policy of restricting plant licences to plants of an "economic size," probably has a restrictive effect of the growth of small firms beyond the point where they require licences to expand. It is usually interpreted in practice to mean that preference in licensing is given to larger plants which can supposedly take advantage of economies of scale and so produce at lower cost and with lower investment per unit of output; or existing firms below "the economic size" are given preference to expand to that size. In either case small new firms have difficulty in getting licences.

This policy if used indiscriminately, can be criticized on several grounds. Certainly it assumes a known accuracy concerning the "economic size" of a unit that is dubious for many industries. For example in the United States, J S Bain in his "Barriers to New Competition" (Harvard, 1956) found that in the cement and steel industries plant scale economies are only moderately important in influencing cost—the range of variation in costs around any apparent optimum size is such that costs would rise only moderately even if operations were at only 50 per cent of the supposed optimum size. For such industries increase of scale is a relatively smooth transition requiring simply addition to existing plants—for example adding another cement kiln. However, there are some industries which would use a much less efficient method for small-scale operations than for large-scale operations; the two scales do not grow into one another, techniques in the larger scale replace the

*For example in the Second Plan as stated in the "Programmes of Industrial Development 1956-1961" (p IX) the problem of allocation of scarce capital resources among consumer goods industries was not clearly faced—rather "except in the case of rayon and staple fibre, the targets of capacity for consumer goods industries (almost entirely in the private sector) . . . have not been limited by the need, real or supposed, to place restraint on consumption so as to conserve resources for other purposes."

**It is difficult to prove the existence of idle capital that would be available for industrial investment if the opportunity existed. However, the author heard of at least several incidents of plans for relatively small-scale industrial investment that did not come to fruition because licenses were not granted. How this capital was otherwise invested is not known. The Second Five Year Plan assumes all domestic capital has been mobilized in the Plan and there are no unmobilized capital resources. This is probably a too sweeping assumption—which may already be proved by the current private investment boom.

smaller scale. Such a transition from one scale to the other requires scrapping the small plant—with consequent loss of the initial capital investment. It would seem logical to use the "economic size of firm" criterion for the latter type of industry and not for the former.

Towards Centralization

In the former type of industry in today's favourable market situation, small firms would be profitable in many industries at existing, or slightly higher, prices; these firms could assist now in meeting the shortage of supply and possibly reduce imports of still higher priced products. As these firms ploughed back their almost guaranteed profits their size would approach closer to the supposed optimum. A provision to require a high rate of plough-back for such firms might be a condition of the licence. The effect of the indiscriminate use of the size requirement in granting licences is to limit licences to those relatively few businessmen who do have the large amounts of capital to set up large plants. This still further centralizes private economic power in India, and runs counter to at least one aim of government policy. Further research into the relationship between size and efficiency in various Indian industries, in order to be able to distinguish clearly between industries along the lines mentioned above, is a basic requirement for the effective use of the size requirement in licensing. Until then there are grounds for the limited rather than general use of this requirement.

It is possible that much of the entire elaborate network of controls, apart from a few necessary ones, has a similar effect of encouraging large-scale at the expense of smaller industry. The small entrepreneur does not have the resources in time and staff to deal with these controls; while for the large entrepreneur with the proper contacts and with the ability to wait, they only serve to delay his eventually getting permission. The net effect is again to centralize private economic power. Consideration might be given to relaxing various controls on firms below a certain size (or reserving a proportion of scarce resources—such as transportation—for the free use of smaller firms) so that the controls and restrictions limit primarily the larger firms.

Long-term Problems

The projected expansion of private organised industry, together with the growth of small-scale industry, and the undiscussed growth of the government owned sector should have the cumulative effect of supporting a rise in the income of the industrial sector that equals or exceeds the projected 5 per cent per annum increase in income for the economy as a whole assuming that the basic problems are met. The main long-term problem on the demand side appears to be the question of relating the development of the rural sector (of which agriculture is by far the most important part) to the projected industrial growth, so that the industrial growth becomes less dependent upon government demand. On the supply side the major problems arise from the relationship between the expansion of the government and private sector not in ideological terms, since as we have seen this is largely a spurious argument; but the relationship in terms both of the technical complementarity of the two sectors, and the supply of capital resources for expanding **both** sectors without undergoing serious inflation. In India the expansion of both sectors depends upon the expansion of each, and failure of one to expand will mean that the possibilities for expansion of the other will be limited. However, the problems of raising the resources for expanding both, without unduly impinging upon either, raises serious problems of finance and allocation of capital resources. Finally to maximize the employment potential of industrialization and to decentralize private economic power, it would be desirable for the government to adjust certain of its policies and controls to more actively assist the start and expansion of small industries. At present the effects of certain of the controls and policies are contrary to both this goal and other policies adopted to achieve it.

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—	Why Drain on Foreign Reserves?

THE ECONOMIC WEEKLY

15, Tamarind Lane, Bombay 1.

Around Bombay Markets

Respite after Recovery

Thursday, Morning.

LAST week's firm undertone in Dalal Street has given way to an irregularly downward movement. Apart from settlement considerations, the impending strike by Posts and Telegraphs, the disappointing news from London about the possibility of a sterling loan, continued depletion of foreign exchange reserves, and dividend uncertainties about certain scrips have been the principal factors responsible for this decline. Tata Steel lost about Rs 4 over the week, Textiles remained subdued and Sugars, too, weakened after an initial firmness. Engineerings have turned dull on drying up of investment inquiry, brought about perhaps by the fact that most leading scrips in this group are now fully priced in relation to their expected yields. Banks are the only bright patch in this dull picture.

Dalal Street appears to be taking a respite after its recent recovery. The revision of yield patterns and the general economic situation now impose a ceiling on the scope for capital appreciation, except in the case of a few isolated scrips. No extent of recovery can possibly enable share prices to pierce through this ceiling in the near future, particularly in this 4 per cent era. Investors and speculators will henceforth have to turn their attention increasingly to yield and away from capital appreciation.

The last day of business on Friday, July 26, witnessed a string of modest 'budla' rates against buyers, together with slight 'undha budla' charges against sellers in respect of Tata Steel, Bombay Dyeing, Hindustan Motors, Premier Automobiles, B I C and Phaltan Sugar, reflecting shortage of stock.

The new loans announced by the Central Government have been welcomed though they threaten to dry up the money market, which has only recently been replenished with floating funds. The new 3¾ per cent 1967 Bonds at Rs 99.50 offer a gross redemption yield of a little more than 3.8 per cent against 3.74 per cent on the 3½ per cent 1967 Loan. The new 1972 Loan which is offered at par carries a gross redemption yield of 4 per cent against 3.90 per cent on the 3¾ per cent 1974 Loan. Conversion of the maturing 1957 and 1958 loans is expected, on a conservative estimate, to the extent of about Rs 50 crores against the outstanding amount of Rs 85 crores. Together with cash subscriptions, Government should be able to collect nearly Rs 110 crores.

Exchange Position Precarious

'Balances held abroad' by the Reserve Bank have fallen by Rs 11 crores during the week ended July 26 to Rs 19.69 crores, and they are lower than they have ever been in recent times. Foreign securities held in the Issue Department have remained unchanged at Rs 400.52 crores, but if the short term balances decline any further, these would also be reduced. Unless external assistance is made available immediately, Government's permission to lower the reserve requirements of the Reserve Bank's Issue Department may be announced within a week or so.

Deficit financing during the week amounted roughly to Rs 16.5 crores (Re coin + 2, Investments + 14.5). Note circulation declined by Rs 19 crores. Bankers' deposits with the Reserve Bank went up by Rs 16 crores and 'Other loans and advances' declined by Rs 7 crores, advances against usance bills actually going down by as much as Rs 8 crores.

Cotton

Rains Soak Cotton

REPORTS of favourable rain and prospects of early movement of crops in the Punjab brought down Jarilla March by nearly Rs 12 over the week to around Rs 706. Heavy liquidation by Ahmedabad interests and oilseed operators who had earlier intervened in the market, together with the application of 'mandi' (selling option), intensified selling pressure. Daily turnover, nevertheless, remained considerable at between 7,500 and 10,000 bales.

Unlike Kalbadevi, Sewri has enjoyed steady prices and turnover. The initial enthusiasm for African cotton, let off by the import licence for 50,000 bales, has tended to wear off since U S cotton is still attractive, and another allotment of it is expected under P L 480.

The total consumption of cotton by mills from September 1956 to the end of May 1957 amounted to 39.64 lakh bales against 37.07 lakh bales during the corresponding period of the last year. The share of foreign cotton, however, has declined to 4.28 lakh bales from 4.47 lakh bales. This increase in consumption has been made possible only by drawing down mill stocks from 19.06 lakh bales to 16.37 lak bales.

Oilseeds

Castor Tumbles Again

WHILE Groundnut has continued to be intrinsically steady, Castor has tumbled down again on reports of U S holding off and a bumper Brazilian crop offered for September at a substantial discount over Indian prices. September and May deliveries of Castor lost about Rs 5 each over the week and the two Groundnut contracts shed about Rs 3 each in sympathy.

Bullion

Erratic Movements

BULLION opened firm on manipulations in silver by Calcutta and Delhi operators and reports of seizure of contraband gold in Saurashtra. But after a short respite, profit taking and increased arrivals pared off values. The latter were reflected in the practical equality of spot and future rates towards the end of the week.

Gram Under Essential Commodities

In exercise of its powers under the Essential Commodities (Amendment) Act, the Government of India has issued a notification for controlling the rise in prices and preventing hoarding of gram, including split gram and its products, in the States of Punjab, Rajasthan and 15 districts of Uttar Pradesh.

The Notification will remain in force for a period of three months.

Around Calcutta Markets

Indian Iron Disappoints

Wednesday, Evening

SPECULATIVE scrips were falling even before the announcement of the I I S C O dividend. Indian Iron and other clearing shares fell further as the I I S C O dividend was announced. It all started with the T I S C O dividend. And the downward trend has been emphasised with the declaration of the I I S C O dividend. These are the immediate reasons for the quieter trend in equities. But there are deeper causes underlying the hesitant trend in stock markets. Confidence has not yet revived. Investors are still shy. There are no indications that investment demand will be forthcoming.

That, indeed, is rather surprising. At current levels, equity yields are not unattractive. There have been some inducements to rentiers in the budget proposals. T T K has already made some concessions relating to wealth and expenditure taxes. There are hopes that the Select Committee may introduce further concessions. Industry seems hopeful about New Delhi's repentant mood. But movements in equity prices indicate that investors remain unsatisfied. In recent years, this contradictory behaviour of industrialists and investors has been a puzzling phenomenon.

New Delhi's 'No'

Consider, first, the immediate causes of the set-back in equities. In retrospect, it may seem surprising that speculative scrips have been drooping, although the IISCO dividend has been maintained. The Company was eager to raise the dividend. But the Government did not allow the Company to raise the dividend. That should have had a psychologically sustaining influence on Indian Iron. For that could be interpreted to mean that the Company's position was quite sound.

Details so far available indicate a slight increase in net profits of IISCO for the year to March last. But the relevant information is capable of being interpreted "bearishly". Allocations to depreciation are Rs 15 lakhs higher. But the provision to reserves is as much as Rs 52½ lakhs lower. These figures are not very encouraging. Despite the lack of details, it would, however, seem that the working results of the Company are not disappointing. Why, then, did Indian Iron drop immediately before and after the announcement of the dividend?

Future Dividend

It would be ridiculous to suggest that shareholders expected a higher dividend. Despite the disclosure by the Company that its request for a higher dividend was, again, refused by the Government, few expected that the dividend would be raised. In the main, the recent drop in Indian Iron is due to the fact that the new scrips were released on and from August 1. This is a technical problem. But its immediate effect on the market should not be minimised. More scrips will now be available to the market. As floating stocks increase, "bears" would be encouraged to sell "short".

No problem of transfer of money from the holders of right shares to the Company is currently involved. But there is another reason which is affecting Indian Iron. For the current year, the new right shares will be eligible for dividend. It is not the dividend for the past year, but for the current year which is of significance. Will the Company be able to maintain the dividend at least? TISCO had to lower the dividend. Holders of right shares would have welcomed some assurance by IISCO management that, despite the increase in capital, the dividend will, and could, be maintained. Some such assurance at the time of the annual meeting may cause a spurt in Indian Iron.

LIC's Policy

Meanwhile, not only Indian Iron, but equities in general remain depressed. That is mainly due to withdrawal of support by the Life Insurance Corporation. It is now, and has been for some time past, nursing the gilt-edged market. It is taking no chances. As the subscription list for the two new Central loans are opened, it will be known to what extent institutional and private investors will take them up. In case the response is not encouraging, the Insurance Corporation will have to step in. Its resources are being conserved for that contingency. That is why, the recent fall in equities has not provoked LIC to lend fresh support to equities.

This raises a major market issue. There was nothing wrong in the initial support to equities by the Life Insurance Corporation. That halted the slump in equities. As the Corporation started buying blocks of shares, equities moved up gradually. But the experience during the last three weeks suggests that stock markets are incapable of maintaining the ground without constant support from the Corporation. Any untoward development tends to have a disproportionately depressing effect on equities. This is the main market problem at the moment.

Outlook

It is widely realised that the Insurance Corporation is not a fit and proper institution to solve this market problem. In the main, the trouble is that savings have not kept pace with rising money incomes. This point is emphasised in the Planning Commission's latest analytical report on developments during the First Plan period. Higher taxation and restrictions on bank credits have aggravated the problem further. Even so, the paradox remains. Despite inflation, in spite of rising money incomes, the flow of investment is not increasing. But the only silver lining is that the behaviour of investment in industry is not as poor as the experience of stock markets.

Lyons Range has lost its faith in the coming boom for Tea shares. For the past three years, it has been pessimistic about Jute shares. But it remains optimistic about Engineering shares. These shares are not booming now. But Engineering shares are well above the bottom levels touched immediately after the presentation of the Union Budget. As Indian Iron and other clearing shares drop, Engineering shares occasionally lose ground. Even so, there is moderate optimism about these shares.

INDUSTRIAL CAPACITY AND PRODUCTION — I

Engineering Industries

	No of factories					Capacity				Production				
	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956
Mechanical & General Engineering															
Agricultural Implements ('000 Tons)	66	63	63	62	61	25.7	26.3	26.3	26.8	26.8	18.9	8.0	12.0	13.9	14.8*
Ball Bearings ('000)	1	1	1	1	1	600.0	600.0	600.0	600.0	600.0	234.4	649.1	704.0	806.2	1,040.1
Belting															
(a) Hair and Cotton (Tons)	6	6	6	7	7	1,200	1,120	1,220	1,239	1,239	700	757	840	855	814
(b) Rubber Ply Transmission and Conveyor (Tons)	NA	9	9	9	9	NA	519	995	1,026	1,679					
Bicycles ('000)	2	6	6	10	14	120.9	264.2	372.4	491.2	664.0	114.3	264.2	372.4	491.2	664.0
Bicycle parts ('000 Rs)	—	23	24	22	23	—	9,114	11,859	13,646	18,188	—	9,114	11,859	13,646	18,188
Bolts, Nuts, Rivets & Dogspikes ('000 Tons)	13	15	15	15	15	30.1	10.4	16.0	22.1	25.5*	6.9	10.4	16.0	22.1	25.5*
Building & Hardware Fittings ('000 tons)	15	18	18	18	18	4.0	2,022	3,202	3,500	3,923	1,500	2,022	3,202	3,500	3,923
Clocks ('000)		4	4	3	3	45.6	9.7	7.5	14.1	21.1	3.6	9.7	7.5	14.1	21.1
Conduit Pipes ('000 ft)	7	7	9	10	10	7,560	3,715	5,983	6,251	10,931	3,968	3,715	5,983	6,251	10,931
Crown Cork ('000 gross)	6	7	7	7	6	3,696	1,867	2,212	2,768	3,462	2,601	1,867	2,212	2,768	3,462
Duplicators (Nos)	3	3	3	4	4	4,200	927	1,132	2,084	2,783	1,600	927	1,132	2,084	2,783
Expanded Metals (Tons)	4	4	4	4	—	2,800	1,654	2,443	2,331	2,234*	1,900	1,654	2,443	2,331	2,234*
Hurricane Lanterns ('000)	11	13	13	12	11	4,260	4,312	4,987	5,487	5,180	3,976	4,312	4,987	5,487	5,180
Incandescent Lamps ('000)	8	9	9	9	9	85.8	30.4	37.7	58.8	84.2	62.9	30.4	37.7	58.8	84.2
Machine Screws ('000 gross)	NA	6	6	6	7	—	167.8	228.5	640.4	1282.7	—	167.8	228.5	640.4	1282.7
Rolling Stock ('000 wagons)	—	—	—	10	10	—	—	—	13.5	16.0	—	—	—	13.5	16.0
Sewing Machine (Nos)	2	2	2	2	5	37,500	62,419	80,198	101,472	130,388	41,500	62,419	80,198	101,472	130,388
Shaftings (Tons)	4	4	4	5	5	3,400	230	140	277	135	400	230	140	277	135
Steel Belt Lacing ('000 Boxes)	3	3	3	3	3	228.0	67.9	72.5	71.6	82.4	151.7	67.9	72.5	71.6	82.4
Shipbuilding‡ (boats & crafts) ('000)	—	—	—	22	22	—	12.2	14.0	19.5	22.1	6.0	12.2	14.0	19.5	22.1
Steel furniture ('000 Tons)	18	18	19	18	20	19.9	30.5	31.5	28.1	90.0	30.5	31.5	28.1	90.0	102.0*
Steel Structures ('000 Tons)	73	71	71	69	70	119.4	43.0	57.2	66.6	116.4	13.6	43.0	57.2	66.6	116.4
Stoves ('000)	5	10	10	10	10	57.0	—	—	4.6	13.4	—	—	—	4.6	13.4
Typewriters ('000)	—	—	—	3	3	—	150.9	246.6	294.7	546.0	46.8	150.9	246.6	294.7	546.0
Umbrella Ribs ('000 Doz Sets)	3	4	4	5	4	103.0	546	750	963	629*	100	546	750	963	629*
Welding Electrodes (mn ft)	1	3	3	3	3	36.0	206	260	414	460*	—	206	260	414	460*
Wire Products							104	110	102	140*	—	104	110	102	140*
(a) Gauze (Tons)	2	7	7	7	7	200	2,572	5,098	6662.7	7,502.2	1,561	2,572	5,098	6662.7	7,502.2
(b) Netting (Tons)	—	3	3	3	5	—	159	243	354	842.5	121	159	243	354	842.5
(c) Chain Link Fencing (Tons)	—	3	3	3	3	—	—	—	—	—	—	—	—	—	—
Wood Screws ('000 gross)	9	18	17	18	21	1,561	4,636	4,496	4,540	5,335.6	796	2,572	5,098	6662.7	7,502.2
Zip Fasteners ('000 ft)	1	1	2	2	4	900	900	1,260	1,260	8,320	121	159	243	354	842.5
Industrial Machinery															
Boilers	2	2	2	2	2	116	146	146	146	146	—	55	102	84	13

‡ Includes 8 ship repairers

* Estimated.

Capacity and Production of Engineering Industries—*(Continued)*

	No of factories					Capacity					Production				
	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956
Cement Machinery ('000 Rs)	—	—	—	4	4	—	—	—	Made for own use		—	—	—	33.6	44.4
Sheep foot rollers (nos)	—	—	—	1	1	—	—	—	120**	120**	—	—	—	9	61
Tools															
Coated Abrasives ('000 reams)	4	4	4	4	4	80.0	80.0	80.0	150.0	185.0	37.3	61.0	70.6	78.8	99.0
Grinding Wheels (Tons)	1	1	1	2	3	400	500	535	1,250	1,750	316	361	506	681	1,112
Machine Tools (Rs Lakhs)	16	16	16	17	18	100.0	136.0	136.0	142.0	309.0	47.3	44.1	50.0	74.4	120.2
Needles															
(a) Hosiery Knitting (mn)	—	2	1	1	1	—	3.96	3.0	3.0	3.0	—	0.2	0.94	0.49	1.1
(b) Gramophone (mn)	1	1	1	1	1	230.0	460	900	900	900	63.0	112.55	186.08	113	.30
Razor Blades (mn)	4	5	5	5	5	153.0	200	272	414.6	414.6	29.2	23.1	131.38	174.56	265.18
Small Tools															
Threading (taps, dies, etc) ('000)	—	—	—	5	5	—	—	—	450.2	450.2	—	—	—	80.5	113.5
Milling Cutters ('000)	—	—	—	6	7	—	—	—	39.3	45.3	—	—	—	16.5	19.6
Tungsten Carbide dies (lbs)	—	—	—	1	1	—	—	—	1,200	1,200	—	—	—	15	159
Steel Files ('000 doz)	—	—	—	5	5	—	—	—	468	468	—	—	—	45.3	154.5
Automobiles and Ancillaries															
Automobiles ('000)	12	12	9	8	8	71.7	84.0	40.0	39.0	45.0	22.3	13.9	14.5	23.1	32.1
Cylinder Liners ('000)	—	1	1	1	1	—	120.0	120.0	120.0	120.0	—	17.3	23.9	65.2	67.1
Gudgeon Pins ('000)	—	1	1	1	1	—	—	300.0	300.0	300.0	—	—	22.8	133.3	142.2
Motor Cycles (Nos)	—	—	1	1	1	—	—	—	5,000	5,000	—	—	—	419	1,022
Piston Rings ('000)	1	1	1	1	1	1,200.0	1,200.0	1,200.0	2,040.0	2,040.0	1,396.1	1,376.3	1,575.7	1,917.8	2,080.5
Pistons ('000)	—	1	1	1	1	—	300.0	300.0	300.0	300.0	—	65.5	114.2	132.0	160.2
Scooters (Nos)	—	—	1	1	1	—	—	—	6,000	6,000	—	—	—	536	5,264
Sparking Plugs ('000)	—	1	1	2	2	—	300.0	300.0	600.0	600.0	—	24.1	112.6	531.9	280.0
Diesel Engines, Pumping Sets and Ancillaries															
Diesel Engines ('000)	5	9	11	16	17	5.3	13.2	14.5	19.7	22.2	7.2	3.7	8.7	10.2	12.0
Diesel Engines (Road) ('000)	—	—	—	1	1	—	—	—	3.0	3.0	—	—	—	3.9	3.2
Fuel Injection Equipment															
(a) Pumps ('000)	—	—	1	1	1	—	—	4.5	10.0	12.0	—	—	3.9	11.8	13.8
(b) Nozzle holders ('000)	—	—	1	1	1	—	—	4.5	10.0	60.0	—	—	3.8	14.5	24.3
Power Driven Pumps ('000)	9	24	25	26	27	34.6	60.2	61.4	65.5	65.7	41.5	25.3	28.6	34.4	46.9
Electrical Engineering															
Cables and Wires															
(a) Aluminium Conductors ('000 Tons)	—	3	3	4	5	2.5	6.6	9.0	10.4	13.4	1.7	3.3	5.5	8.0	11.3
(b) Bare Copper Conductors ('000 Tons)	2	2	5	5	5	20.0	20.0	27.8	27.8	17.8	3.0	7.4	7.6	8.4	10.3
(c) Rubber Insulated Cables and Flexibles (mn yds)	2	2	4	4	9	45.0	45.0	86.84	86.84	172.5	41.1	48.43	62.72	86.13	105.6
(d) Winding Wires (Tons)	2	2	2	2	3	45.0	450	450	450	746	300	226	318.59	605	762

** 120 Single drums or 90 double drums.

Dry Cells (mn)	3	5	5	5	5	184.5	221.5	221.5	224.5	224.5	143.4	148.39	148.65	161.0	181.0
Domestic Refrigerators ('000)	2	2	2	2	2	3.6	3.6	3.6	3.6	3.6	0.5	1.14	1.01	0.52	0.75
Electric Fans ('000)	19	18	18	18	19	276.5	303.1	303.1	303.1	401.7	212.5	199.5	236.8	282.2	338.9
Electric Lamps (mn)	10	11	11	11	11	23	29	29	29	44	15.5	19.67	22.86	23.51	29.90
Fluorescent tubes ('000)	—	1	1	1	1	—	400.0	400.0	800.0	800.0	—	102.5	214.3	721.0	880.9
Electric Motors ('000 HP)	11	12	12	12	14	152.5	200.0	200.0	200.0	339.1	142.8	162.5	186.6	251.9	359.1
Electric Steel Sheets ('000 tons)	1	1	1	1	1	4.5	4.5	4.5	4.5	4.5	4.3	2.9	4.5	5.9	7.5
Gramophones ('000)	1	1	1	1	1	21.0	21.0	21.0	21.0	21.0	10.7	1.5	4.5	5.3	6.8
House Service Metres ('000)	1	4	4	5	5	50.0	185.0	185.0	199.0	334.0	1.7	80.7	148.9	255.3	230.3
Mathematical Instruments (Geometry Box) ('000 gross boxes)	6	5	5	4	4	30.0	37.8	37.8	24.6	24.6	9.0	10.4	9.8	10.6	13.1
Power Transformers ('000 KVA)	6	8	8	10	14	300.0	328.0	328.0	414.0	934.0	195.1	308.1	398.2	564.7	919.2
Radio Receivers ('000)	12	15	15	15	16	87.2	153.1	153.1	138.1	213.0	82.8	56.3	58.6	81.2	150.6
Storage Batteries ('000)	11	14	13	13	13	318.0	350.1	290.1	290.1	316.5	212.6	176.0	188.4	235.2	314.2
Water Meters ('000)	—	1	1	1	1	—	12.0	12.0	12.0	12.0	—	6.7	8.8	12.0	18.4
Air Conditioners (nos)	—	—	—	5	6	—	—	—	6,000	6,350	—	—	—	1,969	5,824
Metallurgical Industries															
(a) Virgin Metals Aluminium ('000 tons)	2	2	2	2	2	4.0	4.0	7.0	7.5	6.5	3.8	3.8	4.9	7.2	6.5
Antimony (Tons)	1	1	1	1	1	700	700	700	700	700	328.0	130.15	539.05	504.0	589.0
Copper ('000 tons)	1	1	1	1	1	6.0	7.2	7.2	7.2	7.2	7.1	4.9	7.1	7.3	7.6
Lead ('000 tons)	1	1	1	1	1	7.0	6.0	6.0	6.0	6.0	0.9	1.7	1.8	2.2	2.5
(b) Semi-Manufactures															
Aluminium Sheets, Circles, etc ('000 tons)	8	9	11	6	7	7.0	9.2	9.6	11.7	17.4	7.0	5.3	7.6	10.1	10.5
Aluminium rods & sections ('000 Tons)	—	1	—	1	1	—	—	—	0.96	0.96	—	—	—	0.12	0.37
Aluminium wire rods for ACSR ('000 Tons)	—	2	—	2	2	—	—	—	10.80	10.80	—	—	—	0.84	2.4
Aluminium Foils ('000 Tons)	—	1	1	1	1	—	1,200.0	1,200.0	1,200.0	1,200.0	—	540.8	945.5	1,316.1	1,139.0
Brass and Copper Sheets, etc ('000 tons)	14	19	19	19	19	48.0	52.3	47.0	45.0	46.0	16.4	11.7	17.4	15.0	16.1
Brass and Copper Rods (Tons)	4	5	5	5	3	3,500	5,477	5,477	5,477	5,240	800	540.4	1,371.3	1,295.9	1,620.3
Brass and Copper Pipes and Tubes (Tons)	1	1	1	1	1	360	360	360	360	360	20.0	46.4	20.6	62.4	52.2
Brass and Copper non-electric Wire (Tons)	4	4	4	4	4	2,200	1,958	1,958	1,958	1,958	1,400	245.6	332.2	389.7	538.4
Lead Sheets (Tons)	2	2	1	1	1	2,800	2,800	1,092	1,092	1,092	118.0	79.25	97.75	102.0	37.75
Lead Pipes and Tubes (Tons)	3	3	3	3	3	4,800	4,800	4,800	4,800	4,800	200.0	310.4	165.4	283.0	340.42
Zinc Sheets and Strips (Tons)	1	3	3	3	3	300	4,410	4,410	4,410	3,700	36.0	77.5	45.6	41.7	90.7
(c) Non-Ferrous Alloys ('000 Tons)	13	15	15	15	13	68.0	69.0	69.0	69.0	69.0	11.7	6.1	11.0	13.9	17.2
(d) Steel Castings ('000 Tons)	10	9	8	8	9	27.0	21.0	21.0	15.0	18.0	10.0	10.3	12.9	15.0	20.5

Source: Ministry of Commerce and Industry.

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Wrong Emphasis

ONE clear fact emerges from the Western Powers' proposal for disarmament. It is not even a plan for partial disarmament. It is basically a scheme to prevent the possibility of surprise attack by either side. Washington, if not America's allies, seems obsessed with such possibilities. The plan for inspection of armaments put up by Mr Dulles makes no secret of Washington's main motive or objective. Moscow has not rejected the proposal altogether. Mr Zorin has promised that the plan will be carefully scrutinised by the Soviet Union. But it is already clear that Moscow considers the plan to be inadequate. Many thinking persons will echo Moscow's disappointment with the West's hesitant approach to the problem of disarmament. Even so, there will be surprise that Washington, but not Moscow, should be so apprehensive of the possibility of surprise attack.

It may be possible for the Soviet Union to launch a surprise attack from the Arctic region. But it is equally easily possible for America and her allies to retaliate promptly or to initiate a surprise attack on the Soviet Union from the numerous atomic bases with which America has ringed the world. Irrespective of the world military balance, it is the Soviet Union which should have more cause for anxiety about any possible surprise attack launched from any one of the global bases fortified by America. Such Russian fears assume significance because of the American policy of arming the conventional forces of her allies with atomic weapons.

Why, then, is Russia reluctant to accept the Dulles plan for inspection as a prelude to gradual disarmament? Mr Dulles insinuates that Moscow's reluctance to accept the plan can only mean that the Soviet Union has something to hide. Mr Dulles does not directly deny the Western Powers' superior ability to launch a surprise attack on the Soviet Union. But it is implied that the West harbours no such intention. It is further emphasised that the "open skies" plan, proposed originally by President Eisenhower, reflects the West's sincere intentions.

Nor are the Western Powers haughty or dictatorial in their plan for a "first stage disarmament agreement". It may be a wrong approach to the problem. But the West has not adopted a take-it-or-leave-it attitude. It is firm on what the first stage of a disarmament agreement should be. But its plan for inspection is not inelastic. It envisages aerial patrol and ground inspection of the whole of the United States, Canada and the Soviet Union. Alternatively, it invites the Soviet Union to accept a similar plan of inspection over the Arctic region. On Russia's acceptance of either of these alternatives, the West proposes a plan for similar inspection of the whole of Western Europe, from Western Ireland to the Ural mountains.

If this wider, but conditional, plan for inspection is rejected by the Soviet Union, there is another limited proposal for inspection over a smaller European Zone, including East Europe and West Russia. This last had already been accepted by Russia. But this concession was accompanied by a rider that even a limited plan for aerial and ground inspection should include SEATO and Baghdad Pact bases and areas.

M. Zorin has now reminded the West of this omission from Mr Dulles's plan for inspection. This criticism of the Dulles plan is logical, and will be endorsed by impartial observers.

Moscow is not wrong in insisting that a plan for the abolition of atomic weapons, reduction in conventional arms and armaments, and not merely a plan for inspection, is the essence of the disarmament problem. Throughout the protracted deliberations of the London sub-committee on disarmament, the Soviet Union has emphasised the need for an agreed ban on nuclear tests. It is arguable that a ban on further nuclear experiments may be desirable because of their long-term effects on the human race. But such a ban is not likely to prevent an atomic war. Not merely the use of nuclear weapons, but their production will have to banned. Though there is something in M Zorin's argument that even a ban on nuclear tests will be welcomed by the common man throughout the world as a beginning of the end of the mad race for armaments, Moscow can well reply that Russia's insistence on a ban on nuclear experiments is to be interpreted as a first step towards an agreement to abolish nuclear weapons. Even the West will not deny that, at the moment, both sides are negotiating to reach an agreement on how to initiate a plan for gradual disarmament.

Even so, the question arises whether an agreement on inspection or on banning nuclear tests is a better and a safer beginning for a disarmament plan. Not all are convinced of the feasibility of the "open skies" plan. Mr Walter Lippmann, for instance, has argued that, as long as mutual suspicion prevails, it is absurd to propose a plan that both sides should agree to inspect each other's arms and armaments. "Is it conceivable", Mr Lippmann asks, "that the great military powers of the world will allow themselves to be photographed continually from the sky and will allow their airfields, their ports, their arsenals, their factories to be inspected continually on the ground unless by some miracle they have already come to trust each other?" Lord Attlee raises the same question when he argues that the greatest difficulty in the way of disarmament is the mutual suspicion which is entertained by peoples and governments. "Past experience shows", Lord Attlee is of the opinion, "that disarmament depends on the assurance of security...." This cannot be achieved through any agreement on disarmament, but only through an agreement on the political issues in dispute. These are inter-related issues. Both sides must argee to co-exist before there can be any agreement on disarmament.

Concept of Industrial Capacity

Reconsideration Overdue

IN the statistical pages of the last and the current issue, have been reproduced the full data on Industrial production for the years 1951 and 1953-56 from the Annual Report of the Ministry of Commerce and Industry. This Report should have appeared along with the Reports of the other Ministries, at about the time when the Budget was presented to Parliament. This year, for some inexplicable reason, the Report has been delayed. As these are the most detailed statistics of installed capacity and actual production of the industries usually available, they are still of considerable interest, though rather late. The statistics relating to Engineering industries appeared in the last issue; in the current issue will be found the statistics of Chemical and other industries: mineral, timber, cellulose, leather and rubber.

The impression one gathers from these statistics is one of progressive utilisation of capacity. Indeed, this has come to be recognised as one of the favourable factors helping the success of the First Five Year Plan. The chapter on Industry and Minerals in the Planning Commission's Review of the First Five Year Plan, which studies the progressive utilisation of capacity in 28 selected industries in the First Plan period, also confirms this impression. Only 6 out of these 28 industries failed to register an improvement at the end of the First Plan, but that was largely because installed capacity in them had been substantially augmented during this period.

According to this Review, while utilisation of installed capacity increased in nearly all industries, the most spectacular rise was in sewing machines, from 88 per cent in 1950-51 to 239 per cent in 1955-56, despite an increase of 24 per cent in capacity. Of the industries in which utilisation has markedly declined, viz, diesel engines, sheet glass, asbestos cement, bicycles, radio receivers, power driven pumps and leather footwear, with the exception of the last two, the decline is explained by rapid expansion of capacity and relatively slow growth of production. In 1955-56 the utilisation percentage exceeded 85 in aluminium, cement, finished sheel, electric motors, soda ash, ammonium sulphate, jute, cotton yarn, matches, automobiles, sugar and paper and paper board. The special cases of jute and cotton yarn apart, these and a few others are obviously the industries which in varying degrees are on the threshold of a new career in development. For, whether their capacity expands by multiple shift working or installation of new units, the organisational adaptation demanded of them is bound to be considerable. In addition to the technical problems of balancing intra-unit capacity, hitherto unexplored markets have to be tapped and organisations set up to cater to and expand such markets; arrangements have also to be made to assure supply of materials, spare parts and, where necessary, skilled labour. In a word, these industries have to go through a managerial revolution.

The industries which over-fulfilled the production targets for the First Plan are carding engines, ring spinning frames, sewing machines, electric transformers, soda ash, caustic soda, benzene hexachloride, cotton mills, staple fibre and sugar. Among those which came very near fulfilment, i e, those which fulfilled nearly 85 per cent or more, were loco-

motives, automobiles, hurricane lanterns, sulphuric acid, paper, cement, jute, matches and vanaspati. The soap industry, however, remains in the dumps and attained barely 51 per cent of the target, though paradoxically enough, as will be seen later, it has to be listed among industries in which percentage increases in production has been greater than that of installed capacity. Aluminium, ball and roller bearings, ammonium suphate and rayon filament could achieve between 65 and 75 per cent of the target. The Review does not say why these industries could not fulfil these targets, and what were the factors responsible for their failure.

Now to turn to the statistics. As a comparison with the 1951 figures will show, the turning point in industry was 1954, upto which year capacity tended to increase without an equivalent increase in production. Since 1954, production has tended in most cases to catch up with capacity. This tendency was intensified in industries which fully availed of the freer supply of steel during the year 1956, particularly in engineering and the growing demand for engineering products of all sorts.

Among the important industries which have expanded their output without any sizable increase in their installed capacity are:

agricultural implements, ball bearings, conduit pipes, duplicators, wagons, boats and crafts, stoves, typewriters, welding electrodes, road-making machinery (and also, perhaps, machinery for jute, oil, food and sugar mills, tea processing machinery and weighing machines, which are produced to order), hosiery knitting needles, razor blades, small tools, motor cycles, scooters, automobile parts, power driven pumps, dry batteries, fluorescent tubes, electric steel sheets, gramaphones, water meters, most non-ferrous metals, a large number of chemicals, asbestos cement sheets, glass, rayon yarn, staple fibre, cork, matches, foot-wear tubes and tyres, cigarettes, food products, oil milling and cosmetics. The last mentioned still has considerable excess capacity.

The industries in which production has gone up in spite of a decline in capacity are:

Bare copper conductors, brass strips, alum, sodium sulphide, copper rods, zinc sheets and D D T, ebonite, fan belts, bicycle tubes, and phenol formaldyhyde moulding powder.

Only in two important products, ammonium sulphate and ferrous sulphate, has production declined while capacity has increased; sulphuric acid, leather cloth and cotton seed oil are the lone instances in which capacity has gone up without any increase in production. Both production as well as capacity have declined in hurricane lanterns, magnesium sulphate and posphoric acid.

As against these, there are a relatively large number of cases in which capacity has remained unchanged but production has gone down. These occur in:

expanded metal, boilers, some mining machinery, sparking plugs, diesel engines (road vehicular type), aluminium, lead sheets, nicotinic acid, turpentine oil, crude coal tar, motor benzol, road tar, solvent naptha, zinc oxide, high tension insulators, A D V tyres, cab-tyres, processed and pearl barley, toilet and tooth powders.

These products are of very great importance in themselves, but since many of them represent by-products of some significance to manufacturers, the decline in production might raise the costs of the main products.

That leaves now the industries which have witnessed an impressive increase in capacity as well as production. Of these, the increase in production has, in proportionate terms, outstripped that in capacity in the following industries:

Bicycles, bolts and nuts, clocks sewing machines, steel structurals, umbrella ribs, coated abrasives, grinding wheels, automobiles, diesel engines, air conditioners, aluminium conductors, radio receivers, storage batteries, steel castings, acetylene gas, caustic soda, copper sulphate, magnesium chloride, oxygen gas, zinc chloride, dyestuffs, cement, pencils, plywood, rubber footwear, motor and bicycle tyres, and water-proof fabrics and soap.

The number of industries in which capacity has, again in proportionate terms, expanded faster

In view of Independence holidays there will be no issue of The Economic Weekly on August 17.

The next issue will, therefore, be out on August 24.

A Fernandes
Business Manager



than production is by comparison much smaller. In this category are:

machine screws, wood screws, zip fasteners, machine tools, fuel injection equipment, cables, electric fans, incandescent lamps, electric motors, power transformers, bleaching powder and earth, superphosphates, liver extract injections, anti-dysentery drugs, benzene, refractories and paper and board.

In any country, idle capacity may usually be regarded as social waste; where it is deliberate, it usually indicates monopolistic control or market imperfection which is undesirable to some degree or other. In an under-developed economy which has to contend with inflationary pressures, the persistence of unutilised capacity argues a failure of planned development, and calls for careful investigation. There may be special circumstances which account for such under-utilisation, but barring such cases, by and large, persistence of under-utilised capacity is a failure of planning. The Ministry Report suggests that in the Chemical Industries generally, it has been rather heavy going, but not in the others, certainly not in the Engineering Industries. How far is this impression correct?

There is, unfortunately, a fly in the ointment. How to define and rate capacity? How dependable is the criterion which we have to take on trust from the Development Wing or whatever is the department that estimates capacity? Is this estimate fair in the sense of conveying a reliable idea of the actual conditions prevailing in the industry or is the figure perhaps biased one way or the other, concealing a lot of things which should be brought to light? These could be unbalanced plant, technical deficiencies which could perhaps be removed without much capital investment or considerable scope of improvement by not too difficult or expensive means-reorganisation and better management.

Attention has been lately drawn by Lala Sri Ram to the scope for substantial increase of capacity by such simple expedients as two shift working instead of one, and the cue has been taken up by Shri Manubhai Shah, the Minister of Heavy Industries, though with what results, we do not know. It is high time to reconsider and take stock of the situation.

The definition of capacity, it has never been denied, has been more than somewhat arbitrary. The Directorate of Industrial Statistics has a rule of thumb method of estimation which has been followed so far without question. If there is any deviation, it is on the sly, e g when some importunate applicant for an import licence has reason to deviate within permissible limits, of course from the normal. The Directorate estimates the capacity for cotton and jute in terms of spindles and looms; for sugar, on the basis of a crushing season of 110 days; for chemicals and fertilizers, capacity is computed on the assumption of three shift working for 330 working days in a year while for all other industries, it is only 300 days. Again for some industries even in the Engineering group, two shift working is taken as normal while for the rest, the basis is a single shift.

This definition of capacity accounts for such anomalies as that as many as 27 industries should report production in excess of their installed capacity, e g, wagons, ball bearings, welding electrodes, D D T, staple fibre, tractor tyres and tubes, cigarettes, bicycles, machine and wood screws, sewing machines, steel castings, cement and road engines. This raises doubt in the case of other industries which report an appreciable improvement in utilisation. How does one know for certain that capacity in their case had not also been grossly under-estimated?

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Weekly Notes

Mirza or Suhrawardy

BEFORE Mr Suhrawardy became Pakistan's Prime Minister, he posed as a politician of the Left. He acted the role of a leader of the Opposition. After he became Prime Minister, he gradually shifted to the Right. There is developing growing opposition to him and to his policies in both wings of Pakistan. In Eastern Pakistan, Maulana Bhasani has deserted Mr Suhrawardy to form a coalition Party of radical elements in both wings of Pakistan. In West Pakistan, the Republican Party has come back to power during Mr Suhrawardy's absence from the country. Mr Suhrawardy does not have the support of this Party. In East Pakistan, his Awami League, weakened by Maulana Bhasani's desertion, is in search of new allies.

In both wings, Mr Suhrawardy and his Party are losing friends and supporters. In East Pakistan, the Awami League, now in power merely by inheritance, is in a predicament. It cannot openly align itself with the Muslim League. Its hope is to enter into a marriage of convenience with the Krishak Sramik Party, founded, but no longer led, by Mr Fazlul Huq, East Pakistan's Governor. The problems of party politics are not quite unimportant, but Mr Suhrawardy's fate does not really depend on party manoeuvres. That depends on two issues. One of these has been widely discussed; the other is one of the unmentionables in Pakistani politics. It has been obvious for some time that a struggle for power has been going on between Mr Suhrawardy and General Iskander Mirza. Both are strong men and two strong men cannot remain in harness in politics for long in any country. General Mirza made it possible for Mr Suhrawardy to become Prime Minister. Pakistan's President must have discovered since that Mr Suhrawardy is not a dependable politician. Is is no secret that Mr Suhrawardy is opposed to vesting the President with enhanced powers. Nor is it any secret that General Mirza is of the firm opinion that he and his army alone can save Pakistan from plunging into chaos and confusion. As Mr Suhrawardy returned from his foreign tour, he found that President Mirza had already initiated arrangements for talks with various political leaders "on the current affairs of the country".

Neither internal party politics nor the hostility between the Prime Minister and the President is likely to be the deciding factor. That may for all practical purposes depend on Washington's choice. Will Washington choose Mr Suhrawardy or General Mirza. A politician or an Army leader? Though basically this is the main issue involved, this may not be the correct way of posing the problem. For, the choice need not necessarily be between a politician and an Army leader. Washington can as well advise General Mirza to lend his support to another politician who can replace Mr Suhrawardy as Prime Minister. Suggestions have been made that the present leader of the re-formed Republican Party can be groomed to succeed Mr Suhrawardy. Sardar Abdul Rashid is not a typical party politician, though he was for a long while the Chief Minister of the North-Western Frontier Province. The Sardar is not well known in East Pakistan, but his ability and integrity are not questioned. Mr Suhrawardy cannot be unaware of the trump card that President Mirza holds. That must be his main worry at the moment.

Atomic Power for Industry

AT the inauguration of the atomic reactor at Trombay in January last, Dr Bhabha had urged the importance of setting up some atomic power stations within the coming five years, and not primarily to meet our expanding energy requirements in the immediate future but to produce and store up enriched fuels for future use of such reactors. It is the change over from experimental to commercial production of nuclear power which is of course the aim. The realisation of this aim has been drawing near, but not to the same extent in every country. Among the advanced countries, Britain appears to be more in need of atomic energy for industrial uses than others and has been making concerted progress. Britain, incidentally, is also building up as a side line an export trade both in equipment for nuclear power stations as well as in enriched fuels. This leadership in the export market is, of course, the outcome of Britain's huge home atomic power programme. At an exhibition early in May, Britain started her first selling campaign from big Calder Hall type stations to the little package reactors which will be useful in isolated and backward areas. Indeed in these new lines of exports, Britain may be able to do just as well in the next few years as she did in aircraft and aero engines in the recent past.

As mentioned above, even among the advanced countries, the relative advantages of nuclear compared to other forms of energy are by no means the same and hence the differences in their progress in this field. A recent U N questionnaire elicitated the reply that in Britain nuclear power was already as cheap to produce as coal power; it is expected to become so by about 1965 in Canada and by about 1970 in some parts of the United States. This is because, among other reasons, these countries are not equally well placed in regard to their future supplies of conventional power. Cost estimates at this stage have yet to be taken with a pinch of salt. But British costings, based on actual experience and supported by the highest responsible authorities, suggest that even by 1965 the cost of atomic power from the improved stations which would come into operation by then, would be considerably lower than and by 1980, half that of conventional stations.

The blue print which Dr Bhabha hopes to place before the Government by the middle of next year for the production of atomic energy for industrial purposes would be for production on a commercial scale by 1962. Speaking at a luncheon at the Reserve Bank, Dr Bhabha gave out some cost calculations the main points of which are that capital charges for nuclear stations would be roughly more than double but fuel cost—the main recurring charge—in areas away from coal

fields would be less than half. That nuclear power will hardly make any demands on our railway system already severely taxed, is, of course, very much in their favour. The other points he made about the economy of scale being even greater in the case of nuclear power stations and for fuller utilisation of capacity, are presumably because of the relatively heavy capital charge. These estimates, needless to say, are still very tentative but the rate of technical development in this field has been so striking that a rapid reduction in cost with the passage of time can be taken as a certainty.

In the light of the above, it would be nothing surprising if South Italy, badly placed as she is in the matter of power supply were to steal a march over many others and go ahead with large nuclear power stations. It has been assured World Bank backing for it.

The Government of Italy and the World Bank have agreed to cooperate in sponsoring a study which will lead to the construction of a large nuclear power station in Southern Italy. The Government had already announced a decision that a large nuclear power station would be built in the south of Italy by the Societa Elettronucleare Nazionale. The Societa is a company whose principal shareholders consist of all the major electric power companies in Southern Italy together with a number of Government-controlled metallurgical and engineering corporations.

Mr Eugene R Black, President of the World Bank, said that the study was proposed to the Italian Government by the Bank because Italy is a country where relatively high conventional fuel costs and the rising demands for electric energy appeared to be favourable to the early commercial use of nuclear power.

What is the Model Citizen to Do?

FACED with the threat of a break down of the essential services, what is the model citizen to do? Text books do not directly answer this question, but this is what the Bombay school children are told in 'Model Social Studies', a book of questions and answers, published by one of the well known 'Educational Publishers and Book Sellers' of the city. Question 19 on page 220 of this book lays down the following among the duties of a Citizen: Obedience to Law .....Resistance to Law.....Duty to Work. Thank God, innocent minds are not infected with any nonsense about the citizen's Right to Work, Constitution or no Constitution. But on the other hand, along with Loyalty to the State, which is duly inculcated, school boys and girls are also told:

"Resistance to Law—This is a moral right as well as a moral duty. If a law is improper or harmful to society, it should be resisted. This duty should be performed very carefully". In subsequent questions and answers, this is elaborated in some detail, as in Q 23—Write a short note on: Duty to resist Law. The Model answer is as follows:—

"Resistance to law is both a right and a duty. It is a moral duty.

"Ordinarily it is the duty of every citizen to obey the law. But in special circumstances the duty to resist law may arise.

"If the government passes an improper or autocratic law, a citizen should take constitutional steps. But if these bear no fruit, he should resist such law.

"Every citizen should have moral courage to oppose the government.

"Two questions arise regarding this: (1) Is it proper to resist the law passed by the majority members of the Legislature?

"In ordinary course it is improper. But if the majority party passes improper laws autocratically, people can oppose such laws in extraordinary circumstances.

(2) Again if people oppose such laws, where is loyalty to the State? This is also true. In ordinary circumstances a citizen should not oppose the state.

"In the following extraordinary circumstances, citizens can resist laws: (1) If the law is autocratic or unjust, (2) Before resisting law, constitutional means should be tried. (3) They should think of the effects of such resistance on society.

"This duty should be rarely (sic) performed."

—Model Social Studies, First Edition, 1956.

'Model Social Studies' runs to 504 pages, priced at Rs 4 and is widely read and used by students. There is no prescribed text book for Civics for Secondary School Certificate Examination but the subject attracts many students and students fall back on such books to better advantage as they help them to pass examinations and also to score high marks. Making of text books may be a racket, but publishing of notes and cram books is a field of free and unfettered enterprise, where only the fittest survive.

If the National Book Trust which incorporates the highest wisdom and erudition in the country can have for consideration such provisional titles as "Eisenhower Brothers", "Your Child, a Guide Book for Parents" and "English Poetical Drama" the last by a Lecturer of one of our lesser universities, surely some less dignified body could take up the humbler task of looking into school texts, and note books and guides which are more widely read and read by choice as also by necessity, though not prescribed as text by educational authorities.

Cloth Production Goes 'Coarse'

BEHIND the elaborate high level policy which envelops the cotton mill industry, a number of changes have taken place, which are as significant as the industry's achievement of an annual production rate of more than 5,500 million yds. More intensive utilisation of capacity has been essayed on an impressive scale. Between January-April 1956 and January-April, 1957, the daily average of spindles run on various shifts has gone up as follows: 1st shift 6 per cent, 2nd shift 6 per cent and 3rd shift 8 per cent. The corresponding increases in the case of looms is 1 per cent for the 1st shift, 4 per cent for the 2nd and 10 per cent for the 3rd.

Production of yarn and cloth has gone up during the same period by 14 and 15 per cent respectively.

A part of the increase in output is, however, attributable to the doubling of the share of coarse cloth in total production. The percentage shares in cloth production of coarse, medium, fine and super fine in January-April last year were 10, 75, 8 and 7 respectively. In the corresponding period this year, the proportions changed to 21, 67, 7 and 5. This should not lead to the presumption that cloth output has gone coarse in the sense of producing more inferior varieties. Technically, many varieties like drills, furnishing, fabrics, canvas, duck, bedsheets, gaberdines etc, the consumption of which rises along with a rising standard of living and westernisation etc, are classified as 'coarse' because their average count is under 18.

Our Delhi Letter

P & T Workers and the Government

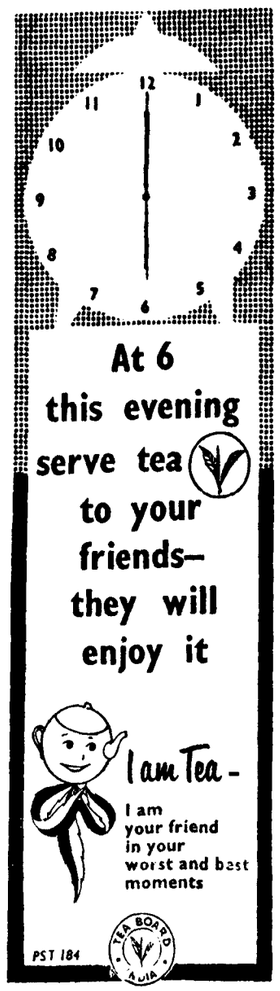
Tuesday, Evening

AT the moment of writing, the prospects of the withdrawal of the P & T Workers' strike notice are rated in New Delhi as very bright even if the causes that might lead to that happy result lie in the shadow of obscurity.

A consistent thread that can be disentangled from the web of controversy is the Communist aversion for the strike. The Party did not openly admit it at any time, but quite early in the proceedings Government were aware that the Communists would do their best to avoid the strike. Shri E M S Namboodiripad, the Chief Minister of Kerala, is believed to have written a letter to the Prime Minister assuring him of the Party's good intentions. Though the letter was mainly a rebuttal of Shriman Narain's charges and contained an offer to invite delegations of journalists and MPs, the significance of Kerala's Chief Minister's obiter dicta on the strike was not missed and was duly noted. Subsequent Communist pronouncements and their role in the strike negotiations seem to have confirmed the Namboodiripad line.

While the Communist antipathy to the strike can be gauged with a measure of certainty, the extent of the Party's influence over the P & T workers is less clear. Shri Dalvi is at best a fellow traveller and Shri B N Ghosh avowedly an independent. Only Shri O P Gupta is affiliated with the Party closely enough to be identified with it in the popular mind. Shri Nath Pai, who, as Chairman of the Confederation of the Central Government Employees, is active in the negotiations is admittedly a Praja Socialist. The position that each of these leaders has taken is distinctive: Shri Nath Pai genuinely wants to avert the strike, Shri B N Ghosh is staunchly in favour of promoting it, Shri Dalvi is sitting on the fence in Bombay, while Shri Gupta would, presumably like to avoid the strike but keep the agitation alive. Many allege that the Communists' "game" is to push Ghosh out from the General Secretaryship of the P & T Federation and put Gupta in his place; they will be able to control thereby all the constituent unions.

Differences in the Nehru Cabinet are as pronounced and indeed there is as much jockeying for position. It is notable that the "big three" in the Government—Pandit Pant, Shri Morarji Desai and Shri T T Krishnamachari—were agreed, despite their personal rivalries on many issues—on the Finance Minister's theory that price wage spiral will set off runaway inflation and wreck the Plan. A ten-rupee increase to 2 million Central Government servants would mean an addition to the wage bill of Rs 24 crores a year. Whether in a country which has the gross national product of the order of Rs 11,000 crores, such increase will be inflationary, may be debatable. But initially the Cabinet accepted the idea together with its corollary. T T K promised amenities like free education, free milk and cheap grains to workers. The Labour Minister, Shri Nanda, is believed to have argued, however, that the money to be spent on amenities could be utilised to give higher money emoluments after an enquiry. It was thus that the committee of inquiry was conceded and later again through his advocacy converted into a full-fledged Commission. Shri Nanda too, was the first to give an assurance on interim relief—an assurance that was omitted from the Finance Minister's statement in Parliament but reiterated afterwards by the Prime Minister, the Home Minister and the Minister for Communications.



It is possible that if the labour leaders had called off the strike threat after their meeting with the Prime Minister and continued negotiations with the Labour Minister, they would have got away with almost all their demands except the one about interim relief. But they reiterated their decision to go on strike and the Government, goaded by the anti-labour section in the Cabinet, countered with the Essential Services Maintenance Bill. The measure undoubtedly was no help towards clearing the atmosphere.

In the earlier talks with Shri Nanda, the labour leaders had obtained indications of certain concessions which were later withdrawn. For instance, the demand that a time-limit be set for obtaining the recommendations of the Pay Commission, interim as well as final, was virtually conceded. Similarly, it was stated that negotiations were possible on giving retrospective effect to the Commission's recommendations from the date of its appointment.

The labour leaders, on the other hand, accuse the Government for having refused the demand for the Pay Commission until they threatened to go on strike. This, it is alleged, has made the workers suspicious.

On both sides, the mistakes appear to be of timing.

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A Calcutta Diary

Six Editors in Search of a Country

IT is by now a well known fact that the United States Information Service, or some other affiliate of the U S State Department invites foreign visitors to North America. Your correspondent was one such invitee not so long ago, and it should be obvious from that statement that he is not wholly opposed to a scheme which enables foreign journalists, and others, to see a country that is worth seeing. Not as though this is a question that must worry everybody, but the less unconscientious amongst us may well wonder whether the debt can be repaid without selling oneself, without making it obvious to the other party—to say nothing of one's readers—that one is, politically, a changed man.

I solved the problem rather deftly I thought. I wrote a dozen articles in the daily I work for. I made it clear that I had gone to the United States as a guest of the Government of the United States of America, and I said that I was paid the inadequate sum of $ 12 a day—not so much to make a public complaint as to indicate that I hadn't been bought. (If only because I ain't so cheap.) I spoke of the greatness of the United States of America. I said I could not identify myself with the Negroes. And I said that the bureaucracy in Washington, D C, had struck me as more efficient than I had expected and hence more of a menace. Those that are conscious of their power, I said, (might some day make the fact known to others) by force of arms, if necessary. I also spoke of the British coming in control of a vast empire "in a fit of absent-mindedness," and went on to suggest that this was a possibility not to be ruled out in any discussion of the destiny of the United States of America.

* * *

It is entirely irrelevant whether my reading of the American scene was correct or otherwise. As they say, only time will show. The only reason why I raise the subject is to deal with three colleagues in the profession who went to the same country, saw very nearly the same things, and then proceeded to pay back in a manner many might consider slightly undignified. One of the gentlemen under consideration had been to Russia too—another point in common with your correspondent—and so, he thought, some sort of an explanation was necessary. He said, in a speech a fortnight ago, that he had been accused of being a "stooge" of Russia at that time for praising that country. He would, he had no doubt, be called a "stooge" of the United States for praising that country now. Propaganda, he declared with a flourish rather disproportionate to the circumstance, was not his profession.

* * *

Another visitor, a news editor this time, is a very simple soul indeed. It was apparently in Washington, D C, that he saw his first Yale lock in life. It was perhaps natural that he should have been knocked for six by this strange gadget; it was rather unusual even for him to proceed to hail it as proof final of the greatness of the American civilisation. Another editor, who really owns his paper and leaves the editing to paid men, is said to be planning an advertisement-loaded supplement, and thus his rather fulsome praise of everything American is perhaps the most easily explicable. The other two editors need not be dealt with in detail. One is an anti-Communist rather on the McCarthy model, and that's enough reason for him to be "sent" by America. The sixth was really a lost bet for the U S I S; he left journalism within a week of his return after the U S junket, and now has a Government job.

* * *

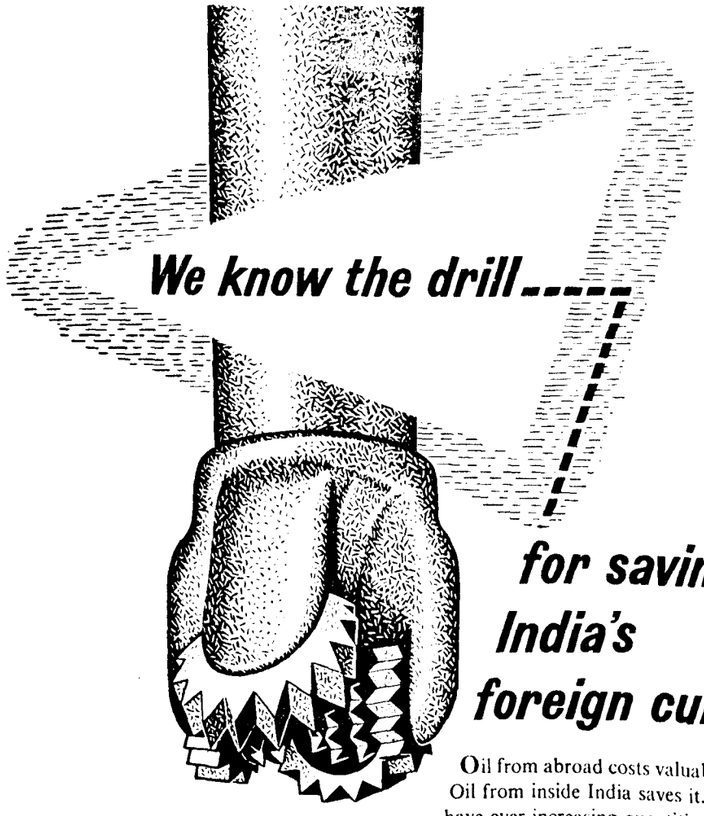
The editor whom I cited as protesting too much is, in fact, one of the best Calcutta has. Not one of the first six intellectuals in Asia, not he, but he certainly has his heart in the right place. He it is who first drew pointed attention to the plight of the East Bengal refugees, and that is by no means the only injustice he has fought with considerable courage. I hope, however, that I am not unfair in ascribing to him an excess of emotion, a certain intellectual imbalance, too great a readiness to be impressed. Surprise is always the product of previous ignorance; and in this editor's continuous series of surprises in both the U S A and U S S R there was, it must be admitted, a measure of naivety. It may well be doubted whether these are the best equipment to take to a study of international affairs, the subject dearest to his—**heart**.

The key to the Yale lock man is easily found. He is a good-hearted chap, innocent of the wicked big world outside his own backyard. Without men like him, a newspaper office would consist only of cynics. Whether he is also the best man to keep the Bengali newspaper-reading public well and truly informed of what's going on in the world is another matter.

* * *

There has been, I suggest, a significant change in the class character of Bengali journalism. Bigness has departed, the kind that Surendra Nath Banerjea, C R Das or even B C Roy once brought to it. The owning interests have not an iota of idealism left, which would not have been a great loss if an honest business-like attitude had taken its place. As for the "working" journalists, they are so ill-paid that they are condemned to live in lower-middle-class circumstances. The man who is swept off his feet by a Yale lock is discussed only because he is socially significant; it is just not possible for him to catch up with the jet in the foreseeable future. The editor who thinks it necessary to explain that he is nobody's stooge obviously suffers from a whole lot of complexes, all of which doubtless condition the opinions on world affairs he wants his hundred thousand readers to share every morning. The story of the six editors in search of a country has to be told—at considerable risk of being misunderstood—because this country may soon be in search of some editors who would be freer from the infirmities of a lower-middle-class outlook.

August 6. **Flibbertigibbet**



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From the London End

British Agriculture and Commonwealth Exports

IN the eyes of many member countries the merit of the Commonwealth system lies in the opportunities it gave for economic gain without each of the members making some of the sacrifices which would otherwise have been necessary in a world of non-preferential trade co-operation. Various developments in the post-war years have, however, tended to severely limit these gains and today much of this advantage of the Commonwealth system is in jeopardy. Of these developments, three stand out as of major importance. These concern the impact of the post-war price inflation on the order of tariff preferences agreed to at Ottawa in 1931, the changes in the character of world trade since the 1930's and probably more important, the transformation in British agriculture wrought by the purposeful policies adopted in 1947.

The Ottawa system of preferential tariffs was formulated at a time when the search and struggle for markets generally had reached a point of unparalleled intensity. Although agricultural and primary products then represented a declining proportion of world trade, the struggle for markets was all-embracing. In very much the same way as Commonwealth agricultural producers desired an assured market in the United Kingdom, Britain, too, wanted assured markets in the Commonwealth and Empire. There has since been some change in this position. Today the instability in the market for agricultural products is considerably greater than in the markets for manufactures. This was certainly the conclusion of the recent Australian and New Zealand trade delegations to the United Kingdom. They found that the trade in manufactures has continued apace, showing an almost remarkable lack of susceptibility to price changes. In contrast, they found the British negotiators exhibiting a keen price consciousness for new contracts of Australasian dairy products. More important, the British market for agricultural products was almost at a standstill—having reached its maximum import limit, in spite of evident increases in dairy production in their own countries.

Equally important to this change in Commonwealth trade relationship has been the gradual whittling away of the balance of advantage which the Imperial tariff system gave to agricultural exporters in the Commonwealth. The United Kingdom system of traiffs for agricultural imports from non-Commonwealth sources consists almost wholly of specific duties. In contrast, the tariff in most Commonwealth countries is ad valorem. The degree of preferences which these tariffs provided for inter-Commonwealth trade was effectively frozen by the General Agreement on Tariffs and Trade so that no new preferences were possible in the post-war years. The vast inflationary rise in prices since 1931 has, however, made the specific import duties on non-Empire agricultural goods entering the U K market lose not only much of their significance as a source of revenue, they no longer provide sufficient protection for Commonwealth producers to maintain their share of the United Kingdom market. In contrast the overseas Commonwealth market, with its ad valorem system of import duties on non-British origin manufactures, has been maintained for the United Kingdom.

This latter question did not assume any importance until 1954. In the post-war years up to 1954, dollar shortage and the need on the part of the United Kingdom to pursue quantitative and exchange restrictions on imports from non-sterling area were sufficient to assure Commonwealth agricultural producers of their position in the British market. Since 1954, however, large scale liberalisation of Britain's trade with the O E E C countries as well as with the dollar area has made the problems of the Commonwealth considerably more serious.

Most important of all these changes has been the transformation in the English countryside. Britain's agricultural production has increased more than that of any Commonwealth country and for that matter, more than that of the United States and Western Europe between 1938 and 1955. In a recent memorandum prepared by the Commonwealth Economic Committee, indices of agricultural production were calculated for every major agricultural producing country. These showed an increase of 56 per cent in British agricultural production between 1938-55 compared to an average of 40 per cent in all the overseas Commonwealth countries and 44 per cent in the United States.

This transformation is the direct result of the far-reaching Agricultural Act of 1947. This Act had a double origin: the balance of payments crises and the ever present danger of war. To stimulate agriculture, this Act forced upon the Government the permanent acceptance of the principle of "guaranteed prices and assured markets." In turn it involved a fundamental change in the law and system of land tenure, thereby providing perpetual security to tenant farmers who proved themselves to be efficient and freezing farm rents at their prewar level. The consequences of this Act, though costly in terms of alternatives foregone, have been remarkable. Agricultural incomes have grown from no more than 3.8 per cent of all incomes in 1938 to well over 6 per cent today. The output of farm crops is almost 75 per cent higher than that of pre-war, in spite of the shift in emphasis in agricultural policy to higher livestock production in 1948. Livestock output has grown rapidly and for all the major items, except lamb and mutton, it is now well above pre-war figures.

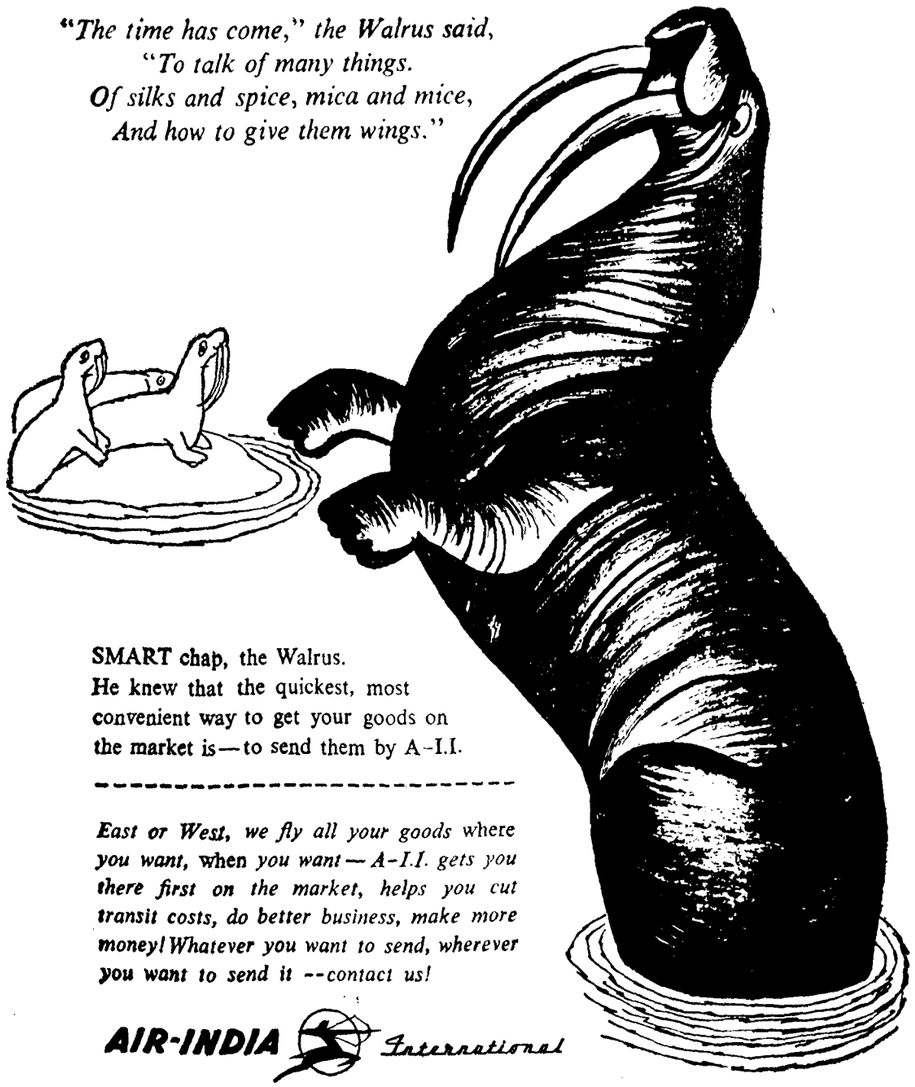
The Australian and New Zealand trade delegations were unpleasantly shocked by these achievements: neither of them were able to secure new long-term contracts for meat and dairy produce like eggs and butter. Indeed, they found that the U K egg surplus was being exported and that Denmark had complained to the GATT that British egg exports constituted "dumping", since the U K egg industry remained heavily subsidized. The impact of these achievements in British agriculture on the Commonwealth trade has been serious. Today the U K takes a smaller share of Commonwealth agricultural exports than in 1938. More important, the post-war rise in U K imports of Commonwealth products is considerably below the increase in Commonwealth production.

The cost of the agricultural expansion in Britain has been heavy. In comparison with other European

countries, the ratio of operating costs to total output in British agriculture—just over 50 per cent in 1955-56—is exceptionally high. The price and cost assistance given to farmers by the Government amounts to £300 million a year. Professor E F Nash of the University College of Wales has recently calculated the differences between the prices actually paid to British farmers (under the price-support system) and the existing "import-parity" prices, that is the prices which the domestic output would fetch if sold under free competition. He found that on average British farmers were receiving prices which were about 130 per cent of the import-parity price. Further, the output per head in British agriculture was about 55 per cent of that in British manufacturing industry.

The developments narrated here are of considerable significance. With the Imperial tariff preference becoming of lesser importance and the changes wrought by British agriculture coupled with the movement towards a viable customs union on the European continent, the trade ties which were once the hallmark of the Commonwealth show signs of being broken, with little in prospect of reinforcing the old interests and mutual advantages.

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From U N Headquarters

The Quality of Expertise...

IN another six weeks this sleepy place by the fast-moving East River will once again come to life, as it has for the past seven years and the delegates' lounge will buzz with the quiet hum of men from eighty one different countries greeting each other as old friends. Delegates, like cicadas, disappear with the seasons, but once September comes round the corner they are back again at their jobs, in their dark business suits and with their mysterious secretaries hovering around them. Every inauguration is the same as every other. There is the same eagerness among the delegates to hello the old timers and greet the new comers, the latter just waiting to break their first international teeth and eager to learn from colleagues how to smell a developing situation in the raising of an eyebrow. There is the serious business of getting to know each other—always a good excuse to spend an evening at the bar or arrange luncheon at Danny's. But there is little time for the niceties of social life once the Assembly gets going. The work is gruelling and the United Nations is no place for laggards. If there is an organization where the quality of expertise is not strained, it is undoubtedly the United Nations. This, it may be said, is one reason why delegations have to be carefully chosen.

Though this is generally not known —and probably is not true all the way down—social graces count a lot here and should, in more than one man's opinion, count in the choice of delegates. The ability to mix freely with men from different lands, the ability to command attention and respect are by no means small virtues, but how often are they lacking in men that one meets in the U N lounges! Small things get noticed: the dress one wears, the places one frequents, even the manner in which one walks and talks. Small things? Perhaps, but a frayed shirt collar, an unkempt look can disqualify a delegate from functioning as effectively as he otherwise might. And some Asian delegates at this international caravanserai constantly seem to forget this. But starched shirts do not necessarily make great diplomats; knowledge of world affairs does and more often than not a command of facts, rather than flights of oratory, have saved a situation.

Much has been said of Shri V K Krishna Menon's brilliant mind, for example, but only those who have watched him at work know the painstaking home work he puts in through the gruelling nights and days that make a General Assembly session. No honours student appearing for his examination could have put in more hours of plodding, than India's leader of the delegation. To marshal all known facts—especially facts inconvenient to some people—one has to read and reading is only possible in the small hours of the night. And Shri Menon who has never been known to slip on his facts has his facts at his finger tips. If only it is realised that behind that razor-sharp brilliance there is sustained work, there would be greater appreciation of his person. To know what this means, one has to read through the speeches of Shri Menon—and especially his speeches in the Kashmir debate. These were not just exercises in speech-making. Here were marshalled facts that were gathered at high speed and hurled like thunderbolts at the members of the Security Council, such a feat of research and scholarship as has never before been attained in the Council's ten years of existence. The Security Council is not a panel of high-minded judges. It is a body of hard-minded politicos —which should explain the Kashmir Vote. Anybody with less emotional fervour might have suffered worse physical relapse than Shri Menon, whose intense suffering was an agony to watch to those who knew the round-the-clock work that he put in—and his team put in.

This, of course, is just one example, but a handy example of what a General Assembly session means in terms of physical wear and tear on its participants. The case of Shri Menon, it must be admitted, however, is unique. For Shri Menon himself is a unique man and represents a unique country. The demands on him are far too great for any one man to carry without paying dearly in terms of health. An incident in this connection, is worth relating. Shri Menon had just finished his marathon fight on Kashmir, doggedly determined that every aspect of the case for India was fully stated and had returned home limp and tired when word came to his secretary that the British Chief Delegate wanted to have a word with him. Britain was in trouble on the Cyprus issue and the subject was coming up the very next day for discussion. Could Shri Menon help? It was 3 in the morning when Shri Menon succeeded in drafting a resolution that next day was acceptable to all—including the Greeks! And was everybody relieved!

To keep track of every issue in all its thousand and one facets requires an alert mind, but to convince fellow delegates to a point of view requires not merely tact and knowledge of fellow human beings, but a grasp of precedents and a photographic memory. Delegates have to be reminded of past favours rendered to them—and delegates often tend to have a conveniently bad memory. Let the facts of life be faced in all honesty: the United Nations is not the place for starry-eyed idealists, though idealism has its place and it is on idealism that the entire institution is founded and has to find its sustenance, But this is also the place where horse-trading goes on, votes are canvassed in advance, positions are stabilised long before even an issue comes up for discussion. Right now, in the Capitals of eighty countries' minds are being made up on how votes are to be cast and under what circumstances they are to be traded. These have to be sensed, weighed, evaluated and counter-manded. But often times the best laid plans of mice and men gang aft agley and this is true of neatly-planned voting patterns too. For who can say with any degree of certitude how a particular situation may develop? So it devolves upon delegates to weigh every word, every phrase, every shade of meaning in the draft resolution submitted to them. And here comes the need for the talents of the master draftsman, to x-ray words for hidden meanings, to ferret out words of doubtful utility, substitute words capable of more clarity

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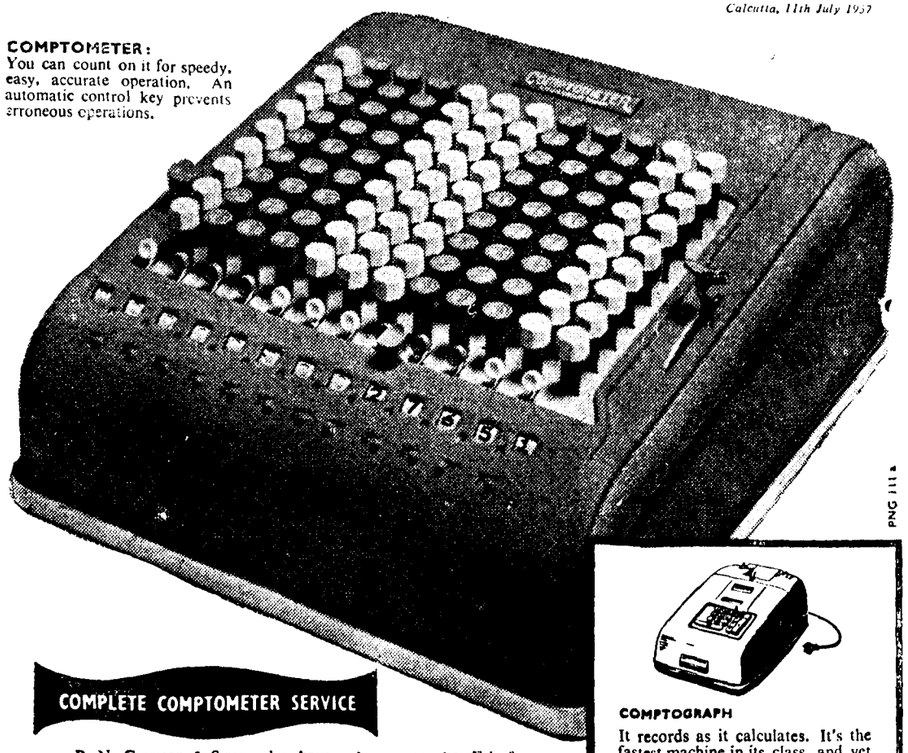
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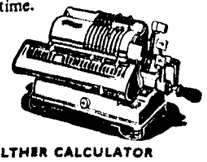
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and precision. How many have been the drafts that were cast aside during the course of a single hour in the soul-searing search for perfection!

But even a good draft is not good enough if it cannot win over the support of other delegations. Some times, as in Shri Menon's efforts over Cyprus last year, a well-conceived draft will get the unanimous support of the Assembly, but there are occasions when one has to go in search of co-sponsors, the hardest job of all. National rivalries, an eye for horse-trading, a quick decision to cash in on a fluid situation all come to bear at the moment and superb salesmanship becomes the need of the hour.

But above and beyond the ability to sell an idea is the total personality of a man and here India has been singularly fortunate in the person of Shri Menon. There was the occasion when in 1956, France had walked out of the Assembly on the Algerian issue and the Arabs were at daggers drawn with the French. And yet in a matter of twenty four hours, Shri Menon had both the Arab and French delegates shaking hands—a feat that still remains one of the more remarkable achievements of India and the leader of its delegation.

Shri Menon's eight-hour speeches have been criticised in some sections of the Indian Press. But at least to one Indian his performance came as an unmitigated delight. To watch him take the hide off some of the eleven men who seemed determined to vote one way whatever he did, was a pleasure. Let there be no mistake about it: when Shri Menon finished his speech there were fewer men who looked sillier than they in the world. But the truth about India will not be heard around the world because the Indian Press is sadly under-represented at the United Nations. There are just not enough men to influence the men who influence the rest of the world.

It is worth one's while to have a look at these statistics:-Of the 300 correspondents accredited to the United Nations in 1956, 119 were Americans. Europe (Western Europe) was represented by 65 correspondents. There were 13 correspondents from the iron curtain countries. Latin America contributed 14; The British Commonwealth excluding India, Ceylon and Pakistan had 35 men at the world organisation and one state, Israel alone had 16 correspondents actively working at the U N O. But all Asia, with more than 1000 million people could drum up just 38 correspondents to cover the United Nations scene for them! If one deducted the ten correspondents from Japan and an Austrian correspondent who represented a Burmese paper from the 38 what is left of the Asian group but a mere 27 for thirteen Asian African countries so vitally interested in what is happening here! Austria (5), France (8), Germany (4), Greece (7), Italy (7), Netherlands (9), Sweden (6), Switzerland (5) and Turkey (4) sent more correspondents than India, a country of 370 million people.

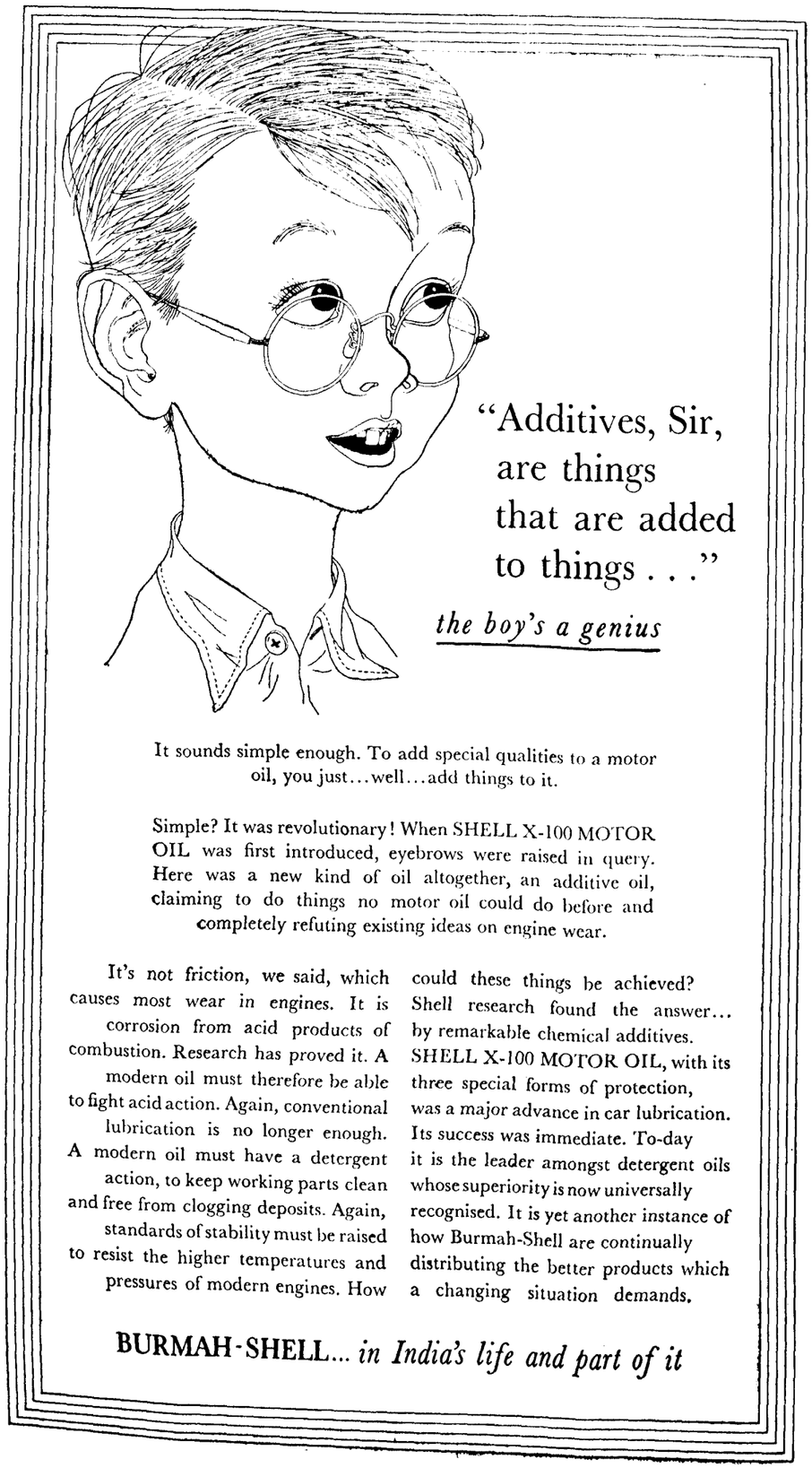
A correspondent is not his country's spokesman; and yet, in a sense he is, and very often is in a position to influence his colleagues in far more effective a manner than any delegate. One of the questions that the Indian Press should give thought to is that of maintaining a Press corps here that would not only keep the Press back home fully informed of the currents and cross currents of thought at the United Nations but help influence the thinking of the World Press itself on issues that have a bearing on India. This need not be misinterpreted to mean that correspondents need be apologists for official policies. No self-respecting newspaperman would be willing to be that. But as in the case of Kashmir, even the worst critic of the Government would scarcely have had different views on the subject, and the presence of newspapermen in numbers counts as Israeli correspondents so often prove at press conferences.

India has played an active role in the past and because it has been possible for India to play this active role, India will be called upon to play a similar role at the Twelvth Session, also. There are issues that will call for the utmost statesmanship on the part of Indian leaders. Last year most of the great problems were eclipsed because of the Anglo-French attack on Egypt and the events that followed the crushing of the Hungarian Revolution.

There will be—one hopes—no similar distractions this year that will rob the Algerian case of its deep sense of urgency. The Cyprus case too keeps calling for Justice. India will have to exercise the utmost ingenuity in sticking to its golden rule of achieving the maximum possible with the minimum sacrifice. The task, it seems to most observers, will again inevitably fall to the share of Indian leaders whether they like it or not. Despite all the fulminations against India and Shri Menon, both are sought after and will continue to be sought after. On the face of it, this is a paradox: Why should India so often maligned in the American press, and as often resented by United States officialdom be nevertheless asked to play the role of the honest broker? May it be said that both the Prime Minister of India publicly and his chief representative at the United Nations on all possible occasions have stressed that they have no desire to act as mediators, but India's services have been requisitioned more often than even Indian representatives would care to admit. The plain fact is that the world needs India in the role of mediator; it needs it desperately and to many observers here it seems only India can fill the role with dignity and prestige.

Shri Menon is an ardent believer in the efficacy of "quiet diplomacy" (much to the chagrin of the Press and especially the Indian correspondents) on the principle, no doubt, that undue publicity to any move can only succeed in wrecking it. But whatever Shri Menon's tactical moves may be, the fact that India is so often called upon to assist in the finding of ways and means to solve apparently difficult situations is a tribute to the soundness of India's alleged "neutralism". The Western statesmen dare not say it openly, but they would be the first to regret should India, in her foolishness, ever decide to move westward politically. Whether, in the event of a thawing of the cold war, India will find herself unwanted is a moot point. But in the present context, India's role is almost made to order and will no doubt be played well. Many of us may not always realise it, but as many European correspondents keep saying here, our very firm attitude has contributed more towards the establishment of world peace than all the speeches of Mr John Foster Dulles.

On which note it is safe, to welcome the Twelvth Session of the United Nations General Assembly starting September 17.



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Impact of European Boom on Primary Producing Areas

(From Our London Correspondent)

THERE has been a remarkable increase in Western Europe's industrial production and its share of world trade since 1954, and yet the consequence of this highly favourable performance on the level of exports and the terms of trade of the overseas primary producing regions has been wholly indecisive and, in certain regards, of limited significance. The Annual Report of the Secretariat of the General Agreement on Tariffs and Trade for 1956 set out the essential outlines of the impact in a somewhat broader international setting. It found world exports rising sharply by about 9.6 per cent to over $83,000m in 1955, that is nearly twice as fast as the increase in 1956. The increase in the volume of exports was almost as high, yet in 1955, as in 1954, the increase in world exports was mainly the result of the growth in trade among the industrial countries themselves. Exports from the primary producing areas to the industrial areas, as a percentage of world exports, steadily fell from 28.9 per cent in 1950 to 25.7 per cent in 1955 and to 24.8 per cent in 1956. In contrast, the trade among industrial countries rose from 34.3 per cent in 1950 to over 39 per cent in 1956.

Benefits Not Spread

This experience in the relative trade positions of different regions of the world classified in terms of each of their commodity structures is by no means new. For well over a generation, the intense specialisation of different trading regions has come to show that the benefits or the gains from trade for the primary producing countries have become sufficiently illusory as to make nonsense of the vast theoretical framework on the basis of which international specialisation has been justified. In retrospect, the various post-war international plans, particularly those under the aegis of the United Nations, to assure the primary producing countries of suitable incomes and of relatively favourable terms of trade appear more in the nature of an attempt to maintain the existing degree of trade specialisation than to recognise that comparative cost benefits accrue less to primary producing areas than to economies which have become diversified and balanced.

These views on the experience of the past appear to possess at least certain crucial elements of validity if account is taken of the character of the European boom over the past four years. Western Europe has shown itself to possess a tremendous capacity for industrial growth. Between 1953 and 1956, industrial production (that is production in all branches of industry) rose by over 30 per cent. Gross domestic incomes in this region rose by almost as much. In this period there appeared to be no end to the new investment opportunities open to the region. With the exception of the Scandinavian countries, gross domestic investment has increased at a yearly rate of more than 5 per cent. For West Germany alone, the rate has been as high as 19 per cent between 1954 and 1955 and 10 per cent between 1955 and 1956. The capacity of Western European countries to export also appeared to be unlimited. Between 1955 and 1956, the value of their exports rose by 40 per cent. The character of this remarkable growth of Western Europe does explain to a considerable extent why the European demand for primary products and agricultural products in particular has become of lesser and lesser importance to this region's foreign trade and economic development. In the period 1953-56, as in earlier years, consumption in Western Europe has accounted for a declining proportion of the national income, and food as such for a declining proportion of consumption. In addition, the relative share of agricultural output in the retail value of food consumption has fallen with the increase in services and costs of processing and distribution. With regard to industrial production, the share of raw materials in the value of final output has also declined. The composition of the output has changed. In view of the more intensive processes involved as well as of the increasing substitution of synthetics for natural raw materials,

Lagged Growth

In this situation it is inevitable that even if we are to assume that the terms of trade in primary producing countries remain unchanged, the growth of income earned in primary production will be considerably below the growth in income in industrial consumption. In Europe in the period under review, this problem was aggravated by the fact that European farm output was expanding far more rapidly than the rise in internal consumption, thus causing a displacement of agricultural imports by the larger supplies from domestic sources. Even within the European countries, the relative in-elasticity of demand for primary products (produced at home) in relation to income and industrial production, has contributed to marked disparities in per capita incomes between argricultural workers and industrial workers. If we are to place this relationship as between Western Europe as an industrial region and the overseas primary producing regions of Asia, Africa and Latin America, the disparities in income become even wider. There exists ample quantitative evidence to establish this somewhat new character of European economic growth, and in spite of the many anxieties expressed in the Paley Report in 1953 on the satisfaction of future United States demand for raw materials, there can be little doubt that the growth of the American economy over the past five years has required a less than proportionate rise in the import of primary raw materials. In Henry G Aubrey's **United States**

Table I

Western Europe: OEEC Trading Area

1953 = 100

	1950	1954	1955	1956
Industrial Production	86	110	120	128
Gross Domestic Product (at market prices)	88	105	111	120
Private Consumption (volume)	90	104	110	114
Gross Fixed Investment „	87	110	122	130
Exports (volume)	82	113	123	136
Imports „	83	111	123	128

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life to man and beast and crop... water to quench
the parched earth through the dry months...
water to drink... water to provide power.

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Imports and World Trade, an attempt is made to forecast the future level of American imports of raw materials and foodstuffs. While he estimates a continued rise of imports over the next fifty years he comes to the conclusion, indeed an optimistic one, that the cumulative effect of American imports "upon the share of raw materials in the respective total of United States imports would seem to be limited to a few percentage points."

In Table I data expressed in terms of indices with base 1953 = 100 are provided for certain pertinent categories of the West European economy. The absolute rise in industrial production between 1953 and 1956 was of the order of 28 per cent. Imports rose at a similar rate while the volume increase in exports has been about 30 per cent. It is pertinent to note that private consumption today is no more than 14 per cent above that of 1953.

Future Prospects

In the OEEC report "Europe Today and 1960", estimates were made regarding the future course of European economic growth. These estimates were made largely in terms of projections of past experiences into the future. In Table II these projections for 1960 are given in terms of percentage increases with comparative data for the five-year period between 1951-55. While West Europe's gross national product is expected to rise by 17½ per cent between now and 1960, that of primary product imports will be no more than 4.1 per cent (compared to 6.2 per cent in the period 1951-55). Further, there exists a declining ratio between primary product imports and industrial production between 1951 and the year 1960.

The intake of primary raw materials into European industry has itself undergone certain shifts in composition apart from the decline in the rate of imports. Since the opening phases of the European boom in 1953, the demand for imports of fuels and raw materials for the metal-using industry increased somewhat. There was no increase in demand for imported foodstuffs or textile raw materials or for other imports subject to increasing competition from synthetic materials. Between 1955 and 1956 the volume increase in mineral products was about 9 per cent for all West European countries. For agricultural products there was a decrease of 8 per cent in so far as imports from non-European, non-dollar sources were concerned.

Table II

European Economic Growth Projections to 1960

	Percentage Increases	
	1951-55	1956-60
Gross National Product	26.5	17.5
Primary Product Imports	6.2	4.1
Exports	6.5	4.4
Industrial Production	6.7	4.6
Private Consumption	4.2	3.4

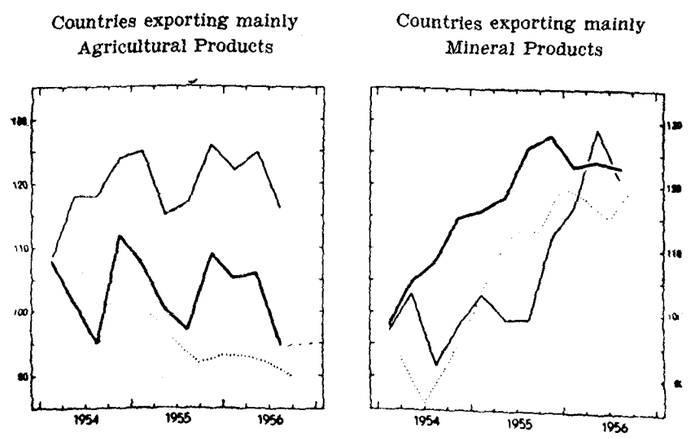
Boom in Synthetics

The increased use of synthetic raw materials has become a matter of considerable significance. According to the European Economic Commission, the production of chemical synthetic raw materials, such as plastics and material for plastic production, synthetic washing compounds and nylon fibres has been increasing at an annual rate of between 30 to 60 per cent in the past five years. While in 1950 the consumption of such synthetic substitute in all the industrial countries was valued at $3,500 million, the G A T T Secretariat has calculated the 1955 consumption to have been $6,400 million. In 1938 the ratio of natural raw material input to output of manufactured products, in what the G A T T Secretariat terms the "industrial countries", amounted to 25 per cent. In 1955 the ratio was 17.6 per cent.

The shifts in the composition of raw material imports and the increasing tendency to use manufactured raw materials instead of natural products has been matched by a far-reaching shift in the origin of imports in Western Europe. In 1956 West Europe's imports from the United States rose by 14 per cent compared to a rise of only 0.5 per cent from non-dollar sources. The trade within Western Europe rose by as much as 17 per cent. The shifts to dollar sources were of considerable proportion in the case of cotton, oilseeds, fats and oils and coffee. While cotton imports from the dollar area rose by about 100,000 bales, those from Brazil and

Purchasing Power of Exports of non-dollar Overseas Countries

Index numbers, 1953 = 100



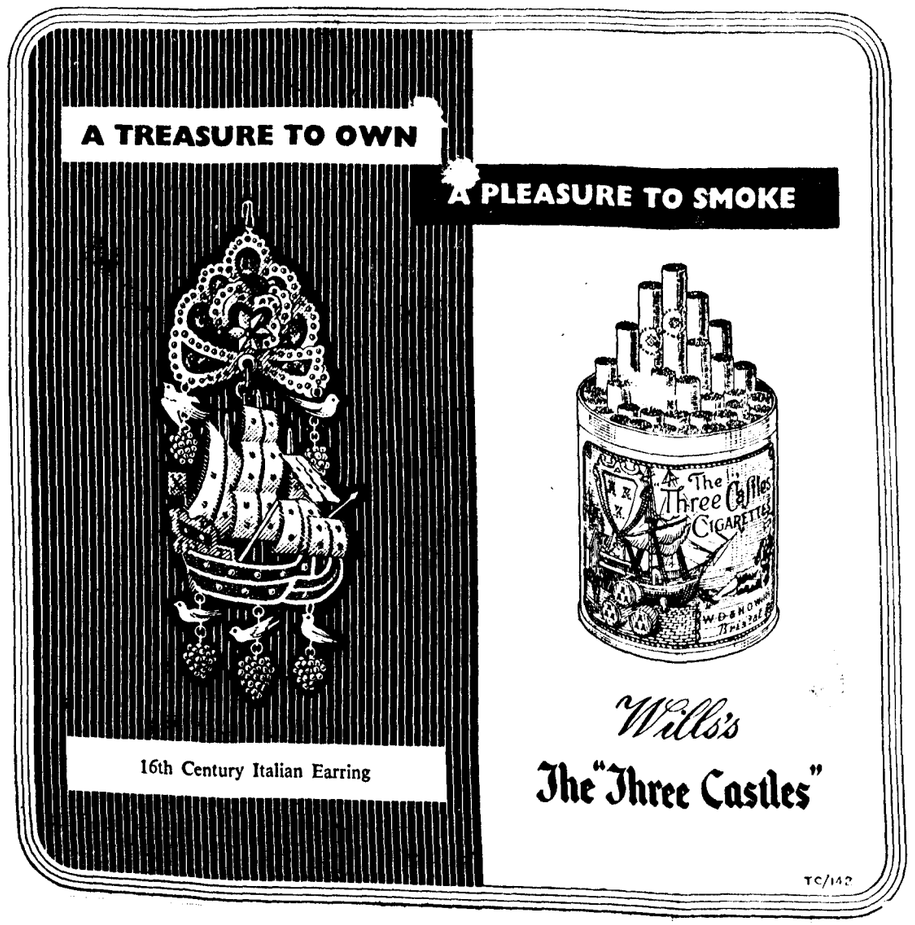
——— Purchasing power of total exports (value of exports deflated by estimtedimport prices)
– – – – Volume of imports from western Europe and the United States
..... Gold and foreign exchange reserves (end of period)

Egypt actually fell. This fall in demand contributed heavily to adverse price movements and, thus, to a singularly unfortunate change in the terms of trade of many non-European, dollar countries.

Terms of Trade

The broader trend in the terms of trade for agricultural products has been examined by the Food and Agricultural Organisation. In recent years, apparently, the average unit value of agricultural exports has been roughly three times as high as in 1935-38. Thus the terms of trade of agriculture have improved since the war: the index rising from 68 in 1935-38 to 100 in 1952/53. Between 1953 and 1956, agricultural prices fell by an average of 5 per cent leaving agriculture's purchasing power somewhat below that of 1953. In any event, comparisons with the period 1935/38 provide little comfort to agricultural producers. In those years the disparity between agricultural and manufacturing prices was most marked. The International Monetary Fund compiles statistics of export and prices for trading areas: according to these statistics, West Europe's terms of trade improved by 4 per cent between 1953 and 1956. Those of the overseas sterling area fell by 10 per cent and of Latin America by 2 per cent. In the Chart given here the impact on the level of the gold and dollar reserves of the primary producing regions is shown together with the movement of the terms of trade. The Chart necessarily excludes the gold and dollar reserves of those territories which are part of monetary areas like the sterling and the French franc area.

The experience of the past three years sets the longer-term trend in the direction and commodity composition of world trade. In spite of boom conditions having prevailed in an area traditionally regarded as the most important market for primary producing countries, the European demand for raw materials, particularly agricultural products proved to be most disappointing. If the case for rapid industrialisation and diversification of those economies which, so far, remain essential specialist producers of raw materials is to be established once again, the developments in Europe in the past four years seal the argument. This re-emphasis appears to acquire a greater significance at a time like the present when a number of primary producers, faced by the immense problems of financing their programmes for economic diversification, are being advised to deflect from the path of industrial development.



Rise in Food Prices

Factors Behind the Propensity to Stock

(Contributed)

THE present rise of food prices in the country right from the middle of the harvesting season has caused widespread concern, not only about the potential inflationary dangers inherent in this situation but also about its implications for the Second Five Year Plan as well as for our future planning. In the wake of the panic that has been created, Government has been led to adopt some desperate short-term measures the effects of which are yet to manifest themselves. But it does not seem to have been realised that the rise in food prices is only a logical and natural consequence of certain agrarian policies which have been followed by the Central and State Governments since the assumption of power and particularly, since the beginning of the First Five Year Plan. It is not even suspected therefore that the problems that are arising today may have something to do with these policies nor does the Government appear to be conscious of the need for major change in its policies towards agriculture. But unless it is realised that the present situation has arisen as a result of Government's own policies towards agriculture, and until suitable modifications are made in these policies, it will be difficult to resolve the problem and avert its recurrence every now and then.

Whenever prices tend to rise or fall steeply, people begin to scrutinise the statistics of production and consumption. Since statistics of food production are regarded as proverbially inaccurate (particularly since the days of Rafi Ahmed Kidwai) and statistics of food consumption are just not available except a priori estimates on the basis of increasing population and developmental consumption increases, the result of these probings is only a state of muddled confusion. Distrust of statistics leads to uncertainty and there is, inevitably, a period of prolonged hesitation before any action whatsoever is taken. And since apart from production and consumption, no other factors are considered important, measures are taken for building up the morale of the consumers as well as the producers. But it is only too obvious that for purposes of price analysis, supply of foodgrains is not the same as production and demand is not the same thing as consumption. In between these two, there lies the vast territory of 'exchange' in which producers sell to traders for resale to consumers. And prices of foodgrains, more particularly in the short-period, are essentially a reflection of the relationship between producers and traders in the sphere of exchange than that of producers and consumers in the ultimate sense.

Role of Stocks

In the sphere of exchange, stocks play a vital role. They are the very essence of the distribution trade. Changes in the 'propensity to stock' either of producers or of traders, and sometimes even of consumers largely determine the fluctuations of agricultural prices since they cause wide fluctuations in demand and supply. This propensity is highly variable and its range of variation is also very wide but we have no information about either. It is also, in turn, very much dependent on the prices which it determines. Further, there are no given and determinate scales of differences between the relative 'propensities to stock' of producers, traders or consumers. The decision to stock depends upon the economic climate in which it is taken and the facilities which may exist for different classes of people to build up such stocks. And these objective conditions may change in favour of different classes at different times. In the extreme case of genuine shortage or glut, prices may move sharply, because of the decisions to stock even the limited produce or not to stock even a slightly increased production. And if agricultural prices are to be regulated, the essential element of policy should be to regulate the process of stocking and destocking.

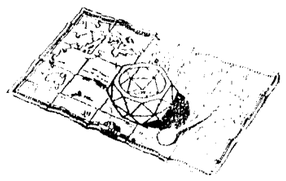
In the light of the above, let us examine the basic agrarian policies of the Central and the State Governments and try to find out how these policies have affected the 'propensity to stock' of the various classes involved in the process of exchange.

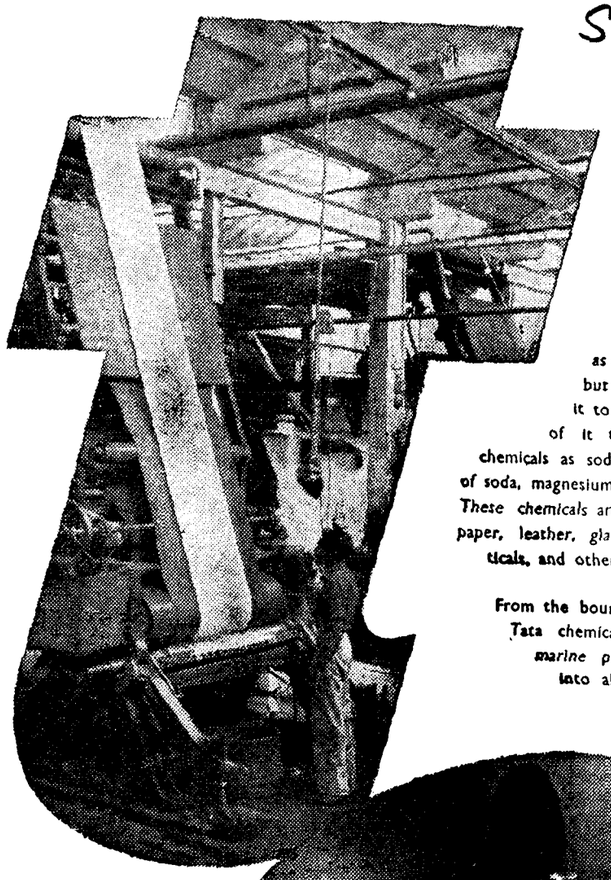
Broadly, Government has been promoting agricultural development by means of three types of measures, i e, land reform, extension of credit and measures for raising productivity through the distribution of improved seeds, fertilisers, improved implements etc, and by popularising improved techniques through agricultural extension services. The land reform measures of the various State Governments have promoted a redistribution of the land, owned by the former intermediaries, between the State and the tenants on payment of compensation to the ex-intermediaries. But the more important effect of these measures has been the creation of a fairly large number of cultivators out of the former intermediaries who have been allowed either to keep their entire 'Sir' and 'Khudkasht' lands or to resume for self-cultivation lands owned by them which were formerly under cultivation of tenants. These 'Sir', 'Khudkasht', and 'resumed lands' have been substantial in some of the States, and resumption has been helped by the device of partition amongst several brothers of the same household of intermediaries. This process of creating cultivators has also been facilitated by sales of land by the intermediaries largely because of the fear of land reform and the imposition of ceilings. Cultivation on these lands has generally been taken over by the ex-intermediaries or the new purchasers by making them into fairly big units of cultivation as compared to the situation before when millions of tenants used to till it in much smaller units. The technique of cultivation is not important here. The main upshot of the argument is that even if the technique has remained the same, the share going to the ex-intermediaries has now increased.

Substantial Holders

The result has been that the produce of these lands which previously used to be appropriated by millions of peasants is now appropriated by a relatively smaller number of ex-intermediaries. The net result has been that while formerly the pro-

Imagine a world without salt!

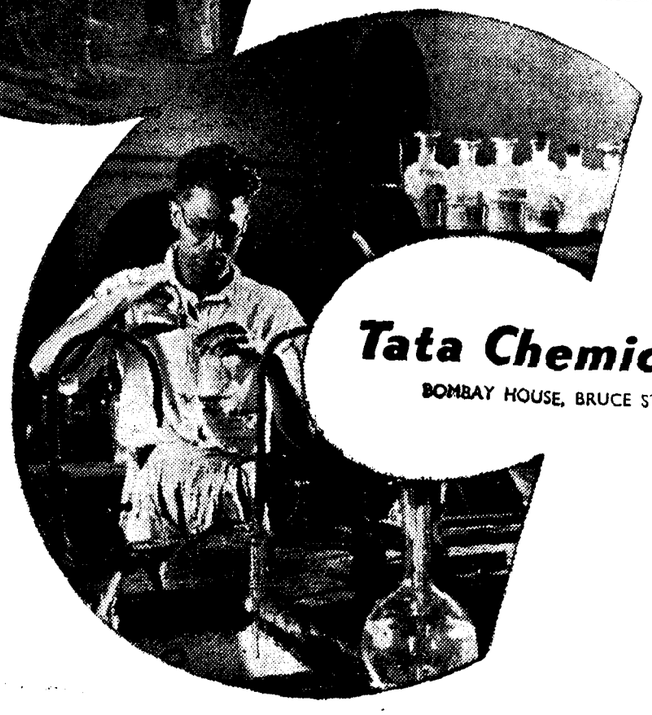




Can you imagine how poor the world would be without salt? Your food would lose its savour; there would be no paper to write on; no leather for shoes; no glass to replace the broken window panes; no medicine for the ailing.

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portion of total produce in the hands of substantial producers who had the capacity and the propensity to stock used to be very small, lately this proportion has appreciably increased. The effect will be brought out more strikingly, if we consider the share of these producers not as a proportion of the total produce but as a proportion of the total marketed surplus. A large proportion of the total potential market supplies of agricultural produce at present belongs to the larger and wealthier producers who have both the capacity and the power to stock their produce. Thus, land reform has tended to change the relative 'propensity to stock' of the producers who are now able to hold more agricultural produce than before because of this change in the composition of the producers.

It may be argued that creation of larger units of cultivation from the technical point of view is a very desirable process since it tends to raise the agricultural surplus that will come to the market. As such, the small producer consumes a larger part of his produce and can spare only a very insignificant part for the market. But it may be pointed out that while undoubtedly the technical surplus of a bigger producer is larger than that of the small producer, but in terms of market supplies, the bigger producer has also larger holding power than the smaller one. Hence, even though agricultural surplus may be enlarged, the flow of this surplus to the market and the fluctuations in agricultural prices are not so easy to regulate.

Greater Ability to Stock

Secondly, the credit policies of the Government both direct as well as through the co-operative movement have mainly tended to benefit these very producers. The bulk of credit provided by the co-operative societies as well as by the various departments of the Government has flowed largely to the larger and richer producers, both new and old. The availability of cheap credit has buttressed further their 'propensity to stock'. This has been the main conclusion of most observers on the impact of rural credit policies on agricultural population.

Again, payment of compensation to the ex-intermediaries has provided the latter with the means to carry on and develop their agricultural production without resort to the money-lender, left a greater share of the total produce in their hands and has further strengthened their holding power over grain.

The benefits of general agricultural development measures initiated by the Government also appear to have gone largely to the bigger producers. This was clear, from the early Evaluation Reports of the P E O and it has been confirmed from the general observations of those who have worked in this field.

Structural Changes in Rural Economy

Thus the changes in the structure of our rural economy brought about as a result of Government policies have been such that a larger proportion of agricultural prouction and particularly of the marketable surplus has come to be concentrated in the hands of the substantial producers. The latter have, in consequence, a much greater 'propensity to stock' than that of the very few big peasants or the millions of small producers of pre-land reform and pre-Five Year Plan India. The combined effect of the credit and developmental policies of the Government as well as the policy of paying huge compensation to the ex-intermediaries have further strengthened their ability to hold back their produce from the market for a sufficiently long period to upset the price structure of agricultural products.

As regards traders, it appears that in consequence of these changes in the composition of the producers, they have somewhat lost their earlier strength which they derived partly from their financial hold over the producers and partly from the fact that the agricultural market was relatively free.

Recently, though the predominance of the money-lender in the sphere of rural credit has remained unaffected, the money-lender has been gradually losing his direct control over the produce of the cultivator as the agriculturist money-lender has tended to displace him. And also as a result of the strengthening of the monopoly elements among the producers, the trader has suffered a slight setback in his hold over the produce. It should not be understood to mean that he has lost his capacity to stock or has diverted his resources into other channels. The trader is very much there and still a large part of the bank advances given against hypothecation of produce will be found to belong to the traders. But the appearance of the substantial producer who has got more immediate control of the produce has somewhat reduced his strength.

Rising Demand

In the context of the basic situation in agriculture, it is only natural that the rising demand for foodgrains in a developing economy and the scare caused by frequent failures of rain and scarcity in various parts of the country will strengthen the 'propensity to stock' of the producers as well as the traders, so long as a free market in agricultural produce is maintained. With the change in the relative volume of produce held by substantial producers, with the burden of their immediate financial requirements met either by credit or by sale of subsidiary crops, these producers do not consider it worthwhile to sell their produce as soon as it comes off the farm but hold it to share in the benefits of the rise in prices which usually comes about after the harvesting season. Moreover, in view of their recent past experience of irregularity of monsoons, the producers also want to keep a sufficient stock for their annual consumption and the bigger producers can certainly afford it. The traders whose 'propensity to stock' is much more elastic than of the producers also resort to stocking of that part of the grains which arrives on the market. But their control on the produce is limited to arrivals in the market, since they can get the produce only after the producer parts with it.

Thus, in the rise of prices, these factors which have been brought about mainly as a result of the recent structural changes in the rural economy as well as due to the current economic climate in the country have played a major role. No doubt many more short-term factors may play their part. But those are essentially aggravating factors which are operative only because of these basic conditions.

The net result of Government policies has been to strengthen the forces of monopoly in the agricul-

tural sector. If instead of strengthening and intensifying the development of the monopolistic elements in the agricultural economy, Government had concentrated on the extension of competition in the agricutural sector and on the development of the very large number of small cultivators by making them owners of their lands at nominal prices, and by a wider diffusion of credit and of the extension benefits, the results would have been very different from those at present.

Recast Agricultural Policy

Hence, it is necessary for Government to reconsider its basic agricultural policies and to devise methods by which these unforeseen consequences may be averted and agricultural economy may develop smoothly on sound lines. Firstly, a co-ordinated view of the policies of land reform, credit and agricultural development is required and if what has been said above proves correct, long-term measures have to be taken for gradually limiting the present excessive hold of substantial producers over agricultural produce.

This can be done in several ways :

Firstly, by fixing the maximum and minimum prices of various agricultural produce, for at least a number of years to come, Government can prevent the wide fluctuations in the 'propensity to stock' of the producers and the traders. But is is imperative that simultaneously measures to check the growth of transactions above or below these prices are also taken. Otherwise maximum and minimum prices would be useless and an unnecessary source of corruption in the market.

Secondly, by linking of credit and other developmental facilities subsidies and grants, with a system of Government purchase of foodgrains at fixed prices for distribution through the network of its fair price shops needs to be considered seriously. In this manner, fair price shops can be a permanent part of the market mechanism in the country without any requirements of foreign exchange resources.

Thirdly, by a blanket ban on bank advances against hypothecation of agricultural produce, particularly foodgrains, except in bonafide cases. And, if at all a total ban is not favoured, the practice should be restricted to the State Bank so that a more direct check can be possible over these stocks.

Fourthly, a ban on all speculation in foodgrains is also necessary since fluctuations on the forward markets tend to influence strongly the 'propensity to stock' of the traders as well as the producers.

Fifthly, development of co-operative marketing amongst small producers, particularly, to check the 'propensity to stock' of the traders as well as of the producers. If it is accompanied with promotion of co-operative farming amongst them, it will become a powerful factor in limiting the power of substantial proucers to hold agricultural produce and a serious competitor to them.

Finally, serious consideration may be given to the policy of imposing ceilings on landholdings and its quick implementation. This will check the 'propensity to stock' of the substantial producers.

Of course, to the above, several supplementary measures are necessary. But it is not possible to discuss them here.

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(Formerly known as Hyderabad State Bank)

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NOTICE

30th July, 1957.

Approach has been made to the Government of India without avail for permission to an increase in the rate of dividend for the year ended 31st March, 1957, on the Ordinary Share Capital of the Company ranking for such dividend. At a Meeting of the Board of Directors held to-day the Directors have accordingly recommended payment of a dividend of One Rupee per share free of Indian Income Tax being at the same rate as the preceding year. This dividend awaits sanction by the Shareholders at the Annual General Meeting to be held on the 11th September, 1957.

The Ordinary Share Register of the Company will be closed from the 4th September, 1957, to the 11th September, 1957, both dates inclusive, and the dividend, if sanctioned, will be paid on or after the 24th September, 1957, to those Shareholders whose names appear on the Register of Members on the 11th September, 1957.

By Order of the Board,
MARTIN BURN LIMITED,
F. G. Liversedge
Managing Director,
Managing Agents.

Optimal Technique in Multi-Sector Economy

Ajit K Biswas

THE criterion of **surplus**[1] has been widely advocated in recent discussions concerning the optimal choice of investment techniques for economic development. In most cases[2], arguments relate to macro-economic aggregates like national income, investment, consumption, etc, or else to individual economic entities in isolation from the rest of the economy. Both of these fail to reveal the inter-sectoral relationships in the economic system. It seems there is a gap here which badly needs being filled.

Optimal Technique in a Simple Economy[3]

Let us consider the case of a closed economy producing one consumption good with the aid of primary factors of production and an investment good. The investment good in its turn is supposed to be producible by means of only primary factors of production. We shall also assume that a unit of investment good produced during the current period is available for use in the production of consumption good only in the next period. Evidently investment good which is being produced today cannot simultaneously be used for the production of consumption good; hence this unit period time-lag. The crucial factor for economic development in such an economy is the maximum amount of surplus available from the production of consumption good (i.e., the excess of production of consumption good over consumption of those engaged in its production) which in a planned economy is ideally mobilisable to feed newly employed labour in the production of investment good. The new investment goods produced (neglecting replacement problems) may be used in the next period to augment the production of consumption good, leading to a process of growth. Obviously what is absolutely essential to set the economy growing is that there must be a positive surplus of consumption good over the consumption of those who are responsible for its production. It can be shown rigorously that in our postulated economy, the growth of output of consumption good will be given by

$$O_c(t) = O_c(O) \quad [1+p_i\ (p_c - w)/w]^t \quad \ldots\ldots\ldots\ldots (i)$$

where

$O_c(t)$ = output of consumption good in period t

$O_c(o)$ = output of consumption good in initial period 'O'

p_c = productivity per unit of labour of the consumption good

p_i = productivity per unit of labour of the investment good (where the investment good unit is so defined as to make investment good/labour ratio in the production of consumption good 1 : 1)

w = real wage rate per unit of labour measured in consumption good units (assumed to be the same for both the sectors), all of which is supposed here to be consumed in the current period t.

Evidently p_c and p_i are parameters which are fixed for any given technique relating to the production of consumption and investment goods. It is seen that if $p_c = w$ (no surplus condition) then $O_c(t) = O_c(o)$, i.e., there is no change in the output of consumption goods over time and that agrees with what we should intuitively expect. Further, it may be verified that in our simple system, the production of investment good, labour employed in the production of consumption and investment goods —all grow at the rate given by $r = 1+p_i(p_c - w)/w$.

Corresponding to each of any finite number of techniques, 1, 2, ..., n we get a pair, p_c and p_i. Denoting by p_{cj} and p_{ij} the productivities per unit of labour of consumption good and investment good respectively associated with j^{th} technique and regarding for the moment that real wage rate is the same for all techniques, we can write $r_j = p_{ij}\ (p_{cj} - w)/w$ to denote the rate of growth resulting from the jth, technique. Now the r's can be arranged on a scale given by $r_1 \leqslant r_2 \leqslant \ldots\ldots\ldots \leqslant r_n$.

If the equality relationship holds for any pair of r's, then it is evidently a matter of indifference from the point of view of maximising the rate of growth which technique we choose. On the other hand, if on looking across the scale of r's, there is found a last r_j which is higher than its predecessors, we choose the technique j. The above may be summed up in one sentence,—among the array of r's corresponding to a finite number of techniques, choose the maximum for that maximises the rate of growth of output.

There is no necessity that the real wage rate w must be regarded as the same for all techniques, nor is there any need to assume that real wage rate is the same in both consumption and investment good sectors. It is necessary, however, to regard real wage rate as functionally independent of output. Since fixed coefficients of production are assumed, any interesting observation regarding real wage rate should be based on the conditions of labour supply in the economy. I do not intend to go into those details here.

We introduce two additional notations w_{cj} and w_{ij} to indicate real wage rate in consumption and investment goods corresponding to the jth technique. The rate of growth of output corresponding to the jth technique is now given by $r_j = p_{ij}\ (p_{cj} - w_{cj})/w_{ij}$. Again, maximisation of the rate of output implies the choice of maximum r and hence the corresponding technique.

Coming back again to the case where real wage rate is considered the same for all techniques and for both the sectors of consumption and investment goods, we find that in case of two techniques 1 and 2 such that $p_{i_2} > p_{i_1}$ and $p_{c_2} > p_{c_1}$ it necessarily follows that $r_2 > r_1$. This is rather a singularly uninteresting case. Evidently a technique which implies increased productivity in both the sectors is decidedly a better one. Question of real choice arises when $p_{i_2} < p_{i_1}$ and $p_{c_2} > p_{c_1}$. Thus technique 2 ensures increased labour productivity in the consumption good

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1. The precise meaning of the word **surplus** as used here will be clarified in the following discussion.

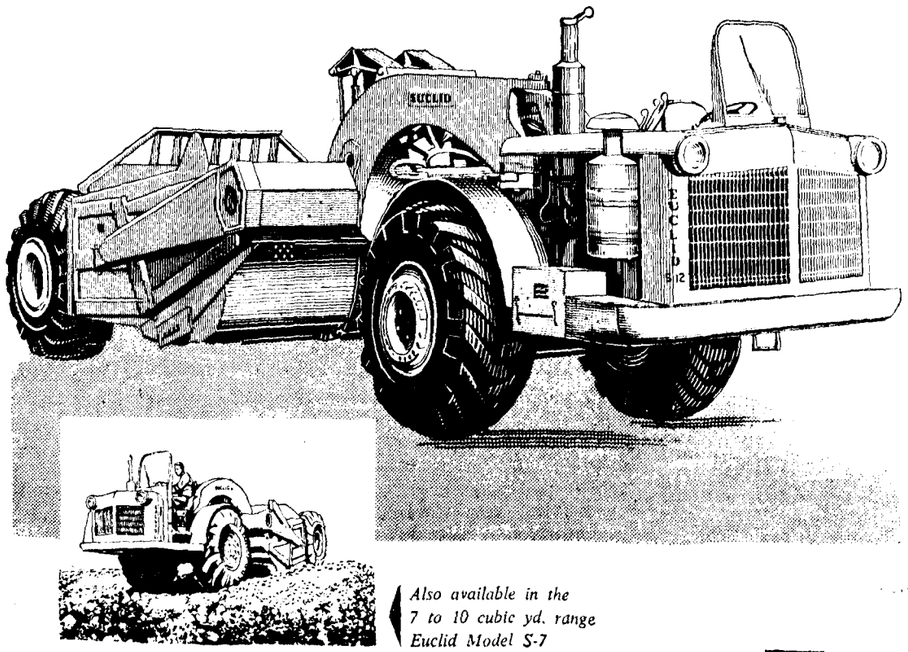
2. See, for instance, M. Dobb, "A Note on the So-called Degree of Capital Intensity of Investment in Under-developed Countries", in **On Economic Theory and Socialism**, London, by the author.

Also, Galenson and Leibenstein, "Investment Criteria, Productivity and Economic Development," the **Quarterly Journal of Economics**, Vol. 69, 1955.

3. The assumptions and line of arguments leading to the results in this section constitute part of a more comprehensive paper by the author.

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sector at the cost of lower productivity in the investment good sector. The magnitude of real wage rate here is crucial; which rate of growth is higher will depend decisively on the real wage rate. It may be verified, however, that if real wage rate exceeds a certain critical magnitude, technique 2 (which ensures increased productivity of consumption good) will attain superiority over technique 1. An economy which is continually facing pressures in favour of a levelling up of the real wage rate will find at some point advisable to switch from technique 1 (if it was initially superior) to technique 2.

Relation with Harrod-Domar System

There is a striking formal similarity between the system presented above and the Harrod-Domar model which has become the stock-in-trade of growth theorists. In the Harrod-Domar model, the optimal or equilibrium rate of growth is given by

$$y(t) = y(o)\ [1+s/g]^t \qquad \ldots\ldots (ii)$$

where

$y(t)$ = income in period t

$y(o)$ = income in initial period '0'

s = marginal propensity to save

g = acceleration coefficient (to be interpreted here as the marginal capital-output ratio or the inverse of Domar's σ, namely the productivity of investment.

It follows from (ii) that any increase in the marginal propensity to save s or a lowering of the capital-output ratio g (i.e., increase in the productivity of investment) will increase the optimal rate of growth.

We shall now interpret our system in terms of the familiar categories of marginal capital-output ratio and marginal propensity to save. Productivity of consumption good per unit of labour is p_c and the real wage rate is held fixed at w (all of which is consumed) so that marginal propensity to save is given by $(p_c-w)/p_c$. One unit of labour (whose remuneration is w) produces p_i units of investment good which in its turn produces $p_i p_c$ units of consumption good. Thus an investment of w results in $p_i p_c$ units of consumption goods, such that the marginal capital-output ratio is given by $w/p_i p_c$. The rate of growth of output r can now be written as

$$r = \frac{p_c - w}{p_c} \Big/ \frac{w}{p_i p_c} = \frac{s}{g} \qquad \ldots\ldots (iii)$$

While this formal similarity between the Harrod-Domar model and our system is revealing, there is an important difference. In the former model, s and g are capable of independent variation and they are not functionally related. In our system, however, s and g are functionally related for both of them involve p_c and w. For two techniques 1 and 2 $g_1 < g_2$ (i.e., marginal capital-output ratio of technique 1 is lower than that of technique 2), the Harrod-Domar model implies an increase in the equilibrium rate of growth for technique 1. In our system, $g_1 < g_2$ implies $p_{c_1} p_{i_1} > p_{c_2} p_{i_2}$ so that if $p_{c_2} > p_{c_1}$, we have $s_1 < s_2$. Thus a decrease in the marginal capital-output ratio under technique 1 is to some extent offset by a lower marginal propensity to save and as we have seen before, in case of real wage rate exceeding a certain critical level, technique 2 will ensure a higher rate of growth in spite of its higher capital-output ratio.

Optimal Technique in a More Complex Economy

Now I shall consider a somewhat more complex economy. Let us suppose that there are three sectors engaged in productive activity consisting of

(1) consumption goods, supplying households with consumption goods, (2) means of production, supplying raw materials (or intermediate goods or current inputs) and finished investment goods to other sectors, and (3) households, which supply other sectors with labour services. Each of these three sectors requires for its current production materials or services drawn from one or more (at least one) of the three sectors, together with non-produced means of production (which are exogenous to the system). These non-produced means of production are available in any required quantity for continued expansion of the economy.

In view of the nature of our sectors, it will be postulated that all of consumption goods production in any period is allocated to households. Means of production are allocated to consumption goods and to itself both as inputs to be currently used up in course of production and for capital formation, yielding return in the next period and thereafter. Household services are used for the production of consumption goods and means of production, providing required labour inputs.

The following notations will be used :

$C(t)$ = output of consumption goods in period t

$M(t)$ = output of means of production in period t

$H(t)$ = output of households (measured in man-hours or some other convenient unit) in period t

$Ch(t)$ = consumption goods allocated to households in period t

$Mc(t)$ = means of production allocated to consumption goods in period t

$Mm(t)$ = means of production allocated to itself in period t

$Hc(t)$ = household services allocated to the consumption goods sector in period t

$Hm(t)$ = household services used for the production of means of production in period t.

Now the relations (identities) stated below must hold:

$$\begin{aligned} C(t) &= Ch(t) \\ M(t) &= Mc(t) + Mm(t) \\ H(t) &= Hc(t) + Hm(t) \end{aligned} \qquad \ldots (iv)$$

To bring our system to manageable dimensions we introduce structural coefficients based on fixed coefficients of production (the procedure followed in Leontief's input-output technique). We assume reasonably that the input of intermediate goods or services used per unit of production in any sector is a fixed proportion of total output of that sector, and input for capital formation in any sector is a fixed proportion of the increment of output of that sector. Thus we have,

$$\begin{aligned} Ch(t) &= a\ H(t) \\ Mc(t) &= b\ C(t) + c[C(t+1) - C(t)] \\ Mm(t) &= d\ M(t) + e[M(t+1) - M(t)] \\ Hc(t) &= f\ C(t) \\ Mm(t) &= g\ M(t) \end{aligned} \qquad \ldots\ldots (v)$$

where a, b, c, d, e, f, g are constants; c and d are evidently capital coefficients and therefore that part of the requirements of means of production which is used for capital formation is expressed as the relevant capital coefficient times the increment in output. The rest of the structural coefficients relate to the current input of intermediate goods which are proportional to output of the sector where they are used. Substituting the values (v) in (iv) we obtain

$$\begin{aligned} C(t) &= a\ H(t) \\ M(t) &= b\ C(t) + c\ [C(t+1) - C(t)] \\ &\quad + d\ M(t) + e\ [M(t+1) - M(t)] \\ H(t) &= f\ C(t) + g\ M(t) \end{aligned} \qquad \ldots\ldots (vi)$$

The solution of the difference equa-

tion system (vi) is given by
$C(t) =$

$$C(o)\left[1+\frac{(1-af)\ (1-d)-abg}{e(1-af)+cag}\right]^t \quad \ldots\ldots\ldots\ldots\ldots\ldots (vii)$$

C(O) being the output of consumption goods in the initial period. M(t) and H(t) are obtained from the following identities :

$M(t) = c(t)[\ (1-af)/ag]$ and
$H(t) = C(t)/a$

For each of the three sectors of the economy, there is a unique growth rate given by the second term of the bracketed expression in (vii), namely

$r=[(1-af)\ (1-d)-abg]/[e(1-af)+cag] \quad \ldots\ldots (viii)$

Corresponding to any set of techniques encompassing the three sectors of our economy, we get a particular configuration of the structural constants a, b, ... g, and again the optimal set of technique is one which maximises the rate of growth r.

It is not possible here to go into the detailed interpretation of the expression for r given by (viii). We have already incorporated in this still very simple system some intersectoral relationships which complicate the picture. It may be easily seen, however, that our system (i) is a special case of system (vii). In system (i) investment good which corresponds here to sector 2 is producible by means of only primary factors of production (including labour) which implies that d=e=O. Also the consumption good (sector 1 here) is produced with the aid of only investment good and primary factors of production, so that b=O. Setting, then, b, d and e equal to O, we obtain

$r=(1-af)/cag \quad \ldots\ldots\ldots (ix)$

This, we shall see, is equivalent to (i). Thus in order to produce a unit increment of consumption good, f units of labour are required which consume af units of consumption goods. Per unit increment of output of consumption goods leaves, therefore, a surplus given by 1—af, the term in the numerator of (ix). Again in order to produce an increment of consumption good, is required c units of investment good which in its turn use cg units of labour. Since one unit of labour consumes a units of consumption good, cg units of labour consume cga units of consumption good, which is the term in the denominator of (ix).

A clue to the generalisation of the systems considered here to take care of any finite number of sectors is provided by Professor Leontief's dynamic input-output system. Whether simple interpretations as above of more complicated expressions for the rate of growth (difference equations providing more than one root) are possible require investigation. This is however beyond the scope of this paper.

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Some Problems of Administration of Free India

SOME of the more important and urgent problems of administration demanding attention and solution in the context of India's democratic Constitution and the supreme need of attaining the goal of a socialistic pattern of society through implementation of schemes of national development have been listed in the Second Five Year Plan. Around the relevant problems posed in the Plan has to be constructed a structure of administration which would fulfil the demands of the situation.

Three most urgent tasks in this connection may be mentioned. Firstly, the need for efficient administration is indubitable and must receive top priority. Secondly, efficiency must be combined with expeditious despatch of public business and short-circuiting of procedural and other delays as much as possible. Thirdly, the administrative machinery must be purged of the corroding evils of corruption and the lack of sense of social purpose among the personnel.

A practical problem that Free India has been facing is the need for the construction of an effective bridge between the old and the new—between the older generation of administrators who had grown up under different traditions and circumstances and those who are recruited to administrative positions after freedom. The bridge is no doubt being built though at considerable cost; but the transition is producing complicated problems, because while the country has taken over the bureaucratic machinery it inherited at the time of freedom, the task of replacing its worn out parts by new machinery has not been as smooth or as rapid as it should have been. While in a sense it would have been far better if we had to build a new machinery on entirely new foundations, this could not be because national freedom was the result of an evolutionary and not a revolutionary process and transfer of power took place under conditions which rendered continuance of the old machinery inescapable. It would be squeamish not to recognise that in an important way this proved a blessing by facilitating effective handling of some regrettable situations that followed in freedom's wake. By and large the process of co-mingling of the old and the new ideas and of the new and old personnel is taking time and is naturally subject to stresses.

The question demanding an answer, therefore, is whether in relation to its needs the country is getting the administration it wants, or has it got only the administration it deserves? At the national and policy-making level is required an administration with a clear perception of the national and constitutional aims and objectives and of the policies indispensable for attaining them. At the district and local level, the administration has to be keenly alive to the immediate and urgent needs of the common people and be willing to fulfil them sympathetically and quickly. Civil servants at the higher policy-implementing level, should be persons with good general education, adequate training, both initially as well in service, and competence and capable of looking at problems from a broad perspective and of making a discretion. At the district level, officials should be concerned about quick disposal of petitions and representations from villagers and about redressal of the latter's grievances. They should be competent to assess and fulfil the felt needs of the rural population and familiar with techniques of working with local non-official leadership. The district and local official would be a succcess in proportion to his willingness to establish personal contacts and identify himself with local public opinion.

Efficient and good administration under a democratic dispensation may be regarded as compounded of fifty per cent understanding of basic Government policies and fifty per cent competence on the part of administrators to arrive at expeditious decisions and judgments on issues raised. This result can stem from the evolution of appropriate procedures and rules of business and placing in positions of responsibility persons qualified and trained for such positions and by making the fullest use of the services of technical experts and specialists competent to execute particular projects. Of equal importance is the streamlining of procedures—particularly financial procedures—for disposal of secretarial work. Implicit in this is proper delegation of authority and responsibility and distribution of work-loads so that the spheres of the various components of the Secretariat hierarchy would be clearly defined and understood and overlapping jurisdictions and diffusion of responsibilities avoided.

While more and more responsibility is delegated to the lower rungs of the secretariat cadres, to enable the higher officials to keep themselves free for decision making in more intricate cases, it should also be realised that delegation is not an end in itself but a means for attaining the end of relating responsibility to the competence, qualifications and experience of the official to whom delegation is made and of affording opportunities to the younger section of the civil servants to develop initiative and competence thus providing a second line of defence against administrative lapses and deficiencies in personnel. In this process it is essential also to steer clear of the possibility of "too much consciousness of rank" among secretariat officials, the existence of which Mr Paul Appleby particularly underlined.

Unfortunately, however, the tendency towards depletion in the ranks of the higher decision-making personnel while the number of personnel at the lower, particularly the clerical, cadre, continues to proliferate, has been persistent in the last few years. This is interrelatable to existing rules of procedures under which noting on papers commences at the lowest level and a file wends its weary way up to the level at which decisions are expected to be taken, and then travels back to the lowest level, which is concerned with communication of the decision to the party concerned. This time-consuming wearisome process is being gradually reformed, as also the process of papers passing through every secretariat level by the introduction of the practice of "level jumping",

I'm in harness

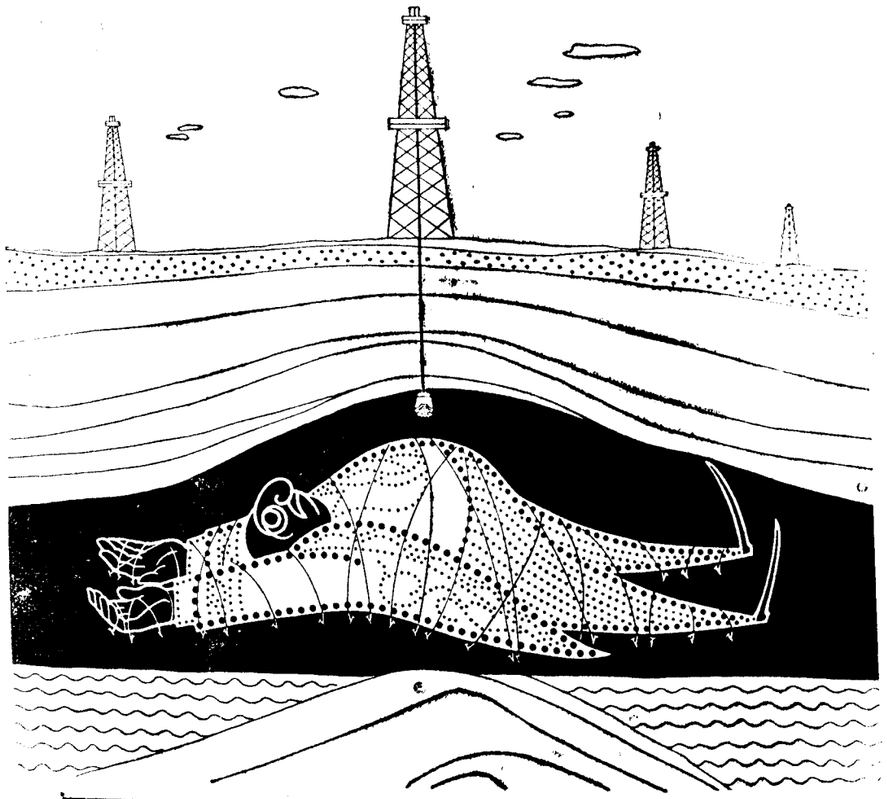
by Adipocere

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under which cases are sent direct from the lower level to the second or even the third higher level. The person at the highest level, namely, the Secretary of a Ministry, is then concerned mainly with cases in which decisions involving policy are required and with coordination in cases necessitating Ministry or inter-ministerial consultation or concurrence. Of special significance in this context is the supreme need for vigilant supervision over the work of the entire administrative machinery in a Ministry, to ensure economy and improve efficiency at all levels, which function only the Secretary can discharge effectively.

In this context, the Organisation and Methods Division at the Centre has been making a useful contribution towards a "continuing evalution of the adequacy of the administrative machinery and operations required to carry out effectively the functions of the Government". Its efforts in streamlining procedures have to contend against long-established and hallowed administrative methods. But three years of O and M effort have produced substantial improvements in the operation of financial controls, in the functioning of the basic Secretariat unit—the Section—and in procedures relating to movement of papers. Much more, however, remains to be done and O and M investigations should be continuous if progress towards efficiency, expedition and economy combined with integrity is not to be retarded.

The recruitment and training of personnel, both general and specialised, has obviously an intimate bearing on efficiency. The implementation of the Five Year Plans has disclosed a distressing gap in the number of technical personnel such as engineers, technicians, doctors, accountants, statisticians, teachers and so on and the urgent need to fill it. It has also disclosed the deficiencies in the general equipment, the outlook and the approach to problems of the civil servants and the general administrative personnel as well as the shortage of experienced administrators. It has also thrown up problems relating to the mutual relationship between and the spheres of responsibility of the two categories of personnel. These shortages and deficiencies have their repercussions on efficiency and speed in the disposal of business. While shortages in numbers are being made up as quickly as circumstances permit, it is doubtful if training and orientation programmes are yielding results in the direction of inducing prospective civil servants and administrative personnel with new perspectives and outlooks.

The pattern of district administration essential in the new order is being progressively evolved. That it should be an agency for the promotion of a new social order is emphasised in the Second Five Year Plan, which says "that it (district administration) should respond to the wishes of the people" and that its efficiency would be judged by the practical results it produces and by the methods and institutions of popular association and co-operation which it integrates into its basic structure.

The Collector, now as before, remains the spearhead of the district administration; but a significant change in the functions and outlook of those entrusted with this office are desiderated in the context of the demands of the new dispensation. This involves significant changes in the Collector's role, so that while being responsible on the one hand for everything that goes on in the district, he has on the other to discharge new roles and responsibilities. His overall responsibility for law and order and collection of land revenue should be unaffected. But in that sphere he could rely on efficient co-ordinates like an additional district magistrate thereby keeping himself free to devote greater attention and time to implementation of development programmes, to coordinating and public-cooperation-engendering functions. Since the bulk of complaints against administration concerns inordinate delays in the disposal of public petitions in the Collector's, the sub-divisional or taluk offices, applications and requests for redressal of grievance and investigation into complaints of corruption in the district and subordinate offices, these should be the Collector's special responsibility. If reassuring the public that it would receive a fair and equitable deal at the hands of district and taluk officials is of paramount importance, the attention to this problem at the Collector's hands would be absolutely justified.

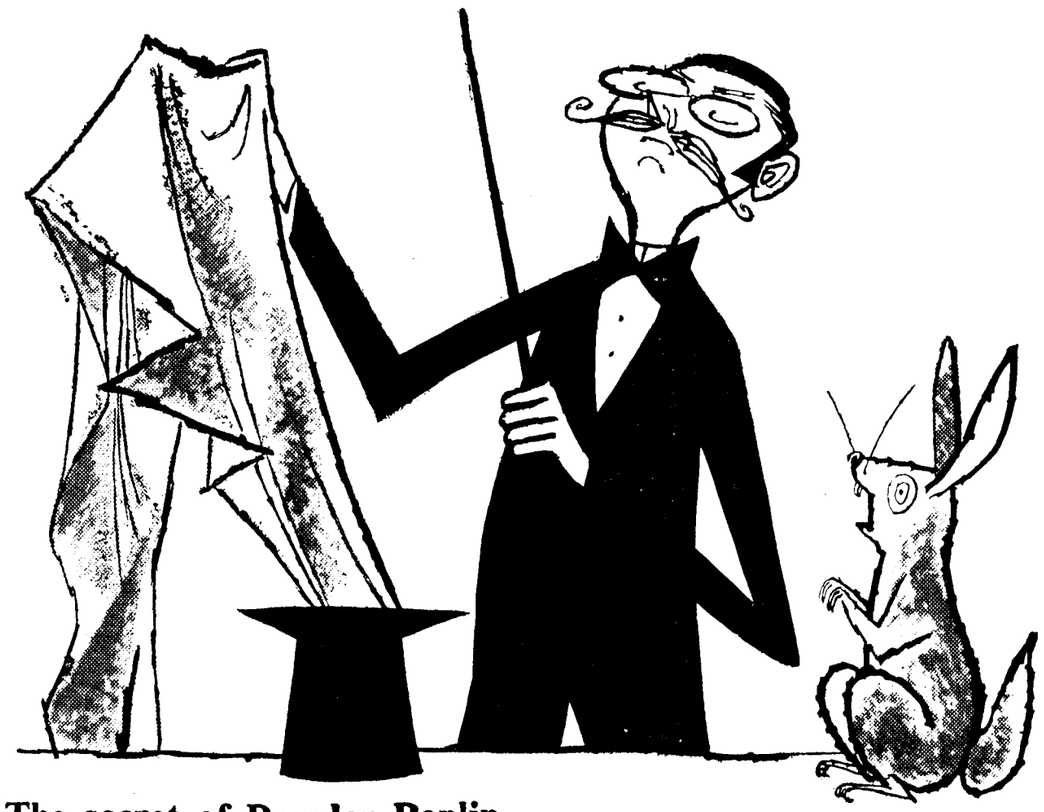
Broadly speaking the change postulated resolves itself into an effective complementing of the Collector's traditional tax-collecting functions by his effective interest in the implementation of community development schemes and close supervision of the working of local semi-official and non-official organisations like village Panchayats, cooperatives, district and block development councils. In all these spheres he would have to establish purposeful and cooperative relations with local non-official leadership, which would facilitate his supervisory activities. Thus he would also be enhancing his competence as a coordinating agency for all development programmes at the district level. The Second Five Year Plan realised that all this would mean a substantial increase in the burdens on the Collector, but proper delegation of responsibilities among other district and sub-divisional officials and reservation of the more important coordinating and developmental tasks for the personal attention of the Collector is the solution indicated.

As in the larger national sphere changing times and ideas on administration call for changes in the methods of recruitment and training of various cadres of workers and personnel employed in development projects. These problems are being tackled but not as quickly as the situation demands. But here again the issue is one of inculcating a new outlook and a new perspective in the official hierarchy, which would enable it to realise the inescapable need for working in close co-operation with representatives of the people. The Second Five Year Plan has, as mentioned already, emphasised that "district administration is an agency of change towards a new social order" and it is essential that those charged with running that agency should strive consciously to produce that order.

— C V H

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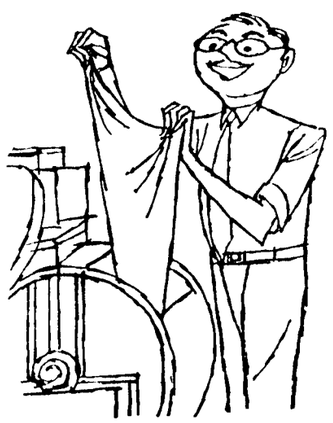


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Around Bombay Markets

Quiet Undertone

Thursday, Morning

THE market has turned quiet, due to the threat of strike in Posts and Telegraphs, adverse rumours about the Report of the Select Committee on the Finance Bill, and the practical withdrawal of the Life Insurance Corporation from the equity market on the eve of the flotation of new loans. Price movements have been confined within a narrow range and almost every rally has been followed by realisation. On the whole, nevertheless, Textiles recorded some negligible gains over the week, partly perhaps on account of spill-over of interest from Tata Steel, which is not being officially traded these days owing to closure of transfer books.

The Clearing List for settlement on August 2 comprised 4,47,957 securities against 3,57,422 only in the preceding list. The increase in aggregate turnover is attributable to greater sales in Textiles like Apollo, Century, India United, New Great and Simplex, and in Ahmedabad Electric, Great Eastern Shipping, Bhopal Sugar, A C C, B B Petrol, Indian Iron, B I C, Indian Copper, National Rayon and Tata Chemicals. Sales, however, decreased considerably in Tata Mills, Scindia Steam, Tata Steel, Hindustan Motor, Premier Auto, Shivrajpur and Tata Loco.

Over the month of July, all leading scrips, except Banks (particularly Punjab National which has gained Rs 6.50), A C C, Ahmedabad Electric and Steamships, have shed a portion of the gains they made during June. The decline in values ranges from around one to four per cent, indicating that the recovery from the post-Budget slump had proceeded a little beyond the ceiling imposed by the new pattern of yields and the general economic situation, though, of course, the threat of a postal strike has also played a part.

Withdrawal Heaviest Ever

Foreign securities held in the Issue Department of the Reserve Bank have declined by nearly Rs 26 crores to Rs 375.52 crores during the week ended August 2. Balances held abroad have, however, gone up by Rs 7 crores, indicating a depletion of Rs 19 crores in our foreign exchange reserve. The withdrawal is higher than in any week during recent times. The total exchange reserves, excluding gold, now stand at Rs 401.84 crores, as against Rs 746.14 crores on the eve of the Second Plan period, and Rs 653.47 crores a year ago. In the first sixteen months of the Second Plan, therefore, the deficit in the balance of payments has amounted to more than Rs 344 crores.

Deficit financing during the week shot up to Rs 42 crores from less than Rs 15 crores in the preceding week. In the Issue Department, the decline in foreign securities is almost offset by the increase in rupee securities, while Investments in the Banking Department have also gone up by Rs 15 crores. In the first sixteen months of the Second Plan, deficit financing has amounted roughly to Rs 487 crores (Re coin + 27, Central Government Balances—16, Investments + 444). Money supply has increased during the same period by Rs 127 crores (notes + 34, net demand deposits + 93) —the difference between deficit financing and the import balance comes to Rs 143 crores, giving an error margin of Rs 15 crores only.

Banking returns for the week ended July 27 indicate a rise of Rs 17 crores in net demand deposits and of Rs 6 crores in net time deposits. Borrowings from the Reserve Bank have declined by Rs 7 crores and Bankers' balances with it have gone up by an equivalent amount. Call and short loans have risen by Rs 5 crores to Rs 30 crores, a figure which is probably higher than ever before. Advances and inland bills have contracted by Rs 9 crores but the foreign bill profits has expanded by nearly Rs 2 crores. There is no change in investments which, at Rs 333 crores, are Rs 20 crores lower than a year ago.

Cotton

Fresh Quota for Egyptians

TRADING at Kalbadevi has got into a dull routine of narrow price movements either way, with the daily turnover wavering between 6,000 and 8,000 bales. Occasional support from Sewri and from Ahmedabad interests has failed to counteract—the bearish impact of favourable weather and reports of accumulation of cloth and yarn stocks with mills and traders.

Sewri, on the other hand, has remained steady to firm with a daily turnover of 2,000 to 2,500 bales. The Government has announced a quota under the special payments procedure for the import of a further 10,000 bales of Egyptian cotton over 1 3/16" staple length. Since there has been a considerable diversion of cloth production from fine to superfine, this import quota is likely to be exhausted quite soon.

Oilseeds

Selling in Groundnut

HEAVY speculative selling in Groundnut has brought down August delivery by Rs 7, and February contract by Rs 5 in sympathy. This has been explained by the unwillingness of buyers to take delivery, in view of favourable prospects for the new crop and the fact that the stocks likely to be offered by sellers on termination of August delivery are said to be inferior.

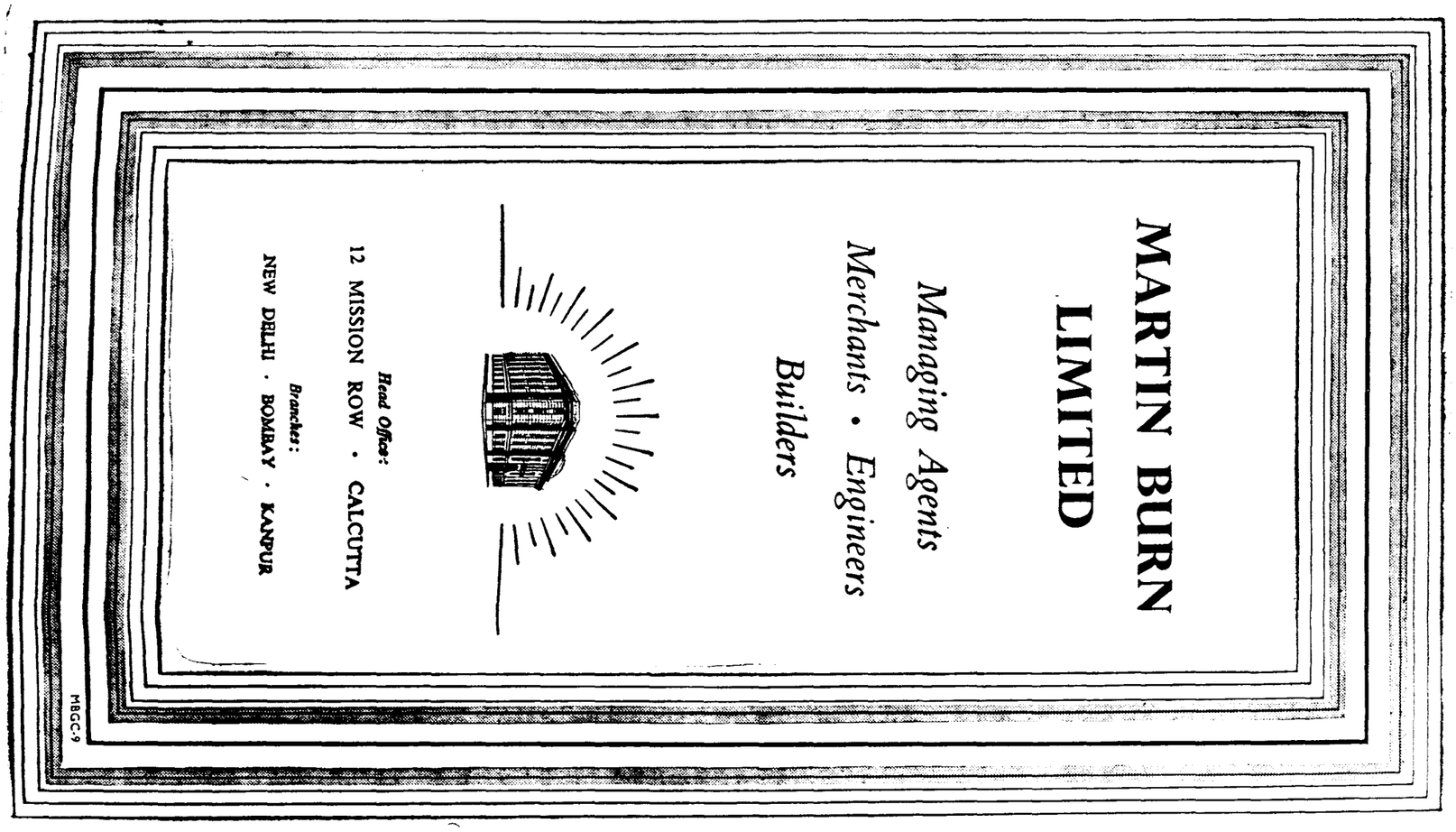
Castor too started weak but turned relatively steady on rumours of business with East Germany. Both its contracts lost about Rs 3 over the week.

Bullion

Gold Erratic

THE week opened with the news of seizures of large stocks of contraband gold. This led to hectic bear covering which lifted values by nearly a rupee to around Rs 108 but, gains were pared off towards the end of the week on bull realisation.

Silver has been comparatively quiet on account of bull liquidation brought about by fears of larger imports of Tibetan coins, bringing down prices by nearly a rupee to Rs 181.75 at the end of the week.



INDUSTRIAL CAPACITY AND PRODUCTION — II

Chemical and Others

	No. of Factories					Capacity					Production				
	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956
Acetylene Gas (mn cft)	—	—	—	3	3	—	—	—	97.68	102.6	—	—	—	47.4	55.4
Alkyd Resins (Tons)	—	5	5	7	7	—	1,000	1,000	1,000	2,372	—	316	500	713	1,368
Aluminium Paste Powder (Tons)	—	1	1	1	1	—	500	500	500	500	—	56	177	260	328
Alum (Tons)	—	15	15	18	17	—	7,000	12,000	12,210	11,979	—	5,065	3,600	4,370	4,420
Aluminium Sulphate (Tons)	—	27	21	18	14	—	30,000	34,700	57,444	57,167	—	22,805	25,000	27,690	29,625
Ammonium Chloride —	—	—	—	2	3	—	—	—	8,332	8,498	—	—	—	1,683	4,700
Ammonium Sulphate ('000 tons)	7	8	8	8	8	427.0	432.0	426.8	425.9	470.3	52.7	319.6	340.2	393.0	388,990
Asbestos Cement Sheets ('000 tons)	5	5	6	6	6	117.0	117.0	141.0	141.0	141,000	83.2	75.6	77.8	103.5	119.4
Battery Separators (mn.)	—	3	3	3	3	—	20	20	20	20	—	3.9	8.5	9.2	9.0
Bichromates (Tons)	9	9	9	7	7	5,600	5,900	5,916	5,379	6,518	3,200	2,510	3,239	3,300	3,270
Biscuits (Tons)	129	129	129	129	129	39,900	35,700	35,700	35,700	35,700	15,900	11,068	10,086	11,500	12,500
Breakfast Food Products: Corn and Wheat Flakes (Tons)	—	2	2	2	2	—	1,500	1,500	1,500	1,500	—	38	59.25	89	115
Processed and Rolled Oats (Tons)	—	1	1	1	1	—	1,350	1,350	1,350	1,350	—	22	42	61	105
Processed and Pearl Barley (Tons)	—	8	8	8	8	—	4,800	4,800	4,800	4,800	—	1,008	649.06	960	750
Bleaching Powder (Tons)	3	3	3	3	3	7,800	7,800	7,800	8,170	14,640	3,600	1,942	2,926	2,698	4,657
Bromides (Tons)	—	—	—	1	1	—	—	—	211	211	—	—	—	144	156
Calcium Carbide (Tons)	—	2	3	3	3	—	2,000	5,000	5,000	5,000	—	—	398	3,109	2,889
Calcium Chloride (Tons)	—	3	3	3	3	—	2,646	2,650	2,861	2,861	—	649	401	786	845
Calcium Gluconate ('000 lbs)	—	—	—	2	2	—	—	—	132	132	—	—	—	41.9	38.6
Calcium Lactate ('000 lbs)	—	—	—	3	3	—	—	—	4.00	4.00	—	—	—	106	103.5
Caustic Soda (Tons)	9	12	12	12	12	27,500	39,680	44,660	44,300	45,158	14,700	22,909	29,307	34,253	39,416
Cement ('000 tons)	—	24	25	27	28	—	4,243	4,443	4,743	4,925	—	3,780.33	4,393.15	4,496.06	4,928.52
Chocolate and Cocoa Powder (Tons)	—	2	2	2	2	—	1,050	1,050	1,050	1,050	—	234 141	211.25 88.45	156 51	160 90
Chrome Colours (Tons)	—	10	10	11	10	—	—	—	—	—	—	350	500	636	721
Cigarettes (mn)	20	20	17	17	17	18,000	20,020	20,020	24,250	24,250	21,400.0	17,952	19,828	22,828	26,302
Confectionery (Tons)	61	61	61	61	61	52.8	52,790	52,790	52,790	52,790	12.4	8,950	7,561	7,840	8,200
Copper Sulphate (Tons)	11	11	10	10	11	1,700	2,000	1,980	2,018	3,300	500	518	844	1,045	1,980
Crockery (Tons)	—	42	42	36	38	—	16,894	16,892	16,872	17,412	—	10,282	10,009	10,220	15,141
Enamelware (mn pieces)	—	22	22	22	22	—	30	30	30	30	—	9.48	13.97	15.71	15.21
Ether B. P. & Anesthetics ('000 lbs)	—	—	—	3	3	—	—	—	1,584	1,584	—	—	—	447.6	435.9
Ethyl Chloride ('000 lbs)	—	—	—	1	1	—	—	—	72	72	—	—	—	15.4	28.6
Face Cream and Snow ('000 lbs)	9	9	9	11	11	1,538	1,773	1,800	2,634	2,634	—	556.4	371.11	737.31	914.45
Face Powder ('000 lbs)	6	6	9	8	8	1,418	1,996	2,516.9	555	555	811.0	906	861.04	180.03	376.43
Ferrous Sulphate (Tons)	—	9	9	9	9	—	1,400	1,400	1,387	1,399	—	503	581	515	460
Ferrous Gluconate ('000 lbs)	—	—	—	2	2	—	—	—	60	60	—	—	—	6.9	12.6
Ferric Chloride Solid (Tons)	—	—	2	2	2	—	—	1,099	83	130	—	—	18	56	93
Flour Milling ('000 tons)	52	57	57	58	58	1,464	1,464	1,464	1,474	1,474	484.4	483.7	422.22	463.75	538.94
Glass Bottles (Tons)	—	84	86	90	90	—	112,625	116,225	140,500	140,500	—	40,746	47,841	55,272	62,413
Glass Shells ('000 pieces)	—	3	3	3	3	—	27,400	27,400	27,400	27,400	—	16,880	22,481.7	26,080	35,920

THE ECONOMIC WEEKLY

Capacity and Production of Chemical and Other Industries—*(Continued)*

	No of factories					Capacity					Production				
	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956
Glycerine: Refined (Tons)	6	7	7	8	8	3,500	5,150	5,150	5,480	5,480	2,400	2,509	2,388	2,509	2,900
Hydrochloric Acid (100%) ('000 tons)	—	—	—	—	27	—	—	—	—	19.8	—	—	—	—	10.9
Hydroquinone (Tons)	2	2	2	2	2	21	21	32.5	36.8	36.6	9	8.3	14	18	19
Hydrogen Peroxide (Tons)	—	—	—	—	1	—	—	—	—	660	—	—	—	—	325
Iodide ('000 lbs)	—	—	—	1	1	—	—	—	24	24	—	—	—	—	7.2
Laboratory Glass (Tons)	—	12	12	12	12	—	5,142	5,142	6,024	6,024	—	1,320	1,508	2,496	3,357
Lampwares (Tons)	—	81	81	81	81	—	41,183	41,183	33,200	33,200	—	12,400	12,664	16,690	19,867
Leather Cloth (mn yds)	6	6	6	5	5	5.28	5.28	5.28	5.8	7.8	2.04	0.99	1.27	2.62	2.64
Linoleum (yds)	—	1	1	1	1	—	450,000	450,000	450,000	450,000	—	162,672	336,273	323,200	320,700
Liquid Chlorine (Tons)	6	7	7	7	7	13,100	17,444	18,352	20,200	20,200	5,300	8,131	9,782	11,571	15,076
Magnesium Carbonate (Tons)	—	—	—	2	2	—	—	—	950	950	—	—	—	19	22
Magnesium Chloride (Tons)	—	3	3	4	4	—	13,000	22,000	34,650	39,600	—	6,156	6,593	6,111	8,540
Miscellaneous Glassware (Tons)	—	28	28	28	28	—	5,553	5,553	19,886	19,886	—	963	2,449	2,272	3,030
Magnesium Sulphate (Tons)	—	—	—	16	15	—	—	—	8,963	7,755	—	—	—	4,030	3,415
Nicotinic Acid (lbs)	—	—	—	1	1	—	—	—	3,000	3,000	—	—	—	521	353
Niketharnide (lbs)	—	—	—	3	3	—	—	—	4,200	7,200	—	—	—	929	1,426
Nitric Acid (100%) (Tons)	—	—	—	—	23	—	—	—	—	4,290	—	—	—	—	1,168
Nitrocellulose Lacquers ('000 Gallons)	5	7	7	7	7	349.5	400.0	400.0	800.0	800.0	92,100	204.000	262,000	286.000	240.0
Oleic Acid (Tons)	—	—	—	4	4	—	—	—	1,420	1,420	—	—	—	200	221
Oxygen Gas (mn cft)	—	—	—	4	4	—	—	—	458.5	489.6	—	—	—	282.8	328.4
Oil Milling ('000 tons)	300	350	350	350	350	578.7	1,495	1,495	1,495	1,495	121.9	167.8	178.83	223.2	229.2
Paints (Tons)	50	50	50	50	50	65.000	65,000	65.000	65.000	65,000	33.500	32.057	35.956	39.034	41.602
Pencils ('000 Gross)	—	11	11	12	13	—	597.0	597.0	1,082.7	1,190.0	—	190.803	279.950	377.0	580.0
Phenolic Laminates (Tons)	—	1	1	1	1	—	100	100	450	450	—	25	99	140.3	232.4
Phosphoric Acid	—	—	2	2	2	—	—	1.730	1.730	1,726	—	—	86	255	220
Potassium Chlorate (Tons)	—	—	—	2	2	—	—	—	2,310	2,310	—	—	—	2.135	2.276
Plastic Goods :															
Injection Mouding	40	40	40	43	45	403	550 oz	550 oz	550	618	1,480	1.290	—	2.5‡	2.5‡
Compression Moulding (Tons)						7.074	10,200	10.200	11.200	12,566					
Polythylene Sheets and Layflat Tubing (Tons)	—	2	2	3	3	—	200	200	610	610	—	113	366	381.8	553
Red Lead (Tons)	—	2	2	3	3	—	5,100	5.100	5,100	5,100	—	2.338	3,400	3,953	3.615
Refractories (Tons)	25	24	32	32	33	293.600	289.660	329.410	329.410	444.000	238.200	227.832	239,312	275.580	318.392
Sanitaryware (Tons)	—	12	12	13	14	—	2,160	2,160	2.640	2,772	—	630	1,323	2.579	2,706
Sheet Glass (mn sq ft)	—	3	4	4	4	—	75.6	100.6	100.6	100.6	—	22.7	33.11	38.88	47.62
Soap (organised) (Tons)	66	66	66	74	90	192.000	209.000	209.000	244.600	253.770	83.500	82.200	88,000	99.000	110.250
Saccharine ('000 lbs)	—	—	—	1	2	—	—	—	90	236	—	—	—	76.6	111.4
Shark Liver Oil (Gals of 6000 IUG)	—	—	—	3	3	—	—	—	70,000	70.000	—	—	—	27,158	59,559
Soda Ash (Tons)	2	2	2	2	2	54.000	54,000	90,000	90.000	90.000	47.500	56.870	48,293	77,272	84,235
Sodium Bicarbonate	—	2	2	2	2	—	4.620	4.620	4.620	4,620	—	2.035	2.057	4.125	4,452
Sodium Bisulphite (Tons)	2	4	4	5	5	600	600	802	900	1.043	260	384	429	521	716
Sodium Salicylate ('000 lbs)	—	—	—	2	2	—	—	—	275	275	—	—	—	75	113
Sodium Sulphide (Tons)	—	—	—	12	12	—	—	—	10.082	9,982	—	—	—	2,830	3.060
Sodium Sulphite (Tons)	1	4	4	4	4	360	520	750	750	820	200	246	193	269	383
Sodium Thiosulphate (Tons)	4	4	4	5	5	1,700	1,890	1,750	2,120	2,120	600	842	613	976	914
Stearic Acid (Tons)	3	3	3	5	5	1,400	1,400	1.400	2,750	3.310	400	383	575	1.325	1.902

‡ mn gross articles

Sulphuric Acid (Tons)	48	43	44	39	36	201,300	189.000	197,225	209.188	245.141	106.900	109.091	150.000	166.200	165.215
Superphosphate (Tons)	14	14	14	14	14	174,100	200,000	210.870	212.520	265.820	61.000	48.294	105.056	74.165	81.170
Titanium Dioxide (Anatase) (Tons)	—	1	1	1	1	—	1,800	1.800	1.800	1,800	—	Nil	1.370	1.809	1.700
Toilet Powder ('000 lbs)	6	6	6	12	12	2,726	3,316	4.005	6.817	6.817	1.227.0	920	1.155.0	2.910.0	2.678.5
Tooth Paste ('000 lbs)	7	8	8	10	10	2,700	3,616	3.231.8	2,951	2,951	203.0	1.581	1.590.0	1.867.2	2.250.2
Tooth Powder ('000 lbs)	3	3	5	6	6	577	767	885.06	852.78	852.78	83.5	310.6	312.26	430.20	379.51
White Lead (Tons)	—	2	2	2	2	—	3,720	3,720	3,720	3,720	—	662	900	728	637
Zinc Chloride (Tons)	—	4	5	5	5	—	1,000	1,493	1,419	1.876	—	635	986	690	960
Zinc Oxide (Tons)	—	3	3	4	4	—	12,000	12,000	12,360	12,360	—	3.386	5,500	6.368	5.109
Coke Oven and Coal Tar Distillation Products :															
Benzene (gal)	2	2	2	3	3	88,500	88,500	88,500	538.500	718.500	31.500	49.939	68.799	254.696	343.024
Crude Coal Tar (Tons)	10	10	11	11	11	92,500	105,300	117,300	117,300	117,300	90.800	93.194	108.995	110.610	104.514
Light Creosote (gal)	4	5	5	5	5	No separate Capacity					151.900	200.560	432,727	415.826	610.311
Heavy Cresote (gal)	—	—	—	6	6	No separate Capacity					—	—	—	585.231	665.767
Naphthelene ('000 Tons)	5	5	5	5	5	950 -	1,032	1,030	1,030	1.040	840	588	671	890	952
Pitch (Tons)	4	4	5	5	6	No separate Capacity					3,000	1,982	2,605	3,854	3,682
Road Tar (Tons)	4	5	6	6	6	No separate Capacity					37,500	38.480	40,002	40.663	38.702
Solvent Naptha (gal)	3	4	4	4	5	No separate Capacity					84.000	111.322	85,234	66.786	60.802
Toluene (gal)	3	3	3	4	4	309,500	309,500	309,500	397,000	497,000	172,000	272,123	148.810	83,102	60,578
Dye-Stuff :															
Azo Dyes ('000 lbs)	Nil	2	2	2	2	Nil	2,060	2,060	2,090	2,593	Nil	577.47	1,633.68	1,589.43	1,779.41
Fast Colour Salts (lbs)	Nil	2	5	6	6	Nil	380,000	606,000	606,000	606.000	Nil	134,146	354.300	320,578	333,812
Solubilised Vats (lbs)	1	1	3	3	3	28,800	48,000	196,200	196,200	371.500	5.900	64,137	124,347	94.216	100,915
Stabilised Azoics (lbs)	5	6	6	6	7	428,900	500,000	800,000	800,000	950,000	32,200	196.200	465,000	402,810	482,716
Sulphur Black ('000 lbs)	Nil	1	2	2	2	Nil	1,000	2,000	2,000	3,000	Nil	599.75	1,000	1,696	3,461
Essential Oils, etc:															
Rosin (Tons)	—	3	3	3	3	—	10,080	12,200	12,200	12,200	—	8.433	8.600	10.987	10.323
Sandal Wood Oil (lbs)	9	8	7	7	7	—	292,320	298,800	298,800	298,800	186,800	226.851	226.990	280.434	259,185
Turpentine (organised units) (gal)	—	3	3	3	3	—	528,000	735,000	735,000	735,000	—	418.648	408,000	630,443	575,162
Industrial Alcohol :															
Denatured Spirit (mn bulk gal)	—	42	42	43	43	—	—	—	12.1	12.1	—	2.47	2.83	2.98	3.03
Rectified Spirit (mn bulk gal)	—	42	42	43	43	—	11.6	11.6	12.1	12.1	—	4.27	4.63	5.15	4.2

Capacity and Production of Chemical and Other Industries—*(Continued)*

	No. of Factories					Capacity					Production				
	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956	1951	1953	1954	1955	1956
Antibiotics:															
Aureomycin (kg)	—	1	1	1	1	—	9,984	3,000	9,600	9,600	—	535	697	124	710
Chloromycetin (kg)	—	—	1	1	1	—	—	2,500	3.600	3,600	—	—	840	1,539	2.156
Penicillin (M. U. millions)	—	—	—	1	1	—	—	—	15	15	—	—	—	8.5	14.1
Chemotherapeutics:															
Diaphone and Novophone (lbs)	—	1	2	2	2	—	6,000	6,150	6.150	6.150	—	1.849	2,727	5,745	10,838
PAS and its Salts (lbs)	—	—	2	2	2	—	—	40,000	40,000	40	—	—	12,612	9,922	9.361
Isonicothinic Acid-Hydrazide (lbs)	Nil	2	3	4	4	Nil	9,120	9,180	15,000	15,000	Nil	1,607	1.558	2,713	8,945
Sulpha Drugs:															
Sulphapyridine (lbs)	Nil	1	1	1	1	Nil	165,000	165.000	165,000	165,000	Nil	8.665	19.153	27.264	26.943
Sulphadiazine (lbs)	Nil	1	1	1	2	Nil	205,920	205.920	205.920	231,320	Nil	27.402	29.882	37,173	58.582
Sulphathiazol (gal)	—	2	2	2	2	—	379,920	370,920	370,920	370,920	—	38.790	55,398	121,880	131.941
Diiodohydroxyquinoline (lbs)	—	11	17	17	17	—	50,000	50,000	65,000	165,000	—	9,088	13.147	18,507	21,749
Iodochlorohydroxyquinoline (lbs)														gms	gms
Sulpharsphenamine (lbs)	—	2	2	2	2	—	—	175	175	175	—	—	—	20,367	16,592
Neoarsphenamine (lbs)															
Shark Liver Oil (gal of 6000 IUG)	4	3	3	3	3	36,300	69,332	70.000	70.000	70,000	9,100	14.425	19,630	27,158	59.559
Galenicals ('000 gal)	44	47	47	47	47	1,188.6	2,543.48	3.086.4	3.086.4	3.086.4	712.0	640.15	1.010.78	1.191.3	797.1
Insecticides : BHC (tons)	Nil	1	1	2	2	Nil	500	500	2.000	2.500	Nil	154	434	1.603	1,177
DDT (tons)	Nil	Nil	Nil	1	1	Nil	Nil	Nil	700	480	Nil	Nil	Nil	Nil	814
Liver Extracts:															
Injections (cc '000)	17	21	19	20	19	23,800	51,360	63.784	66.100	81.804	10.682.6	10.130	16.410.7	24.015.9	24,416.5
Orals (lbs '000)	17	21	18	20	19	1,460	840	3,573.6	11,000	12.333.9	319.0	284	259.41	290.4	278.8
Natural Drugs of Vegetable Origin:															
Caffeine (lbs)	2	1	1	1	3	20,000	12,300	12.300	12.300	50.000	Nil	4.942	5.179	1.997	9.146
Ephedrine and its Salts (lbs)	—	2	2	2	2	—	3.300	3.900	3.900	3 900	—	2.424	732	94	74
Opium Alkaloids (lbs)	—	1	1	1	1	—	1.167	1.800	3,000	3.000	—	292	282	2,913	2.921
Strychnine (lbs)	1	1	1	1	1	15,600	15,600	15.600	22.000	32.448	11.400	2,542	3.961	14.847	20.898
Bismuth Salts (lbs)	—	—	2	2	2	—	—	44.000	44.000	44.000	—	—	19.278	15.369	26.832
Bromides (Tons)	1	1	1	1	1	120	100	211	211	211	78	99	170	144	156
Cal Lactate (lbs)	3	3	2	3	3	183,700	237.400	300.000	400.000	400.000	89.900	72,172	67.085	105.978	103,554
Cal Gluconate (lbs)	—	2	2	2	2	—	111,840	111,000	132,000	132.000	—	24,422	56.154	41.866	38,630
Chloral Hydrate (lbs)	—	1	1	1	1	—	120,000	120,000	120,000	120,000	—	31,705	25.505	28.690	31,581
Ether BP and Anesthetics (lbs '000)	—	3	3	3	3	—	1.512	1.512	1.584	1.584	—	227.64	290.64	447.6	437.8
Ethyl Chloride (lbs)	—	1	1	1	1	—	72,000	72.000	72,000	72,000	—	25,780	10.550	15.383	28.573
Ferrous Gluconate (lbs)	—	2	2	2	2	—	46.200	60.000	60,000	60,000	—	3,480	4.199	6.951	12.583
Nickethamide (lbs)	—	3	3	3	3	—	4,200	4,200	4.200	7,200	—	577	293	929	1.426
Sod Salicylate (lbs)	—	1	2	2	2	—	129.600	150,000	275.000	275,000	—	134,220	33.723	75.094	113.229
Saccharine (lbs)	—	1	1	1	2	—	57,600	60.000	90.000	236.000	—	11,578	61.956	76.601	111.377
Power Alcohol (incl industrial)															
(mn gal)	19	19	19	19	19	12.8	14.9	14.9	14.9	14.9	5.7	8.2	8.2	10.4	10.2

* Estimated Capacity Reassessed

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Solvents:															
Acetic Acid (Glacial) (Tons)	—	2	3	2	2	—	720	1,800	3,180	3,180	—	275	1,000	2,375	3.180
Acetone (Tons)*	—	—	1	1	1	—	—	240	600	600	—	—	150	423	633
Carbon Disulphide (Tons)	5	2	2	3	3	2,100	2,100	2,180	4,000	5,500	1,100	1,708	1,800	3,871	5,243
Acetic Anhydride (Tons)	—	—	1	1	1	—	—	1,140	2,500	2,500	—	—	300	2,075	2.514
Carbon Disulphide (Tons)	—	—	—	3	3	—	—	—	4,000	5,000	—	—	—	3,871	5,243
Leather Industries:															
Vegetable Tanning of Hides ('000 pieces)†	26	25	24	24	24	3,184.2	3,112.2	3,303.6	3,303.6	3,419.4	1,703.7	1,297.9	1,370.7	1,635.9	1,683.1
Chrome Tanning of Hides ('000 pieces)†	16	16	13	13	13	1,976.4	1,976.4	1,679.4	1,679.4	1,679.4	879.2	701.6	667.9	676.7	741.6
Glue (cwts)	—	9	7	9	9	—	23,480	23,480	48,060	48,060	—	17,094	18,114	19,465	21,830
Artificial Silk Yarn:															
Rayon Yarn															
Viscose (tons)	—	2	2	2	2	—	5,760	5,760	7,920	8,160	—	--	4,938	5,731	7,276
Acetate (tons)	—	—	1	1	1	—	—	1,800	1,800	1,800	—	—	394	1,039	1,414
Staple Fibre (tons)	—	—	1	1	1	—	—	5,400	5,400	5,400	—	—	3,083	5,707	7,206
Rubber Manufacturers (All in '000):															
Aero Tyres (nos)	—	2	2	2	2	—	6.6	6.6	5.3	5.4	—	1.3	3.5	4.4	3.7
Aero Tubes (nos)	—	2	2	2	2	—	5.7	5.7	3.6	3.6	—	0.5	1.5	2.4	2.3
Automobile Tyres (nos)	2	2	2	2	2	864.0	925.2	925.2	1,024.2	1,017.0	870.2	767.8	832.7	882.3	937.8
Automobile Tubes (nos)	2	2	2	2	2	864.0	925.2	925.2	1,057.2	1,058.4	821.0	658.4	748.6	785.5	918.5
Bicycle Tyres (nos)	5	5	4	5	5	5,984.0	5,582.87	5,770.3	6,638.7	7,071.1	3,941.2	4,645.0	5,226.0	5,748.1	6,318.9
Bicycle Tubes (nos)	5	5	5	5	5	7,130.0	7,790.4	8,127.9	8,478.7	7,560.0	4,897.2	4,600.7	5,576.9	5,593.7	6,373.2
Dipped Rubber goods (Doz)	15	16	16	15	15	20,234.5	45,029.9	46,979.7	44,342.9	45,642.5	10,986.8	12,443.5	18,402.5	22,926.7	25,994.3
Ebonite (lb)	—	10	14	14	14	—	610.4	1,157.4	1,188.8	1,158.9	—	88.2	114.4	130.3	209.6
Fan Belts (nos)	3	4	5	6	6	276.1	582.3	882.3	881.2	865.2	298.5	432.5	500.8	655.2	725.1
Latex Foam Sponge (lb)	2	2	7	7	7	753.0	766.6	1,126	1,146.0	1.473.9	472.0	495.9	938.1	1,469.3	1,177.1
Radiator Hoses (nos)	8	8	9	7	9	3,563	7,495	9,918	10,987	11,226	220.9	139,821	162.596	186.6	248.8
Other Types of Hoses (ft)	10	12	14	14	14	—	5.4	5.4	26.1	26.2	3,474.4	4,422.18	4,864.0	5,734.8	6,603.5
Tractor Tyres (nos)	—	2	2	2	2	579.8	470.4	474.3	511.9	590.5	—	9.6	19.1	24.5	30.8
Tractor Tubes (nos)	—	2	2	2	2	—	6.0	6.0	23.9	24.0	—	8.1	16.8	23.1	30.7
Vacuum Brake Hoses	3	4	4	4	4	591.7	1,020	930	1.080	1,080	472.4	472.186	620.57	808.0	551.6
Waterproof Fabrics (yds)	—	10	12	12	12	—	5,740	5,982	5.712	6,624	—	2,061	2,029	2,119	2,575

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* Excluding production of Ordnance factories
† Organised Industry only

Source: Ministry of Commerce and Industry.

THE ECONOMIC WEEKLY

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Wherewith Shall it be Salted?

THOUGH the threatened strike by Post and Telegraph employees did not mar the Independence Day—in fact the celebrations were preceded by a much welcome sense of relief—it would be idle to pretend that August 15 stirred the people or aroused any enthusiasm or that the attempt to bolster up enthusiasm for India's first War of Independence on the following day met with any better success. Why this cynicism? Is the country so much weighed down by mundane cares that it does not respond any longer even to so momentous an event as the celebration of ten years of Independence? Today, ten years after, it would no longer be honest to suggest that there are mixed feelings about it, that the people are happy over India's attainments in the political field but are anxious and worried about the economic situation only. The routine recital that for the first time in centuries India has developed a sense of national unity and territorial integrity, that the integration of the Princely States has been an achievement without a parallel in the country's history no longer stirs up flagging spirits.

True, there is the record in these ten years of two free and fair general elections to substantiate India's claim to be the largest political democracy in the world today. Political stability has been consolidated. Social stability has been enhanced. A broadening economic base assures a secure foundation for both social and political progress. India's foreign policy of good neighbourliness is widely appreciated. A small Power, India still enjoys a status in the comity of nations. These are no mean achievements.

Look, now, at the other side of the coin. Today, in the second year of the Second Plan, dark shadows hang over the country. Re-organisation of States has not eliminated provincialism. Andhra is alleged to fatten over the rice shortage in the country. Poor Assam is over-serious about its economic rights. Bihar's militant employment policy is resented by other States. The South is suspicious of the North. The economics of location of industry is confused with economic regionalism. The East joins the South in their combative opposition to aggressive Hindi "imperialism" of the North. These are disturbing symptoms of political, economic and linguistic parochialism.

Far more disturbing, the casual observer would say, are the developments on the economic front. Prices are rising, economic progress is threatened by an acute foreign exchange crisis. New Delhi's hesitant approach to economic problems deepens the gloom. As stresses and strains develop, escape to safety is sought in the "stability of stagnation" and demand for cutting down the Plan becomes more and more clamant.

Despite many disturbing symptoms, however, nothing has happened yet which may justifiably throw the country into despair. What is really disconcerting is the creeping sense of helplessness which is over taking the Government and therefore the people. Political democracy is not only a matter of holding free and fair elections. Parliamentary Government demands something more. It demands Cabinet responsibility, the the ability of those who run the Government to agree among themselves on a unifying policy and to follow that policy honestly, consistently and with steadfast devotion.

There is concern over the lack of coordination between the Government and the Planning Commission, between the various Ministries at the Centre, between the Centre and the States and between the public and private sectors. The recent debates in the Parliament, the lack of quorum when important issues are discussed, the widely conflicting views expressed by the Ministers on issues of gravest importance, all these are coming to the surface more and more as the "stresses and strains" begin to appear and grow in intensity. Faster than the foreign exchange reserves, the morale of the Government and the people has been going down. Even when the Prime Minister assures the House that there was absolutely no element of defeatism in facing the difficulties in implementing the Second Five Year Plan, he no longer carries conviction or assurance. For soon after the Planning Minister stands up and wobbles, the Commerce Minister wants us to believe that there was no foreign exchange muddle and that everything was all right. The Ministers are either sniping at one another or scoring points at the cost of others or worse still, from a sense of mistaken loyalty, loyalty not to the Government or the best interests of the country, are trying to protect one another as members of a mutual admiration society. They have not the courage even to admit that they can ever be wrong, not realising that mistakes can only be rectified when they are detected and admitted and an honest attempt made to retrace the wrong step. For the last few days or weeks, it is reported, the Cabinet has been meeting almost every day but to what purpose? One fails to guess from the public statements and press reports of the speeches of the Cabinet members.

Political democracy has its limitations, so has tax financed development. It is often complained and some of the recent actions of the Government amply bear out the truth of the contention that expeditious action either in administrative measures like elimination of corruption or execution of economic undertakings are not possible unless the legal framework of the Constitution is modified in important respects. The feeble response to the challenge presented by the recent economic troubles pin points to something which is basic and far more germane to the present situation, viz, that the primary condition for even an attempt to build up the economy and establish a more equitable and humane social order is unity of thought and purpose in those who will make this attempt. Wherewith shall it be salted, if the salt have lost its savour?

Clear up this Oil Mess

HOW much foreign exchange are we losing every day, every hour and every minute, by sitting on the proved oil reserves in Assam and just refusing to move a finger to pump up this oil and using it? Foreign exchange worth Rs 25 crores a year which works out to something like Rs 8 per second! And why are we sitting over it and just doing nothing? It is not only because of the dispute about the location of the refinery which is to use this crude, but also because of the prolonged indecision regarding the formation of the company for the production of this crude. As early as December 18, Shri K D Malaviya had announced in Lok Sabha that the Government of India and the Assam Oil Co had reached an agreement, 'subject to final ratification', on the formation of a rupee company for the production of crude oil in the Nahor-katiya area in Assam. He said that Government would contribute one third of the share capital of this company while the Assam Oil Co would contribute the rest. Then followed an interval during which there were rumours that the Government would not accept anything short of 51 per cent of controlling shares in the proposed company and that the Prime Minister himself had put his foot down on the earlier proposal. Either controlling share, that is, 51 per cent of the capital or none at all, was the formula then current.

The Budget debate in the Lok Sabha on the demands of the Natural Gas and Oil Commission has at least cleared up one point, viz, that the terms of Government participation stand. The wisdom of the decision may be questioned for the over-riding control of the Government would remain in any case, it does not depend on Government participation in the share capital of the company. So if the Government does not take up majority shares, what is the point in subscribing only a third of the capital when Government finances are not too comfortable? The debate excited so little interest that the Speaker had to ring in order to get a quorum cleared up nothing else. On the contrary it confirmed the apprehension that the dispute over the location of the refinery would continue to hold up exploitation of Assam oil, costing us Rs 25 crores of valuable foreign exchange every year!

It does not look as if the dispute over the location of the refinery is going to end soon or easily. The technical considerations against location in Assam are so formidable that they are not likely to lose weight with the passage of time. Strengthening of the Assam rail link to enable the transport of heavy equipment for the refinery to and that of the finished products from Assam is ruled out by the very nature of the terrain. The Himalayas are rather young as mountain ranges go; it will be sometime before they stabilise sufficiently for the Assam rail link to be strong enough to withstand heavy traffic. There is nothing one can do about it. And then there are the inexorable economic considerations. If the refinery is finally set up in Assam, who will pay for the pipe line to Calcutta which would still be necessary for the surplus crude to be transported to the other refineries or for export? One could not very well expect the Assam Oil Company to share in this wholly uneconomic investment in order to satisfy the local and mis-directed patriotism of the Assamese people. Again, assuming that Calcutta has to be written off as a fit location for the refinery, whatever the reasons, surely Assam Oil Company cannot reasonably be expected to foot the bill for this piece of political folly either?

On the question of oil prices, Shri Malaviya added to rather than cleared up the confusion. It is difficult to imagine why the Government insists on maintaining a holy mystery about the pricing of oil products and why Shri Malaviya had to invent the fiction that it was on Government insistence that the oil companies had been prevailed upon to switch over from the Gulf of Mexico to the Persian Gulf as the basing point for refined oil prices in India. It is no secret that some months ago, refined product prices began to be posted for the first time in the Persian Gulf. This is one of the most important developments in the pricing of oils in recent times and naturally it made headline news when it was announced. If anyone can legitimately take credit for it, it should be the Economic Commission for Europe whose report on oil prices first set the ball rolling. Then there are the refineries in Western Europe which had long fretted that Gulf rates (meaning the Gulf of Mexico) should still dominate the structure of oil prices all over the world. That fiction has not entirely been ended, but pressure of circumstances has forced the oil companies to be a little more realistic. That is all.

Shri Malaviya may be innocent of the complexities of oil pricing but surely he knew what first proposed the change in basing points? How could he then get away with this pure and simple concoction? The Lok Sabha took in whatever he said. It did not even protest when Malaviyaji struck the wholly spurious plaintive note that Government was helpless in the matter of oil prices for it could not go back upon the solemn pledge given to the oil companies! The question, needless to say, has been simmering for some time, but has never quite come up on the surface. What the mystery is all about, one does not know. All that one knows is that there was an agreement made with the Burmah Shell early in 1950 according to which oil prices continue to be regulated. This is the celebrated formula of Value Stock Account according to which Burmah Shell, as also the other oil companies, are entitled to sell refined products at prices based on the theoretical landed cost of such products. But it is not a simple formula. Several items go into the c i f price which are again loaded up with a number of post-c i f cost items. The text of the agreement has never been published. The oil companies have opposed Government audit of the account. They would not agree even to their auditors acting as agents of the Government. So the propriety of the items included in the costing can not be questioned. The agreement was entered into before the refineries were set up and the situation today has changed beyond recognition. What is the point in fixing oil prices on the fiction of import cost of refined products when what is imported is crude oil and not refined products? On the contrary, the refineries now export sizable quantities of refined products and export them at a price much lower than the domestic price. So why not have the pricing assessed afresh in the light of the present situation?

An examination of oil prices by the Tariff Commission has often been hinted at, but like the exploitation of proved oil reserves in Assam, everything connected with oil tends to be buried under Government indecision and gathers mystery around it as the files gather dust, and perpetually creates suspicion, for which there is probably no justification in fact. There is nothing to prevent the Government from negotiating a fresh agreement with the oil companies, if the existing agreement is so out of date and out of relation with facts. Failing agreement, there is the alternative—fair and above board—an open enquiry by the Tariff Commission. If aviation petrol and motor spirit prices are higher in India than they should be—in fact, it has been widely advertised that both are higher than in other countries—an open enquiry should be welcomed even by the oil companies themselves than continuous pin pricks and the air of suspicion which clouds oil prices.

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Weekly Notes

British Rearguard Action in Oman

OIL remains the main source of conflict of interest among powers in west Asia. But, in the post-war era, two other influences have emerged to complicate issues in this region. Resurgent Arab nationalism resents continued political and economic domination by outside powers. In the last few years, the Soviet Union has not been unsuccessful in exploiting Arab States' hostility to colonialism to spread her contacts and influences in west Asia. Thus, west Asia has got involved in the "cold war", though America, and not Britain, is the major Western Power which is fighting the "cold war" against Russia. Britain is almost reconciled to America's dominant status in west Asia, though the developments in Oman are faint reminders that London has not yet abandoned rearguard action against Washington.

This is not the only explanation or significance, of the desert rebellion in Oman. Some of the reasons behind the revolt of the Imam of Oman against the Sultan of Muscat are rather obscure. It may be partly a projection of the historical feud between temporal and spiritual authorities. Immediately, the cause of the revolt seems to be the Imam's resentment against a secret treaty between the Sultan and Britain, by which the latter has secured oil prospecting rights in the desert. Under the Treaty of Sib, Omanis claim the right of self-rule. With the active help and inspiration from the King of Saudi Arabia, the present Imam demands complete sovereignty. London implies that its armed intervention in the dispute is justified by Britain's Treaty of Friendship with the Sultan. More significant are the implications of Britain's action. Since the enunciation of the Eisenhower Doctrine, the strained relations between Cairo and London had seemed to ease, as Egypt had concentrated her hostile energies on America. Through armed intervention on the side of the Sultan, there has been a revival of Egyptian hostility against Britain. Cairo has espoused the cause of the Imam, and has treated the British action in Oman as a "second Suez". Was or is it politic for Britain to lose sympathy in west Asia, which she was slowly regaining, despite Suez, as a sequel to the Eisenhower Doctrine?

Cairo-Damascus Axis

IF Britain's armed intervention on behalf of the Sultan of Muscat is wrong tactics, events in Syria will provoke second thoughts in Washington. Despite odds, the Eisenhower Doctrine had made fair progress. Washington has used both persuasion and show of force to implement the Doctrine in west Asia. King Saud was seduced by lavish aid to grant America the right to fortify the strategic air base in Saudi Arabia. He has since, constituted himself an unofficial Ambassador of America in his efforts to sell the Doctrine to Arab States. Washington used the threat of America's military might timely and successfully to tilt the balance in favour of the King of Jordan. Iraq was already an ally of the Western Powers. In Lebanon, the show of force by America again did the trick. With Saudi Arabia, Lebanon, Iraq and Jordan in favour of the Eisenhower Doctrine, Syria and Egypt found themselves alone and helpless, abandoned by their former friendly allies and neighbours.

Cairo seems to be regaining the diplomatic initiative. In supporting the Imam of Oman, Cairo is aware that the Imam is a protege of King Saud. It would be unwise of Cairo not to exploit this situation so as to normalise the relation between Egypt and Saudi Arabia. Encircled by unfriendly neighbours like Lebanon, Iraq, Jordan, Turkey and Israel, Syria has never wavered in her alliance with Egypt. It is this Cairo-Damascus alliance which is the main obstacle to the Eisenhower Doctrine in west Asia. Damascus and Washington have made allegations and counter-allegations against each other. America has been accused of plotting against the present regime in Syria. America has alleged that Syria is collaborating, if not conspiring, with Communist Russia. Moscow has intensified the "cold war" in Syria by openly promising help to the Syrian Government.

One thing is clear. Since independence, there have been three coups d'Etat by the Army in Syria. But what is happening is not the beginning of another Army revolt. Yet, it may not be without significance that the leaders who have now gained control of the Army, after the latest purge, are supposed to have Communist leanings. Immediate developments in Syria may well depend upon the actions of the present Army leadership. Any hasty or false step by Army leaders may worsen the situation.

Why is Ambar Charkha Unpopular?

AN esteemed correspondent who has successfully run spinning centres but failed to popularise the Ambar Charkha writes:

The Ambar Charkha is a complicated machine and not so simple that villagers could work it without technical aid and replacement of parts. It is based on the spinning design of textile mills and has a number of pulleys working on cotton strings which must work harmoniously to keep it going. Any small difficulty in any part puts the Charkha out of order and it requires a skilled hand to restore its normal working.

The Charkha is divided into two parts, one for making rovings and the other for spinning yarn. Part one goes into operation when the cotton has gone through the ginning apparatus. The act of preparing hanks is as complicated as the production of yarn and requires special care, skill and patience.

Following are the rules framed for the enrolment of trainees by the All India Charkha Sangh:

1) Every trainee will deposit Rs 5 in advance as training fee.
2) The course for training will extend over three months. During these three months, the trainees will produce 56 hanks in the first month, 90 hanks in the second and 120 hanks in the third, making a total of 266 hanks. Side by side, with this, every trainee will produce 8 hanks in 8 hours working.
3) The piece wage for each hank will be 1½ annas.
4) The trainee will be given an Ambar Charkha on completion of the 3 months course as laid down above.
5) After 3 months training, the trainee will be given Rs 20 as a monetary award.
6) Every worker will work 8 hours daily.
7) After 3 months training, the worker will have to accept an Ambar Charkha.
8) The price of the Ambar Charkha is fixed at Rs 130, and on having spun and handing over 1500 hanks, the successful trainee will be given the Charkha at half the price, which will be recovered in instalments.
9) Certificates would be granted only to those workers who can produce 8 hanks in 8 hours.

There is poverty and distress in the countryside; hence the programme. The poor, however, have no money to deposit as advance and they cannot afford to wait for three months for the Rs 20 cash award. Married as well as unmarried women who come forward to spin have to cook, feed and look after children and find fodder and grass for their cattle. They are generally busy and when they go out to work on daily basis, they get daily payments. To spin 8 hours every day and then wait indefinitely for payment does not appeal to them and they are, therefore, found extremely reluctant to take to Ambar Charkha.

The Sangh offers no guarantee to purchase the yarn and to have cloth manufactured for spinners. On account of non-availability of honest and reliable weavers, even those women who spin and want to spin feel discouraged and are sometimes sorely disappointed when they are cheated of their labour by the weavers. It is common experience that yarn is sometimes never returned or is substituted by inferior yarn, and the cloth produced out of the yarn is often found unsatisfactory. This is why spinners lose heart and the various types of Charkhas which are already available are lying unused in rural homes.

In the case of Ambar Charkha, Government has come forward to invest on a large scale and has offered to bear 50 per cent of the cost. This investment would be a total loss if the spinners do not make use of the Charkha supplied to them, on account of the difficulties enumerated above.

—A K H

The Fly in Dieselisation

WHEN Tatas went in for the manufacture of locomotives it was a safe bet. When they went further ahead and added on diesel automobiles, they headed for the crest of the wave. For much sooner than many expect, India, too, will go in for diesel traction in a big way. Diesel trucks have already caught on. Tata Locomotives are now being prevailed upon to double their manufacturing capacity of diesel trucks and buses and they would not be averse to manufacturing diesel engines for other purposes also, judging from what Shri J R D Tata said at the annual meeting of the shareholders. The catch must obviously be in fitting up Mercedes-Benz diesel engines to the truck chassis of other manufacturers. It is not only that the Tariff Commission advocated the manufacture of diesel vehicles in preference to petrol driven vehicles. Road operators in a body are going in for diesel and in due time, railways will also follow suit, though the foreign exchange situation and the poor show made by the Natural Oil and Gas Commission no longer promises a quick change-over. How correct Tatas were in going in for diesel is also confirmed by the enquiries they have received from the Railway Board for a substantial number of diesel locomotives.. Of their ability to meet the demand there cannot be, of course, any doubt, their technical associates being leaders in this particular field of manufacture also. When the present programme of manufacture of trucks and bus chassis is completed TELCO would be saving more exchange every year than the aggregate foreign exchange spent for the purchase of plant, machinery and equipment for their automobile division!

So far as the manufacturing part of the programme, and the scope and prospects of future expansion are concerned, everything is smooth going and rosy, as much for the shareholders as for the country's future development. Labour, however, has been the one disturbing factor. When the Chairman has to add a post-script to his speech to draw pointed attention to it and use language which is unusual for him it clearly proves the seriousness of the provocation. Tatas had put through, very successfully, we were told, a collective bargaining agreement with labour in their Iron and Steel works. It is not a ordinary labour dispute to which Shri J R D was referring, though he had something to say also about the irresponsibility of the union in instigating the workers to down tools for a few hours in each shift as a protest against their not having been consulted in regard to bonus declared this year. It is the subsequent illegal lightning strike, well planned in advance, accompanied with violent behaviour towards German supervisors on the part of the ring leaders of which he complained bitterly. He accused the Communist leadership of disrupting operations and went further. It was not an isolated incident, J R D went on to say, but part of a larger plan to disrupt the working of the whole industrial complex of Jamshedpur, and wound up by calling upon the Congress Government to protect the industrial life of the country. It is, however, not the responsibility of the Government alone to stop such violence and illegal trade union activity. It is equally the responsibility of other political parties also to prevent such occurrences.

Leipzig Autumn Fair

THE Leipzig Autumn Fair from September 1 to September 8 will exhibit consumer goods of all kinds. Exhibitors from both parts of Germany, the Socialist countries, the Middle and Far East, and West Europe and other overseas countries will participate in the Autumn Fair. Exhibits will include a display of Technical Consumer Goods.

Leipzig is the venue of trade fairs twice every year—in spring and in autumn. The Spring Fair is a vast array of machinery and capital equipment of all kinds. On the other hand, everything on show in the Autumn Fair is for the use of the consumer—textiles and ready-made clothing, foodstuffs and furniture, household goods and china, jewellery and toys, glassware and musical instruments, sports goods, leather goods, tobacco, and wines and spirits. The section for technical goods will include motor cars and bicycles, type-writers and calculating machines, and microscopes and precision instruments.

In all, over 30 classified trade groups, occupying a total area of over a million square feet, will participate in the Leipzig Autumn Fair this year, and the displays of the German Democratic Republic will form an impressive part of the exhibits.

Letters to the Editor

Six Editors in Search of a Country

I HAVE read with interest Flibbertigibbet's remarks in the columns of your issue of the 10th August. However, I find it difficult to agree with his views on the desirable class character of the journalists in India. While I have no quarrel with your correspondent on the question of creating a better, healthier and more outspoken press in India, I can hardly believe that it could be achieved if the journalists got a larger pay or if they came from the upper middle classes instead of from the lower middle classes. The infirmities of character referred to are not to be ascribed solely to a man's class status or financial position. Otherwise how are we to explain the infirmities of a far greater proportion shown by some of the multi-millionaires of the world?

Moreover, in a general situation of poverty a rich class of journalists would hardly be in a position to reflect the true sentiment of the country. As one distinguished American journalist (Herbert Bunker in his book 'Freedom of Information') has remarked, the American journalists, in general being so much better paid than the common people, instinctively side with the propertied classes in any class dispute within the country. I must warn against taking my remarks as a defence of the poor pay of the journalist. Far from that—I have no hesitation to say that our journalists decidedly deserve a better treatment (in all respects) than they are now receiving. My point is that an improvement of the financial position alone is hardly enough to free a man from the infirmities of which your correspondent complains.

It may not be out of place to mention here that your correspondent might still be under the spell of the American scene. His article "The Politics of Successful Men" and his remarks on the editors have a common underlying theme, viz, that only economic prosperity can give a man honesty and integrity. While this is largely true, it is dangerous oversimplification to emphasise only the economic aspects. Many American politicians, possessing millions of dollars, with their record of dishonesty and corrupt practices provide us the necessary warning against an undue dependence on the wealthy section of the population for a correct leadership in national endeavour. Indians cannot again easily forget the role of the 'successful' liberal politicians in the British days.

Subhash Chandra Sarker

Suite 15—Block A,
31, Harinath Dey Road,
Calcutta—9
August 15, 1957.

Engineering Workshop Capacity

IN your issue of the 12th August you have mentioned about my suggestion for increasing shifts. I think this is an under-statement. I not only said that where one shift is running it should be two shifts where two shifts, three shifts; and where three shifts, even Sunday working. In fact, I am very strongly of the opinion that every factory in India must run three shifts and seven days in the week.

I am enclosing a copy of a note, which I had submitted to the Ministry of Commerce & Industry.

Sir Shri Ram

22, Curzon Road,
New Delhi-1
August 13, 1957.

Note submitted by Sir Shri Ram to the Ministry of Commerce and Industry

The continuing draft on our foreign exchange reserves has already induced a lot of re-thinking in several directions. There is general agreement that the import of capital goods is the primary cause of the present exchange crisis. That the capital goods, generally speaking, are essential to the implementation of the Plan is beyond question. But it is pertinent to ask whether their **import,** in all cases, is equally inevitable.

A major bottleneck in the national manufacture of many items of this type is the alleged inadequacy of Engineering Workshop capacity inside the country. This view of the situation is based entirely on a day of only one working shift in a 6-day working week, which is the usual practice of almost all Engineering Workshops in the country, and creates in turn a major foreign-exchange consuming need for imports.

I submit that neither of the two aspects—the single-shift day or the 6-day week—of the alleged inadequacy in Engineering Workshop capacity is unavoidably implicit in the situation.

In the context of modern lighting practices, the prejudice against night-shift working is almost always unreasonable. In fact, some high-precision engineering shops in the country are even to-day working three shifts a day, in direct disproof of the prejudice against night-shift working. Apart from traditional modes of thinking in this matter, there is no reason whatsoever why 3-shift working cannot be resorted to in the very immediate future.

Likewise, in the matter of working days in the week too, the Engineering industries remain victims of old habits. Seven days a week working is feasible and several factories have years of successful experience in the matter.

If these two measures are adopted, we should have arrived at effective avoidance, for at least the next two or three years, of the need to import a large range of presently imported capital goods. And the beneficial effort will extend to our equally basic problem of the overall inadequacy of capital resources in a period when the demands on these limited resources are growing.

I therefore suggest that a questionnaire be issued to all these factories inquiring about their difficulties, if any, in working seven days or/& three shifts, and inviting suggestions on what Governmental measures with regard to sales, labour, raw materials, availability of transport and other aspects are required. Furthermore, the Government must arrange for a regular follow-up to ensure the continuance of these working practices.

I might also point out that 3-shift and 7-day working will enable Indian Engineering industry to install the latest in machinery and techniques, without having to sacrifice any working life left in older machinery, which would be unavoidable if one shift working continues to remain the general practice.

Export of Lichis

A pilot plant in U P for dehydration of lichis has been approved by the Government of India for developing export of dehydrated lichis, particularly to the U S A.

Twenty maunds of lichis per year would be available for export when the plant is put into operation.

The French Devaluation and the Prospect for Sterling

(From Our London Correspondent)

A NEW period of instability and uncertainty has been introduced into the European system of exchange rates by the devaluation of the French franc. The European reaction to the French exchange adjustment has been undecisive and uncertain. It is not clear whether the French step contravenes the Articles of Agreement of the International Monetary Fund, and, more important, whether the French action amounts to a de facto devaluation of the franc or whether it is merely a prelude to full devaluation. Most significant of all has been the patent inconsistency in the interpretations of what constitutes the new pattern of exchange rates in Western Europe. The Bank of England, after some hesitation, has ruled a new level for the sterling-franc rate which in fact assumes a full 20 per cent depreciation of the French currency. In France, however, some exchange transactions continue to take place at the old rate. Finally, any assumption that the French franc is now fully devalued by 20 per cent raises the question whether or not the British Government can continue to maintain the existing sterling-dollar-gold parities established in September 1949. In a word, the possibility of a reduction in the value of the pound sterling is now less remote.

Anti-inflationary Measures

The French crisis had, for well over a month, engendered widespread feelings of a possible devaluation of the franc. The official rates were persistently quoted at the lower exchange limits. The unofficial rates discounted the franc heavily and at times the French franc bank note was sold at the rate of French frs 1,120 = £1, against the parity rate of French frs 980=£1. The nature of the French crisis cannot be examined here except to say that the Algerian war was draining French resources by as much as £2 million a month; that the French budget deficit was being persistently financed through an expansion of bank credit; that the balance of payments deficit was causing heavy withdrawals on the country's foreign exchange and gold holdings; that the movement of prices had continued unchecked and that all this had culminated in an inflationary crisis of the first magnitude.

The French counter measures took a peculiar form. Apart from some traditional policies like that of a reduction in Government expenditure and an increase in the official discount rate, certain new subsidies and taxes were adopted which impinged upon the external value of the French franc. All French exports were to carry a Government subsidy of 20 per cent, while imports into France, except that of certain raw materials, were subjected to an import tax of 20 per cent. At the same time a differential exchange rate was fixed for tourist traffic, that is the expenditure of foreign tourists in France, which revalued the franc (for this purpose) by 20 per cent in a downward direction. The impact of these measures is in fact similar to that of a 20 per cent devaluation of the French currency, with this important exception that the French measures do not contemplate a different exchange rate for non-current account transactions. In other words, the exchange rate which would apply for the transfer of funds of a short and long-term capital nature would, in accordance with the new French measures, remain at the old rate of French frs 350 = $1 or 980 = £1, as was established in September 1949.

British Reaction

The French estimation of these measures was that the existing exchange parities continued to apply and that the problems concerning France's foreign balance of payments could be effectively solved by internal arrangements of export subsidies and import duties. In direct contrast to these official French interpretations of their policy, the Bank of England has announced that the sterling-franc parity has been altered from French frs 980 to 1176 = £1, and has instructed the London market that the Bank of England would be ready to buy French francs at the rate of 1184.82 = £1 and to sell francs at the rate of 1167.18 = £1. This demonstrated the unwillingness of the British Government to cooperate with the French authorities in maintaining that the franc had not in fact been devalued!

Mounting West German Surplus

The background to the current uncertainty appears to be wider than the French crisis. For well over three years there has been a marked divergence in the fortunes of the three countries, Britain, France and West Germany. This divergence has necessarily affected the exchange values of the currencies of the three countries concerned. Between the end of 1953 and June 1957, the gold and dollar assets of West Germany increased by almost 300 per cent, while those of Britain and France broadly remained unchanged. The West German accumulation of convertible assets represents not only the consequence of a regular surplus on trade and on current payments, but of a vast movement of short-term and other capital into West Germany. While in 1953 the estimated inflow of capital into West Germany amounted to DM 282 million, the inflows in subsequent years were running at almost double this figure. Even after having paid DM 1,100 million as war reparations, the surplus in West German balance of payments on current account in 1956 amounted to DM 4,394 million.

The persistent rise in West German foreign exchange reserves to a level well above that of either Britain or France, and for that matter any other country in the Western world (with the exception of the United States) has been achieved in spite of ostensible West German measures to reduce trade surpluses. For example, in 1956 three successive steps were taken by West Germany to liberalise her trade. In June the degree of dollar trade liberalisation which had been 63 per cent since May 1955 was raised to 93 per cent by freeing some 600 items, including 140 agricultural products. In other words, 93 per cent of all the items imported into West Germany on private account from the dollar area no longer required import licences. Secondly, import duties on most manufactured products were reduced, while the duty on fuel oil and machine tools was suspended altogether. Finally, the agency

"Hermes", concerned with export credit guarantees, reduced its maximum insurance cover from 90 to 80 per cent, while the West German Import Credit Bank followed this lead by reducing the amount of credit it would give on any one export order from 80 to 60 per cent of the total.

Limited Impact

The actual impact of these measures was, however, of limited significance. The change in the degree of liberalisation on dollar trade is in fact less than the official figures suggest. Further, the liberalisation measures cover only private imports and at the beginning of 1957, over one-quarter of West German imports from the dollar area were under state trading. With regard to import duties, West German agriculture continues to enjoy a high level of protection, and heavy fiscal duties continue on imported beverages.

The West German authorities have been pursuing a persistent deflationary policy within the country. This was the experience in 1956 when the money supply increased less than the national product, having gone up by 7.4 per cent compared to a rise of 9.9 per cent in the gross national product. The official discount rate remains high at 4½ per cent even after the half per cent reductions in September and January last. Bank credit to the private sector has been expanding at a much slower rate than in previous years and various efforts have been made for reducing the volume of bank credit. On May 1, 1957 the minimum reserve ratio was increased by 1 per cent while the ratio of cash reserves of commercial banks to foreign deposits was raised to an all-time high of 20 per cent. The general pattern of interest rates has been maintained at a high level by pursuing a policy of lowering the prices of fixed interest securities—largely by open market operations.

Tight Money Policy

All this has had the effect of engendering a high level of national savings, currently 21.4 per cent of the net national product, compared to 13.2 per cent in 1950, and 20 per cent in 1953. Private consumption has been effectively restricted by Government measures. Taxation of personal incomes in West Germany is considerably less progressive than that in the United Kingdom. The proportion of income paid out in taxes cannot rise above 55 per cent of an individual's income, whereas in the United Kingdom it is not much below 90 per cent. Moreover, West Germany relies heavily on indirect taxes, and in particular turnover taxes which are regressive. Finally, the vigorous policy of the Bank Deutsche Lander has tended to limit the volume of personal consumption. In view of all these, prices in West Germany have risen less than in Britain. The retail price index in West Germany registered a rise of 10 per cent between 1953-56, compared to 16 per cent in the United Kingdom.

The impact of the foregoing policies and their effect on prices has necessarily resulted in an undervaluation of the external purchasing power of the Deutshe mark, compared to sterling and other European currencies. West German prices, lower in relationship to international prices, have tended to make German exports cheaper at existing exchange rates and to reduce the volume of imports. Further, the tight monetary policy pursued, coupled with the high rate of savings within the country, has enabled Germany to devote a greater proportion of its resources to export and significantly for the export of capital goods on long-term credit.

Competitive Price Advantage

The exchange parity for the West German currency was fixed during the 1948 currency reform at DM 3.33=$1, and adjusted to DM 4.20 =$1, during September 1949 devaluations. In 1949 the West German economy had hardly solved the problems of postwar reconstruction. Inflation was rampant and the shortage of all goods, coupled with an intractable refugee problem, had placed West Germany among the most serious of Europe's trade debtors. The exchange parities then agreed to for Europe as a whole had to take into account the state of the German economy at that time. The original under-valuation bias of the Deutsche mark has been maintained unchanged, in spite of a whole decade of substantial economic progress, achieved largely by a purposeful policy of increasing productivity, restricting consumption, and devoting a large surplus from total production towards productive investments and exports. At the same time the inflow of American capital, without the burdens of immediate rearmament expenditure, placed West Germany at a decided advantage compared to other West European countries.

The persistence of a substantial export surplus for West Germany, and more recently, of exchange rates which give that country a certain competitive price advantage, have had a greater impact on the rest of Western Europe than on any other trading region in the world. This is primarily because of the orientation of West German exports to the markets of the industrial countries of Northern and Western Europe.

Accumulation of Gold

As Table I shows, the West German trade surplus with the rest of Europe has been increasing at a rapid rate, while in its trade with the sterling area, the deficit has been reduced by more than half between 1955-56. In spite of a growing deficit with the dollar area, the overall trade balance of West Germany has been rapidly rising and by 1956, the surplus reached the record value of DM 2,900 million. Since her trade with Europe is governed by the European Payments Union mechanism, and in view of the increasing tendency, under West German pressure, for E P U compensation to be settled in higher proportions of gold, her regular trade surpluses must necessarily mean that West Germany's accumulation of gold must come from the coffers of other West European countries, particularly countries like France, Italy and the United Kingdom. The surplus on the balance of trade provides only a partial explanation of the large E P U payments to West Germany in the past two years. In this period there has also been a considerable inflow of flight and other short-term capital from the rest of Western Europe, and since these capital flows form part of the E P U compensation payments, this movement of funds has, in turn, increased the volume of the gold inflow to West Germany. It is this feature of the trade and payment developments in Western Europe in the past two years that lies behind the Anglo-French protest that the West German gold and convertible asset accumulations have been achieved at the cost of a corresponding decline or stagnation in the gold and convertible assets of France and the United Kingdom. In the period July 1950 to March 1957 (that is, since the E P U was formed), West Germany achieved a surplus of $3,153 million in its accounts with the E P U. This surplus was settled partly in gold and partly in credit and other bilateral arrangements. The comparative position of West Germany, Britain and France in the E P U compensation arrangements are shown in Table II.

Revaluation of DM?

This then forms part of the essential background to the present instability in the European exchanges. It is to be noted that the position of advantage occupied by West Germany in relation to other countries cannot be wholly understood in terms of the undervalued purchasing power of the Deutsche mark. A part of the explanation for the strenght of the West German currency lies in the internal policies of the West German authorities. These policies have however, created difficulties with the rest of Europe, and this among other factors, contributed to the devaluation of the French franc. Are there any possibilities for a re-adjustment of the Deutsche-mark? This consideration centainly governs the approach of Britain and France to the solution of the present European exchange problems. Press comment in the latter countries persist in directing attention to the possibilities of an upward valuation of the Deutsche mark after the West German General Elections and the Annual meeting of the International Monetary Fund, both of which are due to take place in September this year.

The likelihood of the Anglo-French hope materialising, however, appears to be remote. The Government of Dr Adenauer has come to realise that the destiny of West Germany today lies in her ever increasing economic strength, even if this means no material improvement in the standard of living of the West German people. A viable and strong West Germany could provide, in German eyes, the ultimate means for achieving a domination of the projected European Common Market and Customs Union, and the official German view on the foreign exchange question has been deliberately left vague.* Indeed a close analysis of West German policy* towards exchange questions appears to suggest the following aims:

(a) That the distortion of exchange rates does not arise from the current value of the Deutsche mark. It is rather a consequence of the weakness of other European currencies. Thus the solution lies in the adjustment of the exchange values of other European currencies, like sterling and the French franc. The West German Minister of Economic Affairs has in fact declared that "under-valued currencies could only be discussed alongside with over-valued currencies."

(b) The European Payments Union should be wound up since it has come to put a brake on the convertibility of European currencies. This attitude appears to arise from the German realisation that without the E P U, the Deutsche mark might occupy on the European scale a status not very different to what the dollar occupies on a world scale.

Long Term Prospects

These policy aims have a long-term implication, but even in the immediate situation, the West Germans do not appear to want a solution which would stop the pressure on sterling. Britain had hoped that an acceleration of the repayment by West Germany of past debts, amounting to £900 million, might swing the exchange rate in favour of non-German currencies. In fact the West German authorities are delaying their repayments and whatever payments they have made, have been made piecemeal on the declared grounds that the "foreign exchange market should not be unduly disturbed by a large transfer of funds."

The pressure on sterling has been heavy since the French devaluation measures. German firms having regard to the present state of exchange uncertainty find it more profitable to borrow at between 5–6 per cent in London and other non-German centres, rather than at 8–9 per cent from German banks. The European exchange market and the vast number of arbitrage dealers in currencies have come to regard recent developments as implying the not very remote possibility of an adjustment in the value of sterling, and this is the most plausible interpretation of the pressures which have been exerted by the exchange market on sterling prior to and after the partial devaluation of th Frnch franc.

* There was an official denial this week that the Deutsche mark may be revalued—Ed.

Table I—Balance of Trade of West Germany by Trading Areas
(Millions of D-marks)

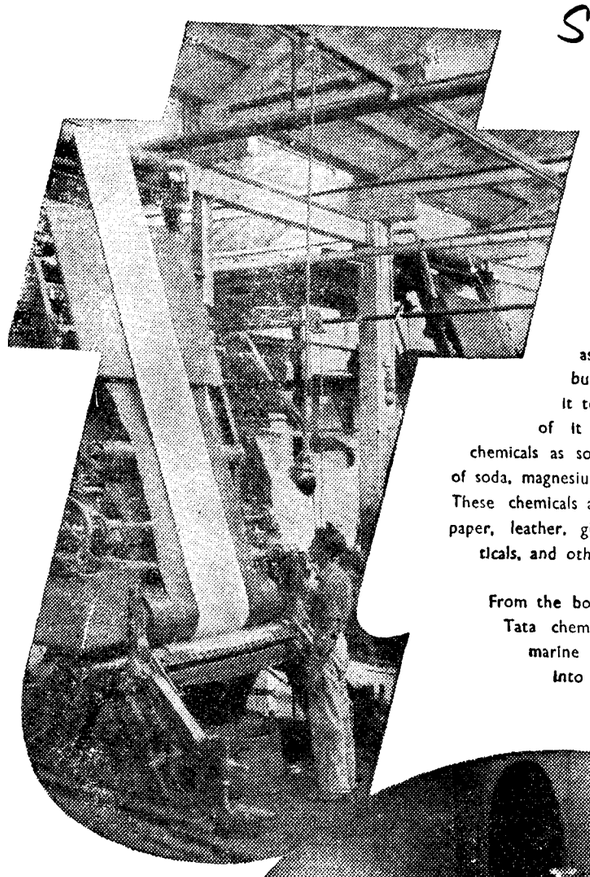
	1953	1954	1955	1956	Change from 1955 to 1956
Continental W Europe	3,140	4,060	3,600	5,350	+1,750
Sterling Area	— 330	— 380	— 370	— 110	+ 260
Dollar Area	— 620	— 960	—2,140	—2,710	— 570
Other Countries	330	— 20	150	370	+ 220
	2,520	2.700	1.240	2.900	+1 660

Table II—E P U: Cumulative Positions of Certain Member Countries
(July 1950 to March 1957)
(US $ millions)

	W Germany	U K	France
Credit received by the E P U (+) or given by the E P U (—)	+ 788	—333	— 289
Gold actually paid by E P U (+) or received by E P U (—)	+1,957	—535	—1,035
Other Go'd and Bilateral Settlements	+ 408	—466	+ 167
Total Surplus or Deficit	+3,153	—1.334	—1.157

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

BOMBAY HOUSE, BRUCE STREET, BOMBAY 1.

A Calcutta Diary

Across the River and into the Trees

NOBODY really knows just how many men, women and children have crossed the Padma since Independence or Partition—depends on the way you look at it—to seek refuge in West Bengal. Three and a half million? Four million? But that is not very important. The official registers are faulty, and many came unseen slowly to be lost in the H U Fs existing in West Bengal. What is no longer denied is that the unabsorbed are many, and that about a hundred crores have been wasted on the refugees. That was Krishnamachari. Arun Guha and Renuka Ray repeated the same story in the Lok Sabha recently, the latter without so much as dropping a hint that as Minister she had had a hand in the wasting. Railway stations are still full of refugees, and the pavements cleared before the visit of Khrushchev and Bulganin are again adorned by the homeless.

No discussion of the refugee problem is permissible without the primary admission that its magnitude is something no country has known. When told that Israel does not want any more territory than it has, Arabs point out that under its Constitution Israel is bound to receive all the Jews of the world if they should go thither and so Israel cannot help being aggressive. India has gone one better. Not only is she pledged to take in every Hindu from Pakistan; she is determined also to keep the forty odd million Moslems that did not go to the Pakistan they had fought for. This may be very noble and all that, but it is inconsistent with the expectation that the problem will be solved early. Ten years have gone by without a beginning being made to resettle the refugees, who keep coming, and those who had not resigned themselves to the insolubility of the problem were looking forward to some bold and desperate remedy.

* * *

And such a one may be the Dandakaranya scheme, which is reported to have received the approval of the Central Cabinet. Very little is known about the scheme, and all that will be undertaken now is exploration of the region. Larger than West Bengal in area, Dandakaranya now lies in three States—Andhra, Madhya Pradesh and Orissa. If it can be developed it can certainly be an answer to the refugee problem. Whatever the Leftists may say, West Bengal can hold no more refugees, and all attempts to settle East Bengalis in the neighbouring States have virtually failed. A new area seems the only answer—if it can be developed. The boldness of the Dandakaranya idea matches the desperate character of the problem. Whether there will be resources, material and human, to match the challenge is a consideration to be taken into account, and now, or else there will later be waste and frustration.

Civilities are best set aside when the search is for the truth, and not without naming the guilty men, and parties, will we keep them out of the Dandakaranya scheme. Let it be stated straightaway that the failure to make even a dent in the refugee problem is ascribable to the Government of West Bengal. It was a mistake to let the problem look like a provincial one, for the refugees are a national charge. Money came from Delhi, not all of which could even be spent. That part of the funds which was spent at all on refugees was spent mostly on relief. Rehabilitation took a back seat, where it remains. Excessive importance was attached by the Centre to the possibility that the West Bengal Government would perhaps be better equipped, emotionally, to deal with Bengali refugees. The Bengali's sympathy for a fellow-Bengali is not something to be taken for granted. Much too much is made of the human aspect of the problem of refugees. What is required now is greater emphasis on the administrative aspect of the problem. We have gone past the stage when the shedding of sentimental tears could be confused with doing something for the refugees.

* * *

Questions have already been asked whether Dandakaranya should be treated as a separate State, a part of West Bengal or a Centrally administered area. The third may be the best idea, and those who really want the refugee problem solved—not everyone does, for vested interests have already been created which will be terribly unhappy to see it ended—should be told that the Government of India is hereafter going to deal with the refugees as though they were human beings first and Bengalis second. Propounded like this, nobody will object. But this is not how it is going to be presented. If, however, the Government takes the Opposition into confidence and then discusses the matter under a glare of publicity, it will be difficult for the latter to exploit the situation. It will also be necessary to call off the bluff of Bengali culture that it can thrive only in a certain environment. If culture were the most important thing, or if it was so rooted in a particular territory as some make out, the refugee would never have come away. The real question relates to livelihood, and if the popular newspapers will not bring it out it will be for the Government to spill the beans.

What Dandakaranya must do is to create opportunities, economic opportunities. And to h—l with culture and all that. If Bengali culture is worth anything, it will survive the hot winds of Dandakaranya. If it isn't, which I hate to believe, let it go with the wind. Those who expatiated recently in Parliament about the conditions in which the Bengali refugee will be rehabilitated never mentioned the first point, which is that he should be well off financially. All the nonsense about culture and way of life must be cut out before the refugees from East Pakistan can be settled in Dandakaranya.

* * *

There is a third deterrent to excessive optimism. It was all right for an American President to ask young men to go west. It worked, and the west is now flourishing in the United States of America. It should be remembered that we are not Americans. What Dandakaranya needs is a pioneering spirit, a spirit of adventure. It should not be taken for granted that the East Bengal refugees have it. This is an unpleasant thing to have to say, but if this is not recognised now we will hear the accusation later, after a lot of money

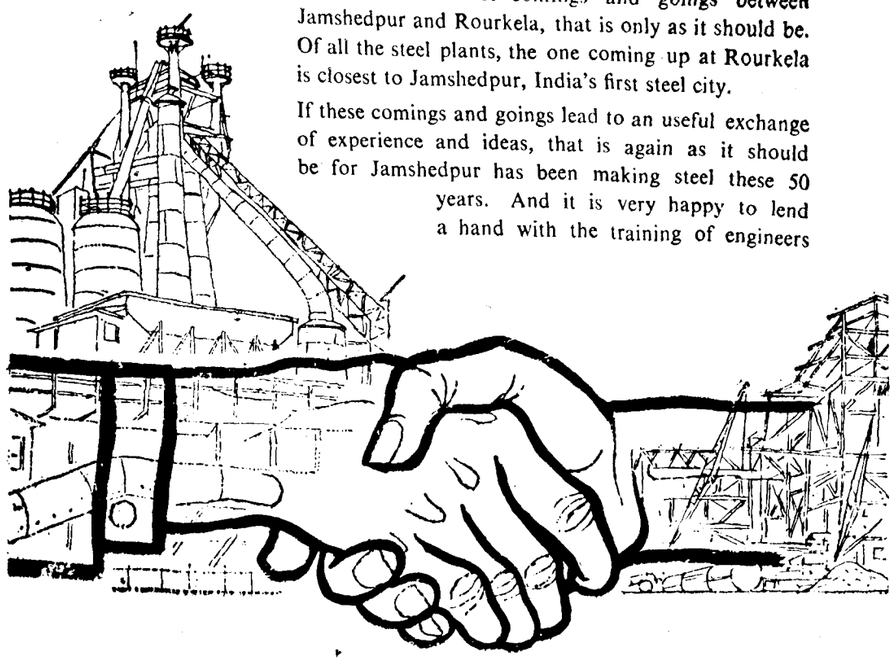
has been wasted.

This caution is suggested by the recent observation of the Community Development Evaluation Organisation which lamented the lack of popular enthusiasm and seemed almost ashamed of its physical achievements—schools built and hospitals constructed. The object of this piece is to warn against similar disappointments. It is physical achievements which the Dandakaranya scheme must accomplish, and it must not take popular enthusiasm for granted. More and more people will come across the river called Padma, and if they are to be taken to the trees of Dandakaranya their ushers must have everything ready—including a job. Nothing must be left to the initiative of the people, for the simple reason that there is no such thing (for which there may be many very good reasons). To make an obvious joke, to go to the Dandakaranya forests is not to be out of the wood but in it.

—Flibbertigibbet

August 19.

From a Neighbour



If there is a lot of comings and goings between Jamshedpur and Rourkela, that is only as it should be. Of all the steel plants, the one coming up at Rourkela is closest to Jamshedpur, India's first steel city.

If these comings and goings lead to an useful exchange of experience and ideas, that is again as it should be for Jamshedpur has been making steel these 50 years. And it is very happy to lend a hand with the training of engineers and technicians for Rourkela. There are nearly 150 of them at Jamshedpur—from key personnel to artisans.

Strengthening these ties of friendship are the surprisingly large number of old Jamshedpur faces that one sees at Rourkela. To them and their colleagues, Jamshedpur sends neighbourly greetings and good wishes.

Good Wishes to Rourkela

THE TATA IRON AND STEEL COMPANY LIMITED

TN 1509

From U N Headquarters

Canada in Search of a Soul

FOUR days by the side of a lovely Canadian lake does not qualify one to write about Canada. And this correspondent is painfully conscious that he has done little reading on Canada, knows few Canadians, has met even fewer in their native habitat and that he is not aware of their specific problems except what he has heard from those he has had the privilege to talk with. Yet it seems important to this correspondent who recently attended a conference convened by the Canadian Institute on Public Affairs jointly with the Canadian Broadcasting Corporation that his impressions of Canada and Canadians are recorded, howsoever sketchily, for Canada is rapidly becoming an important power and is certainly one of the most respected at the United Nations. It is important especially that India knows more about this huge mass of sparsely populated land which today plays host to hundreds of Indian students in its colleges and universities.

A word about the aforementioned conference may not be out of place here for there is hardly anything like it in India, All India Radio's high-mindedness notwithstanding. To an Indian accustomed to the tub-thumping of wordy Congressmen at futile sessions of the A I C C the Couchiching Conference was something like a breath of fresh air. Here at this conference of intellectuals held by the lovely waters of Lake Couchiching, the outpourings of the politician would have been as out of place as 'Gayatri' in Jumma Masjid. Couchiching was high-minded and high-brow. And, so they say, in an especial sense, Couchiching was Canada, and very pleasantly so.

Canada is a paradox in more ways than one. It is part-English, part-French, though predominantly English and yet not so. For the Canadian wants to be Canadian, but seems irretrievably lost in the wilderness of his own emotions. On the one hand, he is neighbour to the United States and unlike the Australian, his closest modern analogue, who is insulated by eight thousand miles of ocean, is influenced by the tides of powerful economic, social and cultural growth of a friendly but insensitive neighbour. On the other hand, his heart is in the British Isles and he listens attentively to his cousin from across the seas, wanting to share with him his feelings and yet, shying away from too much attachment to him. The word "Canada" it is said, is derived from the Spanish "Canada" meaning—a passage. That is what Canada today looks like—a passage, and Canadians are naturally more concerned about it than anybody else.

It is no more easy for a visiting Indian to define the Canadian character or analyse the inner meaning of Canadianism than it is for him to define, say, the West Indian Character. A spokesman at the Couchiching Conference had this to say: "We have followed a liberal policy in opening our doors to people, goods, and ideas and have drawn great benefits from other nations—from the countries of the British Isles, from France, and other European countries, from the United States. But we have been determined to take these benefits only on our own terms and to weave them into a national pattern of our own making."

But what is the Canadian character? A famous writer, greatly respected in Canada and one often quoted, once said this of his fellow-countrymen: "Our most obvious characteristic is our national humility". There seems to be something substantial about this bland statement. It is sweeping in its assertion, but no one who has lived in Canada will deny it. Is it true humility? Is it another word for mass "inferiority complex"? This too, is said of the Canadian, with what justification this correspondent is frankly unable to say. But the Canadian is aware of this and is wise to its dangers. He is frankly scared of what inverted inferiority complexes might do to an individual and a nation.

What seems to worry the Canadian is the fear that the United States with its stupendous technological advancement might swallow him up. This was stated in so many words at the Couchiching conference by Mr R M Fowler, who is President of the Canadian Pulp and Paper Association and Chairman of the Royal Commission on Broadcasting. Mr Fowler enjoys the same kind of prestige that Shri Vittal Chandavarkar, in the heydey of his glory enjoyed in Bombay and the chairmanship of the Pulp and Paper Association carries with it the prestige that the Chairman of the Millowners' Association in India would. "The danger was and still is", Mr Fowler said, "that the United States could take us over without knowing they were doing it".

This is the kind of 'danger' that Canadians frankly are bothered about, and they bend backwards in order to cultivate Britain "culturally". It is the fear of a proud and ancient people of being submerged by a crass material civilisation. The Canadian is by no means poorly endowed in material riches. The Canadian dollar is mightier than the almighty U S dollar. A U S dollar fetches only 95 Canadian cents—a fact that exchange conscious Indians note as they pay for Canadian services in American money. But the Canadian does not seem to enjoy the trappings of riches. He is almost embarrassed with what he has. Is this the vestigial characteristic of the Scots who were one of the first to come to this hard land to make it yield its riches? Toronto is wealthy, but refuses heroically to show it off. One has only to motor through Chicago or Detroit to realise this. An average American city flaunts its wealth. It tries to show off. Not so Toronto. Not so Ottawa. Is this just the Canadian's reaction to the United States? Sociologists constantly seek to portray the Canadian as "reacting" to something, instead of portraying him as being true to his inner reflexes. To this correspondent, it would seem that the Canadian, in this sense, is more sinned against than sinning.

Nevertheless it may be true to say that Canada is in search of its soul—but really not anxious to find it. A national joke in Canada is the flag controversy. Canada has no flag of its own—not a real flag, anyway—and the Union Jack flies proudly over state buildings. But Canadians say that they do want a different flag and judging from the manner in which they are going about it, it is unlikely they will have one for another decade, if ever. The fact in itself

is a reflection of Canadian sense of values. Oh yes, they seem to say, an independent dominion must have a flag of course, but then what is wrong with the Union Jack, pray? To which, at least to most Canadians' minds, there is no valid answer.

As with the problem of a flag, so with matters concerning literature and the arts. Speaking at the Couchiching Conference, a well-known educationist, Dr Marshall McLuhan made the somewhat disconcertingly frank admission that "Earl Stanley Gardiner or Agatha Christie probably provides a stronger bond for Canadians than our own poets or novelists". And he added: "Almost our entire attention is centered on non-Canadian subjects and reading matter, so much so that it is surely easy to locate true Canadianism precisely in this untaught and spontaneous habit of appraisal of other cultures and other scenes than our own".

Does this strike a bell to most Indians as they read this? Or take this again: "It is not easy for an American or an Englishman or any other national to give the same insouciant sympathy to others as to his own. But for Canadians no effort and no training is needed to be truly international. In an age such as our own, this unbought grace is invaluable and something to be cultivated. True Canadian nationalism will never be found in the search for an elusive national psyche". And crowning glory of it all: "We will achieve a true national and literary identity not by cultivation of a national ego such as we can recognise in other countries, but by simply becoming very much aware of those tendencies and situations which have so long postponed the development of this dubious egotism....our generous devotion, meanwhile, to the values and interests of other cultures is our best assurance of a rich supply of nutriment which will foster whatever is good and sound in our national life".

Can this be called an example of national humility? Or is this an example of mass inferiority complex? Here is a distinguished scholar consciously asking that his country deliberately go out to seek all that is good and beautiful and lovely in the Garden of Man, in this wide, wide world. This attitude is both touching and disturbing.

Granting that the Canadian is both discerning and sensitive, granting also that he will no more attach himself to Anglo-Saxon culture because of his emotional roots than he will to the so-called American culture because of its material content, it is still a matter of vital importance that a nation so powerful as Canada should turn itself into a cultural vacuum for the most deceptive force to capture her soul.

Thoughtful Canadians are not unmindful of this. Canada today wants an increased population. Its cities look deserted. To one who has lived for the major part of his lifetime in teeming Bombay, Adelaide Street or Queen's Avenue or University Avenue in Toronto look sadly depleted of people. Even at mid-noon or after offices are closed, the main streets look like Dadabhai Naoroji Road on a Sunday afternoon. But Canadians, while wanting immigrants, are in no hurry to accept them indiscriminately. Though most Canadians recognise that it is in their national interest to obtain additional population they feel that if they are to preserve their national character, institutions and way of life, the absorption of immigrants cannot be unduly hurried.

The Canadian, it would seem, is living in a world of fear. Not fear as we know it—whatever else may happen to India, Indians are sure that they are in no danger of losing their psyche, and three thousand years of history is there to prove it but fear of being submerged by a wave of American materialism and despite his material riches, despite his obvious prosperity, the Canadian shuns the American way of life as he shuns poison ivy. The American has made vital inroads into Canadian economy—a matter of concern to Canadians. Mr W F Holding, an economist, speaking at Couchiching put this in more telling words. "The investment pattern" he said, "resembles exploitation rather than development. The shape of Canadian economic growth could become so deformed by this one-sided development of our national potentials, that we as a nation would be irretrievably committed to the role of hewers of wood and drawers of water for more progressive nations". And he added: "If we continue to peddle our extractive wealth to those who make fuller economic use of it than we, eventually we run out of our assets. Conversely, to the extent that we can put this natural wealth to greater use within our own country, we grow in strength not only in terms of our own development but in terms of our potential contribution to the world in which we will live tomorrow".

This is one reason why Canada appreciates the Indian point of view on many economic issues. The speaker here was telling the world that much as he would like to see Canada developed, he would nevertheless not like to see foreign — and by this he means American — exploitation of Canada. Mr Holding might have been echoing Shri T T Krishnamachari. Inasmuch as India fears economic domination, the Canadian fears both economic and cultural domination by the United States. Hence his often valid adulation of Britain, hence his sympathetic understanding of India.

This is a bond that Indians must try to strengthen. India can offer nothing to Canada, except, perhaps the example of a nation struggling to maintain its integrity intact. Canada is watching India. Canada sincerely wants to help India; perhaps she is seeking in India's growing strength, an unconscious toughening of her own national muscle. This is a far-fetched thought, but not entirely unlikely. Canada with her clean past, her cleaner present and with prospects of a glowing future wants the friendship of distant lands. It wants India's friendship; it holds Nehru in high regard; it is puzzled and pained by India, not knowing her well enough, even as India knows so little of Canada. Canada is the coming land of promise. The most fortunate country in the world today, it is looking forward already to a two thirds increase in its standard of living by 1980 and a working week of 34 hours! But all this does not necessarily enthuse Canadians, who are more concerned than their American neighbours with other values in life, which they seek in India and elsewhere. When they see India falter, there is genuine concern in Canada. That is one reason, it seems to this correspondent, why there should be a greater identity of understanding between India and Canada. Canada is no more the far and distant land. Canada is our next door neighbour.

From the London End

Role of United Kingdom in Commonwealth Development

THE political disagreements at the recent Commonwealth Prime Ministers' Conference have reduced much of the significance of the exchange of views among the Ministers on economic matters. And yet the question of Commonwealth development did once again come up for appraisal, but with this difference. In the past the consideration of the development of Commonwealth resources was confined to its balance of payments effects or as the 1952 Commonwealth Economic Conference of 1952 put it:

> "the sterling area countries should concentrate their development in projects which directly or indirectly contribute to the improvement of the sterling area's balance of payments with the rest of the world."

Now, however, the emphasis is primarily on the availability of financial resources for development. This new emphasis does not only arise in view of many murmurs of surprise at the magnitude of the Indian Second Five Year Plan that one notes in British comment but in the fact that many more countries are securing independent status and all the new ones are quickly thinking in terms of economic development and planned economic growth.

The new emergent countries can argue, and most convincingly so, that their investment intentions will ultimately improve the balance of payments of the sterling area. According to the White Paper (Cmd 237) just released by the Commonwealth Relations Office another criterion for independence is involved: The more an emergent country is able to finance itself or to attract the finance for the development of its own resources "the fuller is the reality of independence." In a word true independence is, among other factors, contingent upon creditworthiness. What transpired in the Prime Ministers' discussion, or for that matter, the reactions of the British Government to reports of Shri Nehru's request for "£ 200m sterling credits" is of course unknown. The lines of thinking in British Government circles and in the City of London are, however, clearly indicated in the White Paper and in recent press comments.

Guiding Principles

The guiding principles of what is termed as the "British contribution to the development of Commonwealth resources" are for the first time explicitly stated and their enumeration highlights the pertinent policy considerations which go into every investment decision which the U K Government makes. The guiding principles are:

(a) The U K must look upon the "maintenance of the strength of sterling and the successful development of its own economy" as its first duty.

(b) The Commonwealth must pursue policies which sustain the strength of sterling.

(c) The U K does not possess all the resources necessary for Commonwealth development and so "well conceived expansion" should be financed from outside as well.

(d) "Private enterprise is better adapted to undertake the risk investment which often produces the most valuable addition to economic progress." British private capital will, therefore, flow most readily to those countries which undertake to attract it.

(e) The U K is willing to spare its technical knowledge and skill for Commonwealth development.

Role of Private Investment

Some of these principles require interpretation. The first two are clearly in the nature of a warning to those Commonwealth countries who formulate "grandiose" development projects in the nature of steel plants or who realise that some social investment is necessary that they are less likely to obtain financial assistance from Britain unless the British Government can be convinced that all this would lead to the strengthening of the sterling area's balance of payments and thus of sterling. Equally important is the implication that the construction of competitive industries in the overseas Commonwealth cannot obtain British support since it would be preferable in such circumstances for Britain to develop its own resources.

Of greater significance is the fourth guiding principle. According to the White Paper "direct private investment forges the most permanent links between countries" and placed in historical perspective the development of Britain's imperial status is certainly explained by the role of direct private investments. Now, when certain of the most dynamic and forward-looking Commonwealth Governments are taking greater and greater responsibility for the direction of their

U K Sources of Funds for the Financing of Overseas Investment 1946—55

(£ million)

From Dollar Area			
Grants	+ 681		
Increases in Sterling Balances	+ 24		
Loans, Aid and other Capital Inflows	+ 1501	2206	
U K Balance of Payment on Current Account	— 607		
U S Defence Aid	+ 321	— 286	
Withdrawals from Gold and Dollar Reserves		+ 2	1,922
From Overseas Sterling Area			
Increases in Sterling balances			512
		Total	£2.434
		Annually	243.4

economic developments, the historical role of direct British private investment becomes limited and heavily limited. So when the White Paper declares that "private capital will flow most readily to those Commonwealth countries which take practical steps to assist it," this not only calls for guarantees that profits and other earnings of such private capital may be freely remitted back but that no controls be imposed on how and in what industry such capital is invested.

Govt Investment in Colonies Only

In working out a policy for the United Kingdom, the White Paper details the pre-requisite for the achievement of a sufficient investment surplus. The availability of funds for Commonwealth development must be dependent on the extent to which the U K can solve the basic requirements of the British economy. These are repayment of the American loans, the essential external investment in the non-Commonwealth countries, "for example, in the oil industry", the fulfilment of the U K programmes of industrial modernisation and re-equipment and a steady increase in the gold and dollar reserves. Apart from all this, the savings burden on the British people will be heavier to offset the strains arising from the "rapid drawing down of the accumulated reserves of sterling of certain Commonwealth countries." Having regard to all these commitments the British Government has, according to the White Paper, determined the order of responsibility of U K investments in the overseas Commonwealth. The Government itself will henceforth concern itself only with investment in the Colonies, "applying Exchequer Funds to development in the Colonies through such means as the Colonial Development and Welfare Acts." The responsibility of the Government ceases when a colony achieves independence—and therefore "H M Government does not envisage Government to Government loans as a normal means of assisting such countries".

The investment needs of the independent Commonwealth will henceforth be the sole concern of private British capital. The White Paper declares the British belief that:

> "....the interests of the Commonwealth countries can better be served if they build up their own credit and make use of the facilities of the London capital market...the existing pattern of private investment in Government loans and direct private investment in productive enterprise goes some way to meet the manifold needs of these countries."

This convenient compartmentalisation of British investment efforts carries with it far-reaching implications. The practice has grown in the London capital market for Commonwealth and Colonial loans to be raised if only such loans possess what is termed "trustee status" a term signifying British Government sponsorship. This sponsorship, however, remains in only those cases where "the link of the Crown" is unbroken. Thus in examining the possible reactions of the London capital market to an Indian Government loan, the **Banker** declares that:

> "the possibility of borrowing on the London market is prejudiced by the uncertainty over Indian trustee status by reason of its break with the Crown."

In the cases of Ghana and Malaya, the White Paper states that arrangements have been made whereby the stocks of these Governments will continue to enjoy trustee status in the United Kingdom.

Britain's post-war record of investment in the Commonwealth appears to be in line with this new policy declaration. Most of the Government disbursements of investment funds have been directed to the Colonies. British capital outflows to the sterling Commonwealth is estimated to have averaged £150m a year in the past ten years. Of this, £125m took the form of private investment and loans from UK Exchequer funds and £30m in grants from the same source.

What the White Paper significantly omits are the sources of funds used for financing the estimated annual £250m British international investment (i e to all countries) in the post-war years.

What, then, is the message of this important White Paper? There exists a world shortage of capital funds and from now on if Britain is to provide more funds for the Commonwealth then she would be entitled to play the proverbial tune of the piper. Britain has set the conditions and insofar as the more independent Commonwealth countries are concerned, particularly India, they have to satisfy the heavier terms which private capital and the London market sets for all borrowers. They will have to be far greater conformists if they are to be regarded as creditworthy.

Hand Tyre Inflator Industry

Government has accepted Tariff Commission's recommendation that protection to the hand tyre inflator industry should be continued till December 31, 1960.

The rate of protective duty, however, will remain at the present level of 45 per cent **ad valorem**, as against the Tariff Commisson's recommendation of 25 per cent **ad valorem**. The decision to continue the present higher rate has been taken by Government in consultation with the Tariff Commission.



"One has no protecting power save prudence."

Juvenal.

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Letter from Paris

The Chances of De Gaulle

WHAT are the chances of De Gaulle coming to power? This is a question that is being asked by everyone in France and by many outside. Ever since the end of the War, there has always been a suggestion in the air that a more stable, a more effective government could have been brought about in France under the leadership of the universally respected General De Gaulle. These suggestions have usually come from circles associated with the General himself. What is significant in the present murmurs that are being heard about him is that they are coming from quite a few unexpected quarters. It is being said that there are even certain leftist and moderate groups quite outside the habitual Gaullist circles which would for various reasons like to see De Gaulle in power. The leading weekly **Express**, which is usually taken as a mouth piece of 'Mendesseism' has been significantly giving publicity to De Gaulle. And quite a sensation was made some time back by Bourguiba, the head of the Tunisian Government, suggesting that a solution for the Algerian problem would be to create a North African Arab bloc associated with the French Union, and that to bring it about the best person would be General De Gaulle, who is the only person in the French political world enjoying the confidence of the Arabs.

On His Own Terms

Who is De Gaulle, and what are his political opinions? De Gaulle came into the limelight in 1940 when he refused to obey those in the French Government who capitulated to the Germans, and went over to England to become the head of the Free French Government and the head of the French Resistance. He earned immense prestige in this brave and patriotic role and being associated with the resistance fighters of all political shades (including the Communists) he emerged from the war a figure unique in recent French history: a political man above political parties. There were great hopes at that time of prolonging the experience into peace time and a Common Front Government representing all parties was formed under the leadership of De Gaulle. This, of course, was a highly artificial arrangement and could not last long. The Communists had to quit and the front dissolved.

De Gaulle still hoped to lead a unified Government. To do so he had to enter the Government through a Parliamentary majority and to that end formed a party. But it never gained enough popularity and very soon the General got fed up with the game of party politics. He soon became convinced that he would never succeed in uniting the country through the existing Parliamentary system and wound up his party. Since then he has been in semi-retirement from politics. He was not in full retirement for he is known to have remained always in readiness to come back to power if asked to. But he has some rather severe and strange conditions to be satisfied if he has to come back. He would accept some sort of a Presidentship with very much more direct executive power than given to any individual in any of the Western democracies; but he has never defined clearly the constitutional aspects of such an arrangement. Moreover, he will come to exercise his power only if demanded to do so by a significant majority of his countrymen, and yet he will never seek to gain this position through political party methods.

Not a Fascist

It is not only the despotic character of the arrangement which he seeks that makes French public opinion rather cool towards him (despite their respect for him), but also the obscurity of his vision. He obstinately refuses to throw any more light on the policies he would pursue or the personnel he would appoint in forming the Government. And even the little of his ideas that reach the public never emanates from his own speeches, but from his associates only; he hardly makes public statements.

From what has already been said it would be clear that De Gaulle is a man who, even if he came to power on his own terms, would never make a Hitler or a Mussolini or even a Franco or a Salazar. He seems to be essentially an old fashioned patriot, a bourgeois liberal with nostalgia for the glorious past of France. Far from the monstrous power seeking type who render themselves to the service of Fascism in an age of developed monopoly capitalism, he seems merely to be one who believes that France is more suited to popular authoritarianism rather than to republicanism. He has, however, no intention of ever coming to power through a coup d'etat; it would thus appear that if at all he imagines himself as carrying on a French tradition, it is certainly not that of Napoleon, not even that of Louis Napoleon but perhaps only that of the Second Republic as conceived in 1848.

To Solve the Algerian Problem

Though a soldier, he is no militarist; and though proud of France's glorious past, no colonialist. (He is credited to have said about Algeria, "A people that fights for liberty, has a right to that liberty.") The essence of his political ideas seems to be the political independence for France on the one hand and unity of all political opinions inside the country on the other. If the latter makes him stand up for the co-operation of Capital and Labour, (and thus makes him agreeable to the Right), the former makes him oppose American domination and stand up against the Common Market Scheme (thus making him disliked by the finance capital interests linked with America). He is thus not really an ideal element to be exploited by the Right Wing forces in France, and that is why a Fascist danger is not directly linked with him and that is why there is not really much chance of his coming to power and retaining it for long. That does not mean that he might not come to power for a little while. He might, indeed, be brought into power with the express purpose of solving the Algerian problem.

There are two sides to the Algerian problem—one is the purely material side, and the other, the human. The second problem is that of saving face, a factor which hardly exists in the British management of foreign affairs, but which plays a disproportionately important role in the French handling of the same. Even when the material interests are all against a policy, the French often go on pursuing it for fear of losing face. A com-

parison of the French way of handling the problem of Pondicherry with Mountbatten's handling of the problem of British India would bring this fact out very clearly. Up to now even from the point of view of material considerations, there have been certain points in favour of the French policy in Algeria. But soon the material interests themselves will require a drastic change in the policy and then the problem will be how to carry out the disengagement in a manner that will save everybody's face. It is then that De Gaulle might be called upon to do the job (as has been explicitly suggested by Bourguiba) as Mendes France was brought to clear up the mess in Indo China. But just as Mendes France was thrown out once he had done the job, so will De Gaulle be removed as soon as Algeria has been pacified. De Gaulle will neither have the will nor the capacity to defy the politicians and dig himself in as a dictator when he is unwanted.

But from this, one should not conclude that there is no Fascist danger lurking behind the present demand for the return of De Gaulle. For even if he is not quite a darling of the monopoly capitalists and though he himself might stoutly refuse to countenance openly Fascist developments, these may not prevent his unwittingly becoming a stepping-stone towards greater reaction. For, as we have remarked in a previous letter, the objective conditions in France are rapidly ripening towards favouring Fascism. Thus in Algeria the army seems to have got thoroughly involved in politics and local politics seems to be almost enitrely dictated by the army leaders on the one side and the 'Ultra's of the colons on the other. In France, the Government is arming itself with special powers; progressive newspapers are bing persecuted with the deliberate intention of destroying them through financial loss! But as yet the people are psychologically not in a mood to give up republicanism. Once it is abandoned and a benevolent dictatorship accepted under De Gaulle, a later change in the arrangement permitting a move towards a really Fascist set-up would be possible without causing as much shock as would be created if an attempt were to be made right now. It is in this sense that it is correct to talk of a Fascist danger associated with De Gaulle against which sincere democrats are starting to be on guard.

Export Risks Insurance

THE Export Risks Insurance Corporation of India (Private) Limited was registered this month under the Companies Act, 1956, with its headquarters at Bombay. The Corporation will have an authorised capital of Rs 5 crores to be entirely subscribed by the Government of India. The subscribed capital, to begin with, will be Rs 2.5 crores which will be increased from time to time as the growth of business warrants.

The decision to set up this Corporation has been taken by Government on the recommendation of the Committee which was asked to consider the scope of a scheme of export credit guarantees for Indian exporters. Its principal function will be to insure risks involved in the export of goods from India, on credit basis, which are not normally covered by commercial insurers.

The main risks, which will be, covered are:—

(i) Diversion risk;
(ii) Import & Export Control risks with certain safeguards;
(iii) Insolvency and default risks;
(iv) War & Civil War risks;
(v) Transfer risks;
(vi) Any other risk which is caused by factors outside the control of the exporter or buyer which arises from events occurring outside the exporters country;
(vii) C.I.F. risks; and
(viii) The inability to recoup by sale expenses incurred on market surveys, publicity, stock holding and other promotional measures for the development of a particular market.

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Book Review

Public Life of PT

Sir Purshotamdas Thakurdas by Frank Moraes. Asia Publishing House, Bombay, 1957. Pp 306 Price Rs 17.50.

SIR PURSHOTAMDAS's life straddles eventful periods in India's political and economic history. He took a not inconsiderable part—though perhaps not as great a part as his present biographer makes out—in these events. It was a period crowded with other personalities in the political and the economic fields. It was also a period of steadily intensifying political struggle when extreme views alone (which in fact today would be considered moderate views) met with popular response. Such a setting should have crowded out or submerged a less brilliant person with moderate views.

Such a subject sets some obvious limitations to the biographer. In fact, the present work falls short of even these limited expectations. The author had been given not only full access to materials but also had a series of talks—largely reminiscences sinking into reverie—with the subject himself. And instead of lending a sharp edge to his subject by putting him against the background in which he worked, the biographer lets his subject talk. In the result we get, instead of a live, well knit biography, a patchy account of his public life, largely as PT saw it.

In fact, the biographer fails to come to grasp either with his subject or the background in which he worked. At no time does a reader—even one who is familiar with the happenings at the time—feel the past vividly recreated. The biographer fails to make the subject live, for he concentrates almost exclusively on his public life. Except for occasional titbits, a regular reader of newspapers would find nothing much that is new. And he would not get to know much about how the wealthy live, eat, think, earn, spend and go abost in life.

True, the subject himself lends very slightly to dramatisation. Coming from, and living as part of, a comfortable family, there is little to draw a reader's sympathies for the subject's life or give an impression of struggle against odds. What is more, as mentioned earlier, the subject all the time seems to breathe down the neck of his biographer. Consequently, even the few conflicts and difficulties that may have arisen—and there is little to suggest that in the case of a strong personality like Sir Purshotamdas these could have been entirely absent—have been suppressed or played down. The story therefore lacks excitement.

The main events that occurred during the period 1880-1947 are the Swadeshi movement, the first Civil Disobedience campaign, the rupee-ratio controversy, and the achievement of independence. These events are well documented, and interest in a story concerning them can be sustained only by setting the subject vividly against the background or by disclosing the inside story (the kind of "inside" information which does not remain inside in the U S A). Unfortunately, the biographer does neither effectively. Except in the various Committees' work, PT's role in public affairs was particularly limited. Even the rupee-ratio controversy—the prize story of his life—is likely to arouse little interest or excitement to-day. The biographer's narration of this controversy is competent but not lively. The political acumen shown by Sir Purshotamdas in making a popular issue out of a purely technical subject by linking up the politicians' opposition to foreign rule to the businessman's urge for economic self-determination and his organisational ability in working up a campaign to carry on the controversy—these tend to be submerged in the flat narration of the arguments for and against the ratio of the protagonists.

The same is true of the other issues on which Sir Purshotamdas took a strong stand. The two most recent issues were the resignations from the Oriental and from the East India Cotton Association. These show his strong temperament and though the previously published reports—to which the biography adds little of interest—show that Sir Purshotamdas had chosen the right issues on which to resign, one has a feeling that there was more to it, that the real issues were different and not as impersonal as they were made out to be and that Sir Purshotamdas betrayed an inability to put up with the views of others—a case of mental incompatibility.

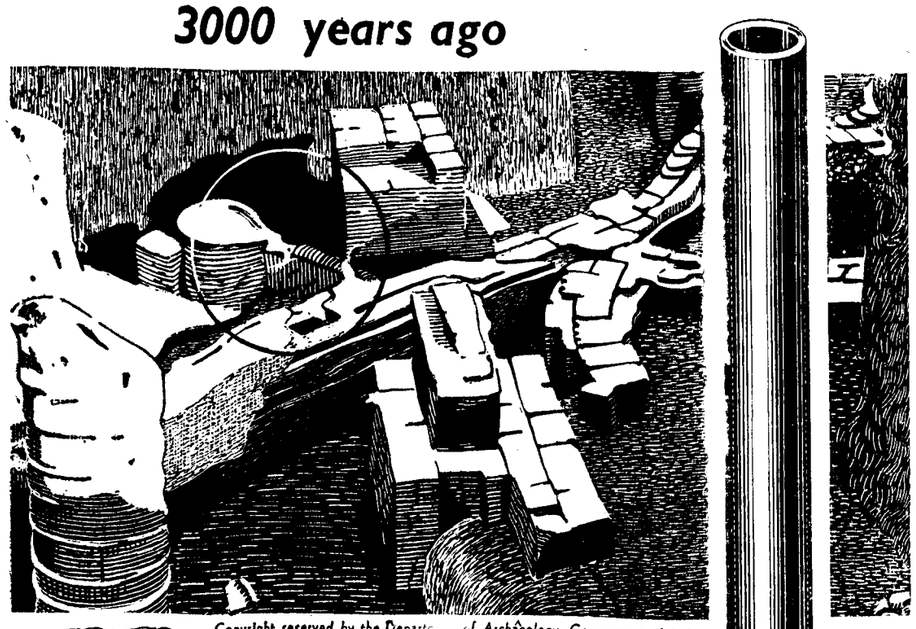
What are the lessons—lessons in public life—to be derived from the story? There are two which may be of use in the present-day circumstances. Firstly, during the Round Table Conference, Sir Purshotamdas found that the advisory staff of the (European) Associated Chambers was technically competent and that the (Indian) Federation's delegates did not have the benefit of such technical advice. Of course, in those days, even a weak case could benefit from the united front technique of the Congress and the business community. The Congress opposition to British business was often interpreted by them as a policy of favouring the Indian business community and not as a mere negative attitude to all things British. Since then, things have changed and, with the attainment of Independence, the Congress attitude towards the business community as such, whether Indian or foreign, has crystallised. In view of this, the need for competent advice to-day is very great. It would be denied by few that even today the Associated Chambers' memoranda on most aspects of Government policy are more competent than those of the other (Indian) chambers.

What is more important—and this is the second point referred to above—more than having to present its case in a competent way, the Indian business community would have to have a case for the continuance of its existence. Sir Purshotamdas refers to factions and rivalries within the Indian business community, which weaken it vis-a-vis the Government. Much worse, this prevents it from having a standpoint from which to argue. Reaction and oppositions to individual acts and policies of Government do not add up to a policy. The reactions are very often mutually contradictory, and the opposition negative, verbal cheeseparing. What Indian busi-

ness needs is a philosophy and to accept all the consequences of such a philosophy. Unfortunately, with a few exceptions, very few Indian businessmen have any interests other than those of their own business, few are widely informed or would be able, on the spur of the moment, to give an adequate exposition of their philosophy or reply to criticism made against them. To many businessmen public life is only an appurtenance to their business, intended to further their business interests. Their feeling of grievance, when their views are not heard or are taken to reflect their individual self-interest, evokes little sympathy.

Were Sir Purshotamdas in the prime of his youth to-day, he would have been of immense value to the business community. He would have represented even imposed a business philosophy in a disinterested way. Even his overbearing temperament would have been an asset under these circumstances. As it is, without such a personality, the case of the Indian business community goes by default.

3000 years ago



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Brahmanabad

Inside a house excavated at Brahmanabad in Sind, has been found an interesting piece of earthenware tubing. A basin like altar which probably served as the seat for bathing some household deity, is connected by this tubing to a covered drain. This tubing unlike other pipework found at various sites of the Indus Civilisation, has a corrugated outer surface, obviously as a safety measure against breakage.

Indian Tube

The Indian Tube Company (1953) Limited

A Tata-Stewarts & Lloyds Enterprise

41, Chowringhee Road, Calcutta-16

ITF-5-57

PROSPECTUS

1. A copy of this Prospectus has been filed with the Registrar of Companies, Madras, for registration as required by Section 60 of the Companies Act, 1956.

2. Consent of the Central Government has been obtained to this issue by two Orders No. F. 21 (34)-CCI/55 dated 27-9-1955 and No. F. 21 (67)-CCI|56-286 dated 19-3-1957, of which complete copies are open to public inspection at the Registered Office of the Company at Ennore, Madras. It must be distinctly understood that in giving this consent the Government of India do not take any responsibility for the financial soundness of any Scheme or for the correctness of any of the statements made or opinions expressed with regard to them.

3. The subscription list will open at 10-30 A.M. on Friday, the 23rd day of August, 1957, and will remain open until Friday, the 6th day of September 1957, unless closed earlier at the discretion of the Directors but not before Friday, the 30th day of August, 1957.

ASHOK LEYLAND LIMITED

(Incorporated under the Companies Act, on 7th September, 1948.)

4. AUTHORISED CAPITAL

The Authorised Capital consists of 40,00,000 Equity Shares of Rs. 5/- each	Rs. 2,00,00,000
SUBSCRIBED AND FULLY PAID UP	
19,65,478 Equity Shares of Rs. 5/- each	Rs. 98,27,390
leaving a balance of 20,34,522 Equity Shares of Rs. 5/- each available for subscription	Rs. 1,01,72,610

5. Particulars of the issues of Capital, all in Equity Shares of Rs. 5 each, which have been made during the past two years are given in the statement contained in paragraph 19 of this Prospectus.

This statement shows that at the date of this Prospectus Equity Shares of a total nominal value of Rs. 31,29,410 remained unsubscribed from previous issues. Of this amount Rs. 10,82,720 is reserved to be taken up by Leyland Motors Limited of Leyland, Lancashire, and Rs. 20,46,690 is available for issue at the discretion of the Directors.

At a General Meeting held on 6th June, 1957, it was resolved to issue a further Rs. 70,43,200 nominal in Equity shares of Rs. 5 each for payment in full at par and that of these shares Rs. 28,17,280 nominal be offered to Leyland Motors Ltd., and the balance, viz. Rs. 42,25,920 nominal be available for issue at the discretion of the Directors.

Pursuant to these Resolutions, the Directors have offered to Leyland Motors Ltd., who have agreed to take up shares of the nominal value of Rs. 52,29,170. The amounts payable in respect thereof will be subscribed in cash from time to time by Leyland Motors Ltd., normally as and when payments are made to them by the Company in respect of deliveries of Capital equipment. This amount of Rs. 52,29,170 includes Rs. 13,29,170 additional to the amounts mentioned in the preceding paragraphs as reserved for Leyland Motors necessary to bring the eventual total holding of Leyland Motors and other overseas holders in the equity Capital of the Company to 49% in accordance with arrangements recently agreed with Government.

The total nominal amount of the present issue is therefore Rs. 49,43,440, viz. Rs. 1,01,72,610, the total unsubscribed capital, less Rs. 52,29,170 to be subscribed by Leyland Motors Ltd.

9,88,688 Equity Shares of the nominal value of Rs. 49,43,440 are accordingly offered to the Public in terms of this Prospectus for subscription at par payable in full at the rate of Rs. 5 per share with application.

The shares now offered will rank for dividends and voting rights and for all purposes pari passu with the existing shares except that they will be entitled to participate in any dividend declared for the year 1957 at the next Annual General Meeting or by way of interim dividend or by way of final dividend so that the total dividend paid for the year 1957 in respect of the new shares shall be in proportion to the length of time, being part of the year 1957 during which the capital thereon is paid up and in proportion to the capital respectively paid up thereon and will thereafter rank pari passu as to dividends and in every respect with the existing shares.

6. The Shares of the Company already issued are dealt in and are officially listed and quoted by the Madras Stock Exchange Association Ltd., Madras. An application has been made to the Madras Stock Exchange Association Ltd., Madras, for permission to deal in the shares now being offered and in due course for an official quotation.

7. Application for shares should be made for a minimum of 100 shares on the Form accompanying the Prospectus and delivered before the close of the subscription list to the Company's Bankers, namely:

(i) The State Bank of India— at all their branches in the Madras Circle and at their Branches at Bombay, Delhi, Calcutta, Hyderabad, Nagpur, Cuttack, Patna, Lucknow and Bhopal.

(ii) Grindlays Bank Limited at any of their branches

together with a remittance for the full nominal value at Rs. 5 per share.

8. DIRECTORS

1. Sir A. Ramaswami Mudaliar, K.C.S.I., D.C.L. (Oxon) Chairman and Director, India Steamship Co. Ltd., Calcutta; Indo Commercial Bank Ltd., Mayuram; T. I. Cycles of India Ltd., Madras; Carborundum

Universal Ltd., Madras; The Industrial Credit & Investment Corporation of India Ltd., etc. "Kensington", Poonamallee High Road, Madras.

Chairman

2. Mr. A. E. L. Collins, B.SC., M.I.E. (India), M.I.MECH.E.

Director, Messrs. W. A. Beardsell & Co. (Private) Ltd., Madras.

"Monteith House", Commander-in-chief Road, Madras 8.

Managing Director

3. Sir Henry Spurrier
Managing Director, Leyland Motors Ltd., Leyland, U.K.

Director

Alternate Director :
Mr. I. G. Macintosh, Manager, Grindlays Bank Ltd., Madras.

4. Mr. D. G. Stokes
Director and General Sales & Service Manager, Leyland Motors Ltd., London.

Director

5. Mrs. Raksha Saran
Director, Car Builders Private Ltd., Madras; Saran Motors Private Ltd., New Delhi; Kapurthala Northern India Tanneries Ltd., Kapurthala etc.
9, Talkatora Road, New Delhi.

Director

6. Sri A. M. M. Murugappa Chettiar
Director, T. I. Cycles of India Ltd., Madras; Carborundum Universal Ltd., Madras; Tube Products of India Ltd., Madras, etc.
"Chamundeswari Baugh", Santhome High Road, Mylapore, Madras 4.

Director

7. Sri N. Sundaresan
Retired Deputy Governor, Reserve Bank of India.
11, Breach Candy Gardens, Bombay 26.

Director

MANAGING DIRECTOR

Mr. A.E. L. Collins, B.SC.,M.I.E. (India), M.I.MECH.E.

"Montieth House," Commander-in-chief Road, Madras 8.

SECRETARY

Sri K. N. Gopalan, B.A.,B.L.,
4, Atkinson Road, Madras 7.

BANKERS

The State Bank of India,
First Line Beach, Madras 1.

Messrs. Grindlays Bank Limited,
6, Armenian Street, Madras 1.

LEGAL ADVISER

Sri R. Narasimhachariar, B.A., B.L., Advocate,
"Sarnath",
Dr. Rangachari Road, Mylapore,
Madras 4.

AUDITORS

Messrs. M. S. Krishnaswami & Jagannathan, Chartered Accountants, 5, Sambasivam St., Madras 17.

Messrs. Suri & Co., Chartered Accountants, 1/29, Mount Road, Madras 2.

UNDERWRITERS

The Industrial Credit & Investment Corporation of India Ltd., Fort House, 221, Dadabhoy Naoroji Road, Bombay 1.

BROKERS

(i) Messrs. Swastik & Company, 106, Armenian Street, Madras 1.

(ii) Messrs. Chitra & Company, Bombay Mutual Building Annexe, 322/23, Linghi Chetty St., Madras 1.

(iii) Messrs. Batlivala and Karani, New Union Bank Building, Dalal Street, Bombay 1.

(iv) Messrs. Premchand Roychand & Sons, 63, Apollo Street, Bombay 1.

(v) Messrs. Place, Siddons & Gough, 6, Lyons Range, Calcutta 1.

REGISTERED OFFICE

Ennore Near Madras.

The consent in writing of the above said Auditors, Bankers, Brokers and Legal Advisers to act in their respective capacities has been obtained.

OBJECTS OF THE COMPANY

9. The Company was incorporated in 1948 under the name of Ashok Motors Ltd., which was subsequently changed to Ashok Leyland Ltd., to assemble, manufacture and trade in motor cars, motor buses and trucks, diesel engines and all kinds of motor vehicles, their parts, components and accessories.

The main object of the Company as contained in the Company's Memorandum of Association is as follows:—

To carry on the business of manufacturers, assemblers of, dealers in, hirers, repairers, cleaners, storers, warehousers, of motor cars, motor cycles, cycle cars, motors, scooters, motor buses and lorries, trucks, tractors, cycles, bicycles and carriages, launches, boats and ships, vans, aeroplanes, hydroplanes and other vehicles and conveyances of all description for carrying passengers or their personal goods, commodities, produce, cargoes and other things on land or sea or by air (all hereinafter comprised in the term "motors and other things") whether propelled or assisted by means of petrol, spirit, steam, gas, electrical, animal or other powers, and all engines, chassis, bodies, turbines, tanks, tools, implements, accessories and other things, materials and products used for, in or in connection with motors and other things.

The Company obtained a certificate of commencement on 14-12-1948 and has been carrying on business since then. Initially, the Company was engaged in assembling Austin Cars and trucks. In 1950, the assembly of Leyland Commercial vehicles was added to its activities. Steady progress was made in the volume of production and Ashok Motors Limited became recognised throughout India as one of the pioneers of a new industry.

When in 1953, the Government of India, on the advice of the Tariff Commission, selected five firms as the approved Manufacturers of Automobiles in India, Ashok Motors Limited, now Ashok Leyland Limited, was one of the five. At that time, the Company was assigned **inter alia** the role of manufacturing heavy duty commercial vehicles. It was decided in the latter part of 1952 to discontinue the assembly of Austin vehicles and to concentrate on the production of Leyland Heavy Duty Commercial vehicles for passenger and for goods transport.

A phased manufacturing programme for the production of Leyland "COMET" Chassis was submitted to the Government of India and approved in March 1954. The Company expressed its intention to extend manufacture to the complete range of Leyland Commercial vehicles in due course. Leyland vehicles are world renowned and Leyland Motors Limited of Leyland, Lancashire, England, are one of the largest manufacturers of heavy duty buses and trucks. Their range, including vehicles manufactured by subsidiary Companies in their group, covers buses for every type of duty including the clutch-

less high performance Royal Tiger Worldmaster Chassis with underfloor engine designed for gross loads up to 15 tons, operating as a single deck passenger vehicle and the "Atlantian" double deck bus which is the most advanced vehicle of the class in the world today, with seating capacity for 78 passengers. In the goods range, lorries are available for loads up to 60 tons and includes single vehicles such as the "Octopus" which without any form of articulated trailer can accommodate gross loads up to nearly 25 tons. All these chassis are powered by the famous Leyland range of direct injection 6-cylinder diesel engines.

The objects before this Company therefore are, commencing with the Leyland "COMET" Chassis, designed for gross loads up to 12 tons, to establish the manufacture of a range of Commercial vehicles comparable to the range offered by Leyland Motors Limited in the United Kingdom and including the manufacture of the Leyland range of diesel engines. In due course, it will be the Company's object not only to produce for the Indian market but also to export to Overseas markets.

Development

10. Under the Agreement dated 5-12-1955, planning of production including manufacture of jigs and fixtures was to be undertaken by Leyland until competent staff could be trained in India, the services of Leyland Technicians were to be available to assist with the training of staff and the development of efficient material control, planning and production control in India, and facilities were to be provided at Leyland for the training of Indian personnel.

By the end of 1955, initial planning being complete and the delivery in India of machine tools, jigs and other factory equipment having commenced, implementation of the manufacturing programme was started. Progress since then has been continuous and at present after a little over one year from the inauguration of manufacture, 15.80% of the c.i.f. value of the Leyland "COMET" is produced in Madras.

Financial Background

11. In the original agreement dated 5-12-1955 concluded between the Company and Leyland Motors Limited of Leyland, Lancashire, with the approval of the Government of India, it was provided that the eventual contribution by Leyland Motors might be Rs. 80 lacs, i.e. 40% of the Company's authorised capital of Rs. 2 Crores. Pursuant to this arrangement, the capital has been increased from time to time until the paid up Ordinary Capital amounted to approximately Rs. 95 Lacs, of which Leyland Motors held Rs. 38 Lacs. The sanctions granted by the Controller of Capital Issues provide for issue up to 40% of the capital to non-resident shareholders.

Government have recently agreed that the participation of Leyland Motors may be increased to 49%, whereafter the paid up capital was increased to approximately Rs. 98 lacs, of which Leyland Motors held Rs. 41 lacs. The Company has applied to the Controller of Capital Issues to increase the percentage of shares to be issued to non-residents from 40% to 49% of the capital. The present issue will bring the total subscribed capital to Rs. Two Crores, of which Leyland Motors will hold Rs. 98 lacs. The purpose of the Issue is to meet Capital and other expenditure as hereinafter mentioned.

Objects of the Issue

12. The additional capital to be raised as the result of the present issue is required for the purposes of completing buildings and equipment necessary to enable the Company to increase production, in accordance with the programme of progressive manufacture, up to a total of 2,500 vehicles per annum.

It is to be noted that the original estimates of the Capital needed to implement the programme for full scale manufacture of Leyland "COMET" buses and trucks, viz. Rs. 2 Crores, is likely to prove correct. The sum of Rs. 1,01,72,610 to be raised by this issue and by the subscription of shares to be taken up by Leyland Motors Ltd. will be utilised as follows:—

(a) To finance the balance of the building programme and to purchase additional factory equipment	Rs.	50,00,000
(b) To repay money borrowed for the erection of buildings and purchase of plant and machinery	Rs.	25,00,000
(c) For addition to working capital	Rs.	23,00,000
(d) For expenses of the Issue	Rs.	2,20,000
(e) Contingencies, being the balance	Rs.	1,52,610
	Rs	1,01,72,610

Automobile manufacture requires substantial working capital to cover stocks of raw materials, work-in-progress and finished components awaiting assembly. In addition to the amount provided for working capital above, the Company will make use of substantial loans from its Bankers secured on its stocks of raw materials, work-in-progress etc.

Foreign Exchange

13. The Company does not anticipate any problem in the provision of foreign exchange for meeting the cost of imported plant, etc. necessary for the expansion programme to be financed from the present issue, since the cost of imported capital equipment is expected to be met by the issue of Equity Shares of the Company to Leyland Motors Ltd., in the U.K., as hereinbefore mentioned.

Prospects and Profits

14. Except in respect of the year 1955, the Company has paid a dividend annually since its inception. The year 1955 was exceptional in which heavy items of non-recurring expenditure, such as the payment of compensation to Managing Agents, writing down the value of Austin Spares since the assembly of Austin vehicles has been discontinued, made it inexpedient to declare a dividend. The working results for 1956 were good and a dividend of 6% free of tax was paid after making provision for taxation and depreciation and after placing Rs. 1.5 lacs to Reserve.

Sales of "COMET" trucks which amounted to 159 in 1953 have steadily increased and are expected to reach a total of 1,000 for 1957, which, in the Company's planning was regarded as a level of production and sales which would achieve economic results. The rising demand leads the Company to proceed with its plans to increase capacity to 2,500 vehicles per annum, and, given reasonable trading conditions, the Company expects to be in a position to continue to pay Dividends on the capital as increased as the result of this issue.

Leyland vehicles are noted for their long life. The average life of those now being put on the roads is estimated at a minimum of 12 years. In many cases Leyland vehicles remain in service for 20 years or more. After two or three years service replacement of worn parts commences during routine overhauls. There will, therefore, during the coming years, be a considerable increase in the sale of spare parts which will have a beneficial effect on the Company's ability to make reasonable profits.

15. The following is a copy of the report of the Company's Auditors Messrs. M. S. Krishnaswami & Jagannathan and Messrs. Suri & Co., Chartered Accountants:

ASHOK LEYLAND LIMITED

Ennore, Madras

We have examined the accounts of Ashok Leyland Limited for the five years ending 31st December 1956, and in accordance with the provisions of Clause 24 of Part II of Schedule II of the Companies Act, 1956, we report as follows. A summary of the Profit & Loss Accounts of the Company for these years together with the adjustments to be made is given hereunder:

Year Ended 31st December	1952 Rs.	1953 Rs.	1954 Rs.	1955 Rs.	1956 Rs.
Sales, closing stock and miscellaneous revenue :	2,04,52,081	1,76,98,569	1,50,05,753	2,48,49,459	4,28,78,648
Non-recurring item for which adjustment is necessary :					
Profit on sale of assets :	14,017	42,645	398	8,282	14,909
	2,04,66,098	1,77,41,214	1,50,06,151	2,48,57,741	4,28,93,557
Opening stock, purchases and other expenses including normal depreciation :	1,95,40,043	1,71,79,575	1,45,62,494	2,43,88,298	4,20,24,943
Non-recurring items for which adjustment is necessary :					
Brokerage on shares	1,500	—	—	—	—
Initial and extra depreciation :	4,42,271	1,17,495	40,246	36,774	—
Donations & Charities :	1,100	2,100	—	3,150	1,000
Compensation for termination of Managing Agency :	—	—	—	2,50,000	—
Payment to former Managing Agents :	—	—	—	—	11,924
	1,99,84,914	1,72,99,170	1,46,02,740	2,46,78,222	4,20,37,867
Net Profits Subject to Income Tax :	4,81,184	4,42,044	4,03,411	1,79,519	8,55,690
Percentage of Dividend 'A' :	5%	5%	5%	Nil	6%
" 'B' :	5%	5%	5%	Nil	

We further report that no dividends have been paid in respect of the year ended 31st December 1955. No accounts of the Company have been made up since 31st December 1956.

'A' and 'B' Class shares of the Company were converted into equity shares of Rs. 5 each during 1955.

The Assets and Liabilities of the Company as at 31st December 1956, as disclosed by the Audited Balance Sheet, were as follows:—

1. Fixed Assets less Depreciation :			Rs.	46,94,617
2. Investments :				500
3. **Current Assets :**				
Stores :	Rs.	1,19,589		
Stock-in-trade :	Rs.	1,39,87,918		
Sundry Debtors :	Rs.	25,75,966		1,66,83,473
4. Advance, Deposits and prepaid expenses :				10,75,464
5. Cash and Bank Balances :				4,70,406
Less Liabilities :			Rs.	2,29,24,460
1. Secured Loans :	Rs.	83,41,653		
2. Current Liabilities and provisions— (including proposed dividend of Rs. 3,56,580)		53,18,553	Rs.	1,36,60,206
Share Capital : 17,13,360 Equity shares of Rs. 5 each fully paid up :	Rs.	85,66,800	Rs.	92,64,254
Reserve and surplus :		6,97,454		
			Rs.	92,64,254

Note:

1. The stock-in-trade includes Austin and Proprietary Parts, the original book value of which as on 1-1-1955 was Rs. 26,09,925 (the sales value of which cannot readily be ascertained). After taking into account subsequent purchases and sales and writing down the value by Rs. 3,59,712 out of profits of the year 1955 and Rs. 1,78,418 out of the profits of the year 1956, the value of these parts stood at Rs. 15 lakhs as at 31-12-1956.

2. There is a Contingent Liability for Madras Sales Tax amounting to Rs. 4,77,014 not provided for in the accounts, as the matter is under appeal.

3. Since the Company's Accounts were made up at the end of 1956, the paid up Capital has been increased to Rs. 98,27,390.

(Signed)

(i) M. S. Krishnaswami & Jagannathan

(ii) Suri and Company

Chartered Accountants

Dated, 8-7-1957.

Minimum Subscription

16. The minimum subscription upon which the Directors will proceed to allotment is Rs. 49,43,440; subscription of this amount is assured by reason of the underwriting to which reference is made below. This sum together with the amount to be subscribed by Leyland Motors Ltd., in respect to shares reserved for them, viz, Rs. 52,29,170 will cover the total expenditure of Rs. 1,01,72,610 hereinbefore set out.

Voting Rights

17. Under Article 92, as modified by Section 87 of the Companies Act, on a show of hands every member present in person shall have one vote and upon a poll, every holder of shares present in person or by proxy shall have voting rights in proportion to his share of the paid up equity Capital of the Company.

Restriction of Right to Transfer

18. The Directors may decline to register any transfer of shares upon which the Company has a lien and in the case of shares not fully paid-up, may refuse to register a transfer to a transferee of whom they do not approve.

Past Offers and Allotments of Shares

19. The following is the statement required by the Companies Act, 1956, of shares offered, allotted and paid up during the past two years, viz.

(The amounts quoted are nominal values of Equity Shares of Rs. 5 each).

	Paid-up Capital
The total Equity Capital issued and paid-up as on 31st July, 1955, was	Rs. 54,56,800
On the following dates shares were offered, allotted and fully paid-up—	
On 1- 2-1956	Rs. 10,000
,, 2- 3-1956	4,00,000
,, 4- 5-1956	5,00,000
,, 21- 6-1956	5,00,000
,, 20- 8-1956	5,40,000
,, 19- 9-1956	60,000
,, 14-11-1956	5,00,000
,, 28-11-1956	6,00,000
,, 15- 3-1957	3,00,000
,, 28- 3-1957	2,00,000
,, 27- 6-1957	3,00,000
	39,10,000
On 5-12-1956 shares of the value of Rs. 25,17,280 were offered and thereagainst the following amounts were allotted and paid-up—	
On 8-2-1957	Rs. 1,60,540
,, 22-3-1957	3,00,050
	4,60,590
	Rs. 98,27,390

The amount remaining unsubscribed from the offer dated 5-12-1956 was Rs. 20,56,690 to which must be added Rs. 10,72,720 shares unsubscribed from issues prior to 31-7-1955 making the total issued but unsubscribed capital at the date of this Prospectus Rs. 31,29,410.

Share Certificates

20. Every member shall be entitled to one certificate for the shares registered in his name, or if the Directors so approve to several certificates, each for one or more of such shares, in terms of the Articles of Association of the Company.

Underwriting

21. The Industrial Credit and Investment Corporation of India Limited, Fort House, 221, Dadabhoy Naoroji Road, Bombay 1, have agreed to underwrite 9,88,688 Ordinary Shares of the nominal value of Rs. 49,43,440. The Directors are of the opinion that the resources of the Underwriters are sufficient to discharge their underwriting obligation.

Underwriting Commission

22. Underwriting commission at the rate of 2½% of the total nominal value of the shares underwritten, viz. Rs. 49,43,440 is payable to The Industrial Credit and Investment Corporation of India Limited, in accordance with the terms of Agreement contained in letter dated 27th July 1957 from the Underwriters and the Company's acceptance thereof, dated 29th July 1957.

Brokerage

23. Brokerage will be paid by the Company to recognised Brokers and Banks at the rate of 1% on the nominal value of shares allotted in respect of applications bearing their stamps.

Brokerage on the same basis will be payable to The Industrial Credit and Investment Corporation of India Limited, in addition to the underwriting commission, on allotments in respect of applications made or procured by them provided that the relative forms of applications bear their stamp.

Expenses of the Issue

24. The expenses of the issue, other than brokerage and underwriting commission, are estimated to amount to Rs. 35,000 and will be payable by the Company.

Directors and Management

25. (i) The number of Directors shall be not less than 7 or more than 15.

(ii) The qualifications of a Director shall be the holding in his own right of shares of the nominal value of not less than Rs. 5,000.

(iii) Until otherwise determined by the Company's General Meeting, every Director including the Managing Director shall receive out of the funds of the Company by way of remuneration a sum of Rs. 100/- for each meeting attended by him, and all travelling and other expenses properly incurred by them in

or with a view to the performance of their duties.

(iv) If any Directors, being willing, shall be called upon to perform extra services or to make any special exertion in going or residing away from his home town for any of the purposes of the Company or giving any special attention to the business of the Company or be appointed to discharge the duties of any office under the Company, then the Company may remunerate the Director so going or so giving special attention or being so appointed either by a fixed sum or by a percentage on profits or otherwise as may be decided by the Directors and such remuneration may be either in addition to or in substitution of his share in the remuneration above provided for the Directors.

Managing Director

26. Mr. A. E. L. Collins is the Managing Director of the Company. He has been appointed under an agreement dated 25-2-1955 as the Managing Director for a period of 5 years from that date. Sanction of the Central Government to his appointment has been obtained.

Subject to the control of the Board of Directors the business of the Company is carried on by the Managing Director.

The remuneration of the Managing Director is a salary of £3,500 per year and an allowance of £1,000 per year or the Rupee equivalent thereof, both payable in monthly instalments, together with such bonus, if any, as the Board of Directors may decide.

Borrowing Powers

27. The Directors may from time to time at their absolute discretion raise or borrow any sum or sums of money as they may consider necessary for the purposes of the Company from any person, Company or Bank, so that the amount at any one time owing in respect of moneys so borrowed or raised shall not without the further sanction of the General Meeting exceed Rupees One Crore.

Interest of Directors

28. Sir Ramaswami Mudaliar, the Chairman of the Company, is also a shareholder in and the Chairman of The Industrial Credit and Investment Corporation of India Limited, and as such is interested in the underwriting contract between Ashok Leyland Ltd. and The Industrial Credit and Investment Corporation of India Ltd., to which reference has been made.

Sir Henry Spurrier and Mr. D. G. Stokes, Directors of this Company, are also Directors of and Shareholders in Leyland Motors Ltd., and as such are interested in all transactions with that Company.

Mr. I. G. Macintosh, alternate Director of the Company is the Manager of the Madras Branch of Grindlays Bank Ltd., one of the Company's Bankers.

Mr. A. E. L. Collins is the Managing Director of this Company and as such is interested in the remuneration payable to him.

Agreements or Contracts

29. The following Contracts or Agreements have been entered into and are or may be material:—

(a) An agreement called the Financial Agreement dated 5th December 1955 between the Company and Leyland Motors Ltd., Leyland, U.K.

(b) An Agreement called the Manufacturing Agreement dated 5th December 1955 between the Company and Leyland Motors Ltd., Leyland, U.K.

(c) An Agreement dated 25th February 1955 between the Company and Mr. A. E. L. Collins, appointing Mr. Collins as the Managing Director of the Company.

(d) Letter dated 27th July 1957 from The Industrial Credit and Investment Corporation of India Ltd., making an offer to underwrite and the Company's acceptance thereof, dated 29th July 1957.

(e) Letter dated 20th June 1957 from the Government of India agreeing to Leyland Motors Ltd.'s subscription of 49% of the Company's capital.

(f) Letters dated 20th May 1957 and 28th June 1957 from Leyland Motors Limited agreeing to subscribe 49% of the Company's capital.

Documents

30. The following documents can be inspected at the Registered Office of the Company at any time during business hours for a period of 14 days from the date of publication of this Prospectus or until subscription list closes, whichever is earlier.

1. Copy of the Memorandum and Articles of Association of the Company.
2. Copies of the Agreements referred to in paragraph 29 above.
3. Copy of Auditors' Report and copies of Balance Sheet and Profit & Loss Accounts upon which the report is based.
4. Original consent orders from the Controller of Capital Issues.

31. Further copies of the Prospectus and the application forms will be available at the said office of the Bankers, from the Brokers to the issue named above, from the Underwriters and from the Company's Registered and City Offices at Madras. Where no allotment is made the deposit will be returned in full and where a partial allotment is made, the unutilised balance will be returned. The Directors reserve the right to refuse any application wholly or in part without assigning any reason. Failure to pay any amount due on the shares allotted when due will render previous payments liable to forfeiture. The shares when issued will be subject to the Memorandum and Articles of Association of the Company, a copy of which may be inspected during business hours at the Registered Office of the Company and the City Office at Bank of Mysore Buildings, N. S. C. Bose Road, Madras 1. The Share Certificates will be issued within three months of the date of allotment.

Dated this First day of August, 1957.

Signed

A. Ramaswami Mudaliar
A. M. M. Murugappa Chettiar
Raksha Saran
A. E. L. Collins
A. E. L. Collins for D. G. Stokes
I. G. Macintosh
I. G. Macintosh for Henry Spurrier
K. N. Gopalan for N. Sundaresan

Some Economic Aspects of Farm Mechanization in India

W G Joppich

MECHANIZATION of agriculture has proved a great success in the U S A, U S S R and several European countries. Would mechanization of Indian agriculture turn out to be as successful? The analysis below tries to provide an answer to this question. For the following pages, the vague term of farm mechanization is defined as application of any kind of improved implements and machines—whether operated by manual labour, bullock power or motor power—during the process of agricultural production.

Previous to any investment, the farmer has to decide the way in which the available capital should be invested so as to bring about the highest returns. Taking the conditions of India into consideration, the different forms of investment in agriculture can be placed, according to the returns to be expected, in the following order: (i) investment in irrigation, (since water is scarce in most parts of the country); (ii) investment in improved manure (farm yard manure and artificial fertilizers) and improved seeds; (iii) improved methods of production, which can be achieved by increased input of cheap manual labour or by application of cheap manually worked or bullock drawn implements. Only after achieving these improvements does it seem to be advisable to go in for tractors and modern farm equipment.

Choice of Machines

Mechanization affects the cost structure of agricultural production by:

(i) Saving labour (manual and bullock)
(ii) Easying jobs
(iii) Increasing yield
(iv) Saving land
(v) Facilitating the opening up of new land.

Most implements and machines bring about several of these effects simultaneously. A tractor, for instance, saves animal and human labour-hours and at the same time makes jobs (e g, ploughing) easier too. If the tractor actually replaces several draught cattle on the farm, the land formerly needed to grow fodder for the bullocks becomes free for the cultivation of food or cash crops. In regions with scarcity of draught cattle, the tractor facilitates the cultivation of waste land or reduction of fallow land. A threshing machine saves labour hours of bullocks and labourers and decreases loss of grain during the process of threshing. A drilling machine saves seed and increases yield. These examples may suffice to demonstrate the different effects achieved by different machines and implements.

No doubt machines and implements which increase the yield or diminish losses of farm production are desirable not only from the point of view of higher income for the individual farmer but also in the interest of the country as a whole, to increase the food supply for its rapidly growing population. Since these implements and machines are available at comparatively low prices or can be used by several farmers on a cooperative basis, they are within the reach even of owners of small holdings, which constitute the majority of Indian farms. Thus, simple and cheap models of seed drills, threshing machines (the Japanese pedal thresher, for instance), pumps driven by electric or diesel motors, mould-board ploughs (on irrigated land only, on non-irrigated fields it might harm the crops by increasing moisture evaporation), etc, will prove economical on the whole. These, therefore, deserve mass introduction into Indian agriculture.

Prospects for Tractors

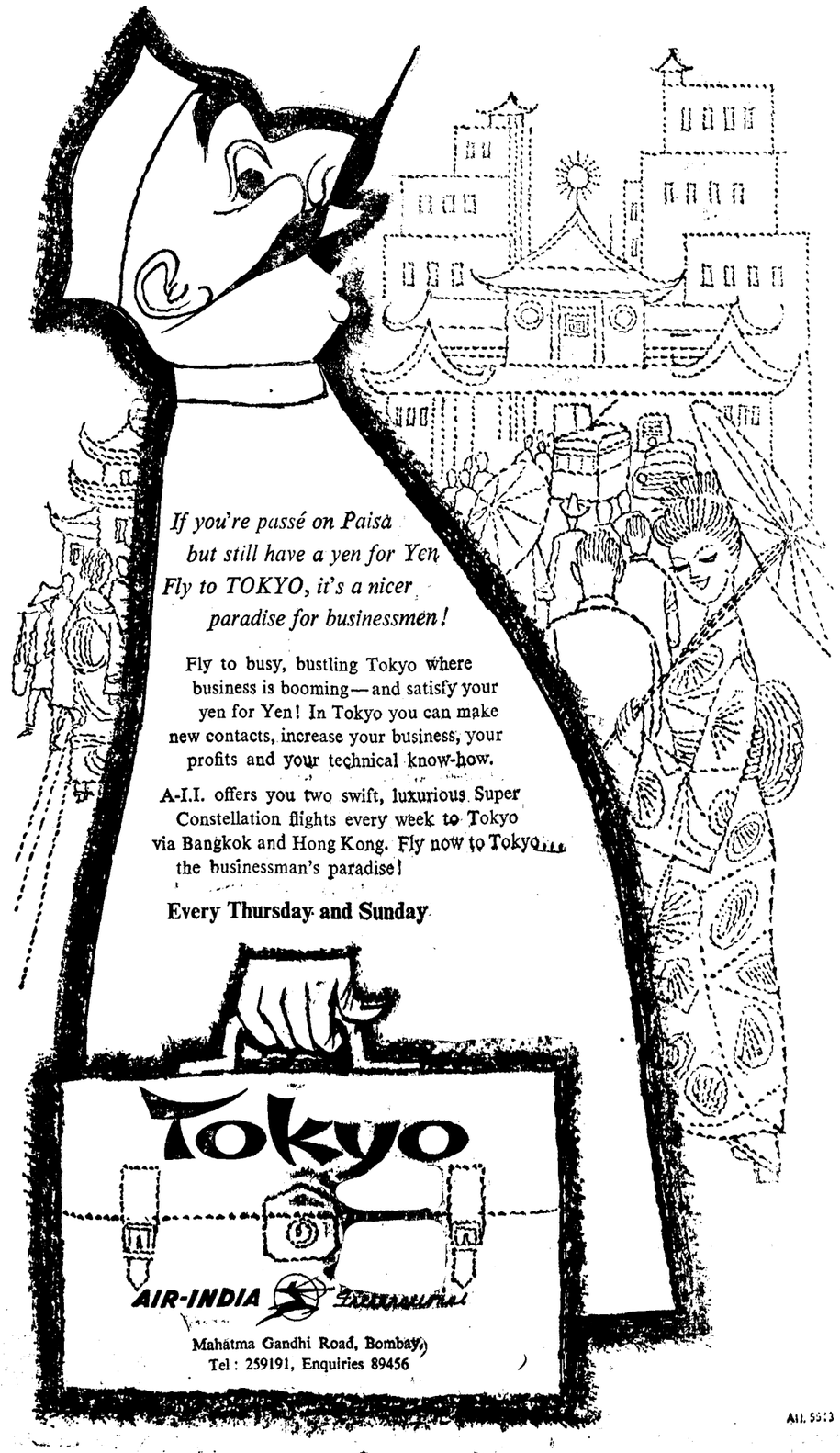
But what about the tractor and other modern farm equipment, which are more complicated, more costly and mainly labour saving? No doubt these machines are far beyond the financial reach of the owners of small holdings (78 per cent of Indian farms are below 10 acres). Even if these small farmers could afford to buy them (with Government assistance or cooperative effort) their benefit to these small farms would be doubtful. They would increase the cash expenditure of the farmer and render superfluous the plentiful and cheap manual labour provided by members of large joint families, without providing sufficient opportunities of alternative productive employment.

But could such modern equipment as tractors and harvester combines be used economically on larger sized farms? Though these form a minority of only about 1.4 per cent of Indian farms, they comprise a considerable absolute number. Here one may feel tempted to quote the Russian example, where mechanization of agriculture caused an enormous increase in production. But one should not forget that in Russia land was available in abundance and labour was scarce. Also the process of mechanization aimed at freeing labour from agriculture to supply the labour force needed by rapidly growing industries. In India, on the other hand, land is scarce and labour is cheap and abundant. Even the larger sized farms of India are much smaller than the collective farms of Russia. To replace masses of agricultural labourers in India by machines would aggravate the problem of rural unemployment.

C T O's Experience

The C T O may be quoted as proof of successful introduction of tractors and heavy machinery in Indian agriculture, but if one studies its working minutely, its poor economic results become clear. The work of reclaiming jungle, bush and kans infested land was done by C T O on a non-profit non-loss basis. The charges per acre for different operations were: Rs 165 for jungle clearance, Rs 94 for bush clearance and Rs 55 for deep ploughing. Since jungle and bush land have to be ploughed after clearance, the cost per acre of reclamation came to Rs 220 for jungle land, Rs 155 for bush land and Rs 55 for kans infested land.

So long as the prices of agricultural products were high, farmers were ready to pay these charges in long term instalments to the State Governments, which in turn advanced the amount to the C T O. The much higher costs of reclamation of jungle land were rewarded by a level of productivity higher than that of land cleared from kans. In fact, there were so many applications for land reclamation that the



C T O was not in a position to satisfy all of them. After overcoming initial difficulties, the C T O worked successfully and economically, reclaiming about 47,000 acres of bush and jungle land and 1,20,000 acres of kans infested land during the period 1947 to 1953-54.

When in 1956 the prices of food grains went down due to considerable increase in production, farmers were not prepared to pay the charges for land reclamation demanded by the C T O for covering its costs. There were only a few applications for reclamation and it was feared that the large equipment of the C T O might have to remain idle. In order to keep the costly apparatus running, Central and State Governments subsidised the reclamation work, so that the farmer had to pay only Rs 180 per acre of jungle land, Rs 78 per acre of bush land, and Rs 40 per acre of kans infested land. Even then the C T O had to look for work and some units lay idle.

The experience of the C T O demonstrates how heavy farm equipment was employed successfully but it also shows that the economics of this enterprise was so slender that it was thrown over by a mere fluctuation of prices of agricultural products, though it must be admitted that reclamation work offers a number of extremely difficult conditions. Thus, from the experience of the C T O alone, one can argue neither for nor against the use of tractor and modern farm machinery in India. In fact, it hardly serves any purpose to quote isolated experiences or to list the arguments for and against the application of tractors and allied machinery in India. Since the arguments are of a qualitative nature, they have to be estimated subjectively, and the conclusion arrived at, too, are bound to be subjective in nature.

Relative Costs

We, therefore, propose another approach to decide the question: An objective analysis of the costs of mechanization and the returns to be expected from it. This analysis will be assisted by a comparison of Indian conditions with those prevalent in Germany where tractors and allied machinery are widely and successfully used. Due to the scarcity of land in both the countries, the conditions of Germany seem to be especially well suited for a comparison with those prevalent in India. The costs of tractor mechanization are: (i) fixed costs, i e, depreciation and rate of interest on the capital invested and (ii) variable costs, i e, fuel and lubrication, repairs and wages.

The interest cost depends on the rate of interest and the purchase price of the machine. Table (i) demonstrates that the prices of the most important agricultural machines and implements are about equal in the two countries. For agricultural cost calculations in India, a rate of interest of 4 per cent of the full purchase price is generally used, while in Germany, one usually calculates at 4 per cent of half of the purchase price. The use of a fixed rate does not seem to be in accordance with actual facts, since the Indian farmer who takes a loan for the purchase of a tractor will have to pay a much higher rate if he has to borrow the amount from a village money lender. On the other hand, the rate of interest to be paid may be less than 4 per cent in the case of loans from Government or cooperative credit societies. By and large, the rate of interest to be paid by the Indian farmer will be higher than that paid by his German counterpart, since rural credit is well organised in Germany, whereas in India credit on favourable terms is available to the farmer to a very limited extent only.

The depreciation charge on machinery is dependent not only on the purchase price but also its life time. According to FAO investigations, the average life time of a tractor is 12 years in America and Germany and 7.5 years in England. In Indian cost calculations, a short-

Table I—Relative Costs of Mechanization

(Rs)

Item	Imported	Made in India	Made in Germany
Mounted tractor ploughs:			
1 furrow	805—1025	—	1000
2 furrows	1055—1225	—	1370
3 furrows	1342—1645	—	—
Cultivator (9 fether tines)	925—1130	—	1120
Disc harrow (9 to 10 discs)	1575—2200	—	1700
Trailer (3 tons, 4 wheels)	3465—3550	2735	2840
Tractors (including hydraulic):			
20 to 25 hp diesel engine	9500—11965	—	10600
fuel engine	7700	—	—
34 to 38 hp diesel engine	11100—11185	—	15000
fuel engine	9500	—	—
45 to 50 hp diesel engine	14955—16020	—	18100
fuel engine	—	—	—
Bullock drawn implements:			
Mould board plough (steel)	85	62—75	136
Mould board plough (wooden beam and wooden handles	—	19—30	—
Cultivator (5 fether tines)	—	40—62	400
Seed drill (5 rows)	—	525	1300
Tractor fuel:			
Diesel oil per gallon	—	1.68	1.72—2.27*
Fuel per gallon	—	3.25	2.58
Wages:			
For tractor driver per month	—	90—120	270—340
For agricultural labourer per hour	—	0.1—0.25	1.36

* The higher price for diesel oil in Germany refers to the market price; the lower one is the Government subsidized price for diesel oil for agricultural purposes.

Source: Indian prices according to different tractor dealers of Delhi and according to catalogues of different producers of bullock drawn implements.

German prices according to list of average prices for farm machinery published by the Institute for Farm Management of the University of Gottingen, Germany.

er life time of 5 years is generally assumed for a tractor, since service and repair facilities are not as good as in Western countries and there is a shortage of trained personnel for careful handling of the machines. Due to this shorter life time the yearly depreciation charge is higher in India than in Germany. These conditions as well as higher prices for spare parts and difficulties in their procurement result in higher repair costs in India.

The price of fuel oil in India is higher than in Germany but that of diesel oil is about the same in both countries (see Table 1). Tractor-fuel cost is, thus, about the same in both countries, if diesel engines are used. So far as the wages of tractor drivers are concerned, even on the basis of one driver and one cleaner in India and a driver only in Germany, the wage cost in India is only about 1/3 to 1/4 of that in Germany. The result of the cost comparison is:—

Costs of fuel are about the same in both the countries;
Costs of wages for the driver are lower in India; and
Costs of interest on capital invested, depreciation and repairs are higher in India.

Thus, in India, the costs of using tractor and modern farm equipment will be higher than in Germany.

Returns from Mechanization

Since the machines in question are primarily labour saving, the costs of human and animal labour replaced and their ratio to the costs of tractor and machines labour are of eminent importance in estimating the economies of application of modern machinery. Comparing the conditions of the two countries under consideration (Tables I and II), we find that the wages for agricultural labourers in India are about 1/5 to 1/13 of what they are in Germany, but the cost of animal power (of equal strength) is about the same. But on the basis of an equal number of working hours per year, an hour of tractor power is about thrice as dear in India as compared with Germany. See Table II).

Thus even if a tractor and its implements replace a few hours more of human or animal labour due to more labour intensive methods employed in India, the net return to be expected from application of labour saving machines is lower in India than in Germany. From this it is clear that machines aiming at the replacement only of human labour have the least chances of economic working in India, but there is a better chance that machines which mainly replace draught cattle may prove economical.

Tractor Vs Draught Animals

From Table II we learn that a motor-hp-hour of a highly utilized tractor is cheaper than a bullock-hp-hour (2 bullocks equivalent to 1 motor-hp) of insufficiently utilised bullocks; in case of equal utilization (equal number of working hours per year) the motor-hp-hour proves to be cheaper than the bullock-hp-hour. Table III goes on to compare the cost of shallow ploughing and Table IV that of heavy ploughing and transportation, performed alternately by motor or animal power.

Table II—Costs of Motor and Animal Power in India & Germany
(Rs)

	Cost per hp-hour
Costs per tractor hour in India :	
(40 hp 4% rate of interest, 5 years life time)	
2000 w hrs per yr	0.13
1000 w hrs per yr	0.37
500 w hrs per yr	0.55
Costs per tractor hour in Germany:	
(40 hp 4% rate of interest 12 years life time)	
1000 w hrs per yr	0.13
Costs per bullock-hp-hour in India:	
(1 pair of bullocks equivalent to 1 hp including wages for bullock driver)	
2000 w hrs per yr	0.41
1000 w hrs per yr	0.70
Costs per horse-hp-hour in Germany:	
(1 pair of horses equivalent to 2 hp including wages for horse driver)	
1000 w hrs per yr	0.79

Source: Subbaraja: 'Mechanization of Indian Agriculture', **Indian Journal of Agricultural Economics**, 1949. P 104.
Institute for Farm Management of the University of Gottingen, Germany.

Table III—Costs of Shallow Ploughing by Animal and Motor Power in India

Draught Power used	Cost per acre (Rs)
Bullock	5.25—11.0
Elephant	6.5
Tractor:	
12 hp	2.0
40 hp	7.50—12.5

Note: The costs calculated include depreciation and interest of animals, tractors and implements as well as wages and operating expenses.

Source: Costs of tractor ploughing from J P Chatterjee: 'Mechanization of Indian Agriculture', **Indian Journal of Agricultural Economics**, 1949. P 104. Also Lal Sharma: 'Mechanization of Agriculture in India', **Rural India**, 1956. P 59.

Costs of ploughing by elephant from Subbaraja: 'Mechanization of Indian Agriculture', **Indian Journal of Agricultural Economics, 1949...P 104.**

Costs of ploughing by bullock according to authors mentioned above and others.

According to Table III, the cost of shallow ploughing by bullock power and a 40 hp tractor fluctuates within the same range, but a lighter tractor (12 hp) does the same job cheaper than draught animals (bullock or elephant). But for light transport, bullock power turns out to be cheaper. In deep ploughing and heavy transport, the heavy tractor proves cheaper than bullock power. If we compare (see Table V) the relative cost of pumping water for irrigation purposes by motor and bullock power, we come to the conclusion that the electric motor performs the job cheapest. Unfortunately, its applicability at present is limited to the few Indian villages where electric power is available. A pump driven by diesel engine works cheaper than bullocks with mothe, but with a Persian wheel the bullocks perform the job of drawing water from a well at less cost than the diesel engine does.

Size of Tractor

The comparisons above show that it is not possible to generalize whether the machine works cheaper than the bullock or vice versa; in fact certain jobs are performed cheaper by motor power, others by bullocks. It is frequently argued that a 40 hp tractor replaces 40 pairs of bullocks. A cost comparison based on this assumption turns out to be in favour of the tractor. But such a calculation is justified only if the tractor is used exclusively for heavy ploughing, which will be possible in exceptional cases only (for example, Central or State Tractor Organizations or contractors). On an average farm, the tractor will have to perform plenty of jobs where it replaces only 24 (heavy transport) or even 3 pairs (light transport) of bullocks, for according to experience in Germany only 32 per cent of a farm's total requirements of draught power are needed for ploughing.

Thus a tractor is cheaper than bullocks only if the tractor is engaged for more than 1000 hours per year in heavy haulage (ploughing and heavy transport). From this it is obvious that a tractor will be economical only if worked on that minimum area of cultivated (ploughed) land as to provide a minimum of 1000 hours per year of heavy work. But before we can arrive at definite conclusions in this respect, another question has to be answered.

For the heaviest types of jobs, like jungle clearance and breaking up of new land, there is no doubt that heavy tractors are required. The C T O uses tractors up to 150 hp for these jobs. For contractors engaged in deep ploughing, a medium size of between 40 and 80 hp will be sufficient. For an average farm, the size of a tractor to be bought may be estimated by the following considerations: The costs, fixed as well as variable, of a light tractor are lower than those of a heavy one. A tractor, therefore, should be as small as possible, but on the other hand it must have sufficient power to perform the heavy jobs on the soil. The size of the tractor required thus depends on the type of soil. For light sandy soils, 15-20 hp will be sufficient, but for heavier soils 30-40 hp will be required. Farms using more than one tractor should have tractors of different sizes, the heavier ones for the heavier job of deep ploughing, the lighter ones for lighter jobs. Before buying a tractor, it will prove useful to try different sizes of hired tractors in ploughing the heaviest soil on the farm under unfavourable conditions, to find out the size of the tractor required.

One should refrain from buying a tractor if one is not in a position to buy the necessary tractor implements like mould board plough, disc harrow, cultivator and trailer as well. Without proper dimensionized implements which assure full utilization of the tractor's power, efficient and economic use of the tractor is not possible.

Minimum Area Required

The minimum size of holding required for economic use of tractors in India is given by different authors as 100 to 200 acres. But we shall try to approach this problem from a different angle. A farm should be sufficiently large to provide heavy work for the tractor for a sufficient number of hours per year (at least 1000), for only then will tractor power be cheaper than bullock power. On a farm with double cropped area, the soil has to be ploughed twice (one deep ploughing before the rainy season, one shallow ploughing for the winter crop); in addition, at least one operation of the harrow or cultivator for pulverising lumps and destroying weeds. According to German experience, these operations require 120 motor-hp-hours per hectare for ploughing, 60 motor-hp-hours per hectare for shallow ploughing and 28 motor-hp-hours per hectare for operation of cultivator or disc harrow. According to these figures, the motor-hp-hours per hectare required for heavy work come to (i) for double cropped land 120 motor-hp-hours for ploughing before the rainy season, 28 motor-hp-hours for disc harrowing or cultivator and 60 motor-hp-hours for shallow ploughing for the winter crop, i e, a total of 208 motor-hp-hours per hectare; (ii) for single cropped land 120 motor-hp-hours for ploughing before rainy season and 28 motor-hp-hours for disc harrowing or cultivator, i e, a total of 148 motor-hp-hours per hectare.

Table IV—Costs of Performance of Different Jobs by Tractor or Bullock Power Alternately

Kind of job	Bullock pair equivalent of 40 hp Tractor	Cost per working hour Tractor	Bullocks
Heavy ploughing	40	5.20	16.4
Heavy transport (6 tons)	24	5.20	9.8
Light transport (1 ton)	3	5.50	1.2

Preconditions of comparison:

(i) Cost per working hour in case of 2,000 working hours per year.
(ii) One pair of good bullocks moves 1 ton of load with a speed of 4 miles per hour.
(iii) Heavy transport by tractor with 2 trailers of 3 tons each and speed of 12 miles per hour possible only on good (pucca) roads.
(iv) Light transport by tractor, 1 ton with speed of 12 miles per hour on kutcha roads.

With these figures as the bases Table VI indicates the acreage of single and double cropped area required for employing tractors of different horse power for 1000 hours per year in heavy jobs, to make them economic in comparison with bullock power. A 20 hp tractor, for instance, requires 250 acres of double cropped land or 330 acres of single cropped land, respectively, to be more economical than bullock power.

This minimum area required for the economic use of a tractor is not to be taken as an absolute limit. In exceptional cases as, for instance, on intensely cultivated vegetable farms near the cities, it will be possible to employ a tractor economically on a much smaller area than the minimum size calculated above. For, on these farms, the soil is too valuable be used for the production of bullock fodder, and due to the garden-like method of cultivation, two-wheeled tractors of 10 or even 5 hp can be used. Due to market-oriented production resulting in higher cash income, vegetable farms will be in a position to meet the higher cash expenses (for purchase, maintenance and running) of the tractor. Besides, the tractor equipped with a trailer may facilitate daily selling of the products directly to the consumers in the city, which will yield higher returns than selling to wholesalers or shopkeepers. Furthermore, in case of extreme scarcity of manual labour (high wages) or draught animals, it may also be economical to use a tractor on farms below the minimum size.

Conclusions

From the above analysis, we can derive the following conclusions regarding the economies and possibilities of farm mechanization in India:

(1) Simple and cheap implements operated by manual labour or bullock power and aiming at increasing the yield or diminishing the losses during the process of agricultural production deserve mass introduction into Indian agriculture.

(2) Investment of capital in modern farm equipment of the labour saving type seems to be advisable only after achieving those improvements which promise a higher return.

(3) The successful application of modern farm equipment in Russia, U S A or other countries cannot be regarded as an argument for large scale application of those machines in India, since conditions prevalent in this country in respect of availability of land and labour are basically different.

(4) The Central Tractor Organization can at the most be quoted as an example of successful application of heavy equipment for the specific purpose of land reclamation.

(5) The costs of mechanization in India are higher than in Germany, a country with highly mechanized agriculture.

(6) Since wages of agricultural labour are considerably lower in India, lower returns are to be expected from the process of farm mechanization.

(7) Due to low wages, the possibilities of economic working of only manual-labour-replacing machinery are the least bright.

(8) The different methods for drawing water from wells for irrigation purposes can be grouped according to rising costs as follows:

(i) electric motor;

(ii) bullocks with persian wheel;

(iii) diesel engine; and

(iv) bullocks with mothe.

(9) A tractor works cheaper than animal power only if:

(i) equipped with tractor implements which ensure full utilization of tractor power in heavy jobs like ploughing, disc harrowing, cultivating, heavy transport;

(ii) engaged for more than 1000 hours per year in these heavy jobs.

(10) The minimum size of a tractor required depends mainly on the type of soil and can be stated as: up to 150 hp for jungle clearance, 60 to 100 hp for breaking up of new land (deep ploughing), 30 to 40 hp for farms with heavy soils and 10 to 15 hp for farms with light sandy soils.

Table V—Relative Operational Cost of Irrigation

(Lifting 6,000 gallons per hour)

	Total cost (Rs)	Running cost*	Repairs (nP)	Depreciation (nP)	Interest (nP)
Electric Motors (2hp)	0.39	28.10	2.25	3.61	4.32
Diesel Engine (5hp)	1.14	61.75	12.50	22.00	17.60
Persian wheel (owned one pair bullocks)	1.06	91.00	nil	11.00	4.44
Mothe (owned) 4 pairs bullocks)	3.28	3.28	— Not calculated —		
Mothe (hired 4 pairs bullocks)	10.00	1000.00	— included in hire —		

* Includes electric current and /or fuel, grease, wages.
For details see Tables 1—3

Assumptions: (i) Depth of water level 20 ft.
(ii) Working hours 1000 per year.
(iii) Life time: electric motor 30 years; diesel engine 20 years; Persian wheel 10 years. Electric motor will last longer with greater care.
(iv) Interest at 4 per cent per annum.
(v) Purchase prices: electric motor Rs 1081; diesel engine Rs 4,400; Persian wheel Rs 800—1,000.

Source: Catalogues and dealers.

S G Patel: "Economics of Lift Irrigation in Rawer Taluka", **Indian Journal of Agricultural Economics**, 1949. P 188.

Ramiah and Srivastava: **Agricultural Implements for Indian Farmers** (ICAR). Pp 41-43.

(11) The minimum area required for economic use of tractors of different hp can be read from the following Table:—

(1000 hours of heavy work per year)
(Acres)

Tractor hp	Double Cropped	Single Cropped
10	120	160
20	250	330
30	370	500
40	500	670
50	620	820
60	740	1000

(12) Cheap implements worked by manual labour or bullock power as well as the electric motor for drawing water from wells for irrigation purposes will work economically on all Indian farms.

(13) Tractor and its implements will find economic application in India only if used on larger sized farms, i e, farms above 120 acres, which comprise less than 1 per cent of the farms in India, and if engaged in heavy jobs only. Economic use of tractors below this minimum farm size will be possible in exceptional cases, for instance, on intensely cultivated vegetable farms or in areas with shortage of draught animals, as in parts of Central India and Rajasthan.

(14) Purely labour saving machinery, e g, harvester combines will work economically only on a few very big sized farms of India suffering from shortage of manual labour.

If Indian agriculture is mechanized within the above economic limitations, it will prove beneficial and there will be no need to fear increasing rural unemployment and underemployment since the application of labour saving machinery will be restricted to the few larger sized farms and to regions with shortage of labour. But even for pushing forward the process of mechanization of Indian agriculture up to this desirable extent, there are—especially for equipping the majority of small Indian farms with improved implements—several well-known obstacles such as shortage of cheap credit, small size of majority of farms, lack of facilities for repairs and shortage of trained personnel for proper handling of machines, etc. The removal of these obstacles will be possible gradually.

INVEST WISELY AND WELL

You may be prudent enough to save a portion of your income, but perhaps you are hesitant to decide on a safe investment.

Let this not disturb you. Your Bank is in touch with the leading brokers and will make their expert advice available to you quickly and without charge.

Your Bank will also keep your investments in safe custody and collect and credit to your account interest and dividends as and when they fall due.

It does not matter where you reside—the State Bank of India has a net-work of offices through which it offers to place these and other services 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 five hundred offices waiting to serve you throughout India.

STATE BANK OF INDIA
INDIA'S LEADING BANK

SISTAS SB-2

From the Chair

Tata Locomotive and Engineering Company Limited

Speech of the Chairman Mr J R D Tata

THE following is the summary of the speech delivered by the Chairman, Mr J R D Tata, at the Annual General Meeting of the shareholders of the Tata Locomotive and Engineering Company Limited, on Monday, August 12, 1957:—

Addressing the Twelfth Annual General Meeting of Tata Locomotive and Engineering Company, Limited, the Chairman, Mr J R D Tata observed that the all round progress made and the satisfactory profits earned by the Company during 1956-57 had enabled the Directors to recommend an increase in the dividend to 8%.

The provision of adequate funds to finance the growing operations was today one of their main problems, said Mr Tata. "By the nature of the industries in which we are engaged," he added, "and the circumstances peculiar to this country in the matter of essential supplies and bought-out items, it is necessary for us to maintain substantial stocks of raw materials and bought-out components. This locks up large funds as can be seen from the considerable amount of borrowings shown in the balance sheet. In addition, we still have a large amount of capital expenditure to incur in the next few years as we proceed with our current manufacturing and expansion programmes. Although, in the long run, the funds provided from year to year out of allocations to depreciation and various reserves will substantially cover the total amount of capital expenditure so incurred, the heavy commitments during this year and the next make it necessary for us to raise additional finance in the very near future. While no decision has as yet been made, the possibility of an additional issue of equity shares, possibly in the form of debentures convertible into ordinary shares cannot be ruled out."

Hundred Locomotives per Year

The Company's commitments to deliver locomotives at the rate of 100 complete units per year from the beginning of 1958 would be fulfilled and possibly improved upon. The Chairman added that with the increase in output, further improvement in efficiency and fuller utilisation of available capacity, it was expected that the costs would come down to a satisfactory level despite the recent steep increases in the costs of materials and in wages.

"Dieselisation" of Railways

Mr Tata observed that in India as elsewhere a gradual but inevitable movement towards the "dieselisation" of rail transport was taking shape, and said, "As and when oil in adequate quantities is discovered within the country, the process is bound to be accelerated. As mentioned in my speech last year, our works are exceptionally well equipped to undertake the manufacture of diesel locomotives. The Railway Board have recently issued enquiries for a fairly substantial number of such locomotives and we propose to respond to this enquiry in collaboration with our technical associates, Messrs Krauss-Maffei A G, and Messrs Daimler-Benz A G. We are in this regard fortunate in our association with both these firms, for Krauss-Maffei are leaders in the field of main line diesel hydraulic locomotives, while the Daimler-Benz range of high efficiency diesel engines are ideally suited to rail traction. If our expectations fructify, we can look forward to a long period of continued collaboration with, and service to, the Indian Railways, even after the cessation of steam locomotive manufacture."

Tata-Mercedes-Benz

The Automobile Division was nearing the end of the second stage of development strictly according to schedule and, despite the many complicated problems affecting supplies and operations, the Company was confident that the manufacturing programme would be maintained.

Referring to the popularity and dominant position in the market of the Tata-Mercedes-Benz commercial vehicles, the Chairman said that they had no doubt of the ability of these vehicles to withstand any competition they might have to face. Mr Tata expressed gratitude to Government for their decision to sanction to the Company its reasonable requirements of foreign exchange for plant and equipment to implement its approved manufacturing programme. This would enable the Company to complete its plans by the end of 1959 when the Company was expected to be in a position to produce almost entirely Indian-made diesel truck and bus chassis. With the completion of this programme the foreign exchange saved each year would be larger than the aggregate amount spent for the purchase of plant, machinery and equipment for the Automobile Division.

Mr Tata welcomed the decision of the Government of India to give the automobile manufacturers in the country a reasonably free hand to fix the prices within the over-all limits, with a return of 10% on cost subject to general supervision and check by the Government, as this would go a long way towards providing an effective incentive for the rapid development of the industry.

Expansion Scheme

In conformity with the Tariff Commission's views, the Company had submitted to Government a scheme for doubling once again the capacity of the Automobile Division and bringing it upto 12,000 vehicles per year. Mr Tata said that the Government of India have informed the Company that the scheme would find acceptance provided suitable credit arrangements could be made to stretch out the foreign exchange expenditure over a period of years.

The Chairman hoped that the Government of India would in due course also enable the Company to diversify the output of its Automobile Division by manufacturing other types of vehicles such as light commercial vehicles, cars and diesel engines for various uses. Such diversification would promote efficiency and reduce costs. "The best warranty that we can offer to Government for the fulfilment of these objectives in due time," said Mr Tata, "is our actual performance in the fulfilment of the initial programme of manufacture of trucks and buses on which we are now engaged."

"Self-contained" Automobile Industry

Continuing, Mr Tata said, "On the recommendation of the Tariff Commission, the Government of India have decided to grant protection to the automobile industry for a period of ten years. Our present manufacturing programme will have been completed long before the end of this period. We hope also, before that time, to be well on the way to completing the expansion plan as well as further plans for other products. In effect, it is our intention to build up in this country, as rapidly as circumstances and the authorities concerned will permit, a self-contained and highly efficient automobile industry.

"We have also taken steps to implement other recommendations of the Tariff Commission, so far as they relate to us, amongst which is the extension of hire-purchase facilities, with the collaboration of our bankers and insurers, to the buyers of Tata-Mercedes-Benz vehicles."

Mr Tata informed the meeting that the construction of the Steel Foundry—unquestionably the most up-to-date in the country—had been virtually completed. The production of castings in the Alloy Iron Foundry for the Automobile Division was expected to commence according to schedule.

Personnel and Labour

Referring to matters of personnel and labour, Mr Tata said that it was disappointing to note that in the year under review there had been a tendency on the part of certain sections of workmen to take matters in their own hands. "Our men," observed Mr Tata, "are amongst the highest paid in the engineering industry. They enjoy excellent conditions of work in a fine integrated factory equipped with the best machinery and equipment to which we are continuously adding." "The capital investment per employee in our Company," added Mr Tata, "is probably the largest in the industry. Our employees have a fine and safe future before them, but it is time they realized that the Company's continued ability to pay high wages and provide the maximum of amenities and job security depends on high productivity which, in turn, requires that the workers put in a reasonable day's work."

Cordial Relations Necessary

"Although some progress has been made, we are not satisfied with our present standards of productivity which, in the case of the Locomotive Division, have been criticised in the past by the Tariff Commission as comparing unfavourably with those at Chittaranjan. We are pursuing our efforts to achieve a satisfactory labour output but these will be in vain unless our employees and their Union co-operate with us. I am sorry that such co-operation has shown signs of weakening in recent months rather than the opposite, and I particularly regret that, in spite of its responsible and mature leadership, the Union has recently aggravated the lack of discipline by instigating the workers to down tools for a few hours in each shift mainly, it seems, as a protest against their not having been consulted in regard to the quantum of bonus declared this year. This action was, I feel, particularly unfair as the figure of bonus proposed to be declared was in fact disclosed to the Union some time before the publication of the Report and Accounts and the total amount distributed is twice that of last year and proportionately much in excess of the corresponding increase in dividends.

"As our manufacturing programme develops and an increasing proportion of the contents of our products are made in our own Works, our results will depend increasingly on the work and productivity of our own men. Nothing could bring greater benefit to them as well as to the Company and its shareholders than a sound and cordial relationship between Management and Labour based on mutual understanding, respect and co-operation. I sincerely hope, therefore, that our workers and their Union, with both of whom we are anxious to maintain the most cordial relations, will take a correct and responsible view of the situation and will co-operate with the Management in their own long-range interest as well as those of the nation."

Apprentice Training Scheme

The Chairman referred to the satisfactory progress of the Apprentice Training Scheme and of the arrangements with the Company's technical associates for imparting higher practical training in their factories abroad to the Company's personnel. "We attach the greatest importance," he said, "to the efficient recruitment and training of young engineers which we consider as a vital part of our programme of development. We are trying to make every young man who comes to us feel he is well looked after, his worth recognised and every chance given to him to equip himself, at our expense, for a successful, imaginative and rewarding career."

The Chairman expressed appreciation of the valuable services rendered by Mr Y N Sukthankar and Mr V T Dehejia as Directors of the Company. He also expressed appreciation of the services rendered by Dr Heinrich Korschan, General Manager of the Company from October 1951 to the end of April 1957 when he retired for reasons of health, and of Mr F G S Martin's ready compliance with the Managements request to take over again temporarily the responsibilities of the post of General Manager. The Chairman then expressed his thanks to his colleagues and to all the members of the staff for the year's excellent work.

Illegal Strike

"Since this speech was written," said Mr Tata, "the labour situation at Jamshedpur has, I regret to say, taken a serious turn. On the 5th of August, a minor matter concerning the temporary transfer, many weeks earlier, of three men, without loss of pay, from one section of the Auto Division to another, in accordance with established practice, was made the excuse for an illegal lightning strike which had obviously been well planned in advance, accompanied by violent behaviour towards German supervisors on the part of the ring leaders."

Mr Tata said that the instigators had acted without the support or knowledge of the recognised Union. They refused to listen to Union representatives and insisted on being represented by a Communist group.

Attempt to Disrupt Operations

Continuing, Mr Tata said, "A serious aspect of the situation is that the trouble is clearly not an ordinary trade dispute, which could be settled in the normal way by negotiation with the Union concerned, but a deliberate attempt on the part of Communist leadership to disrupt operations at the Telco Works. There is evidence that this incident is part of a larger plan to disrupt the working of the whole of the industrial complex of Jamshedpur."

Mr Tata observed that industrial strife formed a part of the traditional pattern of Communist action throughout the world, and that if they had failed up to now to achieve their ends in the Steel Works at Jamshedpur, it was because of the strength and success

the Tata Workers' Union and the ood sense of the workers themlves.

Conspiracy to Sabotage

A secondary but important issue which Mr Tata drew the attention the shareholders was the situaon in Jamshedpur and elsewhere foreign technical staff brought India to assist the country in the tablishment and development of ew industries. It was impossible, said, to exaggerate the contribuon made by these technicians to ie successful establishment of the dustry. The German supervisors Jamshedpur had been greatly oset by the prevailing indiscipline id violence. It was pointed out Mr Tata that if discipline was ot re-established and maintained, the Company's operations would be paralysed and the completion of the programme of progressive manufacture, essential to the full establishment of the Locomotive and Automobile industries and to the resulting saving of large amounts of foreign exchange, would be seriously delayed. Mr Tata pointed out that this situation applied not only to Jamshedpur but to other Companies and centres in India where new equipment and processes are being introduced with the assistance of foreign experts.

Mr Tata expressed the hope that the highest authorities in the Central and State Governments whose attention had been drawn to this matter, would take a firm stand in Jamshedpur and everywhere in India where the Congress Governments are in power and that they would make clear by word and action their determination to protect the industrial life of the country.

At the conclusion of his speech, Mr Tata issued a note of warning and said that if this conspiracy to sabotage the country's progress was allowed to succeed at Jamshedpur and elsewhere, not only would the economic crisis looming before the country be aggravated but law and order and the peaceful and democratic development of the country would be imperilled.

(Note : This is not a report of the proceedings at the above Annual Meeting)

The Bharat Line Limited

Speech of the Chairman Shri C R Srinivasan

HE following is the speech of the Chairman, Shri C R Srinivasan, elivered at the Eleventh Ordinary eneral Meeting of the shareholders f the company held at Bhavnagar n August 17, 1957:—

entlemen,

I have great pleasure in extending o you a cordial welcome to the Eleenth Ordinary General Meeting of he Company. The Directors' Report nd the audited Balance Sheet and rofit & Loss Account have been in our hands for some time now, I rust I have your permission to take hem as read.

These accounts have been prepard in conformity with the provisions f the new Companies Act and that ccounts for the somewhat bulky olume placed in your hands. A umber of resolutions have to be assed as Special Resolutions followng the directions in the new Act. You might remember that in referring to these provisions last year I said that in parts it imposes a vexatious burden on freedom of enterprise. These seem to have registered in the right quarters and Government have now appointed a Committee to go into the question of revision of the Companies Act suitably. The Committee is now going the round of the country collecting data and it may take some time for final proposals to emerge; but I hope that, as a result of this inquest, reforms wherever needed will be forthcoming in adequate measure.

Size of the Plan

The Second Five Year Plan to recover and recondition the economy of the country was cast, as you are aware, on a more ambitious scale, with the emphasis shifted to the industrial sector. The first year of the Second Five Year Plan has concluded and there are now definite indications that the size of the Plan may well be beyond the resources at our disposal. Fresh taxation measures on a wide front have been introduced and their disturbing effects both among the investors and the business community are clearly discernible; there are many who have begun to wonder whether the gains are not more than offset by the losses. Students of Public Finance will concede that there is a limit beyond which it would be unwise to push the present generation for the benefit of succeeding generations. It is a moot question whether we have reached that stage in the name of rationalisation of the tax-structure. Apart from this, the need of the moment for servicing the Second Five Year Plan, it is relevant to point out, is not so much internal resources as inter-national resources.

We have run almost to the end of our accumulated foreign exchange resources and unless ways and means are found to replenish these resources, I am afraid, need will presently arise to rephase the Second Five Year Plan in respect of priorities and preferences inter se. Meanwhile, the Private Sector has been advised to seek extended credit facilities for the import of capital goods and it is becoming increasingly clear that foreign exchange releases will be severely rationed and restricted during the next few years. It is against this background that one has to judge the prospects of industrial expansion of the country in the coming years. Throughout the year under report money continued to be tight and in the closing months of the year credit facilities for established business were beginning to be rationed. In the share market there was a psychological malaise which cramped and cabinned normal investments with the result that few new flotations ventured on the market. In my view, the time has arrived when concrete and constructive steps should be taken to restore the confidence of the business community and recharge them with faith and hope.

Uneconomic Freight Rates

This applies with equal force to the shipping industry. In an expanding economy, transport, it is obvious, will prove the bottleneck and therefore every means of transport, whether it is by road, rail or sea, should be tuned and turned to service the economy. The acquisition of new bottoms for sea transport calls for large investments and even if funds are available, unless there is sufficient assurance that its economy will be protected in actual working, there will be little temptation to advance and adventure further. Repeated representations, for example, have been made that the prevalent freight rates were uneconomic, but the tardy relief that was doled out in grudging measure was offset by fresh demands from Labour.

Now that there is a separate Minister in charge of Transport and Communications, may we hope that he will be fully seized of the picture and take steps to render prompt relief wherever necessary. In addition to the Eastern Shipping Corporation already operating, a Western Shipping Corporation, similarly state-owned, directed and controlled, has been integrated. In this context, it would be wise clearly to define the bounds of the private and the public sectors in the shipping industry. So far as coastal trade is concerned, if private enterprise is to give of its best, it should be enabled substantially to increase its tonnage. This is possible only if Government come to their help and it can be done if sustained efforts are made by the Government to acquire from the Government of the U.S.A. a few of the Moth-Ball "Liberty" Ships on lend-lease terms. As one who has just returned from America and had opportunities to take soundings in this respect, I believe the prospects are good if a proper approach is made.

Port Congestion

It is not my intention this year to review in detail the specific problems pertaining to the shipping industry and catalogue our misery. I will only say that conditions at the ports show no signs of improvement. I pointed out in 1955, that the total detention cost due to port congestion during 1954 equalled in value the full time operation of an 8000 D W T ship for a period of 179 days, or nearly six months, for our Company; the 179 days that I referred to had increased to 299 days in 1955 and 398 days in 1956. I agree that in an expanding economy this is bound to happen with the limited resources at our disposal. I wonder, however, if any efforts have been made to survey and service minor ports on our long coastline which, over a long period of neglect, have fallen into disuse. This is a matter of urgency and importance and will repay attention.

The working of the Company and its financial position have been well brought out by the Directors of the Company in their Report in your hands and I trust you will find them satisfactory.

I shall now conclude expressing my thanks for the uniform cooperation I have received from my colleagues on the Board as well as from the Management and I again bear testimony to the good work of the staff both ashore and afloat. I now formally move that the Directors' Report and the audited Balance Sheet and Profit & Loss Account for the year ended 31st December 1956, already duly sent to the Shareholders, be and are hereby adopted.

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Underemployment – Its Conceptual and Statistical Issues

Samir Dasgupta

THE present paper aims at discussing certain fundamental problems connected with the definition and measurement of underemployment as it exists in the underdeveloped countries today. It will be observed that no rigorous and unique definition of underemployment could be set up, particularly because there exist more than one form of underemployment side by side in the same economy. The rural peculiarities are so important that certain aspects of the problem of underemployment can be tackled "by shrewd, experienced, alert, instinctive judgement better than by systematic reasoning based on ordered knowledge".

In Part I an attempt has been made to clarify certain basic concepts. In Part II the problem of the choice of approach has been discussed and the relationship of the different approaches with the problem of measurement has been briefly suggested.

I

The basic difference between the Keynesian unemployment and underemployment of the structural variety is that the former is associated with excess capacity whereas the latter is the outcome of insufficient capital equipment. Accumulation being its solution, the problem of underemployment necessarily assumes a dynamic nature and cannot therefore be properly visualised in a given set of conditions only.

This point is important because the notion of 'gainful work' emerges from it. In a growth-oriented pre-capitalist economy, such as India, gainful activity must be such as contributes to gross national product. Housewives, students, persons living exclusively on income from property, pension, remittances, etc are accordingly excluded from the labour force. This is likely to make one aware of the relevance in this context of Adam Smith's celebrated chapter "Of the Accumulation, or of Productive and Unproductive Labour", where he writes:

> "Both productive and unproductive labourers, and those who do not labour at all, are all equally maintained by the annual produce of the land and labour of the country. This produce, how great soever, can never be infinite, but must have certain limits. According, therefore, as a smaller or greater proportion of it is in any year employed in maintaining unproductive hands, the more in the one case and the less in the other will remain for the productive, and the next year's produce will be greater or smaller accordingly....That part of the annual produce of the land and labour of any country which replaces capital never is immediately employed to maintain any but productive hands. It pays the wages of productive labour only." **(Wealth of Nations,** Everyman's Edn p 296.)

With this concept of 'gainful work' in our mind we should now remember that the idea underlying the 'labour force' concept should be 'availability for gainful work' rather than attachment to the labour market. This is so because the labour market covers only a small proportion of the underdeveloped economy.

A very difficult problem comes up at this point. If by underemployment of a segment of the labour force we mean its availability for more work over and above the actual volume of work performed in any specified period, we are still left with the task of explaining what is precisely meant by 'a volume of work'. A given volume of work may stand either for an equivalent number of **man-hours** or an equivalent amount of **output** or else an equivalent volume of **earnings.** If these three variables move in the same direction and also maintain a certain definite relationship with one another, any conceptual or statistical issue may probably be coped with in terms of any one of them. Unfortunately, however, they scarcely move in agreement with one another in an unregularised economy. In the organised sector—which forms only a fraction of such an economy—some degree of uniformity in this movement might be observed; but in the case of self-employed persons (both in agriculture and non-agriculture), for example, length of working period may have much less reliability and significance. "The self-employed may work many hours or few hours, or may so mix work and non-work that he cannot distinguish between the two; some peddlers, for example, may spend as many hours in social conversation while waiting for customers as they do in the actual conduct of their business". ('Results of Tests on Measuring Under-employment in Puerto Rico', June and July, 1952, p 16.) In these cases, therefore, any comparison of the actual hours of work with the so-called 'normal' is only fruitless and might lead to a confusion between 'full time' employment and 'full' employment.

There are other difficulties too. The terms 'normal hours of work', 'normal output' or 'normal earning' lose their meaning unless the idea of 'normal' is made clear and precise. On the operational level it will, however, be observed that there are more than one 'normal' in the economy. The 'normal' varies from one activity status to another and sometimes even within the same activity status. Again, though in some cases we might be fortunate enough to have some objective basis for constructing the 'normal', we might in the vast majority of cases be driven to choose purely arbitrary standards. This, of course, is no argument against the choice of arbitrary standards on necessary or suitable occasions. Indeed, in sectors where market principles do not apply, viz, subsistence farmers, self-employed workers, etc, and where the value of output and earnings (generally a mixture of cash and kind) has often to be assessed on imputational basis, the 'normals' would necessarily be arbitrary. Even the standard period of work here is absolutely incomparable with the 'standard' obtaining in factories, and the modal values for output, earning and work-hour appear more acceptable. All this will be evident when we discuss in the next section the problem of measuring the degree of underemployment.

II

It is almost meaningless to speak of underemployment without taking account of the fact that it may assume more than one form. The statistical approaches to the assessment of the different types would naturally not be the same. Again, the same approach would require modifications according as the sectors of investigation are rural or non-rural. First, there will be differences in the 'standards' used for hours of work, output and earnings. The standard **hours** of work may become all the more complicated in rural areas where labour time disposition is so uncertain and varies greatly from man to man. The Bureau of Labour Statistics (Puerto Rico) has made an attempt to designate underemployment in terms of the person's own reactions and has considered it justified to classify the subsistence farmers and the self-employed in non-agriculture as underemployed in accordance with their answers regarding desire to work more and **without regard to number of hours actually worked.** But whatever the justification of this subjective approach in the Puerto Rican economy (where conditions of production and employment might be more regularised than in the Asian countries), we cannot possibly adopt it in India. The reasons for this are numerous. In India, for example, it is very often assumed by people, otherwise willing to work, that avenues for work outside the family do not exist and therefore they do not have the feeling that they are underemployed. Again, there may be social customs that put restrictions on females being employed outside the home. Naturally, females consider themselves adequately employed whatever the volume of work they can actually get at home. Above all, there is the peculiar leisure-preference pattern. Besides, norms must be set differently for busy and slack periods.

Now, as we have already noted hours of work, output and earnings show a fairly consistent relationship in the regularised sector and hence any one of them might be used to measure the degree of underemployment there. Hours-of-work approach is most feasible in both urban and rural areas, though in rural areas the economic conclusions arrived at through this approach are likely to be somewhat less reliable. Data on earnings therefore need to be compared at all stages. But unfortunately rural earnings are notoriously unamenable to statistical estimation. There is no appropriate set of prices and imputations are bound to be unsatisfactory. Still it must be understood that the measures of rural underemployment will ever remain unsatisfactory if steps are not taken to supplement the hours-of-work approach by some sort of an earnings approach.

There is much controversy regarding the choice of appropriate reference period. In most underemployment surveys in this country, as well as in western countries, the week has been found to be the most suitable reference period. 'For labour survey purposes it is short enough to reflect the current status of the population to be classified and to obtain accurate reporting without taxing the memory of those questioned. At the same time, it is long enough to avoid erratic fluctuations' (Labour Force Statistics, Sample Survey Methods, O E E C, 1954). For surveys in urban areas some have preferred the fortnight as it is more consistent with the wage payments pattern and employment and discharge practices.

Complications arise, however, when an individual is found to have more than one activity status during the period—and naturally they do arise as the length of the period is extended. There may be mistakes of double counting if a unique status cannot be fixed for him. The method of solving this problem, as adopted in U S A and Canada, is to evolve a priority scale of activity status and then to ascribe to the person the status securing the highest priority. This method (allowing for its implicit statistical bias in favour of employment) ought to be made use of for labour survey purposes in India where persons with multiple activity status are a common feature.

Now there may be at least three broad types of underemployment in the agricultural sector: (a) overt, (b) disguised and (c) potential. The overt type, again, is often a mixture of chronic and seasonal underemployment (the latter itself might sometimes be the cause of the former). It must also be noted that these types are not quite mutually exclusive. The overt type requires no clarification. The disguised and the potential forms have the common characteristic that a number of workers could in both cases be released without reducing total agricultural output. The difference between them, however, is that in the first case we conceive only of raising the intensity of work and of improving the organisation of work, which involve no net addition to capital outlay. In the second case, the operation is effected through more fundamental changes, viz, change in the method of cultivation, increase in the substitution of capital for labour, enlargement in the size of land holdings, etc.

The common statistical problems in the measurement of underemployment have already been hinted at. The choice of approach is the initial problem. If 'hours-of-work' approach is adopted, the measure of the degree of overt underemployment might be presented as follows:

$$U = \frac{W-nP}{W} + \frac{(12-n)(P-F)}{W},$$

where U = Degree of overt underemployment;

W = Potential aggregate labour time in a year;

P = Average number of labour hours actually worked in the peak months;

F = Average number of labour hours actually worked in the off seasons;

n = Number of peak months.

The first component in the right hand side expression represents the chronic and the second the seasonal underemployment.

This formula is a modified version of the one given by Chian Hsieh ('Underemployment in Asia, Nature and Extent'. **International Labour Review,** June, 1952.) On simplification, this would ultimately reduce to:

$$U = 1 - \frac{1}{W}\left[\sum_{i=1}^{n} P_i + \sum_{j=1}^{m} F_j - mP\right]$$

where $m = 12-n$.

If the 'earnings' approach is resorted to, this same formula would do; only W, P and F would then refer to the corresponding earnings data. As for the measurement of the disguised and potential varieties of underemployment, no set formula could be given.

From our earlier analysis, however, it is evident that in structurally backward economies the potential type has a much greater significance than any other, at least from the stand-point of growth economics.

The extent to which labour might be shown 'redundant' would vary directly as the amount of capital invested in achieving the labour-saving devices. But if there is no upper limit to the amount of capital invested, the degree of underemployment might be shown so fantastically high as not to be of any significance. At the same time, this is a field where personal equations must be given some scope. In Pakistan, a recent survey (Vide **Pakistan Economic Journal**, July, 1949) in three villages of West Punjab has revealed the redundance of 56 per cent of the male labour force (12 years and over). The underlying assumption was that 'the proper unit of labour for one square of land (25—27.6 acres) in a canal colony is three men and two pairs of bullocks". Assumptions of this nature are bound to be rough and ready and at times naive. But it is rather doubtful whether assumptions in statistical measurements can ever be absolutely precise in the field of social sciences; nor need we try to be timidly precise about details.

Around Bombay Markets

Select Committee Disappoints

Thursday, Morning

THE report of the Select Committee on the Wealth Tax Bill has not enthused Dalal Street. The more optimistic had hoped that the wealth tax on companies would be withdrawn and that the proposed double taxation of shareholders' wealth would be dropped. While the psychological incidence of new taxes is bound to be heavy, it does not appear to have been sufficiently realised, however, that in the case of a growing company, the wealth tax does nothing more than to take away a portion of the development rebate of 25 per cent on the original value of new equipment. In so far as the impost on companies penalises stagnant concerns, it is perhaps all for the better. The exemption of new and losing firms and of inter-corporate holdings from the operation of the wealth tax goes far towards meeting some of the criticisms. The working results of nearly all prominent non-Textile companies for the past accounting year indicate that most companies can well afford to pay the levy without anything more than psychic damage.

Among the other factors responsible for the low spirits in Dalal Street, apart from settlement considerations, is the almost continuous inflow of unfavourable reports from the cloth market. Mills are reported to be keen on getting rid of their excess stocks at discounts ranging from 1 to 6 as per yard. Consumers' demand appears to have become sluggish owing to the general rise in the cost of living, particularly of food items, while traders and producers are hit hard by monetary stringency. In the export market, Bombay Dyeing appears to be doing quite well but on the whole, developments have not been exciting. The experience of 1954 and 1955 suggests that the demand for cloth may revive significantly only when prices of foodgrains come down to reasonable levels or, alternatively, remain stable while incomes rise significantly. Since neither of these developments can be expected in the near future, Textiles are bound to lie low for a while.

The decline in copper prices and the announcement of the U K Board of Trade that it will sell 10 per cent of its strategic stockpile of copper, roughly 2,700 tons, from October onwards has led to further weakness in Indian Copper.

The only bright spots in this gloomy picture is Shipping, which is going to be exempted from the wealth tax, and the recent conversion issues of National Carbon, G K W, and Hindustan Lever. Most Tata shares, too, have been steady.

The interim report of the Life Insurance Corporation reveals the extent of the support it has lent to the capital market in recent months. As between September 1, 1956 and June 30, 1957, its holding of private securities expanded by Rs 8.62 crores, of which Debentures accounted for Rs 1.40 crores, Preference shares for Rs 1.61 crores and Ordinary shares for Rs 5.61 crores. State Government securities are the other principal beneficiaries of LIC's investments; their holding increased by Rs 9.19 crores. As on June 30, the Corporation held Rs 171 crores of Government of India securities, Rs 44 crores of State Government securities, Rs 32 crores of Government guaranteed and other approved securities, and Rs 63 crores of private securities, consisting of Debentures Rs 21 crores, Preference shares Rs 14 crores and Ordinary shares Rs 28 crores.

Loan Subscriptions

The two new loans have been subscribed to the extent of nearly Rs 106 crores, conversions accounting for Rs 45 crores and cash for the remainder. Returns for the week ending August 9 indicate that the Reserve Bank and State Bank have probably subscribed Rs 15 crores and Rs 20 crores, respectively, out of the total cash subscription of Rs 61 crores. The fall of Rs 21 crores in net deposit liabilities of scheduled banks perhaps implies an approximately equivalent subscription by non-banking institutions. The gilt edged portfolio of banks has expanded by only Rs 6 crores, a figure which obviously does not include the State Bank's subscription. Their balances with the Reserve Bank have, however, declined by Rs 23 crores. Even this 'loss' of banking funds has been made possible only by increased borrowing from the Reserve Bank to the tune of Rs 33 crores, of which advances against usance bills account for Rs 22 crores, and by reducing call and short money by Rs 9 crores in spite of an increase of Rs 2 crores under that head of the State Bank.

The cash subscription has, therefore, not merely failed to come up to the Budget target of Rs 68 crores but has also revealed the banks' inability to take up relatively low yield gilt-edgeds when they are heavily burdened with high yield advances!

External Drain Slows Down

Reserve Bank returns, for the week ending August 16, show that 'Balances held abroad' have declined by only Rs 1 crore to Rs 17 crores against a weekly average of

around Rs 9 crores for a couple of months, while foreign securities have remained constant at Rs 376 crores. It is still too early, however, to say that the external drain has been halted.

The absorption of the new loans is reflected in the reduction of Rs 29 crores under Central and State Government deposits and an equivalent rise under Investments. Bankers' deposits have declined further by Rs 9 crores while loans and advances to them have gone down by Rs 14 crores, of which advances against usance bills account for a decline of Rs 9 crores. Note circulation which had expanded during the previous week by Rs 17 crores, at the expense of notes held in the Banking Department, has declined once again by Rs 8 crores, to reassert the trend of seasonal contraction.

Cotton

Bullish Sentiment Re-appears

WHILE Sewri has turned quiet in expectation of the new crop, due barely two weeks hence, and sellers have been eager to get rid of their stocks, Kalbadevi has drawn some cheer from the recent spell of heavy rains which are reported to have done some damage in Punjab, Berar and Moglai tracts. The earlier sagging tendency of Moglai March, which had been accentuated by mandi options by Ahmedabad and Akola interests, was corrected by Tuesday when bulls lent firm support to the contract.

The all-India final estimate of cotton for 1956-57 puts the current year's area and production at 198 lakh acres and 47 lakh bales respectively, against the partially revised estimate of 200 lakh acres and 40 lakh bales, for 1955-56. Production during the current year is thus expected to be 18 per cent higher, in spite of a slight contraction in acreage.

Oilseeds

Groundnut Sags

GROUNDNUT has sagged in expectation of a good crop and from reports that vanaspati manufacturers have agreed at New Delhi to use cotton seed for 10 per cent of their requirements. Consequently maturing August delivery shed nearly Rs 4 over the fortnight and February contract, too, moved down in sympathy. Castor, on the other hand, has remained quite steady on reports of modest purchases by Australia and sporadic inquiries from U K and the continent.

Bullion Erratic

Sheikh Memon Street continues to maintain its reputation for erratic trends. Gold has, on the whole, remained steady to firm, thanks to the checks imposed on smuggling. Silver, however, has fluctuated either way in tune with rumours about the inflow of Tibetan coins.

SUGAR PRODUCTION

The production of indigenous sugar amounted to 20.19 lakh tons up to July 31, 1957, in the current season, as against 18.53 lakh tons in the corresponding period of the last season. The total off-take, including quantities despatched for exports, was 15.90 lakh tons.

The stock with the factories on July 31, 1957 stood at 9.56 lakh tons.

The Indian Iron and Steel Company Limited

NOTICE

NOTICE is hereby given that the Annual General Meeting (being the Fortieth Ordinary General Meeting) of the Company will be held at the Registered Office, 12, Mission Row, Calcutta, at 11 a.m. on Wednesday, the 11th September, 1957 for the following purposes:

1. To receive and adopt the Audited Accounts for the year ended 31st March 1957 and the Directors' and Auditors' Reports thereon.
2. To declare a dividend on the Ordinary Share Capital to be paid on or after the 24th September, 1957, to those shareholders whose names appear in the Company's Register on the 11th September, 1957, or to their mandatees.
3. To appoint Directors in place of those retiring. In this connection notice is hereby given that two Special Notices as defined in Section 190 of the Companies Act, 1956, have been received by the Company under Section 281 of that Act to move the following Resolutions at the meeting:—

"That Sir P. P. Ginwala 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."

"That Dr. N. N. Law 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 Resolution of which Special Notice has been received:—

"That the age limit specified in Section 280 of the Companies Act, 1956 shall not apply to Mr. T. Leslie Martin and this meeting hereby approves any appointment of Mr. Martin as a director of the Company which may hereafter, whilst this Resolution remains in force, be made by the Managing Agents pursuant to Article 108 of the Company's Articles of Association."

The Share Registers and Transfer Books of the Company will be closed from the 4th September, 1957, to the 11th September, 1957, 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,
17th August, 1957.

Around Calcutta Markets

Irregularly Lower Trend

Wednesday, Evening

EQUITIES have developed an irregularly lower trend. Some days ago, stock markets were in a mood to crawl up on hopes of major concessions to the original proposal for the tax on wealth. As the Wealth Tax Bill has emerged out of the select committee, it contains some important concessions. But the behaviour of equities suggests that stock markets are disappointed that companies have not been excluded from proposed tax on wealth. Indeed, equities have eased further since the release of the select committee's recommendations on the Wealth Tax Bill.

At the moment of this writing, Indian Iron are steady at the lower level. There are technical reasons for the behaviour of Indian Iron. For one thing, there has been some "bear" covering for settlement considerations. From Wednesday onwards, with the end of the settlement, Indian Iron is being quoted ex-dividend. This had, naturally, induced some support for this scrip until Wednesday. While these two technical factors explain why Indian Iron have not fallen further, the immediate outlook becomes all the more uncertain as, since Wednesday, their is no difference between old and new Indian Iron shares.

Devaluation

Be that as it may, it is not a little surprising that equities have fallen, despite speculation about a general re-alignment of currencies, including the rupee. For all practical purposes, the franc has been devalued. Sterling has been subjected to some pressure on the world's exchange markets. There are talks that, at the forthcoming meetings of the Brettonwoods Twine, the problem of revaluation of currencies may be decided. Devaluation, or rumours of devaluation, should normally have had a "bullish" effect on equities.

Why are equities then dropping? For one thing, there are fears that, as in France, Bank Rate may be raised. It has, indeed, been argued that, instead of recommending devaluation, the Monetary Fund may advise its members to pursue a policy of dearer money. Alternatively, the Fund may recommend simultaneous adoption of both these measurers, as has been done in France. Anyway, Lyons Range seems apprehensive that the Reserve Bank may pursue a policy of credit squeeze, even if Bank Rate is not raised. These fears may seem groundless. But both industry and investors remain suspicious.

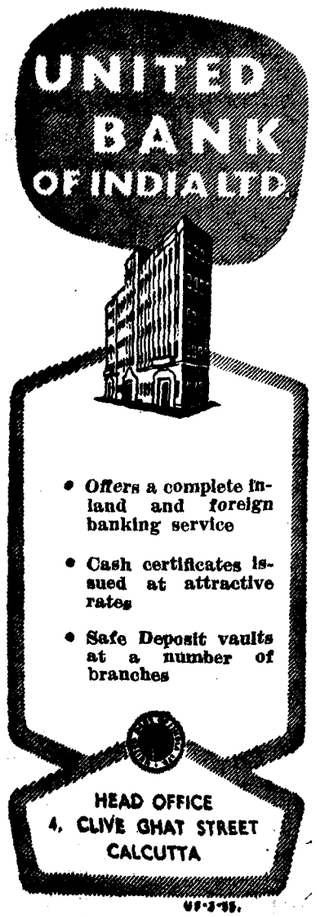
Yield Pattern

In retrospect, it is evident that, without constant and active support from the Life Insurance Corporation, equities are unable to move up. Since the withdrawal of support to the market by the Corporation, equities have lost considerable ground. Hopes that the Corporation would re-enter the market after the completion of the loan operation have not materialised. Investors still remain shy. By all current indications, investment support to equities is not likely to be forthcoming in the near future. In the circumstances, can equities maintain even the current lower level?

Doubts prevail. There are some sound dividend-paying scrips which, at current quotations, yield eight per cent and over. Such shares are likely to attract the attention of investors in the long run. But active, speculative scrips do not fetch such yields as to induce investment support. This is the main market problem. There has been a gradual transformation in the levels of equity yields. But the process of adjustment in yields between active, speculative shares and sound dividend-paying scrips has yet to be completed.

Though a confident and substantial recovery in equities is unlikely in the immediate future, any further appreciable set-back seems equally unlikely. For one thing, investors now know the worst about taxation. There may be some more technical adjustments in the system of taxation in the next year's budget. But the burden of direct taxation is not likely to rise further. That maybe, but is the adjustment to higher direct taxation over? There are reasons to believe that the process of adjustment of equities to the higher tax load is almost over. That being so, a gradual, though slow, recovery in equities, in the absence of any further untoward development, can reasonably be expected.

On the industrial front, the situation is highly comforting. In 1956-57, industrial output reached, according to reliable estimates, a record level. There has since been a further improvement in industrial production. Behaviour of industrial profits is no less encouraging. Despite the higher tax load, neither industrial profits nor dividends have been generally affected. These factors justify a steady trend in equities.



CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1508.45	1516.15	1517.90	1445.44
2. Rupee Coin	130.27	129.70	128.06	113.77
3. Deposits				
a) Central Government's	70.21	85.48	54.02	53.72
b) Banks'	75.87	85.12	87.82	53.44
c) Other Governments'	2.84	16.90	3·09	5.59
d) Others'	139.59	138.73	149.48	11.92
4. Foreign Securities	375.52	375.52	400.52	606.68
5. Balances held abroad	16.62	17.51	31.19	34.39
6. Rupee Securities	911.81	911.81	906.81	702.62
7. Investments	250.66	260.41	246.37	50.12
8. Loans and advances to Governments	28.84	28.83	27.79	7.90
Scheduled Banks				
1. Demand liabilities (net)	704.60	728.80	715.71	637.86
2. Time Liabilities	577.22	578.98	559.37	459.67
3. Cash on hand	40.19	44.59	41.82	35[illegible]2
4. Borrowings from Reserve Bank	68.88	37.32	51.30	44.58
of which against Usance Bills	54.37	31.87	45.30	33.94
5. Advances and Bills discounted	826.17	827.47	848.98	692.59
of which State Bank's	170.98	169.61	177.19	127.14
6. Invst. in Govt. Sec.	338.10	332.42	332.25	361.48
of which State Bank's	104.42	105.30	105.63	106.29
Cheque Clearance	149.56	188.76	126.29	116.43

†For Reserve Bank week ended 16-8-57. Scheduled Banks and Cheque Clearance week ended 9-8-57

Bombay Money Rates

Call Money	2-8-57	26-7-57	5-7-57	3-5-57
From banks	$3\frac{3}{16}$-$4\frac{3}{16}$	$3\frac{5}{16}$-$4\frac{5}{16}$	$3\frac{3}{4}$-4[illegible]	$3\frac{7}{16}$-$4\frac{7}{16}$
From public	$3\frac{3}{4}$-$4\frac{7}{16}$	$3\frac{1}{8}$-$4\frac{7}{16}$	[illegible]$\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{7}{16}$
Three Months	$2\frac{7}{8}$-$4\frac{7}{16}$	$2\frac{7}{8}$-$4\frac{5}{16}$	[illegible]$\frac{7}{16}$	3-$4\frac{7}{16}$
Six Months	2-$4\frac{5}{16}$	2-$4\frac{5}{16}$	2-$4\frac{5}{16}$	2-$4\frac{5}{16}$

Bombay Bullion

(In Rupees and nP)

	9-8-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107-[illegible]	107-82	105-56	103-56
Forward	107-[illegible]	107-98	105-26	103-43
Silver (per 100 tolas)				
Spot	181-99	182-49	178-70	171-94
Forward	182-51	182-90	179-16	172-00

JUTE STATISTICS

(1956-57)

	June	May	Apr. July '56 to June '57	
Production ('000 tons)				
Hessian	32.3	35.6	35.2	428.3
Sacking	42.3	45.0	44.8	526.8
Others	5.5	6.7	5.8	70.1
TOTAL	80.1	87.3	86.8	1,025.2
Total production in the Corresponding months of:				
1955-56	98.9	101.7	93.9	1,095.0
1954-55	85.7	81.7	85.7	994.8
Stocks at the end of the month ('000 tons)				
Hessian	42.6	40.4	35.1	—
Sacking	64.5	58.0	58.8	—
Others	8.8	11.0	10.8	—
TOTAL	115.9	109.4	104.2	—
Total Stocks at the end of the Corresponding months of:				
1955-56	127.0	119.7	107.9	—
1954-55	87.6	94.7	103.4	—
Despatches:†				
Hessian	34.5	30.5	30.6	424.5
Sacking	35.7	46.2	43.1	547.0
Others	7.3	6.0	5.3	60.4
TOTAL	73.2	82.7	79.0	1,031.9
Total despatches in the Corresponding months of:				
1955-56	80.7	89.0	81.3	1,047.2
1954-55	84.0	89.6	76.1	988.4
Raw jute consumption: (lakh bales of 400 lbs each)				
1956-57	4.61	5.12	5.17	60.15
1955-56	5.54	5.89	5.45	63.40
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	56	47	32	497
In corresponding months of:				
1955-56	87	21	27	1,199
1954-55	126	95	100	1,080
Indian	303	416	386	5,506
In corresponding months of:				
1955-56	378	385	376	4,970
1954-55	309	179	219	4,419

† Despatches include exports and sales for internal consumption.

Source: Indian Jute Mills Association

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The Economic Weekly

A Journal of Current Economic and Political Affairs

(Established January 1949)

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Food and Finance Again

FOOD and finance had come together in these columns some time ago. When discussing the high prices of foodgrains in the issue of June 1, it was made clear that though food prices were rising, there were several factors to warrant and justify a measure of confidence. Production was not bad, imports had been stepped up and so had been distribution through fair price shops. So if prices were not coming down, what could be the reason? The Food and Agriculture Minister had then taken umbrage at being pilloried for another's fault. "If price rises are not just reflection of the shortfall in supplies, what else could they be due to? Has nobody heard about the Marshallian scissors?"

More recent figures have confirmed beyond any doubt that food production has been really satisfactory. The reason that was suggested then for the continued trend of rising food prices was that increase in production did not necessarily mean a similar increase in the supplies that came on the market. It followed that in the absence of any knowledge of the marketable surplus and of the factors governing the size of this surplus, no sensible prognosis or intelligent control was possible. The possibility was also hinted that the institutional set-up may have changed, that the pressures which force the peasant to part with his grains may have relaxed somewhat as a result of the partial changes that had been effected in the system of land tenure and the set-up of general agriculture.

Since then, the evidence given before the Foodgrains Enquiry Committee during its tour in some parts of the country has brought out some of the changes in the agricultural set-up. The picture is not yet clear in detail or concrete but even so, what little has come out is enough to shake a little the basic assumptions on the current or rather the pre-Asoka Mehta Committee thinking on the subject.

What has come to light, however, is not what had been hoped for. Had what had been hoped for come true, we would be in a worse mess. Witnesses have told the Committee that the number of share-croppers has gone down significantly in Bengal, Bihar, and Orissa. It is not that the grower is consuming more and hence marketed supplies have fallen off. This is also confirmed by the very gloomy chapter in the Review of the First Five-Year Plan in which the Planning Commission has confessed that implementation of land reform has largely failed because there is no organised pressure of public opinion in the rural areas for the enforcement of even such legislative measures as have been enacted however inadequate the latter might be. This is, in fact, the reason why the Planning Commission and the Government are turning more and more to the Bhoodan Movement for bringing about the desired changes in the country-side. Apart from questions of social policy, therefore, it would not be unwarranted to infer from this that whatever might be holding up supplies to the market, it could not be because the small peasant was eating more. But quite another kind of development has come to light—the growth of the big farmer with holding power and his tie-up with organised banking, at least in one State which is a substantial producer of surplus foodgrains, viz, the State of Andhra.

So food and finance have changed places and to revert to Marshall's metaphor of the scissors, the upper blade which appears to be the more

active at the moment in keeping up food prices is the holding up of stocks, with the help of bank advances, rather than increased demand coming from larger money incomes. In fact in recent discussions of the subject, the income-elasticity of demand for foodgrains is hardly ever mentioned at all, though behind the reasoning which attributes continued high prices of foodgrains to speculative holding of stocks lies the implied assumption that increase in demand in the current season could not have exceeded the 5 or 6 per cent increase in food production which has taken place, judging from the latest crop returns.

The failure not of qualitative credit control—it has hardly ever been tried at all—but in working out some effective technique of applying such control has often been deplored in these columns. Disturbed by the continued high level of bank advances even in the slack season which it no longer regards as evidence of the diversification of the economy, the Reserve Bank has now gone in for a dictated quantitative reduction. Before the busy season starts, says the latest directive from the Governor of the Reserve Bank, the scheduled banks must bring down their advances by 10 per cent to the level of Rs 800 crores. It is useless to argue against so wooden a dictat that leaves no discretion to the banks in the assessment of credit requirements. On the question, how is the cut to be distributed, of course, there is no answer beyond a general indication that industrial advances are not be touched.

According to press reports, the Governor of the Reserve Bank has been moved by two considerations: (1) the effect of bank advances on the prices of foodgrains which the banks have been directed to restrain by efficient inspection of the work of their branch offices and (2) the views of the I M F and the World Bank on monetary policy. While the latter substitutes rubber stamping for the enunciation of a monetary policy and is thus easy enough to operate, it is the effect of bank advances on food prices which needs careful examination in the light of the general directive of credit restrictions to banks to bring down the advances against paddy and rice to two-thirds of the level of the last busy season and in the case of wheat to three-fourths. These directives, it is complained, have remained largely unfulfilled. The folly and irrelevance of excessively large stocking of foodgrains by, say, a group of producers or millers is so obvious and so patently absurd that the point need not be laboured at all.

If the labours of the Food Enquiry Committee succeed in making the Reserve Bank aware that requirements of trade can under no circumstances be assesed by the rule of thumb methods that it has followed so far, it would have achieved something. After all, all the foodgrains that are harvested have to be stored by somebody until the next harvest is reaped—whether by the producers, consumers or the trade. Therefore, the regional patterns of production and distribution of stocks have also to be considered before any sensible credit policy can be directed to stabilising—and not necessarily bringing down—foodgrain prices. This is to the extent that the trade in foodgrains depends primarily on bank credit. But how great is that dependence?

Errata

Expertise of Import Control

Issue of July 27.

Page 968

Para 3, line 11. For "Weekly Bulletin (for the week ending 18-3-57)"

Read "Weekly Bulletin (for the week ending *18-5-57*)".

Grim Outlook

IT depends. It would be foolish to pretend or to presume that the Russian claim of a successful test of an inter-continental ballistic rocket *enhances the prospects of* disarmament. Those who think in terms of logistics or of military balance of power will emphatically denounce such false hopes. It is a safe bet that Washington will not only prod and push, but issue commands to its atomic and military experts to expedite the testing of the Titan. In Canberra, a week ago, the British Defence Minister had already disclosed that Britain's experiments with a far more advanced type of strategic ballistic rocket than that of the United States were well under way. Both America and Britain were eagerly trying to do what Russia has now succeeded in doing. British and American efforts to catch up with this Soviet Union's scientific research programmes will take time. This is not only a reminder of the Soviet Union's superiority in technology and in fundamental sciences. But it is a far more grim reminder of Communist Russia's supremacy in military power in all its aspects and spheres.

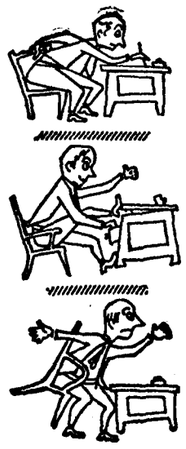
As this basic assumption can now hardly be disputed, the outlook for disarmament, or for world peace, or for an East-West understanding, becomes all the more gloomy. Such an inference is not necessarily a reflection on the Soviet Union's motives and intentions. Some such gloomy outlook would seem to be justified from the behaviour of the Western Powers in respect of disarmament. Pessimism stems from the Western Powers' avowed policy of negotiating from strength. This condition is no longer present. It had ceased to be relevant some years ago. That was why the Geneva Summit Conference reached an understanding that no side would start on atomic war. But even the Geneva conditions are not relevant or prevalent at the moment. It would, in retrospect, seem clear that, if not at the time of the Summit Conference, soon after the Geneva Agreement, the Soviet Union had started manufacturing better types of nuclear weapons. But, during the disarmament talks, and since, the Soviet Union had always insisted not only on banning nuclear tests, but on prohibiting the manufacture of nuclear weapons. Now, with the inter-continental ballistic rocket, the Soviet Union may be expected to reaffirm her demand for banning the manufacture of all nuclear weapons.

While the Soviet Union will be negotiating from a position of strength, the Western Powers are unlikely to talk terms from a position of inferiority. It may seem a contradiction, but it is easier for a totalitarian State to accept defeat on realities of the situation than it is for a virile, militant, democracy like America. A military approach to the problem of disarmament is, therefore, out of the question as long as America and the Western Powers have not succeeded in manufacturing and testing inter-continental ballistic rockets. Despite the Geneva Summit Agreement, Pentagon had repeatedly emphasised the theory of the Great Deterrent. America has not only used her assumed or alleged atomic supremacy to mean as, but to issue, a constant threat to the Soviet Union. The theory of the Great Deterrent has become obsolete now. The Western Powers have lost their chance of negotiating from strength, because they have failed to exploit the opportunity in time.

Though Moscow has proved to demonstration that its threat to the British Prime Minister during the joint Anglo-French aggression against Egypt was not a military bluff, it does not necessarily imply any immediate danger to the Western Powers, or to world peace. Because she has the inter-continental ballistic rocket, the Soviet Union cannot hope to win a war. From America's far-flung bastions, the Western Powers would be in a position to retaliate with vigour. But the Soviet Union's military triumph rules out of consideration any military approach to the problem of disarmament. While Pentagon and Mr Dulles have been talking about the Great Deterrent, President Eisenhower has been more realistic in formulating his "open skies" plan. It is essentially based on the assumption that each side will continue to be suspicious of the other, but that effective control and inspection would make disarmament, and hence world peace, possible.

It would be idle to pretend that natural jealousy and suspicion will disappear. That being so, the impracticability of radar warning and control and inspection of ballistic rockets makes a military agreement on disarmament impossible. Without a political understanding, no agreement on disarmament is, or was ever, possible. Although the impossibility of inspection, or radar control and warning, of ballistic rockets underscores the need for a political understanding between the two sides, its prospects are equally gloomy. But the common man will hope against hope and against logistics, that the devastating effects of a nuclear war will compel both sides to reach a political agreement on peaceful co-existence.

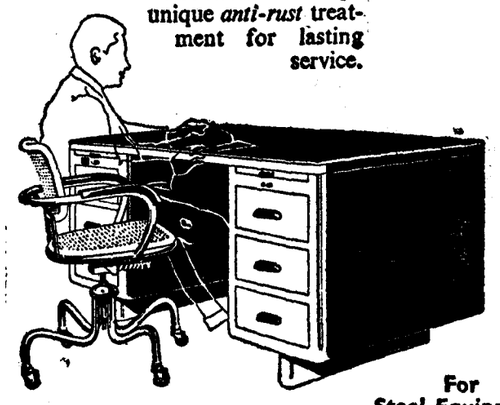
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For Steel Equipment the first name is Godrej

A range of Steel Tables and Chairs for Executives, Clerks, Typists, Factory Workers, *nesting* tables for Clubs, Canteens, Community Centres...

Bombay: Lalbaugh, Parel; 51, Veer Nariman Road and 299, Kalbadevi Road. Hyderabad: 1239, Abid Road. Poona: Dorabjee & Co., Moledina Road. Ahmedabad: Jehangir Brothers, Relief Road and Oriental Buildings, Railwaypura. Nagpur: C. Eduljee & Co., Kamptee Road. Indore: Sanghi Brothers (Indore) Ltd. Rajkot: Kothari Industries Ltd., Civil Station. Bhavnagar: Dhirajlal Narsidas Shah, Danapith. Hubli: Mudugal Bhimasenappa Bros., Opp. Lamington High School. Karachi: M. P., Dastur & Co., Bunder Road.

Weekly Notes

What Cost Rehabilitation ?

THE rehabilitation of refugees from East Bengal has been such a scandalous failure that the Chief Administrator of the Rehabilitation Finance Administration wants this organisation to be converted into a Relief Bank! The latest annual report of the RAF for the year ending December 31, 1956 shows receipts at Rs 42.45 lakhs out of which expenditure on staff amounted to Rs 13.2 lakhs and interest payable to Central Government came to Rs 30 lakhs while miscellaneous expenses and depreciation accounted for Rs 1.79 lakhs, leaving a net deficit at the end of the year of Rs 2.57 lakhs. The aggregate accumulated loss now amounts to Rs 164.50 lakhs. The factors responsible for this loss were:

(i) high establishment charges which though brought down from Rs 22.06 lakhs in 1951 to Rs 12.45 lakhs in 1956 are still too uneconomic;

(ii) a high proportion of bad debts for which nearly Rs 89 lakhs have had to be provided;

(iii) the reduction of rate of interest on loans from 6 to 4½ per cent from 1st April 1954 in a majority of cases;

(iv) a high proportion of overdues which in respect of interest amounts to Rs 95 lakhs (against Rs 128 lakhs receivable) while overdue principal aggregates Rs 356.47 lakhs (against Rs 906 lakhs loaned); and

(v) inordinate delay in sanctioning loans.

For example, 17,346 applications were pending at the end of 1955 to which 376 were added in 1956; disposals during the year amounted to 4,633 only, leaving a balance of 13,039 at the end of the year against a total of 87,508 received till then; applications rejected and filed over these years amounted to 53,324 out of the 74,469 disposed of.

Nationalised Life Insurance

THE first report of the Life Insurance Corporation covers the ten months from 1st September 1956 to 30th June 1957. The final Report to be published in 1958 will cover the sixteen month period to the end of 1957. The Corporation was faced at its inception with the stupendous task of integrating 243 different units, the assets of which aggregated Rs 411 crores; their total policies in force amounted to 50 lakhs, assuring a total sum of Rs 1250 crores; the total number of salaried employees was nearly 27,000. After overcoming its teething troubles, the Corporation now appears to be on its way towards doing more business.

As compared with the completed assurance in India of Rs 136 crores during the eight months of Custodians' regime, the Corporation completed policies amounting to Rs 52 crores only during the first four months of its existence. During the first six months of 1957, however, business has looked up. The policies effected during these months amount nearly to Rs 74 crores while proposals were, as may be expected, higher at nearly Rs 112 crores.

Neither the ratio of sum assured to sum proposed, nor the average monthly rate of new business introduced is any better in the first half of 1957 than in the last four months of 1956. While claiming that "Considerable progress has been achieved" the Report frankly admits that "even now the level of efficiency reached in certain Divisional and Branch Offices is far from adequate."

Breakdown of data by zones indicates that Southern Zone has achieved not merely the highest monthly average of business proposed as well as assured, but has also succeeded in raising the ratio of amount proposed to assurance effected between the period September-December 1956 to January-June 1957, while in all the other Zones, except the Northern, the ratio has declined significantly. Over the ten month period September 1956—June 1957, the different Zones have done business as under: (in round figures)

(Rs crores)

	Amount proposed (i)	Assurance effected (ii)	% of (ii) to (i)
Northern	27	18	67
Central	29	19	66
Eastern	41	25	61
Southern	52	35	67
Western	40	28	70

Business outside India has declined steeply compared to previous years. The new business completed outside India amounted to only Rs 12.6 crores in 1956 against Rs 20.3 crores in 1955, Rs 17.7 crores in 1954 and Rs 14.7 crores in 1953, while the number of policies completed has gone down from more than 30,000 in 1953 to less than 18,000 in 1956.

In the first half of 1957, the number of policies completed amounted to 1,397 and the sum assured to Rs 1.38 crores. The contractionist policy of the Corporation abroad is evident: "The Corporation expects to transact annually a business of about Rs 10 crores against a new business of Rs 20 crores in 1955. The reduction in the expected business is accounted by not writing new business in Burma, Ceylon, and Pakistan."

P P P Victory in British Guiana

IT may be presumed that Dr. Jagan will again be the Prime Minister of Guiana. His People's Progressive Party has won a decisive victory in the recent general elections. He and his party have won, despite the open hostility of the colonial administration. After Dr. Jagan was ousted from office last time, there was a split, itself a cause of Dr. Jagan's fall, in PPP. Immediately before the elections, his political rivals were expected to score victories over him. These hopes have been belied. By winning nine out of the fourteen elective seats, PPP has established beyond dispute its legitimate right to be the Party in power. Some time ago, it seemed that Dr. Jagan was unwilling to assume power even in the event of a victory in the elections. Later reports indicate that he has, wisely, changed his mind.

Dr. Jagan's opposition to the present political set-up in British Guiana is as election results proved, shared by the people. The Renison constitution is much more restrictive than the Weddington constitution.

Dr Jagan will certainly demand increased representation of elected members in the Legislature. His other campaign for administering the country for the good of the people, instead of for the benefit of sectional or foreign elements, will be equally widely supported by the people. These are urgent and necessary reforms. Dr. Jagan has also shown statesmanship in toning down some of his extreme political views. London will welcome his assurance that Guiana must remain within the Commonwealth even after it becomes independent. He has been equally reassuring in his pledge that the question whether Guiana should join the Carribean Federation should be decided by a plebiscite. Guiana's neighbours will welcome such an accommodative policy by Dr. Jagan. He has started well this time. Well-wishers of Guiana will hope that he will succeed in his efforts to gain more internal political reforms for his country.

The Lone Warrior

Our Delhi Correspondent writes :

ECONOMICS has dominated politics in the capital during the past fortnight and inevitably the personality of the Finance Minister has mattered more than it usually does. In the Cabinet, Congress Parliamentary Party meetings, select committees and Parliament, he has been fighting a lone battle, often winning, sometimes going down, but always valiant. Few barring the Prime Minister can match his industry or his acumen and what he lacks in liberality of outlook is more than made up for by specialisation in his intricate subject. It could not have been a pleasant task for him to defend the Wealth Tax and the Expenditure Tax bills against criticism at all levels within the Congress Party and outside; to these onslaughts was added the feeling that he was mainly responsible for the country's foreign exchange problem as the former Minister of Commerce and Industry, if not as the present Finance Minister. The Second Plan is on the rocks and, as the man expected to save it, he had nothing to offer the country but the dubious consolations of his own faith, casuistry, and a prospective tour abroad.

It is for the first time that Shri T. T. Krishnamachari has publicly admitted that India must "actively seek" foreign aid. He could not say more because the results are problematical. Shri Krishnamachari's own policies and utterances have been not the least among the factors responsible for discouraging the flow of foreign capital and credits. The ill-advised "deposits" scheme is one of them. The Wealth Tax and the Expenditure Tax, according to advices received in New Delhi from the U S, have produced an adverse reaction among potential American investors who were beginning to be lured by the mass market that the country may eventually present. The Ministry of Commerce and Industry is convinced that deferred payment terms for many more "self-paying" schemes would be available, if they could obtain such credits for a five-year period instead of seven or nine years insisted upon by the Ministry of Finance. Such examples can be multiplied.

The problem, however, is not the discovery of the mistakes of the past but discovery of a way out for the future. Many believe that the present is a wrong time to look for a sizeable line of credit in the U S—widely regarded as the answer to India's prayer—and that TTK is the wrong man to be entrusted with this task. The "doubters" think that the Finance Minister among hard-headed American businessmen would be like a bull in a china shop; he would display his nerves and temperament so much dreaded in this country already. They go on to argue that the Administration in the US is having a hard time in getting the Foreign Aid Programme through the Congress: neither the President nor the legislature will be in a mood to consider special legislation for assisting India.

Whether the Finance Minister will make a bid for a sizeable line of credit in the U S is perhaps more than what even he can say at present; it will depend on the prevailing circumstances. The Congress is expected to adjourn well before the Finance Minister reaches Washington and indications are that cuts in the President's Foreign Aid Programme may be substantialy restored by the Senate. Observers here are keenly watching the fate of the Foreign Aid Programme in the Joint conference of the two Houses. The Congress is likely to meet again in January next by which time the Administration would have had ample opportunity of drafting and canvassing support for any special legislation it likes to sponsor for aid to India. Indeed political circles here are expressing the hope that the process of creating a favourable climate for a large-scale aid programme for India would be initiated by the Finance Minister himself; it is felt that he should spend more time in the U S than is provided for in his tentative itinerary. Direct talks by the Finance Minister to the Council of Foreign Relations and similar bodies in the West and mid-West would go a long way towards dispelling the suspicions and ignorance of the influential diehards in the U S, it is urged. TTK can turn on his charm whenever he likes and perhaps he will do so with success in the U S.

The Finance Minister is of course not so naive a strategist as to begin his Odyssey with nothing in the bag. He has a few rabbits which he may release at the end of the trip even if he cannot catch more on the way. A new loan of the World Bank for the purchase of diesel locomotives and other equipment for the railways in addition to ninety million dollars already given by the Bank is in an advanced stage of negotiation. The Bank is also reported to be favourably considering finance for cement and fertilizer projects. The World Bank and the Export-Import Bank of America have at last been demarcated their respective areas of operation and the Export-Import Bank is considering a number of loans. It is possible that rayon, paper and hard board plants and schemes for the rehabilitation of jute industry may be the latter's beneficiaries. Another agreement under P.L. 480 may be finalised. A number of individual American companies are considering collaboration on the basis of participation in the capital structure of Indian companies for the manufacture of carbon black, sugar and paper mill machinery, pharmaceuticals, and oil refining.

In the U K, the Finance Minister may finalise an export credit of Rs 6 crores for the first stage of the Heavy Electrical Project and Rs 5 crores for the heavy plate vessel and structurals shop. Talks with the British Federation of Industries for a £25 million line of credit for projects in the private sector may be carried further from the point left by Sir Norman Kipping during his visit to India. Further export credits or even a line of credit may be negotiated in West Germany, France and Japan. All these efforts may bring the country about Rs 100 to Rs 150 crores in foreign aid, just when India is about to scrape the bottom of her foreign exchange barrel.

Letters to the Editor

Concept of Industrial Capacity

I HAVE seen your interesting article on the "Concept of Industrial Capacity" in your issue of the 10th instant. I have myself been perplexed many times about the basis on which the Government fixes the capacity for any industry or factory. It appears that sufficient attention has not been given to this matter and it is of considerable importance.

If capacity is under-estimated or wrongly estimated, it can only have an effect on our assessment of production potential. It is also essential that the capacity should be assessed in a very strict manner on the best possible working basis, providing for the least number of stoppages. For some reason the Government has been insisting that the production should be on the basis of 330 or 300 working days. I have never appreciated this personally.

We are working our factories 24 hours a day and 7 days a week by employing extra labour and not making any man work more than is necessary under the Factories Act at any time. For the Chemical Industry such as Caustic Soda, Sulphuric Acid etc., in our D C M Chemical Works, we do not permit working days of less than 355 to 360. We have stoppages about twice a year of 2 or 3 days each on an average.

We believe it would be useful for the Government to have a reconsideration of this matter.

Charat Ram
Director,
MANAGING AGENTS.
The Delhi Cloth & General Mills Ltd.
Post Box No 1039, Delhi.
August 24.

'Investments' in Banking Dept

I AM surprised to read your comments relating to Investments in the Banking Department in your issue of July 27. There is no great mystery involved and it is fairly easy to explain the rise in 'Investments'.

The main difficulty arises because of the assumption that deficit financing can take place only with an increase in rupee securities in the Issue Department. This assumption will be correct only when there is no serious deficit in the balance of payments position. The absence of any increase in active note circulation, in spite of large scale deficit financing, is due to the large import gap in recent months. Currency has been coming back from circulation and the cash in the till has been used by the Reserve Bank on many occasions for providing credit to Government without being obliged to effect expansion or currency.

The Reserve Bank has no doubt been making purchases of maturing bonds but because of switching operations the scheduled banks have not been big sellers in the bargain. The State Governments have not much to sell by way of gilt-edged securities. Neither the Central Government departments. The bulk of the increase in investments in the Banking Department is, therefore, due to deficit financing.

A Keen Student

Madras.
August 2.

I S S S—Indian Section

A SOCIETY called the International Society for Socialist Studies has been formed provisionally in London under the presidentship of the well-known socialist, G D H Cole. The objects of the Society are:

(a) To promote closer contact between those socialists, in all countries, who regard socialism as, in its essence, a world movement transcending national boundaries, and are desirous of working together in the reconsidering of the basic socialist ideas in the light of this international approach; and further

(b) to bring such socialists into collaboration in the intensive study of constructive socialism, taking account of the problems presented by the varying situations in different countries, but seeking ways to united action on a world-wide scale.

These objects will be discussed and it is hoped finally endorsed at an International Conference to be held in London on September 20th, 21st and 22nd, 1957.

It is proposed to form a section of the I S S S in India to promote and realise its objects. The membership fee of the Society is £ 1 (Pound One Sterling) per year. I would appeal to all who are in sympathy with the objects of the Society to join its Indian Section and help in realising its objects. It is being increasingly realised in this country that re-thinking of socialist principles and policies is urgently called for from a non-sectarian standpoint.

I do hope that it will be possible to form a strong section of the I S S S in India and it will be a centre of deep and earnest socialist thinking. I would request all, who are interested in it to contact me at the address given below.

Gyan Chand

"Nyara"
5/4 B Roop Nagar,
Delhi 6.
August 27.

Planning

WE have recently been given to understand that the Second Five Year Plan originally detailed for an expenditure of Rs 4,800 crores was being cut down to its 'hard core'. Now Shri K C Reddy suddenly announces in the Lok Sabha that the allocation for housing has been raised from Rs 100 crores to Rs 1,000 crores!! Where is this additional Rs 900 crores to come from and where is Shri Reddy going to get his steel and cement to build houses from? What other projects have been sacrificed to release this Rs 900 crores for additional housing or does this mean so much more taxation? Should not such a major change in the Plan —it involves almost 20 per cent of the total Plan allocation—have been announced by the Prime Minister himself?

It is difficult to escape the logical conclusion of Shri Reddy's contribution to the many recent Government pronouncements on the Second Five Year Plan. Planning is now an exercise in the ridiculous and the nonsensical and the totally unrealistic.

G Isaac

145, Karnani Estate,
Lower Circular Road,
Calcutta.
August 19.

From U N Headquarters

Disgrace Abounding

A SHAMEFUL chapter on "double think" has just been concluded at the United Nations Security Council. It has gone—naturally—unnoticed in the great American press. The press lords in this country who shouted themselves hoarse on the Soviet intervention in Hungary could not bring themselves to see the justice of the Oman cause. The Omanese were the lesser breed without the Law—and evidently fair targets for British guns. Even Mr Henry Cabot Lodge, who loudly denounced the Russians on Hungary seemed to have been struck dumb in the Security Council. His speech, as sorry an effort as ever was made on the floor of that historic chamber, will probably long be remembered as a fine example of those very "double standards" which he accused India of only last November. Mr Lodge spoke less than five hundred words—for a man given to wordy defence of democracy this is something of a record—and of these he devoted a third to an attack on the Soviet Union, with what justification, in the particular circumstance it is hard to understand. Another third was devoted to washing his hands off the Oman people. "The facts with respect to developments in the area" Mr Lodge said, three weeks after the Oman battle had exploded, sufficient time for even a high school student to catch up on history, "are complex and not entirely clear." And with the pompousness of one who knows the truth but would not admit it, Mr Lodge proceeded: "The applicable law as well as the identity of the real parties in interest is not free from doubt".

There were others in the Security Council who had no doubts about the real nature of the Oman situation. Whatever the rights and wrongs of the case, whether, in law, the Imam of Oman was a vassal of the Sultan of Muscat or not, as General Carlos Romulo pointed out, no foreign power could intervene in their dispute. General Romulo, who is no particular friend of the Arab world and as often as not sides with the western powers, quoted two authorities, Sir Hartley Shawcross, former Solicitor General of the United Kingdom and Hyde's 'International Law'. Speaking on the Soviet intervention in Hungary, Sir Hartley had said: "It is well established in international law that intervention by a foreign power is inadmissible, even if it takes place at the request of a Government, in suppressing an armed insurrection or in pursuance of a treaty which is alleged to provide some justification". And Hyde's 'International Law' had this to say: "Nor is the situation legally altered by reason of the fact that intervention occurs in pursuance of a treaty of guarantee or that such action is in response to an invitation from either party to the conflict. Foreign interference, however invoked, is necessarily directed against a portion of the population of a state and is thus a denial of its right to engage in or suppress a revolution or of employing its own resources to retain or acquire control over the Government of its own country".

On these grounds, General Romulo said, whatever the merits of the case, the British had not made their interference justifiable. He would vote for the inclusion of the Oman question on the agenda of the Security Council. The British stand was questioned even more brilliantly by Iraq's Hashim Jawad. After quoting chapter and verse from 'The History of Oman and Muscat' to show that Oman enjoyed an independent status, Mr Jawad continued:

"The British Government's position on the question of Oman is obviously contradictory. While they were, on the one hand, the main architects of the Treaty of Sib, which reaffirms the Independent State of Oman. and, on the other, the chief observers who witnessed its implementation for about a thirty year period, they now claim that the conflict between the Imam and the Sultan is an 'internal affair'. Even if we were to accept, for the sake of argument, that the conflict is an 'internal affair', what justification has Britain for interfering in such a matter? What renders the position of the British Government more vulnerable from a legal and moral point of view is the fact that it is applying double standards of justice in dealing with similar situations. This attitude does not serve the cause of international peace and security.

"Furthermore, if we were to accept this new code of international practice regarding the obligations imposed upon one state by its mere friendship for another, how many of the rules of international law or the principles of the Charter would survive the test of such practice? What is more surprising is the fact that the British Government saw fit to avail itself of this opportunity to play by far the leading part in the so-called 'internal affair' without any treaty obligation or any other legal justification".

That Britain had undertaken the shooting of the Oman people for no other reason but "friendship" for the Sultan was admitted in the British Parliament itself. In the debate in the House of Commons, Mr Phillip Noel Baker had asked: "Are we doing this simply in response to a request or by virtue of a treaty obligation?" And the reply of Mr Selwyn Lloyd, the Foreign Minister had been: "We are not doing this under treaty obligations. We have no treaty obligation to deal with the internal affairs in the territory of Muscat .... we are giving the full support we think a staunch friend requires". The obvious moral of this does not seem to have impressed itself on the United States delegate. Nor even the sober facts of the shelling of the Nizwa Fort, as reported in the July 26 issue of the London Times:

> "The great fort at Nizwa in the heart of the Oman mountains was the target today for rockets and cannon fire of the Royal Air Force Venom jet planes. Preliminary reports from the four pilots who took part speak of complete success. 'Not a shot so far has missed the target' said one of them. If taken literally, this means that about forty eight rockets and 7,000 rounds of cannon fire must have entered the Fortress today".

And then the New York Times of August 4, a newspaper which Mr

Lodge must surely be reading said:

"British ground troops were advancing today inside the Sultanate of Muscat and Oman in support of the Sultan against the Imam Armoured cars are being flown in from Aden directly to the scene of operation....until now, the British had been reluctant to acknowledge that ground forces might have been used against the forces of the Imam".

Bringing these facts to the attention of the Security Council, Mr Jawad said: "These, then, are the facts of the situation which have not only disturbed the Arab people from the Atlantic ocean to the Indian ocean, but have also thrown in doubt the whole sense of security of small states created within the framework of the United Nations. They have given the impression that the United Nations will not be capable of protecting the interests of small countries when these interests do not suit those of larger states". In saying that, Mr Jawad summed up the entire attitude of the Anglo-American alliance.

But the question is asked: Why was the Oman situation not brought to the attention of the Security Council right when the fighting was going on? One answer seems to be that the Arab League faltered and was unable to make up its mind quickly—this it would seem is the bane of all Arab action. Another answer—and there is evidence to show that this is not wholly untrue—is that the Arab League did intimate Iraq, the Arab representative in the Security Council, to place the Oman question before the Security Council, but first there was some hesitation in Baghdad and even when the representative got final orders at the United Nations, there was a further delay of two more days, sufficient for the British to wipe off the first state of resistance in Oman. Is Iraq's role entirely blameless? This is anybody's guess. But that some pressure was brought to bear upon Iraq to delay a Security Council decision until Oman was "flattened", there is no doubt. The United States and the United Kingdom had before them the lesson of Suez and they both wanted to see that a military decision had first been arrived at before the Security Council could take up any discussion.

The cynical manner in which the United States and the United Kingdom representatives acted in the Security Council is one of the dirtiest blots in the history of these two democracies.

The parallel between Oman and Hungary was only too apparant. So apparent, indeed, that Mr Sobolev angrily asked the Chairman of the Security Council to see to it that Hungary was not being discussed when the question before them was Oman. But the western powers had their interests to safeguard. What were these interests? This is Mr Jawad again, speaking in the Security Council: (Reuters did not have space to report this):

"The special interest with which the United Kingdom views Oman dates back to a few years preceding the second world war. In 1937, the Sultan of Muscat, glad of an opportunity to relieve the financial difficulties confronting him, signed an agreement granting oil concessions or options of concessions for the main block of Oman. The people of Oman saw in this fact a violation of the independence and of the provisions of the Treaty of Sib. The oil company had found an acceptable and more profitable formula in the agreement with the Sultan, rather than negotiate with the Imam, who was known to hold strong and adverse opinions on such agreements. In 1938-39, a geological party sent by the oil company to explore for oil in Oman met with a hostile reception from the inhabitants of Oman, and the company soon had to give up its interests in the region, for the time being. The end of the war saw no improvement in this justifiable hostile reception, which continued until 1950, when exploration was confined to a few weeks' work in a section of the central mountains.

"This attitude on the part of the people of Oman has been met by a number of hostile acts by the British during the last ten years. Among other things, an economic blockade was imposed around Oman and a large part of Omani property was seized. This phase culminated in the occupation of Niswa, the capital of Oman, by the forces of the Sultan under British command on December 15, 1955. Since that date, the people of Oman have been struggling to regain their independence. In defending their rights—rights which were formally sanctioned by the Treaty of Sib—the people of Oman are fighting for their sovereignty and independence and cannot, therefore, be accused, as has been done in certain quarters, of committing acts which have rendered the Treaty invalid".

Mr Jawad's cry in the Security Council was a cry in the wilderness. There is something powerful in what he said which the American press refused to notice. Said Mr Jawad: "the United Nations needs above all the confidence of the people, whether they live in London, or in the rugged mountains of Oman". And later: "The quest for freedom has been and will remain the most important force driving toward a better world order and a more complete life. To ignore the aspirations of peoples for freedom and progress is extremely dangerous in a world where the common man, of whatever status, economic, social or political, is daily growing more aware of events and their impact on his life.... It is even more dangerous to allow the strong a free hand in imposing their will and realising their interests through the use of force. It is not only a dangerous precedent but also subversive of the whole underlying concept of international law and the Charter of the United Nations".

But Mr Jawad might well not have said these words so far as the western press and Reuters were concerned. Not a word appeared in the New York Times. It was busy shooting at the Soviet Union. Again and again, among the Asian Africans, it is being asked: Is tyranny condonable if practised by the western powers against Asians and Africans? Is shooting a crime only when the Russians attack Hungarians at Hungarian request and not when British attack Omanites at the request of the Muscatis? More and more it is being whispered that the western nations practice a more invidious "double standard" than the Asians and Africans. Mr Jawad openly condemned the United Kingdom of practising "double standards". He had no word for the United States which abstained on the vote in the Security Council. Abstentions, obviously, are all very fine if the United States and not India, practises them.

A Calcutta Diary

But to be Young is Very—What?

THE creativity, or otherwise, of an individual or an organisation can be observed as much in what he, it, does as in what he, it, doesn't. (Cyril Connolly was not being only clever when he described talk, drinking etc., as creative activities; silence and laziness have demonstrably creative qualities.) It is not time yet to write off the Congress Party, not even in West Bengal where it is not at its strongest, but those with an eye for the portents hidden behind events cannot fail to detect in the Bengal Congress's recent "spectaculars" signs of an inner emptiness. The greater the noise the clearer the indication that the party may have very little to say—especially to the youth to which it has been addressing itself lately through an elaborate youth festival.

Congress President Dhebar and Lal Bahadur Shastri and Bidhan Chandra Roy, they have all addressed the youth. They told the not very large or enthusiastic gathering that the future belonged to the young. (That the present did not was rather obvious from the age of the orators.) Tomorrow, they said, was youth's. It will be a brighter tomorrow. A more prosperous tomorrow. The welfare state is being brought about in five-yearly instalments. Youth would be its beneficiaries. (The repetitiveness is the speakers'.) There was visible boredom in the audience. Enthusiasm was apparent only when, on a day dedicated to students, the invited fell out with the volunteers. The police came, and peace was restored. The police had to go without plaudits for their efficiency; publicity might have exposed more serious deficiencies in the youth festival itself.

* * *

The Congress is within its rights to go to the country's youth, meaning the voters of five or ten years hence. Students should keep out of politics really means that they should keep out of my opponents' politics. And in any event, the Communists have been seeking to endear themselves to the young for years, with not a little success in places. Why should not the Congress? No reason at all. The only questions to ask are whether the Congress is trying to get at them (a) on purely political terms, and (b) whether the terms are not, as poker players put it, loaded.

To neither question is a definite and doubt-free answer possible. When an earlier generation offered to be volunteers for the Congress, they were actuated by no thought of profit. Indeed, one remembers boys and girls mortified by the fact that they had not been arrested or imprisoned or otherwise oppressed. The Gita speaks of the advisability of men working with no thought of reward. What India had in those Gandhian days was a dearth of people to work with no thought of punishment. It is not at the moment necessary to ask whether one attitude is more, or less, virtuous than the other. Enough to state that such was the fact in those far off days, and very different is the fact in these.

* * *

Elders, however, are a different category. Today's youth has very few attitudes to share with their political parents. No young man, for instance, could have gone to the Congress rally with the fear, or expectation, that he would be punished for it. Is it possible, then, that those who went had been driven thither for profit? This is where the crucial question comes in. Is there, or is there not, a qualitative difference between those who come for profit and those who come in spite of certain damage to their careers? It may be only outmoded thinking to assume that only the best risk their careers whilst the rest are opportunists. In a stable society, such as England's, the best men often go for the best opportunity, and the country is the better for them. There are historical reasons for values being different in this part of the world.

The latter, let us admit it, is closer to the Indian context obtaining today. The total failure is the biggest success in the Congress at any rate. The Party recently distributed prizes to students doing well in the recent school final and other examinations. It also "honoured" a dozen or so writers, artists and sportsmen. The emphasis, right through, was on reward, tangible and monetary reward. As I said, there is nothing wrong in working for a reward. Just the contrary; a society that does not reward work is hardly a society at all. On the other hand, that is not what has been or is known as idealism in this country. It is thus the relative absence of an idealistic content which distinguishes Congress volunteers from, say, Communist full-timers. The latter may be misguided, I often think they are, but it is not the thought of immediate profit which can inspire them. The clash that took place between two sets of Congress students in the festival proceeded from the fact that no common ideological inspiration had brought them together.

* * *

Youth has a few questions to ask too. Only a part of it has any direct experience of foreign rule, the deliverance from which does not therefore seem to it such a big thing as it does to a part of the older generation. Being born in the house the Congress has built, or is building, has carried with it few built-in comforts. Opportunities appear to shrink visibly, and all the benefits flowing from dams and things seem to dry up in the expanding desert of an increasing population, for which too the young are likely to blame their parents—with reason. They do not believe that there is a better world awaiting them. The seniors are not even handing them a few hatreds, so civilised are India's foreign policy and secularism. All the hatred may, therefore, turn in one direction.

This may be the worst part of the Congress' youth festival. When in the years to come the young men of today look back on their participation in the festival they will ask themselves why they had gone to Eden Gardens. They may feel somebody was trying to buy them. and the next thing may be to go to a booth without the pair of bullocks marked on it. Heaven, they will remember, had not laid around them in their childhood, and if they find a world with a closer resemblance to the other place they will blame us for that too—with reason.

—Flibberigibbet

August 28.

Book Review

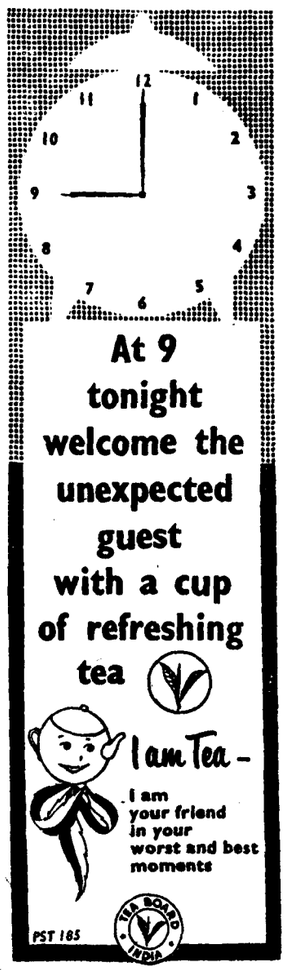
No Marxian Analysis of India Yet

India in Transition. By Romesh Thapar. Current Book House, Bombay. Pp 264. Price Rs 5-12.

INDIA in Transition is a wonderful title for a wonderful subject. It may not be original, but it is pre-eminently apt for the many revolutions India is undergoing all at once. Transition from dependence to freedom, from village to the town, from the traditionalism of caste to the exacting techniques of science, from blind orthodoxy to a mellowed yet deeprooted belief in the Divine, from inequality stratified and codified to equality. One can go on listing the miracles that are taking place under one's eyes; whether it is the emancipation of the women or the conversion of Harijans to Buddhism, the displacement of the dhoti by shorts, the growth of a middle class, the emergence in a non-violent land of a universally respected army, the displacement of the brahmins by the dominant middle castes, the fact that the electorate goes to the polling station in growing numbers. Community Projects, Gramdans, there is ample scope for a truly original and illuminating book on what is taking place in India today.

It is therefore unfortunate that Shri Thapar should have allowed his preconceptions to focus on a theme which may make good marxist sense, but bears no relation to conditions in India as they are. Shri Thapar's thesis is attractive, that is would be attractive if it were substantiated by fact. According to him, the moment a man becomes moneyed, he ceases to belong to his native region, or to his caste, and rejecting all inherited tradition, he becomes an internationalist of the land of money, guided only by the prospects of greater dividends. However, a look at the business community in India shows how fallacious Shri Thapar's argument is. The businessman behaves as the man he is, a Gujerati, a Marwari, an Ahmedabadi or a Parsi, and not like the man without roots who pays devotion only to Mammon.

The smallest and the biggest industrialist is first and last a man from his village and his community, vulnerable to the opinion of his great maternal aunt, who has to think twice about his actions in case they make it difficult for his nieces to marry well. The House of Birlas has done much more for Pilani, its home village than for any other place in India and it is said that G D Birla was far more honoured when his Maharaja allowed the women of his family to wear a special toe-ring in his presence than when the President of India awarded him a high distinction. Indeed, home ethics are the rule, and not international ethics. There is the scion of one Marwari family who has been expelled from the home because he touches liquor, not even in any special excess. The rest of the Marwari community, far from holding this somewhat excessive punishment against the sinner's family, feels that he has been dealt with properly:—Marwaris do not drink. A man can roll in bullion or even black-market money, he remains vulnerable to the opinion of his grandmothers, great aunts, neighbours and kin.



The Millowners of Ahmedabad did not behave as all-Indian citizens over the bilingual row, nor do the Marwaris behave as Bengalis, or even as all-Indians; they marry back into Marwar, live and die by the code of behaviour of Marwar; and admirable though that code may be when it deals with the old societies and their very limited spheres, it sometimes leaves something to be desired when the horizon has widened to the whole of India. This is why Marwaris have such a bad reputation and not, as Shri Thapar would like one to think, because, shedding their native code, they have become internationalists. Indeed the only people in India, who behave according to Shri Thapar's rule are the exceptional few—those members of the intelligentsia with a guilt complex or a thirst for power which makes them unwilling to allow people to unfold according to their native genius, in other words the fellow travellers and the Communists.

India in Transition, moreover, suffers from a certain lack of easy style, and the organisation of the book is not as clear as one would like; too much of it is couched in a sort of James Joyce Stream of Consciousness Marxian Jargon to charm the reader into reading on. Indeed reading Mr Thapar one begins to despair of the Indian Communists, as their Russian and British Comrades have done, because there is still no Marxian analysis of India worth the paper to print it upon.

T. Z.

Export Quotas of Manures

The Government of India has decided to release quotas of leather meal, fish-guane, fishmeal and fish-manures for export during July-December, 1957.

Export of horn and hoofmeal, sterilised animal meal, bloodmeal and meat meal will be licensed freely during the period against 'no objection' certificates.

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, delivered at the Fiftieth Annual General Meeting of the Shareholders of the Tata Iron and Steel Company Limited on Tuesday, August 27, 1957:-

Ladies and Gentlemen,

We meet this afternoon one day after the fiftieth anniversary of the birth of our Company and of the Indian Steel Industry.

Golden Jubilee

The Company is today so well and successfully established as the biggest single private enterprise in the country and its largest steel producer, that we are inclined to forget the struggles and heartaches of earlier years and the difficulties which had to be overcome before and after it was brought into existence. Considering the resources and potentialities of the iron and steel industry in India as we know them today, it is not easy to realise how little they were appreciated only fifty or sixty years ago and the extent of the doubts and disbelief with which the original proposals were greeted. Had it not been for the name and prestige of Jamsetji Tata and his sons, Dorab and Ratan, backed by their faith and determination, many more years would have passed before the steel industry was established in India. Amongst the patriots and leaders of his generation Jamsetji, more than anyone else, realised that political freedom without economic and industrial strength to support and defend it would be a cruel delusion, and that the foundations of industrial power were made of steel.

It is proper, therefore, as we look back today upon a half century of progress, that we should pay tribute to the memory of Jamsetji Tata and also remember the part played by his sons and others who are no more, including R D Tata, B J Padshah, John Peterson, Nowroji Saklatvala and Ardeshir Dalal.

In the fifty years of our life we made over 22 million tons of steel, paid Rs 175 crores in wages and bonuses, about Rs 45 crores in dividends, well over Rs 70 crores in taxes and Rs 40 crores into Government's price equalisation fund. In the process we saved the country hundreds of crores worth of foreign exchange and are doing so today at the rate of some Rs 50 crores a year, which will rise to about Rs 90 crores from next year onwards. I feel we have amply repaid the country for the protection granted to the Steel Industry during the difficult years following the first world war.

We have had our ups and downs and have made mistakes, but through good years and bad, we never forsook the ideals bequeathed to us by the Founder or lost sight of our duty and responsibility to the country. Our Company has provided a living and dynamic answer to the charge that free enterprise cannot "deliver the goods", is only inspired by selfish motives and does not serve the needs of the people. In all humility, I think we can justly claim we have served the country consistently and well.

If through these many years we have overcome so many obstacles and difficulties, it is partly because even in the darkest days of our history we enjoyed the trust and the support of our staff, workers, consumers, Government and shareholders. For that we are grateful and I am glad of the opportunity to say so today. I should particularly like to express grateful appreciation for their loyalty and support to that stalwart band of shareholders who have held shares in the Company since its very inception.

Before I leave the subject of the Golden Jubilee of the Company, may I refer to the view expressed by some shareholders that the occasion should have been celebrated in some suitable form, such as the distribution of an enhanced dividend or bonus shares? The fact is that we are today considering the annual report and accounts for the year 1956-57, while the fiftieth anniversary of the Company's foundation falls in the financial year 1957-58. I cannot say today what the Board may find it possible to do when considering the accounts for the current year. Much will depend on the results achieved and the circumstances in which we shall then find ourselves, but I can give the assurance that the Directors will give the matter their sympathetic consideration.

Second Fifty Years

Today we begin the second fifty years of our existence with confidence. We are conscious of the heavy additional burden of work and responsibility that faces us and of the many problems and difficulties ahead, but with the combination of an expanded and renovated plant and a strong and mature organisation, we hope to give a good account of ourselves.

Two Million Ton Programme

Our first and most important task is to complete the expansion of our plant and reach our two million ton target as quickly as possible. Our schedule of construction was from the start an extremely tight one. Kaiser's still hope to adhere to the original schedule, but it is too early as yet to forecast the exact dates on which each of the new units will come into full production. One unavoidable consequence of having to telescope much of the programme into one year has been a greater degree of interference with existing production than previously anticipated, the effects of which on current production are being seriously felt.

Second Five-Year Plan

The year under review was characterized by a severe reversal in the country's balance of payments position and by the emergence of inflationary pressures which, unless checked in time, may lead to a crisis even more serious than that relating to foreign exchange. Both these developments can be traced to the same source, namely, the mounting national expenditure in both sectors of the economy under the Second Five-Year Plan.

The essential questions to be faced are whether the total resources available in India and obtainable abroad are sufficient to meet the rate of expenditure proposed under the Plan,

and even if they are, whether the Plan can be implemented without imposing such a strain on the economy that the material benefits would be lost in the resulting inflation. If the answers to either or both of these questions are in the negative, as I believe they are, there will I hope, be no hesitation on the part of those in charge of our economic destinies either to prune the Plan or to phase it over a longer period, or both.

In view of the magnitude and urgency of the country's needs the planners were right in setting their sights high and attacking the problem with boldness. At the same time, the very complexity of the task, the difficulty of estimating precisely the costs of materials, equipment and services over a period of years, and the uncertainties in regard to political and economic trends throughout the world, made it all the more necessary to temper boldness with realism and to provide some margin for under-estimates, increases in costs and other contingencies. Instead, out of the original planned investment of Rs. 4,800 crores, no less than half, or Rs. 2,400 crores, was made dependent on such uncertain factors as foreign assistance, deficit finance and further taxation over and above the additional taxation of Rs. 450 crores already provided for. The estimated expenditure has since risen to Rs. 5,600 crores or more, increasing the gap to an even larger one. Faced with such a situation, I believe the Government of India recognise that substantial adjustments of the planned expenditure are inevitable.

The Plan, after all, is only a means to an end, not an end in itself, and the progress we make during the current five years is only one step in a long and steady march towards our ultimate goal. If we keep our eyes on that distant target, the exact measure of the step we take in the Second Five-Year period loses some of its apparent importance. By taking a shorter and surer step today we may, in fact, reach our goal sooner and we shall certainly incur less risk on the way.

Foreign Capital

Everyone, from Government downwards, recognises the crucial importance to India of foreign capital, whether in the form of aid, loans or equity. There is today an unprecedented demand for capital funds in all countries which has resulted, even in an enormously wealthy country like the United States, in an acute tightness of money. It stands to reason that with local demand competing strongly for available funds there is little inducement for foreign capital to flow to India. Our constantly rising burden of taxation and the disincentives contained in various enactments and measures hardly represent the best way to create enthusiasm abroad for investing in, or lending money to, India.

Yet there is in the advanced countries of the West realisation of the tremendous long-term possibilities of increased trade with India and of opportunities for investment. If our Government and Parliament realising the full extent of such possibilities were to revise some of their policies so as to generate greater confidence in the investment markets here and abroad, I believe that over the years a substantial flow of foreign capital could be induced to this country and our foreign exchange position thereby greatly eased.

Stability of the Rupee

The question of foreign exchange is linked, in the Indian context, with the question of foreign balances and the value of the Rupee. In recent years the Indian rupee has shown remarkable strength which has contributed much to the economic stability of the country. The extent to which the maintenance of substantial foreign balances has been responsible for the strength of the rupee in international markets cannot be assessed with certainty, but there is no doubt that it has played a part in the confidence our currency has enjoyed. I therefore view with alarm the suggestion advanced in some quarters that such foreign balances are wholly unnecessary as a backing to our currency and that statutory requirements for the maintenance of foreign balances should be abolished.

Confidence in a country's currency is a delicate plant which needs to be carefully nursed and which it is difficult to grow again once it is allowed to die. Both international credit and internal stability depend upon it and there are too many historical examples of the calamitous consequences to a country and its people of a collapse in the value of their currency, to permit of any risk being taken in the matter. I am sure that our Government are fully alive to the need of maintaining public confidence in the rupee both in India and abroad.

Finance for Expansion Programmes

Coming to our own affairs, perhaps the most important matter about which I think you will be interested to hear from me today is the progress we have made in securing the balance of the funds required to finance our current expansion programmes.

In paragraph 14 of the Directors' Report, it has been said that the Company had initiated negotiations in the U.S.A. Your Vice-Chairman and I spent a month there in June this year, during which we held discussions with the World Bank and with American commercial banks.

As before, we were received with the utmost consideration by the distinguished President of the World Bank and other Executives of that great Institution. They were good enough to agree to increase the amount of the previous loan of $75 million by an amount equal to that which we were able to raise elsewhere subject to a maximum of $17½ million, which is half the remaining gap of $35 million. In order to facilitate our task they went further. They agreed to raise the amount of the present mortgage up to $110 million, so that other lenders in the States could rank pari passu with the World Bank in the matter of security, and they also agreed to the prior repayment of the loans from such lenders. We are deeply appreciative of the consideration and assistance extended to us by the World Bank, without which the task of raising the necessary funds would have been well-nigh impossible.

With these valuable concessions and the powerful assistance of the First Boston Corporation who have been appointed the Steel Company's financial agents for this purpose, and whose outstandingly able Chairman, Mr. George Woods, is one of India's best friends abroad, we approached a group of leading commercial banks in the States with a view to securing medium term credits from them up to a total of $17½ million. The negotiations are still proceeding between these banks and the First Boston Corporation representing us, and I hope they will fructify in the near future.

I should like to take this opportunity to thank the Government of

India for the assistance they have given us in this matter, both by sponsoring and guaranteeing the additional loan from the World Bank and by helping us in various ways in our negotiations with the commercial banks.

Realising the valuable savings in foreign exchange and also in expenditure on steel used under the Plan which our expanded output will generate, the Finance Minister has, from the beginning, taken a great deal of personal interest in our expansion programme and in the means of financing it, and I wish on your behalf to express our grateful thanks to him for his support and sympathetic understanding of our problems.

The amount I have mentioned as being required to complete the financing of our programme of expansion is based on the assumption that the rate at which our internal savings accrue and the capital cost of the various projects in hand correspond with the estimates. To the extent that additional taxation reduces our net savings or enhanced customs and excise duties increase the capital cost of our new plant, we shall require additional funds and we are making a representation for an appropriate increase in our retention prices.

Taxation

It is relevant that I should briefly discuss here the implications of the new taxation proposals, as taxation has nowadays a major impact on the operations and finances of industry. It is inevitable that a high rate of national expenditure calls for high levels of taxation, both corporate and individual. During the First Five-Year Plan, central taxation amounted to about Rs. 255 crores. The Second Five-Year Plan, as originally conceived, visualized additional taxation of Rs. 450 crores over and above the existing levies, to which must presumably be added a part of the gap of Rs. 400 crores then left uncovered. Since then, however, the Finance Minister has indicated his intention to reduce the quantum of deficit financing from Rs. 1200 to Rs. 800 crores, while the expenditure on the Plan has increased by a further Rs. 800 crores. The total uncovered gap would thus reach the formidable figure of about Rs. 1600 crores. If any appreciable part of this gap were sought to be met by a further increase in taxation, it would place an unbearable burden on industry and commerce and deprive them of what little is now left of funds available for investment.

Apart from the magnitude of the additional burden of taxation proposed, the Budget for the current year presented to Parliament embodies new and unprecedented features. Of these, the one which has rightly met with almost universal disapproval is the Wealth Tax on companies. It is difficult to understand how such a measure of personal taxation can be applied to the assets of large public companies made up of contributions by thousands of shareholders, rich and poor alike.

The Wealth Tax on companies has been sought to be justified on the ground that in the peculiar conditions of India, very few shares in companies are owned by small shareholders. I think the best answer to this view is given in the figures recently quoted by the President of the Bombay Stock Exchange which show that, on the basis of a survey of ownership of shares and securities in Bombay City undertaken by the Reserve Bank of India in 1954, 60% of the shareholders of companies were persons with incomes below Rs. 8,000 a year. In the case of our own Company, nearly half of our shareholders have holdings of less than Rs. 1,000 each, while the holdings of about 87% amount to less than Rs. 5,000 each. The subjection of companies to Wealth Tax will therefore hit a large section of the middle class, will result in the shareholders being taxed twice on the same assets, and will act as a powerful disincentive to save and invest.

Apart from the controversial nature of the Expenditure Tax and the annual Wealth Tax, these taxes together with taxes on income, will result in individual assessees in the higher brackets paying substantially more than 100% of their income. In effect, in addition to the whole of their income being taken away from them, they will now be made to pay something for the right to live and work in their own country. Nowhere else in the world does such an extraordinary situation exist. I can only hope, that even at this stage, Government will revert to a simpler and less drastic scheme of taxation. The only sure method of increasing tax revenues is to provide incentives for investment which, in the train of larger profits thereby generated, will bring in larger revenues to the State.

As a result of the Budget proposals, the amount of additional taxation which our Company will have to bear, including excise duty on steel used in our expansion programmes, will be approximately Rs. 1 crore for the current year and corresponding amounts in subsequent years, thereby adding to the financial stringency with which the Company is already faced in implementing the Two Million Ton Programme.

Labour

Some of you will have read in the papers the remarks I made at the annual general meeting of the Tata Locomotive and Engineering Company earlier this month on the labour situation at Jamshedpur.

While the position in the Steel Company was generally satisfactory during the year and the Company's relations with the Tata Workers' Union continued to be maintained on a basis of co-operation and mutual confidence, the general wave of labour unrest in the country, coupled with the recent attempts of the Communist Party to disrupt the working of the industries located at Jamshedpur, has recently affected the situation in our Works.

One of the most discouraging features of the labour movement in India up to now has been the relatively slow progress made in building up, as in other countries, strong and stable unions well organised and staffed, endowed with substantial financial resources and enjoying the sustained loyalty and support of the workers.

With rare exceptions, the labour movement here has suffered acutely both from the lack of support from within and from being kept in a constant state of uncertainty and agitation by a never-ending struggle for power, often in total disregard of the interests of the workers concerned. Once a union is well-established and recognised, it is made the butt of attacks and intrigues by outsiders bent upon acquiring control or establishing a rival union. If the union has established sound and constructive relations with employers, and even though it may, as in our case, have obtained through negotiations valuable concessions in the form of increased wages, bonuses, retiring and other benefits, job security, consultative machinery and the like, its leaders are charged with be-

trayal of the workers' interest and its members instigated to renounce them and to follow others who promise to get them better terms from the employers.

The bewildered workers who, because of the lack of education still prevailing in our country, are easily influenced by such promises and exhortations, are kept in perpetual doubt as to where their interests lie and fail to see that they are the main sufferers from their unwillingness or inability to support their proved leaders in their efforts to build up strong and responsible unions.

The attempts of the President of the Tata Workers' Union and his colleagues to strengthen their organisation have been obstructed for some years by a continuous and virulent campaign against them by outside parties, with Communists now in the lead. As can be seen from recent events in Telco and the Tinplate Company, these disruptive elements have succeeded in creating trouble and unrest which, if unchecked, may spread to the Steel Works.

All the policies and plans of the Government for developing the country and raising the standards of living of its people are based upon the achievement of a rapid and continuous rise in the output of all kinds of goods and services and particularly in industrial output. The Communists are well aware of this. In their eyes success in achieving prosperity through a mixed economy and by democratic means would be a severe set-back to their plans and must therefore be thwarted at all costs. Progress and happiness must be achieved the Communist way or not at all and they cannot afford to let success in India disprove the necessity of the totalitarian methods used in some countries which they seem to love more than their own.

There is evidence that their present activities at Jamshedpur are part of a pre-determined plan. Jamshedpur is one of their obvious and principal targets in the labour field, for control of the growing steel and heavy engineering industries there would provide them with a stranglehold on one of the most vital and sensitive sectors of the economy. Our information, confirmed by the recent developments at Jamshedpur, is that in the first phase which we are witnessing today their plan of action contemplates no frontal attack on the labour movement there but a series of localised incidents in each factory and neighbouring mines directed at destroying morale, fostering indiscipline and, wherever possible, at disrupting production through slow-downs and lightning strikes. Agitation, coercion and intrigue, in the traditional pattern of Communist action, all play their part in this preliminary softening-up process. If it succeeds, the pressure will be increased and extended to other units in the next stage until the present trade union movement and its leadership are destroyed. The last step would be to take over the whole labour movement at Jamshedpur and elsewhere.

The main responsibility for maintaining peace and order and for preventing disruption of industrial production at Jamshedpur by subversive elements, lies with the Government of Bihar, who are fully aware of the developments and of the serious implications of any loss of production that might result from continued disruptive activity at Jamshedpur.

Industrial Heart of India

Bihar, along with adjacent areas, is rapidly becoming the industrial heart of India. It is essential that its development should follow an orderly pattern based on the maintenance of industrial peace, productivity, sound trade unionism and a high degree of discipline without which efficient production is impossible. It is gratifying that the Government of Bihar, while continuing to protect the legitimate interests of the workers and to promote their welfare, fully appreciate the importance of maintaining production and good industrial relations in their State. I am sure they will find the Managements of the industries established there more than willing to co-operate with them in carrying out these objectives.

The Government of India are also deeply concerned in this matter, for the industries of Bihar are national industries serving the whole country, and progress or set-backs in their working will benefit or injure the nation as a whole. The Central Government are themselves building three large steel works and other plants in the area, and a number of important industries, such as the Chittaranjan Locomotive Works and the Sindri Fertiliser Factory, are owned and run by them. What happens in the area is therefore of vital importance to them, and we look to them, in co-operation with the State Governments concerned, to initiate or support measures calculated to maintain peace, discipline, productivity and efficiency in the great industries on which the future prosperity of this country so largely depends.

Before closing I should like to say a few words about the death of Mr. Dinsha Daji to which a reference has been made in the Directors' Report. Apart from his outstanding knowledge of Company Law and his long experience of industrial and business affairs from both of which we greatly benefited, Mr. Daji was a great gentleman who lived a simple life dedicated to his work. We shall sadly miss his counsel and support, and I am sure the shareholders will want to join me in paying tribute to his memory and mourning the passing of a wise and learned man who, while he took a broad and human view of things, never compromised on principles.

I would also like to refer to the loss which the Company has suffered by the passing of Mr. A. Rajagopalan, who died on the 5th April this year. An exceptionally able and industrious officer, Mr. Rajagopalan, rose to the high position of Agent in charge of the Company's office in Calcutta. Over a period of twenty-five years he rendered outstanding services to the Company in various branches of the administration and particularly in the preparation and presentation of the Company's case in successive Tariff Commission enquiries and in important negotiations with Government in regard to a number of intricate matters connected with finance, costs and prices.

Finally, I should like as usual to end on a message of thanks and appreciation to the management and all the employees of the Company at Jamshedpur and elsewhere for the hard work they have put in during the year. The tremendous amount of construction work at the Works, forming part of the Two Million Ton Programme, and the resulting complications and difficulties in maintaining normal operations, place them under a severe strain of added work, worry and responsibility. On your behalf, I thank them for their efforts and wish them all success in the completion of their heavy task.

Note :This is not a report of the proceedings at the above Annual General Meeting.

The Need for State Intervention

In University Education

(Contributed)

IT is widely recognised that the university system prevailing in India is one of miseducation, which has a large negative effect on most who pass through it, both students and teachers. This is a most serious and disgraceful waste of our talent and resources, and one which may jeopardise our national development. We have now to consider remedies to this state of affairs. It will be difficult in the present underdeveloped condition of our economy to provide employment for the vast majority of our youth, who have completed high school. This problem can only be solved by a much more rapid rate of industrialisation than we have at present. Serious attention will no doubt be given to this pressing problem, both in its permanent and interim aspects, in the third Five-year Plan. Much more manageable is the problem of disposal of the smaller section of our youth, who would qualify for advanced training. This must be dealt with quickly and thoroughly, if our national programme is to be successfully implemented. We may therefore lay down the following as an important educational objective:

> To free from the prevailing system of miseducation the 10 or 15 percent of youth, who have completed secondary school and are capable of pursuing a systematic course of advanced training, and to provide such training.

This objective cannot be realised merely by extending the facilities already available or by sundry reforms, e g, by increasing the number of scholarships or by starting a seminar course or a research department. What is needed is a complete overhaul of the type of training offered, the abolition of the prevailing type of examination, and the setting up of new norms of academic achievement.

State Intervention Necessary

It would be futile, if not dangerous, to leave such far-reaching educational reforms in the hands of what are described as our "experienced educationists." For this term is used almost always to mean those who hold influential positions in our universities: syndics, principals, senators, etc., and not to those who have contributed to learning either through creative work in the sciences or humanities or by the dissemination of a love for scholarship. Those referred to are politicians dabbling in university affairs, or teachers-turned-petty-politicians, or teachers-turned-administrators.*

As educationists, they are incompetent and irresponsible. How otherwise are we to reconcile their influential position with their failure to stem the rot in our education and in our standards of scholarship? Their experience in teaching rarely extends beyond the dissemination of dead knowledge, and in research beyond the handling of comparatively trifling problems by out-moded techniques and specious reasoning. In educational administration their experience is most often confined to the peddling of examinerships and degrees, and the disbursement of money in a set-up in which factionalism and intrigues are common. Such limited understanding and experience is not needed for the educational development of India, and should in fact be a bar to participation in it.

To save higher education, Government will have to play a very active role, as it has had to in our economic life, and for very similar reasons: the problem before us is enormous, and the professional class to which it would have been ordinarily entrusted is technically backward, irresponsible and corrupt.

Form of State Intervention

What form must state intervention in university education take? To answer this question we must remember that a large majority of our administrators in Government are themselves creatures of the system of miseducation which we are out to supplant. Their main preoccupations in the educational line has been with routine questions about grants to schools and colleges, administration of school leaving examinations, and departmental matters relating to the educational service. They will be ill-equipped to shoulder any heavy responsibilities in fundamental educational planning, and in its implementation. Moreover, although a Minister of Education or a Secretary may be a sincere and competent person, it would be impractical to proceed on the unwarranted assumption that the different interests within the Education Ministry and Departments would not work at cross-purposes and so frustrate any large-scale co-operative educational venture.

To nationalise the universities to-day would therefore only add to the confusion. There is something to be said in favour of university autonomy although a lot of the present clamour for it stems from vested interests within the universities who fear displacement. They make much of the issue of autonomy but shirk the more crucial issue of academic freedom, which is singularly lacking in most of the constituent units of our universities and is sometimes ruthlessly supressed. One has therefore to be careful in taking sides in any controversy between Government and university on the question of autonomy.

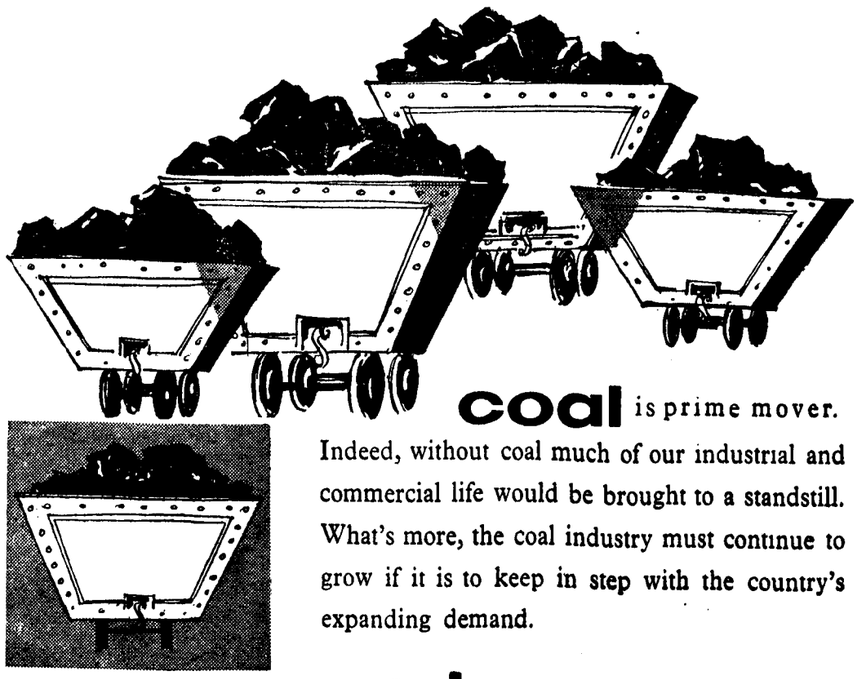
The state must largely depend on two sources to put into effect educational reform at the university level:

(a) On the Central and State legislatures, through their power to amend the constitutions of the universities and other institutions of higher learning.

(b) On the University Grants Commission, through the financial control it can exercise on the universities.

If only these two types of action could be carried out correctly and in a well-coordinated way, the effects would be startling, and the

* The term 'politics' is used here with the connotation given to it by Samuel Johnson rather than by Aristotle. Politics as defined by the latter is, of course, a necessary and useful social activity.



coal is prime mover.

Indeed, without coal much of our industrial and commercial life would be brought to a standstill. What's more, the coal industry must continue to grow if it is to keep in step with the country's expanding demand.

and in the progress of this vital industry, the Life Insurance Corporation of India plays a significant part. As the largest institutional investor in the country, it channelizes the savings of millions of policy-holders.

By investing funds in the coal industry, the Life **Insurance** Corporation benefits the Policy-holder in two ways. Directly, by ensuring a secure investment with profitable returns. Indirectly, by fostering an enterprise basic to the national economy.

योगक्षेमं वहाम्यहम्

Life Insurance Corporation of India

universities of India could be quickly transformed from national liabilities into national assets.

Constitutional Changes

The present structure of our Universities does not fit in at all with the role they have to perform. Their constitutions need drastic overhauling. But we shall not consider far-reaching constitutional changes here, for there is little chance that the required legislation can be enacted at present. What we shall discuss will be amendments to the existing university acts, which will eliminate some of the more obvious aberrations in our university life, and bring about improved working, while leaving their structure largely unchanged. These are necessary interim measures, which should precede any systematic overhauling.

Hitherto the ideas of educational laisser-faire have guided the formulation of the university acts. The acts do not reflect any educational objectives. Indeed, they do little more than lay down the composition and powers of different university bodies such as the Senate, Academic Council, etc. The authority to formulate and implement educational policy is vested in such bodies. This type of constitution would be all right were these bodies really composed of educationists and our educational problems not so far flung and difficult. This is not at all the case. The state should therefore take away some of the powers now vested in such bodies, and exercised by them with devastating effect on academic morale, and should so amend the university acts, that they not only prescribe the frame-work of the universities, but also regulate their outlook and working to a greater degree than before.

The writer has no doubt that the existing laisser-faire legislation has aggravated the situation in our universities. It has abetted the flow of power into wrong hands, deprived the real scholar of all leadership, the real teacher of all voice in university affairs, and has encouraged inflexibility and mediocrity. Much improvement can be expected from suitable amendments to the acts, even without any improvement in the quality of the teachers.

We shall now describe some of the major defects in the existing legislation. Our list is, however, incomplete.

(a) Conditions of Affiliation

Usually the acts lay down only the procedure of affiliation of colleges to universities. The prescription of actual conditions for affiliation is left in the hands of the Senate, which is ill fitted for this work by its very composition. Of course, the composition of the Senate could be changed by legislation. But this is no reason for not laying down clear conditions for affiliation in the acts themselves.

Many of our colleges belong to private educational societies. In the past these societies contributed to the furtherance of education and thus played a useful role. To-day they are by and large serious obstacles in the way of educational reform. There are of course, notable exceptions, such as the Medical College at Vellore, where outlook and management are above the average. But in most cases the societies are run by self-appointed life-members whose educational outlook is reactionary. To them education still means passing stereotyped exams and receiving degrees with the aim of bettering prospects. Their societies thus have a stake in large intakes and low-cost, i.e. in the maintenance of poor standards in education. Some operate in high-handed ways. They treat the teaching staff shabbily, break promises, bestow promotions and previleges on extraneous considerations such as life-membership or friendship with the inner circle. Research and scholarship are not encouraged, and there is little academic freedom. One society in Bombay serves a notice of dismissal on any staff-member who seeks permission to apply for an outside post. The same society has no retirement age for its staff. Some of these societies mint money from their large intake of fees and grants, but their colleges are understaffed, poorly equipped and hopelessly over crowded. Their financial management is not entirely above board.

Hence the urgent need for laying down in the university acts rules of affiliation of colleges, which would regulate important aspects of collegiate management.

(b) The Teachers and the Senate

Our university acts do not give the vast majority of teachers and research-workers any voice in university affairs, except for voting rights in a few elections, to the Senate. Especially affected are those in the lower rungs of the academic ladder. Now years of service in our colleges and universities have a deadening effect on most teachers. There is therefore every reason to give a say in university matters to fresh and young teachers and research workers, who are unspoilt by bad traditions, and unaccustomed to unhealthy practices. At present this potent and important section of the teaching community, on which the future of our education really depends, is ill-treated, under paid and frustrated. Its intellectual energies should be utilised for constructive educational ends and to tone up our academic life.

Acts which would fulfil this requirement have not been formulated as yet. Hence the state should not mind experimenting little in order to arrive at a really suitable version. The writer can only offer a few suggestions.

Good use should be made of the new research institutes which are coming up all over the country, such as for instance, the Tata Institute of Fundamental Research in Bombay, the Indian Statistical Institute in Calcutta, the Gokhale Institute of Politics and Economics in Poona. Many of these institutions have to fight their own battles against red tape, corruption and lethargy. But by and large their academic outlook is more up-to-date and progressive than that of the universities, and their members are able to take a correct stand on university questions, on account of their better training and activity and because they are not directly involved in the university. In the writer's opinion each university should be made to recognise all such institutions which are located within its territory for purposes of post-graduate and research training. Also the term 'teacher' should be defined in the act as one who has been serving for over a year as an instructor in any constituent unit of the university or in any recognised institution of higher learning.

All elections to the Senate should be from the teachers' constituency alone i.e. all other constituencies should be abolished. Apart from such elected representatives of teachers, the Senate could have as ex-officio members all college principals, heads of recognised institutions and university professors and readers. Government should

keep the power of nominations to the Senate, but it should temper this privilege by stipulating in the Act that it will only nominate genuine scholars who have contributed to learning (and not, as has happened, retired principals or veteran academic-politicians, who can no longer win by election).

If the Vice-Chancellor is to be appointed by election, all and only the teachers (as defined above) should have the vote. Alternatively, the Vice-Chancellor may be nominated by Government. But it makes no sense to adopt the via media whereby the Senate elects the Vice-Chancellor from a panel prepared by the syndicate. Such elections are usually a farce, since it soon becomes clear that only one person on the panel is really interested in the election. It has actually happened in Poona and Karnatak Universities that the others have withdrawn in favour of the one.

(c) Powers of the Academic Council

Under most of the Acts in vogue, authority over all educational matters such as the prescription of courses, determination of the standard of examinations, etc., is vested in one body, generally known as the Academic Council. This has had a deadening effect on educational development. To see this we must first understand the purpose this Council is meant to serve.

In a centralised teaching university the function of the Academic Council would be to decide questions of policy which affect all departments (e.g. the medium of instruction), and to co-ordinate the activities of different departments especially with regard to allied subjects. The framing of courses and examinations would be left to the departments themselves, as is the practice in almost all good universities in the world. There would be no need for Boards of Studies or Boards of Examiners. In an affiliating university, where there are many teaching units in the same subject, such Boards become necessary. In such a set-up the Academic Council is supposed to perform the additional task of "regulating and maintaining" standards of teaching and examination. But this is very largely a negative role, as it is the boards which actually do the work; the Academic Council only accepts or rejects what the boards propose.

In practice the Academic Councils have interpreted their powers in a totally unacademic way by imposing a stereotyped uniformity of procedure in pedagogy and testing, which has discouraged all innovation and experimentation. A Board of Studies might point out the desirability of holding a part of the honours examinations in its subject at the end of the Jr. B.A. year instead of the Sr. B.A. year. The Academic Council would veto this on the ground of uniformity. But why the examinations in entirely unrelated subjects should work on the same lines is never discussed. The Council has also extended its jurisdiction over departments run by the university itself, even when no other units within the university duplicate their work. Wherever it has been given a say in the appointment of examiners, well-known evils of the examination system such as canvassing, reciprocal trading, etc. have arisen.

Our acts should be amended to strip the Academic Council of such excess powers. Departments run by the university itself should be freed from its interference and given powers to frame their own courses and examinations. The Council should also be deprived of any role in appointing examiners. Panels of examiners prepared by Boards of Studies should straightaway be sent to ad hoc selection committees appointed by the syndicate. It is not, of course, possible by passing enactments to make the Council take a more enlightened view on pedagogy and testing. This can, however, be accomplished by modifying its composition, as we shall now indicate.

(d) Composition of Academic Council

Most of our acts bestow membership of the Academic Council on those who tend to drag their feet, and deprive from membership those most fitted to exercise the authority vested in the Council.

In most of our universities the principal of every affiliated college has a seat on the Council. To be a principal, however, is no qualification for the sort of work the Council has to do. And in many cases, if they wish to keep their posts, the principals have to echo the views of the life-members of their societies. Naturally they are inclined to oppose all measures which call for a better staff, or for a higher staff-student ratio, or for a reduction in the teacher's routine work to enable him to catch up on recent developments, or for improved teaching and laboratory facilities. There is no reason why there should be more than, say, six college principals on the Academic Council. These could be appointed the principals themselves either by election or by a system of rotation, so that each type of college, arts, science, commerce, etc, is represented.

It is scholars who are actively engaged in research, who need more representation on the Academic Council. Ex-officio membership should be bestowed not only on Chairmen of Boards of Studies, but on all professors and readers appointed by the university itself, for purposes of advanced training and research, and also on the corresponding staff of all recognised institutions of higher learning.

(e) Composition of Boards of Studies

In most of our acts, the composition and scope of the Boards of Studies are indicated only in broad outline, their detailed prescription being left in the hands of the Senate. For instance, an act might stipulate that the heads of departments in a subject will be members of the Boards of Studies in it, and that the Board will have power to coopt outside experts. But what constitutes a 'department' and how the co-optation is to be carried out are left to the Senate to decide. The result is that interested parties in the Senate are able to meddle in the affairs of the Boards. The terms 'department' 'expert', etc are defined so that the agents of the interested groups, both inside and outside the university, can worm their way into the Boards.

The constitution of such Boards, which have to play an active educational-cum-expert role, surely needs to be clearly prescribed in the acts. Much of the chronic outmodedness and substandardisation in our curricula, text-books and examinations stem from the faulty constitution of the Boards. There is no reason why every college department should have a representative on them. For this invariably brings into being mediocre, unwieldy and sluggish Boards. It would be enough if college departments were allowed to appoint from amongst their heads, three or four representatives on a Board by a system of rotation. There is, on the other hand, every need to confer ex-officio membership on those charged with post graduate or research training, such as professors and readers appointed by the university or recognised for guiding research and on the corresponding staff of recognised institutions.

Remedies in the Acts

To sum up, explicit provision should be made in the acts to regulate university administration in the following respects:

1. Conditions for the affiliation of colleges should be laid down prescribing the rights of the teaching staff, their academic freedom, load of work, pay and promotions. A retirement age (not above 55 or 60) should be laid down, and if possible a system of incentives for research workers. Conditions governing the financial operations of the colleges should also be prescribed.

2. All institutions of higher learning and research which are located in the territory of a university should be recognised by it for purposes of post-graduate and research training in the subjects concerned.

3. The term 'teacher' should be defined as any person who has been serving for over a year as an instructor in any constituent unit of the university or in a recognised institution.

4. All elections to the Senate should be from the teacher's constituency alone (i.e. all other constituencies should be abolished). The Vice-Chancellor should either be elected by the teachers, or nominated by Government.

5. All departments run by the university itself whether, undergraduate or post-graduate, should be given powers to frame their own courses and conduct their own examinations (without interference from the Academic Council).

6. Panels of examiners to be prepared by the Boards of Studies should go directly to ad-hoc committees appointed by the Syndicate. The committees should be required to finish their work within a very short time (say two days) of their appointment.

7. Ex-officio membership on the Boards of Studies should be conferred on all teachers recognised for guiding research in the subjects concerned. (This would include college teachers recognised for guiding research, university professors and readers, and the corresponding staff, 3 or 4 members on each Board, should be appointed by the teachers of collegiate departments in the subjects concerned from amongst the heads of these departments, either by an acceptable system of rotation or less preferably by election.

8. Ex-officio membership on the Academic Council should be conferred on all Chairmen of Boards of Studies, all university professors and readers, and on the corresponding staff of recognised institutions. About 6 members on the Academic Council should be appointed by the principals of affiliated colleges from among themselves either by election or by a system of rotation.

9. The term 'expert' should be defined as an active scholar who has contributed to research. Although this is vague, it should be stated in the preamble to the acts that cooptation to Boards of Studies and Selection Committees should be from this category.

10. Each Board of Studies should be given powers to coopt internal or external experts in the subjects concerned, if it so desires. No fixed rules governing the procedure of such cooptation should be laid down, nor should any university body be empowered to fix such rules.

This list is of course, far from complete, but in the writer's opinion, acceptance of the suggested amendments would have a positive effect on our university life.

Finance for Textile Mills

The Industrial Finance Corporation of India advanced a total amount of Rs 1,98 lakhs to 12 units of the textile industry in six States during the period July 1, 1956 to June 30, 1957.

The State-wise breakdown of the amount disbursed is as follows:

	Units	(Rs lakhs)
Andhra	2	19.5
Madras	5	76.0
Punjab	2	22.1
Uttar Pradesh	1	50.0
Bombay	1	5.0
Mysore	1	25.0
TOTAL	12	198.0

The total amount of loans due from the textile industry and its allied units was Rs 1.43 crores as on April 1, 1957.

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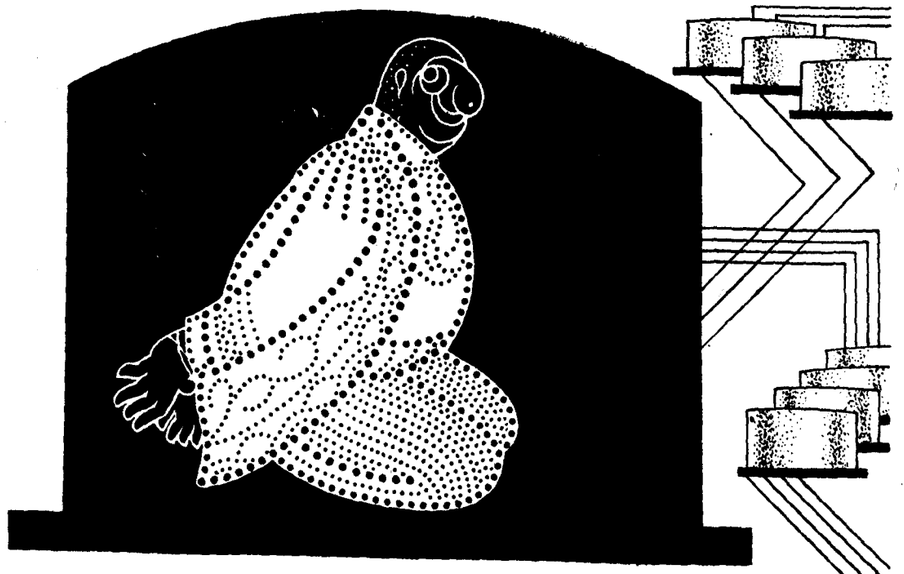
PNB 18

REFINERY-MY NEW HOME

rejoices Adipocere *(Pronounced 'adi-po-saire')*

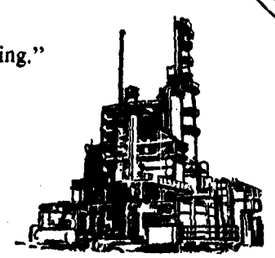
I've been buried underground for centuries, and
I'm drilled from the earth by oilmen and transported
to a "tank farm" in the Refinery. At the Refinery,
which is a maze of pipelines and towers, the refiners
extract from me more than one thousand
separate products of oil, such as the
high quality gasoline that powers your car.

From the "tank farm" I am transferred to
a furnace where the refiners put the heat on me.



The various processes by which I am converted to
different petroleum products are collectively called "refining."
I undergo three major changes: Fractional Distillation,
Catalytic Cracking and Treating. In other words
I am "fractionated," "cracked" and "treated".

My new life begins... keep watching these
columns for what is to happen to me.



STANVAC—*the name that stands for progress*

Standard-Vacuum was the first to enter into an agreement with the Government of India in November 1951 for the construction of the First Modern Oil Refinery. Built at a cost of 17½ crores of Rupees, this project was completed in the record time of 18 months.

PSI/VOC.49/57

Selective Credit Control —And After

Sukumar Chakrabarty

CREDIT control has till now been a three dimensional affair—change in bank rate, change in reserve ratio and what is called moral pressure on the banks by the Central bank. The Reserve Bank has introduced a fourth dimension, i e, threat to the banks to withhold assistance at times of need if they violated the credit control directions. To the extent the banks have still the liberty to go their own way regarding advances, the fourth principle of credit control may be regarded as a democratic measure. But taking the banks' present position into account such liberty exists only in theory not in practice.

Bank Advances

Of course the Reserve Bank has enough justification for taking the latest measure as an anti-inflationary one. The directives to banks under "Selective Credit Control" policy appear to have been carried out by them in letter to some extent but violated in spirit. Scheduled bank advances against food articles, industrial raw materials and plantation products during Jan—June 1957 increased by Rs 38 crores compared to the rise of Rs 57 crores in advances against agricultural commodities in the corresponding period in 1956. To this extent the Selective Credit Control directives have been carried out by banks.

On the other hand, advances against "other securities" which used to remain almost stationary during the first half of the year and expand in the slack season, increased during Jan|June 1957 by Rs 56 crores. This may be regarded as the most remarkable trend in this year's bank advances. It may not be unreasonable to infer that a part of the rise in this section of advances was a virtual transfer from the section which has suffered decline. If this be so, it is a flagrant violation of the spirit of the directives. The extent of violation widens with the inclusion of the rise in unsecured advances.

This shift among the various types of advances, which enabled the banks to get round the directives, forced the Reserve Bank to change its methods. Directives under Selective Credit Control related to advances against particular commodities, leaving other types of advances completely free from restrictions. By ordering the banks to reduce overall advances by ten per cent without affecting the industrial advances, the Reserve Bank has rolled up both types of credit control, i e, quantitative and qualitative, into one. It has put a ceiling on the quantum of credit to be obtainable next October and at the same time ordered that no reduction should take place in advances to the industrial sector. The Bank has thus for the first time given the direction in which advances should be canalised.

No Guidance

It is the absence of attempts to canalise the advances that has rung the death knell of Selective Credit Control as operated till recently. Apart from directing the banks to restrict advances against particular commodities, no guidance was given to the banks in formulating their advances policy. The Bank has not made any attempt even in its recent Credit Control policy to evolve a mechanism by which advances may be canalised towards industries according to priorities determined by the Planning Commission. Perhaps such an attempt may be regarded as undemocratic in the banking world. But in a planned economy bank credit can no more enjoy the natural (?) right to follow its own criteria of creditworthiness and to seek the highest level of profitability. Flow of bank credit must be determined not by the wayward forces of demand and supply as in the past, but by the purposive forces of Central direction.

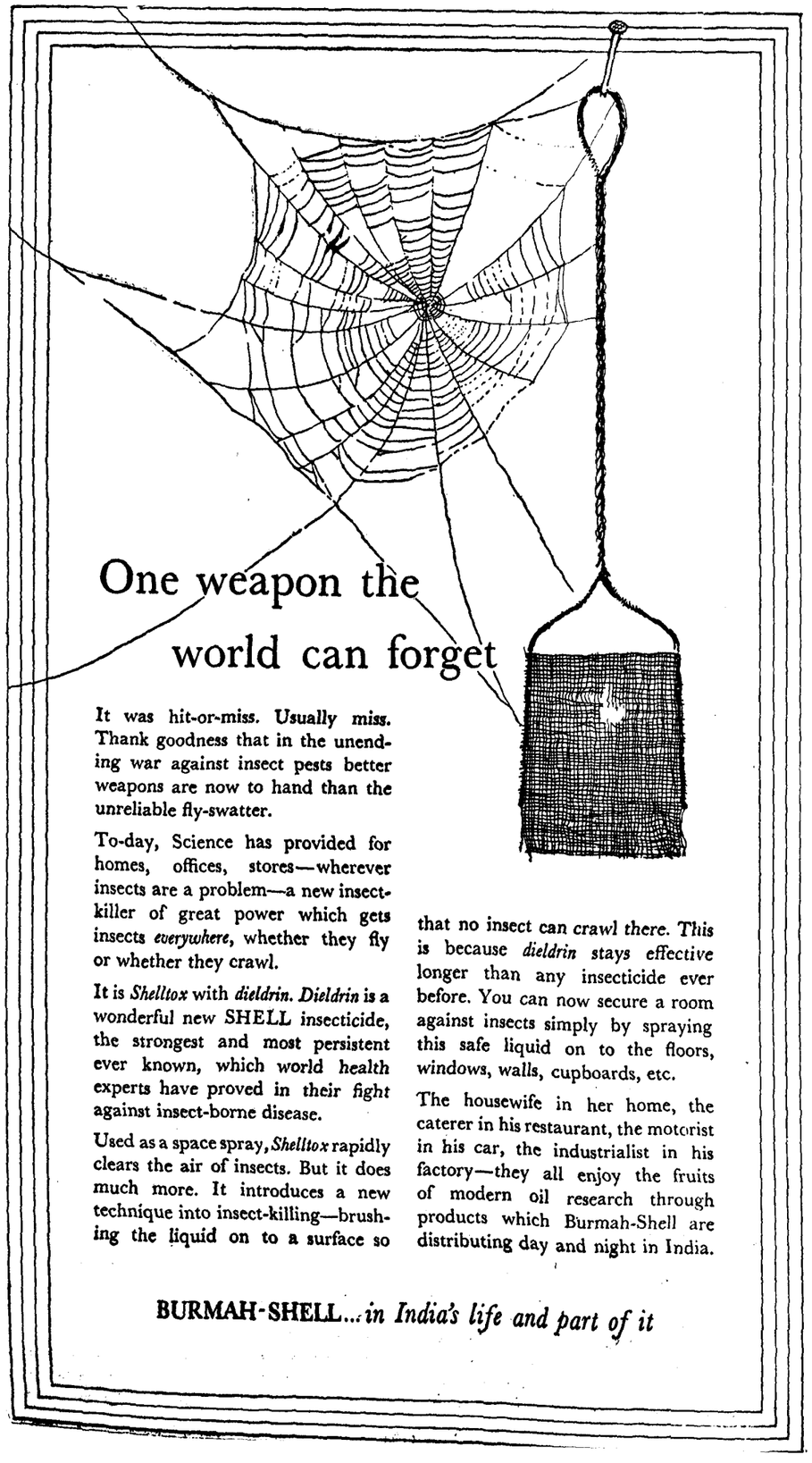
The most serious defect of the Selective Credit Control policy was in its method of operation. Directives under this policy were haphazard attempts to reduce the level of advances in particular directions in the slack season. The same defect continues even in the new method of credit control. It is common knowledge that bank advances, even on short term basis have no dates of repayment. That is why it is regarded as an illiquid asset. Once the bank has granted an advance or sanctioned a limit, it carries the risk of being called upon to extend the date of repayment. So long as the bank regards an advance as a proper banking risk, it does not force the customer to repay a loan on a particular date, even if such a date has been agreed to by the bank and the customer. Forcing the banks into such a position is against all banking practice.

If on the other hand the Reserve Bank directs its control at the onset of the busy season and lays down in broad outline the allocation of advances that the banks should make among the various industries and goods, the control will work with lesser jerks and jolts. Of course, adjustments will be necessary during the busy season among such allocations but such marginal adjustments may be made more smoothly than the present method of axing the adjustments. Moreover, upward adjustment is a painless process whereas downward adjustment is a painful one.

Advances and Prices

The price debacle on the agricultural front which is now threatening the success of the Plan may be due to a certain extent, however small, to the absence of a mechanism for bringing about a painless adjustment in bank advances. No attempt has been made to integrate bank advances with the price policy. This has given a nice opportunity to the Food Minister to hammer the point and foist the responsibility of the present high level of agricultural prices on the banks. The banks by implication are being accused of helping the speculators to hoard food grains with large advances, causing an artifical scarcity and keeping the prices high. The breakdown figures of bank advances lend some support to this argument of the Food Ministry and enable them to sell the idea to the Finance Ministry. The banks have ultimately to pay a high price in the form of a showdown by the Reserve Bank.

The argument regarding high advances deposit ratio presented in support of the recently announced



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BURMAH-SHELL...*in India's life and part of it*

method of Credit Control, through a threat, is only an excuse at best. In Italy bank advances formed 77 per cent of total deposits in Dec 1956. In Sweden too this ratio was as high as 67 per cent. But in neither of these countries has this rise in the ratio been given such a gloomy interpretation and neither of the authorities has been reported to have developed such an alarmist attitude as prevails in India.

Pressure of Food Ministry

The suspicion that the Reserve Bank has developed the present attitude towards bank advances under the pressure of the Food Ministry is further strengthened when we consider that bank advances have recently undergone a great change in character. Bank advances have been shifting during the last 3—4 years from agricultural to non-agricultural base. Since 1955 bank advances against non-agricultural commodities have been more than those against agricultural commodities in the busy season. This reflects the "growing diversification of Indian economy consequent upon the emergence of new industries with a non-agricultural base". As production of non-agricultural commodities suffers from seasonal variations to a lesser extent than that of agricultural commodities, bank advances have been gradually outgrowing the seasonal cycle which is characteristic of agricultural economy. The difference between busy and slack season advances which used to be sharp before, has been flatten'ng out at a higher level during the last three years. To regard this rise in the level of bank advances as a credit inflation resulting in the present price inflation is to ignore this fundamental change in the character of bank advances. A policy of quantitative Credit Control dictated by the present high level of advances may retard the growth of the new trends which are developing rapidly in the bank advances. It is, therefore, gratifying to note that the recent attempt at Credit Control of the Reserve Bank is qualitative in its content though quantitative in form.

The change in the character of bank advances has also affected the behaviour of bank deposits. An adequate explanation of the changes in bank deposits in an agricultural economy is rather difficult; unlike bank deposits in an industrial economy, those in an under developed economy appear to work in the reverse pattern—increasing when advances fall. Of course a number of factors, psychological as well as economic exert their influence on the movement of bank deposits but bank advances generally appear to be the most dominant among them. Influence of advances on deposits is, however, accelerated or modified by the balance of trade. In recent years bank deposits have shown a tendency to change from the old pattern of recording a larger increase during the slack season than in the busy season. During the current year, bank deposits increased by Rs 63 crores between January and May compared to the rise of Rs 61 crores, Rs 58 crores and Rs 28 crores in 1956, 1955 and 1954 respectively. This pronounced reversal of the trend in deposits may be partially explained by the rise in advances against non-agricultural commodities which unlike advances against agricultural commodities, have an inflationary effect on deposits. During Jan| May 1957 such advances increased by Rs 50 crores compared to the increase of Rs 60 crores in 1956, Rs 24 crores in 1955 and Rs 18 crores in 1954. The increase of Rs 63 crores and Rs 61 crores in bank deposits during Jan|May 1957 and 1956 respectively is really remarkable when viewed against the background of mounting deficit in our balance of trade.

Bill Market Scheme

Banks have thus contributed towards realisation of the ideal envisaged by the Second Plan, viz, intensive development as well as diversification of industries. Direction under Selective Credit Control has worked with jerks and jolts and helped the banks very little towards realisation of this ideal. In view of this, the new weapon of Credit Control through threat of withholding assistance by the Reserve Bank does not appear to be called for. Instead of threatening the banks into a particular position, the Reserve Bank should devise a mechanism which will accelerate the change in the character of bank advances that has been already brought about by the banks at their own initiation. In motoring jargon, banks should be enabled to have a fluid drive in their advances policy in desirable directions without having to change the gear too often.

The bill market scheme if properly operated may serve as the required device. The present system of granting an overall limit to a bank for drawing upon the Reserve Bank's assistance may be split into two: one for financing commercial advances against agricultural commodities and the other for industrial advances against industrial raw materials—both agricultural and non-agricultural. In laying down the limits the past practices of the individual banks should be given proper consideration, but should not be made the only criterion. By making periodical adjustments in the limits, the Reserve Bank will be able to impart a greater industrial bias to bank advances. At the same time, the change in the character of advances will be made more smoothly than under the present system which is like closing the stable after the horse has bolted.

This suggestion for manipulating the re-discount facilities for directing bank advances in the desired direction is not a novel one. Such manipulation is being practised in various countries in various forms. Thus in France special re-discounting facilities are granted for increasing exports. In Greece "Special" credits are offered by the Central Bank for discounting bills against hire-purchase of agricultural machinery of local origin as a fillip to their production within the country. Manipulation may also work through granting rebate of interest charged by the Central Bank if a bank brings about a change in the character of its advances as desired by the former at more than the normal pace.

Adriatic-North China Line

The Jugoslovenska Liniska Plovidba (Yugoslav Lines) have announced a new liner service between the Adriatic and North China Ports. Vessels which will ply on this service are newly-built motor vessels of 10,000 tons DW carrying capacity with bales capacity of 570,000 cft.

The line will be served regularly every month from Rijeka with the rotation: Rijeka — Trieste — Beirut — Port Said — Port Sudan — Aden Colombo — Singapore — Djakarta — Shanghai — Takubar (Tienstin) — Tsingtao — Shanghai — Singapore — Aden —Port Said — Beirut — Trieste — Rijeka.

Around Bombay Markets

Nervous Undertone

Thursday, Morning

A NERVOUS undertone has been introduced on the stock exchange by the Reserve Bank directive to banks asking them to reduce credit, as also by unfavourable reports regarding industrial labour, and the rumour, later contradicted, that T T K proposed to raise rates of personal wealth tax next year. Of these, the threat of credit squeeze proved the most potent. It was the reported support by the LIC which brought about a rally towards the end of the week, but such support, by itself, would not have proved effective, had long liquidation not practically exhausted itself.

Textiles and Indian Copper steadied on abatement of selling pressure but Tata Chemicals turned weak on rumours of new capital issue.

The technical factor that helped to steady the market was the rather small number of securities handed in for settlement.

The immediate outlook is none too cheerful. Existing price levels are more or less in tune with yields, though some leading scrips like India Steam, Punjab National, Devkaran Nanjee, Walchandnagar and Alembic still offer good bargains. The only hope of capital appreciation, slender as it is, centres on expectations of support from the Life Insurance Corporat'on. It is no more than realistic to suggest that little reliance can be placed upon these hopes. Present equity levels are not so low as to justify life saving operations by the L I C. A trickle of investment inquiry is the utmost that can be expected from that quarter in the near future.

The Reserve Bank's directive has made a powerful impact on commodity markets. Bank advances against shares had already been trimmed and the directive has therefore not affected Dalal Street to any significant extent. On the contrary, there is a lurking hope that the directive may help push down agricultural prices and thus brighten the outlook for industrial shares.

It is still too early to say, however, what effect the directive will have and how. Reduction of bank credit from Rs 689 crores to Rs 600 crores implies a cut of roughly 13 per cent. Banks are said to have resolved upon a 10 per cent reduction in advances against commodities but nobody is as yet any wiser about how precisely this reduction would be brought about. Lowering the credit limits of individual clients is extremely unpleasant for banks to carry out but since imposition of higher margins, etc, is not likely to do the trick, banks may have no other alternative, if the Reserve Bank insists that the directive be obeyed.

Foreign Securities Decline

During the week ending August 23, 'Balances held abroad' have gone up by Rs 8 crores but 'Foreign securities' have declined by Rs 15 crores, indicating a deficit of Rs 7 crores in the balance of payments against Rs 1 crore only in the previous week. The rate of withdrawal is, nevertheless, lower than the average of preceding weeks.

Government's borrowing (excluding ways and means advances) from the Reserve Bank has declined by Rs 50 crores during the week, making a total reduction of Rs 79 crores over the fortnight, i e, since the loan proceeds found their way to the Reserve Bank.

On the liabilities side, 'Deposits, others' and Central Government deposits have gone down by Rs 32 crores and Rs 5 crores, respectively, while State Government deposits have gone up by Rs 3 crores. Balances of banks have increased by Rs 4 crores and loans to them are lower by Rs 12 crores, of which the shrinkage in advances against usance bills accounts for Rs 9 crores. Acceleration of seasonal contraction in note circulation is evident from the decline of Rs 24 crores in active notes.

Returns of scheduled banks for the week ending August 16 indicate a credit contraction of Rs 7 crores, of which roughly Rs 4.5 crores is accounted for by the State Bank. The gilt edged portfolio has expanded further by Rs 2 crores. Scheduled banks, other than the State Bank, may, therefore, be said to have subscribed less than Rs 8 crores to the new loans. There is no change in net deposit liabilities since the increase in time deposits has offset the decline in demand deposits.

Cotton

Long Liquidation

BULLISH sentiment at Kalbadevi enjoyed only a short spell because earlier reports of damage to crops in Punjab and elsewhere proved rather exaggerated. Thereafter, reactionary selling was intensified by the Reserve Bank's latest directive to banks and bears entered the market to take full advantage. Reports of good crop prospects continued to pour in. As a result, Moglai March tumbled down from Rs 703.50 to Rs 676 over the week, in spite of occasional bear covering.

According to a press note issued by the Textile Commissioner, Egyptian cotton licensed for import against special payments procedure before August 31 can be shipped during September, provided it is contracted for and necessary formalities are completed before August 31.

This liberalisation is due to difficulties in obtaining shipping space. It is understood that the Egyptian Government has no objection to this procedure and that it will grant the usual premium of 15 per cent on all such purchases.

Oilseeds

Heavy Selling

CROP prospects for oilseeds are brighter than ever and buyers are therefore in no mood to enter the market.

In Castor, the Brazilian bumper crop continues to exert a downward pressure on prices.

Over the week, the two Groundnut contracts lost more than Rs 4 each while the decline in Castor has been even higher at Rs 5 each.

Bullion

Erratic as Usual

BULLION remains erratic as usual on alternate bouts of sustained buying and nervous uncertainty.

Over the week as a whole, prices of both precious metals moved up in the ready as well as forward section. Silver, however, suffered from an uncertain undertone.

Around Calcutta Markets

Steadier Trend

Wednesday, Evening

EQUITIES are steady at the moment because of T T K's assurance that there is not likely to be any further major increase in the tax burden during the duration of the Second Plan. There were fears of some more tax measures in the next year's budget. There is still a need for further rationalisation of the tax structure. But the concessions relating to the wealth and expenditure taxes indicate that New Delhi has decided to hasten slowly in its determination to complete its plans for tax reform. Stock markets reaction to T T K's assurance is not unexpected. But it may turn out to be premature.

Both the wealth and expenditure taxes have been watered down considerably. This may have pleased the speculative elements in stock markets. Concessions to small investors may not be unwise. But investors and markets may yet discover that stiffer wealth and expenditure taxes along with a substantial reduction in the standard rate of income tax would have been better for both. Even as New Delhi has succumbed to the combative propaganda of the few rich, they have succeeded in inducing investors to believe that what New Delhi has done is better for stock markets. That remains to be seen.

I I S C O Outlook

Various factors have helped the irregularly steady trend in equities. Rumours are current in and around Lyons Range that the management of IISCO will assure shareholders in the forthcoming annual general meeting that the Company will be in a position to maintain the dividend even on the doubled-up capital. There are, of course, only a few who still hope for a higher dividend. With the doubling of the share capital, such hopes seem unduly optimistic. But it is clear that any assurance that the dividend, on the increased capital, will be maintained, will have a sustaining effect on Indian Iron.

Opinions differ whether such an assurance can be given, at this stage, by the management of the Company. But certain inferences are permissible. Any increase in the dividend may be ruled out of consideration until after the completion of the expansion programmes. Can the dividend be maintained? There are many months still to go before the current year will be over. It is not possible to come to any firm conclusion from the relevant data available so far. But there is a promising technical development. In the annual report for the year to March last, it is disclosed that the Company has created a fund for adjustment of dividends. Shareholders have every reason to welcome the formation of the dividend adjustment fund. This provides a financial basis for hoping that the dividend will be maintained. That, by itself, could be an achievement.

Devaluation

Certain other favourable background factors have been in operation. Despite repeated denials, the belief in devaluation of the rupee persists. Stock markets are not as much interested in the economics, or economic effects, of devaluation. But investors are aware of the psychological stimulus to the economy as a result of depreciation of currency. Devaluation has a tendency to raise prices. That may be why TTK is opposed to a lower rupee. But that is precisely why investors hope that the rupee will be devalued. If everything goes up, equities, too, are then likely to move up. Anyway, with or without devaluation, drastic import restrictions are likely to continue. Domestic industry is already reaping the benefits of import restrictions. It is a direct and effective encouragement to the home industry to expand. As import cuts continue, prices tend to move up. There is therefore, a double advantage to home industry. This is partially offsetting fears that the foreign exchange crisis and the resultant import restrictions may retard the progress of the home industry.

L I C's Operations

Besides, recent developments indicate that the Life Insurance Corporation has evolved a policy of strategic support to stock markets. It is no longer an aggressive buyer of speculative equities. That was how it started its operations. But the initial aim has been achieved. And, therefore, the crude tactics have been abandoned. Its operations have become more sophisticated. It is holding a watching brief. It enters the market at crucial moments. Such strategic support provides a cushion for markets. That does not always prevent speculators to sell "short". But they are frequently forced to cover their sales in a hurry. That provides a technical bottom to markets.

There is, however, one unfavourable development which is hampering stock market activity. A few days ago, the Governor of the Reserve Bank issued a warning that interest rates may harden rather than soften. This is what stock market circles have been apprehending for some time now. It was the rising rat.o of bank advances to deposits wh ch induced the Reserve Bank to issue directives to banks to restrict their lending. Recently, the continued rise in food prices has forced the Reserve Bank to renew its efforts at restrictions of bank credits. Fears persist that Authority may pursue a policy of credit squeeze. Such fears impede stock market activity.

Jute Shares

In the last fortnight, there has been a welcome revival of activity in Jute shares. It started with the recommendations of the select committee that those companies suffering losses should be absolved from liability to pay the wealth tax for the duration of losses. For some years, the jute industry has been faring badly. It is, therefore, assumed that jute companies will not have to pay the wealth tax. There was another factor which helped the spurt in Jute shares originally. A fortnight ago, it looked as if the spinner's margin would continue to be favourable to the industry. Such hopes no longer prevail.

Despite improved demand and higher auction prices, Tea shares, however, continue to be rather quiet and inactive. But Engineering and Miscellaneous shares are behaving according to expectations.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1483.59	1508.45	1498.83	1431.62
2. Rupee Coin	132.20	130.27	130.18	115.25
3. Deposits				
a) Central Government's	65.30	70.22	54.02	61.58
b) Banks'	80.85	75.88	87.82	55.44
c) Other Governments'	5.88	2.83	3·09	5.70
d) Others'	103.26	139.59	149.48	12.50
4. Foreign Securities	360.52	375.52	400.52	606.68
5. Balances held abroad	24.92	16.62	31.19	28.79
6. Rupee Securities	901.97	911.82	906.81	693.72
7. Investments	210.42	250.66	246.37	50.13
8. Loans and advances to Governments	38.81	28.84	27.79	7.64
Scheduled Banks				
1. Demand liabilities (net)	702.55	704.61	724.67	644.75
2. Time Liabilities	579.09	577.22	563.32	460.02
3. Cash on hand	39.37	40.19	39.12	37.62
4. Borrowings from Reserve Bank	54.04	68.83	39.61	40.87
of which against Usance Bills	45.82	54.37	37.26	30.76
5. Advances and Bills discounted	820.27	826.17	837.67	690.36
of which State Bank's	166.70	170.98	171.72	125.25
6. Invst. in Govt. Sec.	339.83	338.10	332.28	361.22
of which State Bank's	104.22	104.42	105.48	106.19
Cheque Clearance	88.77	131.06	140.59	101.85

†For Reserve Bank week ended 23-8-57. Scheduled Banks and Cheque Clearance week ended 16-8-57

Bombay Money Rates

Call Money	16-8-57	9-8-57	19-7-57	17-8-57
From banks	3½-3 11/16	3½-4 5/16	3½-4 3/8	3 7/16-3 15/16
From public	3¾-4 7/16	3-4 1/16	3⅝-4 7/16	3¾-4 5/16
Three Months	2½-4 11/16	2½-4 7/16	2½-4 5/16	2½-4 5/16
Six Months	2-4 5/16	2-4 5/16	2-4 5/16	2-4 5/16

Bombay Bullion (In Rupees and nP)

	9-8-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107-57	107-32	105-55	103-56
Forward	107-39	107-08	105-26	103-43
Silver (per 100 tolas)				
Spot	181-99	182-49	178-70	171-94
Forward	182-51	182-90	179-16	172-00

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 392 lbs each)

Description:	June 57	May 57	April 57	Mar 57	Feb 57	Sept '56 June 57—
Indian	380.6	401.8	410.0	400.6	383.1	3896.4
Foreign of which	48.4	45.1	44.6	46.4	43.7	471.8
American*	23.14	14.80	24.16	23.48	19.93	150.4
Egyptian	5.37	5.84	6.22	6.14	5.63	80.5
E. African	6.83	7.22	6.39	9.75	10.85	149.2
Sudan†	5.27	5.33	5.50	6.45	6.75	71.9
TOTAL	409.0	446.9	454.6	447.0	426.8	4368.2
Consumption in corresponding periods a year ago:						
Indian	351.1	349.4	341.8	347.8	349.9	3611.1
Foreign	51.2	56.2	51.3	51.9	52.2	498.0
TOTAL	402.3	405.6	393.1	399.7	402.1	4109.1

* Includes United States and Mexican Cotton.

† Includes both Sudan, Egyptian and Sudan American.

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

Indian:	June	May	Apr	Mar	Feb
1956-57	1432.9	1421.4	1329.9	1221.9	1151.9
1955-56	1705.6	1687.3	1512.7	1359.9	1188.0
Foreign:					
1956-57	220.8	216.9	206.0	206.0	182.3
1955-56	223.8	219.3	213.3	211.5	174.6

COTTON IMPORTS

(in bales of 392 lbs each)

	From Sept 1, 1956 to August 22, 1957		
Description	1956-57	1955-56	1954-55
Americans	307,182	8,270	85,937
Sudans	552,80	104,060	67,275
Egyptians	37,237	182,780	119,315
East Africans	116,754	202,244	263,861
Pakistans	—	117	—
Other varieties	4,485	9,308	1,063
Total	520,138	506,779	537,271

COTTON EXPORTS †

(In bales of 392 lbs each)

From Sept 1, to Aug 22

Destination	1956-57	1955-56	1954-55
U K	23,810	55,612	43,852
Continent	23,621	75,609	67,655
Hong Kong	33,892	29,794	23,126
China	3,277	57,484	5,803
Japan	160,264	214 139	121,826
U S A	2,374	8,605	17,115
Other Countries	985	2,514	2,587
TOTAL	248,223	428,757	281,764

†Excluding Zoda and yellow pickings.

Source: East India Cotton Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August, 1939 = 100)

Group and Sub-Group	WEEK ENDED 10-8-57	3-8-57	1-6-57	30-6-57
Food Articles	**112.6**	**113.5**	**110.7**	**104.8**
Cereals	107	106	104	98
Pulses	88	88	86	80
Fruits & Veg.	142	141	123	126
Milk and Ghee	108	111	107	103
Edible Oils	133	134	133	125
Fish, Eggs & Meat	103	106	96	103
Sugar & Gur	111	111	110	99
Others	136	142	144	132
Liquor and Tobacco	**92.0**	**92.0**	**94.3**	**83.1**
Fuel, Power Light & Lubricants	**114.5**	**114.6**	**114.5**	**105.3**
Industrial Raw Materials	**121.7**	**122.3**	**121.0**	**115.4**
Fibres	123	123	122	112
Oilseeds	228	130	128	122
Minerals	111	111	111	97
Others	108	107	106	110
Manufactures	**108.9**	**108.9**	**108.6**	**105.4**
Intermediate Products	**108.6**	**108.6**	**108.4**	**111**
Finished Products	**109.0**	**108.9**	**108.6**	**104.**
Textiles	109	109	108	105
Cotton	118	118	117	115
Jute	98	97	98	89
Woollen	103	103	103	97
Silk & Rayon	85	85	85	89
Metal Products	141	141	141	131
Chemicals	98	98	114	93
Oilcakes	118	116		102
Machinery and Transport	102	102	102	99
Equipment	111	110	110	102
Others	**211.6**	**437.3**	**111.5**	**106.2**
All Commodities				

FOREIGN TRADE OF INDIA

(Rs. lakhs)

Year|Month	Imports	Exports	Balance*
1951-52	942,50	733,24	—209,26
1952-53	669,95	577,37	— 92,58
1953-54	572,01	530,62	— 41,39
1954-55	656,32	593,57	— 62,75
1955-56	704,91	609,41	— 95,50
1956:			
May	67,70	45,06	— 22,65
June	64,17	46,81	— 17,35
July	59,40	42,21	— 17,19
Aug.	66,55	50,04	— 16,51
Sept.	84,19	50,05	— 34,14
Oct.	7089	53,49	— 17,40
Nov.	69,95	56,07	— 13,88
Dec.	69,28	56,25	— 13,03
1957:			
Jan.	78,76	55,28	— 23,49
Feb.	71,32	54,55	— 16,77
Mar.	79,51	51,01	— 28,50
April	90,35	47,85	— 42,52
May	85,41	52,80	— 32,64

* Adjusted upto December.

Source D C I S, Calcutta.

ALL INDIA FINAL ESTIMATE OF COTTON (1956-57)

	Area 000 acres			Production 000 bales of 392 lbs each		
Staple Length	1956-57	1955-56	+ or —	1956-57	1955-56	+ or —
Long	7,736	7,326	+410	1,938	1,610	+328
Medium	8,698	8,794	— 96	2,007	1,692	+315
Short	3,409	3,858	—419	778	669	+ 79
Total	19,843	19,978	—135	4,723	4,001	+722
Trade Description						
Bengals	868	931	— 63	320	306	+ 14
Americans	3,838	4,023	—185	1,397	1,095	+302
Jarilla (incl Virnar & 197/3)	3,180	3,217	— 37	739	428	+311
H420 (Incl Verum 91 & others)	762	159	+603	163	20	+143
Oomras	1,910	2,282	—372	340	260	+ 80
Hyderabad Gaorani	1,730	1,799	— 69	189	173	+ 16
Malvi	1,183	1,394	—211	283	223	+ 60
Broach-Vijay	1,506	1,343	+163	340	445	—105
Surti-Suyog	710	695	+ 15	169	219	— 50
Dholleras	2,088	2,104	— 16	408	487	— 79
Southerns	2,013	1,972	+ 41	358	329	+ 29
Comillas	55	59	— 4	17	16	+ 1
Total	19,843	19,978	—135	4,723	4,001	+722

LATEST ALL INDIA FOODGRAINS ESTIMATES (1956-57)

		Area 000 acres			Production 000 tons		
Crop	Estimate	1956-57	1955-56	+ or —			
Rice	Final	78,174	76,864	+1,310	28,142	26,846	+1,296
Jowar	Second	39,839	41,174	—1,335	4,516	4,312	+ 204
Bajra	First	23,620	24,987	—1,367	..	..	..
Maize	Final	9,244	9,116	+ 128	3,020	2,554	+ 466
Ragi	Final	5,674	5,693	— 19	1,914	1,820	+ 94
Small Millets	Final	12,209	12,713	— 504	2,010	1,937	+ 73
Wheat	Final	32,891	30,386	+2,505	9,068	8,569	+ 499
Barley	First	8,270	8,259	+ 11	..	..	..

.. Not available

Source : Director of Economics and Statistics, Ministry of Agriculture

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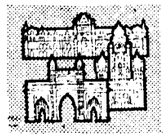
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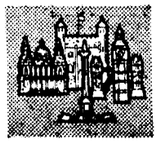
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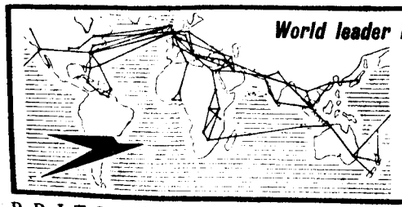
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Grass Roots

TWO clear, though contradictory, inferences can be drawn from the deliberations of the All-India Congress Committee. AICC members, though not necessarily the rank and file of the Congress, have become more conscious of the need for democratising the structural basis of the organisation. To be fair to the Working Committee, it is not, under the guidance of Shri U N Dhebar, the Congress President, opposed to devolution of power and responsibility. But it seems determined to maintain rigid control at the topmost, apex level. On the plea of homogeneity, Shri Mahavir Tyagi's proposal for election of ten out of 21 members of the Working Committee by AICC has been rejected. But the proposed amendments to the official resolutions indicate the growing unwillingness of AICC members to function as the Working Committee's yes-men. Though Pandit Nehru lent his weight and support to the present system of nomination of Working Committee members by the President, he conceded the essence of Shri Tyagi's proposal by emphasising that the same old members should not be nominated by the President year after year.

Desire of the general members of AICC for more representation in the highest executive body of the Congress is not undemocratic. Far more significant is the widespread hostility of the members in general to the system of perpetuating power and control in the hands of a few, dominant, old members of the Congress. All the changes, except one, in the Constitution of the Congress reflect this basic trend. Even as AICC's general members resent concentration of authority in the Working Committee by the same old leaders, the Party is hostile to the growing power of the State. This latter trend is reflected in the proposal, withdrawn later, to limit the number of Ministers among the members of the Central Parliamentary Board and the Central Election Committee. Rivalry between the parliamentary and organisational wings of the Congress is no less evident from the acceptance of the amended resolution that members of legislative bodies should continue to be full-fledged, and not only associate, members of the Congress committees at the various levels. This feud between the Party and the State is not peculiar to the Congress. But, except in the Soviet Union, and, to some extent and under certain conditions and circumstances, in America, the Party has been losing ground in favour of the State in every country. Even where the semblance of Party control over the State is sought to be maintained in theory, it is exercised, as it is supposed to be in the Congress, by the Parliamentary Board, and not by the national executive of the Party.

Only one major change has been effected in the Congress Constitution. Though the accepted basis of indirect election to the non-primary committees has both democratic and structural implications, the only significant amendment to the Constitution is the introduction of the system of functional representation to allied organisations and institutions like trade unions, Seva Dal, Youth Congress and Harijans. Shri Dhebar hopes that this change in the Constitution will enable the Congress, which has lost touch with "grass roots" to become again a party of the people. Shri Dhebar's subtle attempts to impose the Party over the State may or may not yet have aroused suspicions among Union

and State ministers. Many PCC chiefs are known to share the President's aspirations in this respect. But Shri Dhebar's serious and sincere efforts to rejuvenate the Party are widely appreciated. He is outspoken in his criticism of the Congress. "We (the Congress and its members) have", the Congress President admonishes AICC members, "got a bourgeoisie and arm-chair attitude." Shri Dhebar has diagnosed the disease properly. But the remedies proposed are not likely to cure the disease.

Pandit Nehru, a seasoned party politician, has a developed political instinct. Many had expressed surprise at his condemnatory interpretation of the success of the Congress during the last general elections. That self-introspection was not provoked by the Communist victory in Kerala alone. His suspicions about the underlying causes of the poor election record of the Congress in metropolitan and industrial towns have been confirmed by later events. Shri Dhebar now laments that the Congress has lost control over labour, over students, over the middle-class and, above all, over the "vantage points" and the basic currents in society. It is as well that Congress leadership now concedes that it can no longer equate itself with the country.

Today, the Congress is one of the many political parties within the country, seeking and claiming the support of the people. It is still the biggest Party in this country. Pandit Nehru hopes that it will continue to be the Party of the people by reorienting its policy towards Socialism. But doubts prevail whether Pandit Nehru has the support of the majority of even his own Cabinet. Recent AICC discussions in New Delhi leave no room for doubt that Congressmen are hesitant in their acceptance of the economic implications of Socialism. Too many Congress members have been critical, both inside and outside Parliament, of the bold Second Plan, of the tax measures to finance the Plan, of the general economic policy of the Congress Government. AICC members may be jealous about the composition of the Working Committee. Congressmen may be anxious to enforce the authority of the Party over the State. These trends may or may not reflect the Congress members' insistence on political democracy. But it is clear that the majority of Congressmen, and this is the second inference from the deliberations of the recent session of AICC, are less interested in economic democracy. This explains why the Congress is gradually losing its hold on the people and the country.

Making Cabinet See Reason

EVER since the presentation of his outstanding budget proposals, the Finance Minister has been fighting manfully to make the country and the Parliament see reason. This is right and proper and as it should be. For paying for the Plan is not the same thing as wishing to have it or even to vote for it. The struggle for resources will go on and grow more intense as development gets under way and more things are attempted. Stresses and strains must also arise inevitably and will get a great deal worse before they finally relax. That will be only when the economy is firmly set on the path of uninterrupted progress, and expansion is self-reinforcing. Whether we want development or not, the acid test for it is the response of the nation and of its leaders to the challenge of the situation which they have themselves brought about, acting on the belief and sustained by the faith that stability of stagnation is neither an inspiring object to work for nor even a workable policy. But it is not the country and the people with which the Finance Minister has to contend but his own party and his own colleagues in the Cabinet. This gives a different colour to the developments of the last few weeks.

The Finance Minister sometimes appears to stand all alone and though he has successfully piloted the Appropriation Bill, the Finance Bill, the Wealth Tax Bill and the Bill to tax passenger fares on railways during the week, he seems to be a lonely figure. True, there has been the Party whip and the solid Congress vote. True also, while the Finance Minister was on his feet most of the time, answering his critics and holding his own, and fighting all the time, it is the picture of Prakriti of Sankhya philosophy that he seems to symbolise —the Prakriti that seems to move and act and vibrate all the time while the Purusha remains inert, still and inactive. But without his inspiration and aid, Prakriti by herself can neither move nor stir. The voting and the successful passage through Parliament of the bills and demands with a thumping majority only goes to show that Nehru had given his assent to them all, not that either the Parliament or the Cabinet had really seen reason and were willing to discharge, or even conscious or aware of the necessity of discharging their responsibilities to the country and the people.

In defending his proposals, Shri T T Krishnamachari not only held his ground but on occasions turned the tables on his critics. This he certainly did, and very effectively too. When replying to the debate on the Appropriation Bill in the Rajya Sabha, he said:

"Some Hon Members do not want the wealth tax; they do not like the expenditure tax, I thought that they had found some alernatives—and painless ones at that. I tried to follow these suggestions with avidity. I am sorry I could not discover any useful recipe in all that has been said. I heard some mention about increasing production; I heard that some are unhappy about nationalisation of life insurance; I also heard about the question of regional disparities. It finally ended up with the advice: "Cut the Plan, cut your links with the Commonwealth, and cut the rupee from its moorings."...They are unsound, impracticable and positively dangerous."

While congratulating the Finance Minister on his outstanding budget proposals which had such a stormy passage through Parliament, we had mental reservation only on one point. There was no question that the proposals were fundamentally sound, the question was, had the Congress been able to produce at last a Finance Minister from its own ranks? "Does Shri Krishnamachari carry the Cabinet with him, not to speak of the Congress leadership? True enough, what Nehru says goes". But that was not all that was needed to take the country to the promised goal.

The Finance Minister was absolutely right in posing the problem before the country as one of internal as much as external resources. The only difference between the two, he was equally right in holding, was the degree of freedom of action that we enjoy in regard to them. The additional taxation measures at the Centre, it followed, constituted the greatest prop we have built up so far in support of the Second Plan and our developmental efforts in general. This prop, he went on to say, had to be buttressed by administrative and other measures but there was no question that the tax system, as now developed, deserved a fair trial. Both his new tax proposals, the wealth and expenditure taxes, have been pruned and substantially modified at the Select Committee stage, as also through subsequent concessions. Nevertheless, the Finance Minister has come through, if not with flying colours, at least with his banner held high.

The budget proposals have come through, albeit a little clipped here and there but what about the Plan? Pruning, rephasing, or worse, what is it going to be? On this question, naturally, the Finance Minister could not be very emphatic. When he said that he could not answer these questions as precisely as his critics would like him to do, one could sympathise with him, and even give him credit for realism. "The Plan will be carried forward as far as it is possible," that is as far as he could say, and prudently added, "in the light of the emergent foreign exchange situation and we shall do all we can to conserve and enlarge our foreign exchange resources within the broad framework of the objectives laid down in the Plan."

He has given the much needed reassurance that in saving its hard core, social expenditures and the little employment potential that the Plan has would not be allowed to suffer. On the contrary, the Finance Minister was bold enough to say that the emphasis would be shifted to social services and to other activities which depend essentially on internal resources. The bottleneck is of foreign exchange.

There is no question that from the very outset, the Plan had been drawn up on the assumption that substantial foreign resources would be forthcoming. The basis of this assumption could be questioned but not the fact that this is how the Plan was oriented. Today, the prospects of getting foreign resources are certainly not as bright as they were taken to be. And so long as nothing much was being attempted or done, the current foreign exchange situation had been more than comfortable, indeed embarrassingly so, since we could not very well ask for loans or make serious efforts to raise foreign resources. Naturally in the circumstances, the Government was not as careful as it could be in conserving foreign exchange for the future, and for a bigger plan to come. On this point, the Finance Minister is inordinately touchy and combative to the point of making himself ridiculous.

When the Plan has really got going and is just gathering momentum, foreign exchange shortage threatens to pull it up with a jolt. Questions are raised about the future of the rupee. India's credit abroad, built up by an unrivalled record of 100 years of regular and unquestioning repayment of all foreign loans to the last penny—no matter how unjustly such loans may have been foisted on her—seems of little value to her in her hour of need. There has been no helpful gesture yet from any quarter. What a different story it was when the sterling was under pressure not so long ago! The answer, the Finance Minister still fondly believes, is to woo the foreign private investor. Has he tried to square the gap in our resources, estimated by his predecessor and the much wider gap that yawns today, with the trickle of foreign capital that has been coming in, through ploughed back profits and fresh inflow? The budget proposals are a sufficient earnest that the Government is aware of its responsibilities and that it is making serious efforts to meet them. What more is needed to strengthen his hands when T T K goes to Washington?

CHANGE OF ADDRESS

Readers are requested to note that the offices of **The Economic Weekly** have been shifted to 104 Apollo Street, Fort, Bombay.

Telephone (provisional): 252258



Weekly Notes

Private Investment in Industry

Our Delhi Correspondent writes:

HOW much private investment has taken place during the Second Five Year Plan? Controversy on the subject was touched off recently when it was claimed that the Second Plan target for industrial investment in the private sector had been already fulfilled. Private investment in industries, committed or materialised, was stated to be of the order of Rs. 760 crores since April 1956. More recently this figure has been brought up-to-date and now stands at nearly Rs 830 crores.

It is conceded that a good deal of the increased production has been achieved through utilisation of idle capacity. Not all of the sum of Rs. 830 crores has been actually invested but this investment would certainly take place, it is claimed, by 1958. Government granted import licences of the value of Rs. 1,414 crores during 1956. The actual imports during that year were of the order of Rs. 808.33 crores. The balance of Rs. 606 crores represents the spill-over in 1957.

Almost all of these licences are for machinery and capital goods. Even if two-thirds of these licences materialise into actual imports, machinery and capital goods worth more than Rs. 390 crores would be imported during the earlier part of 1957. Knowledgeable authorities have analysed industry-wise the probable imports on the basis of the issued licences and applying the accepted ratio between the cost of machinery in a given industry and the capital required to set it up, come to the conclusion that an investment of the order of Rs. 830 crores would materialise by the end of 1958. In other words, the Second Plan targets of industrial investment in the private sector would be exceeded two years ahead of schedule.

In support of this thesis it is further urged that the value of bank advances and bank deposits is steadily going up. The figures of capital issues have risen substantially during 1956-57 compared to 1955-56. Besides, foreign investments of the order of Rs. 40 crores have materialised or been committed during the last eight months.

A rough break-up of the last figure, which is now available, is interesting: Associated Vickers Babcocks (Cement machinery) and an Aluminium Company (Hirakud)—Rs. 5 crores each; Baldwin (Tractors and Shovels; Calcutta)—Rs 3 crores; ICI, Mysore Paper, General Motors and Philips (Radios)—Rs 2 crores each; the American Home Products (Drugs)—Rs 1½ crores; Hooker's (paper containers)—Rs 1.25 crores; Dayton (Rubber), Cabot Lodge (carbon black), Stella Batteries and Firestone (rubber tyres)—Rs one crore each. Besides, there are smaller investors like Leyland (automobile), Dow Chemicals (Bombay), and Asahi (glass) who will bring in foreign capital of the order of Rs 75 lakhs each, while Japanese Cables (Kerala) may invest Rs. 50 lakhs.

There are, however, many who believe that the foregoing reckoning of investment in the private sector is over-optimistic. Even Shri G. D. Birla has estimated an investment of only Rs. 350 crores. Moreover "Capital goods" in import control parlance is a fantastically mixed term which includes machinery, iron and steel, the non-ferrous metals and vehicles. The total import of such goods on private account in 1956 was of the value of Rs. 330.6 crores. A fair proportion of this total was accounted for by vehicles and metals which go into construction or transport and do not at all lead to capital formation.

It is, however, generally admitted that progress in the private sector of industries has been faster than anticipated in the Plan. The available data does not clearly establish whether the vigour displayed by industrialists has retarded the execution of public sector projects or not, by utilising the foreign exchange available and thus leaving the latter to jog along as best as it can with the help of deferred payment arrangements. But rapid growth of industries is, in principle, unexceptionable; it will satisfy the pent-up demand for consumer goods in the country, obviate imports, and help to keep prices down.

Forcing the Pace of Hindi

'LET sleeping dogs lie' would not be an unfair summing up of the Language Commission's Report (to be reviewed). This is confirmed by the reception accorded to it. The Report has not set up any violent reactions, no heads have been broken over it and no fierce controversy has been raised by it. While calling for speeding up the change-over to Hindi, the Commission wisely refrains from laying down a dead line or even a time schedule.

This raises the inconvenient question: how serious was the Commission about the efficacy of its own recomendations? If truth has to be told, not much. It does not appear to believe in its own prescription. To borrow an analogy from the alter-ego of Flibbertigibbet in a Bengali weekly, for one intending to take a plunge in cold water, hesitation and delay are fatal. The longer one waits, the greater is the fear of cold, the less the willingness to take the plunge and eventually the result may not infrequently be to change one's mind. One has to 'make do' in such cases with whatever there is, if one is really serious—literature, text books, terminology, all these follow, and cannot be produced to order to precede the change-over.

'Linguism' is literally India's contribution to the English language. The word is not found in the English dictionaries which are commonly used. Chambers's has Lingo, Linguist, Linguister (US), Linguistics, but not Linguism. The Concise Oxford Dictionary stops short at Linguist, Linguistic and Linguistics; no Linguism here either. Suppression of languages of minority groups, systematic imposition of the language of one group of people on another, legislative enactment and prescription by executive order of the language to be used at courts or for official purposes and the indirect encouragement given in the matter of jobs and preferment to people speaking a particular language or speaking it with a particular accent—these are all very common and well known. The history of nationalist movements and of foreign rule in every country

is replete with its manifold repercussions, but language as an independent factor in politics, apart from the politics of nationalism or of the struggle of peoples under political subjection or of racial minorities, is something unique. India may still write that chapter in history if the language question is not handled with ordinary commonsense and political judgement. But fortunately, it now looks reasonably certain that free India will not claim the unenviable distinction of opening a fresh chapter in the history of discord among people.

Does it mean that we end up with English, not as the lingua franca—that can never be—but as the all-India language while the national languages of India continue to develop apace? This begs the question that any one of the national languages of India can develop to the fullest structure and attain complete maturity while English remains the medium for all India, for inter-State communication, and the medium for higher education, for Parliament and for higher Law Courts? No State encouragement or patronage can completely outweigh the superior advantages of a language through which one can address an all-India audience and at the same time reach the world outside.

Among the many imponderables, a new one has been added by the dissenting minute of Shri Maganlal Desai, who argues persuasively the case for two Hindis, one as an all-India language which will draw from all the Indian languages (including those of South India) and one that is merely provincial. The other two dissenting notes, by Dr S K Chatterji and Dr Subbarayan which put the case of the non-Hindi speaking people so powerfully have naturally swamped this finer and tenuous contention in the making of languages. But such contentions or speculation, whether on the part of politicians or scholars, are after all an idle pastime for languages obey no law except their own. Small dialects may be suppressed or may disappear altogether in course of time just as microscopic minorities can be wiped out, but no large language groups have ever been known to have met this fate in history. All this does not add up to an answer to the question that the Official Language Commission was asked to settle. But here precisely lies the wisdom of this Commission: It would rather let sleeping dogs lie!

This is the gist of the operative part of the Report in support of which the following recommendations may be cited from the Summary of Conclusions and Recommendations presented in Appendix I

"We do not recommend that any restrictions should be imposed for the present on the use of the English language for any of the purposes of the Union" (Paragraph 16).

"It has not been possible for us to furnish a regular time table by dates and stages as to how Hindi should be introduced into the business of the Union so as to accomplish the general change-over within the period fixed by the Constitution. .. the actual drawing up of a plan of action and the setting up of time schedule therewithin must be left to the Government of India themselves to do after a study of the relevant factors". (Paragraphs 7 and 17).

Now, according to the Constitution the recommendations of the Language Commission have to be examined by a Committee of the two Houses of Parliament, and when the subject was presented to the Lok Sabha this week, so many of the members wanted an opportunity to discuss the question. The reason why they all wanted to discuss it was obviously to forestall the issue that the Home Minister had to give an assurance that when the Committee submitted its report, the Parliament would be given an opportunity to discuss it and register its opinion, so that eventually when the President has to decide, he will know for sure what Parliament thinks about it all.

The Constitution lays down a time schedule for the change-over to Hindi as the "official language" of the Union (but not, be it noted, the national language of India). But the same article also provides that there is nothing to prevent Parliament from legislating the continuation of the English Language for any of the purposes "as may be specified in the law" even after the period of 15 years during which the Constitution allowed the English Language to continue "for all official purposes of the Union for which it was being used immediately before the commencement of the Constitution". So for a sensible policy on language, even an amendment of the Constitution would not be necessary!

Merdeka for Malaya

IN 1942, after the fall of Singapore, it became apparent that Britain would have to withdraw from Asia in the near future. Emergence of Burma, India, Pakistan and Ceylon as free nations brought Malayan independence nearer in sight. To stress this historical process of evolution, is not to minimise British statesmanship in accepting the realities of the changing situation. Britain's mature policy has paid good dividends. All the newly-independent south-east Asian countries, except Burma continue to be members of the Commonwealth. So will free Malaya. Even as Britain has shown wisdom in transferring power to her former colonies and territories in Asia, she has demonstrated her realism in adapting the Commonwealth to the changed circumstances. Like India and Ceylon, Malaya will not owe allegiance to the British Crown. But Malaya will be the second monarchy to be a member of the Commonwealth.

False or exaggerated notions as some believe, about Singapore's strategic importance may have delayed Malayan independence. But it is equally evident that the separation of Singapore from Malaya has hastened the transfer of power by Britain. This political as well as administrative device has also been utilised to solve one of the complex racial problems in Malaya. With the inclusion of Singapore, it would have been difficult to ignore the Chinese claims as Malaya's majority community. Even in Malaya proper, the Malays outnumber the Chinese only by 700,000. And, with the 700,000 Indians and Pakistanis, Malayans cannot claim any superior status or privilege on the strength of numbers. These racial intricacies explain the provisions in the Constitution which proclaim Malaya as a multi-racial State. This interesting experiment will be watched with keen interest, not only by Malaya's interested neighbours, but by the whole world.

Malaya, however, has yet to attain full sovereign status. Britain will still have some control and interest over Malaya's defence and economic matters. No irreconcilable conflict may arise. But these restrictive provisions in the Constitution may tinge Malaya's foreign

and economic policies in the near future. India, Burma and Ceylon, her south-east Asian neighbours and well-wishers will hope that Malaya will, despite the Australian Foreign Minister's appeal to her to join SEATO, become an active Bandung Power. There is a related possibility that the Communist threat to Malaya may complicate further her complex racial problem. As in Ceylon, there are many Indians in Malaya. But the multi-racial provisions of the Constitution and the accommodative attitude of the party in power, the Alliance, are assurances that this racial issue will not mar friendly relations between Malaya and India.

A rich rubber and tin exporting country, Malaya has a high standard of living. From the fact that Malaya has the highest per capita income among south-east Asian countries, one may not be able to get a true picture of the entire Malayan economy. But Malaya starts as a free country with a well-developed system of social services and of general administration. Her current and potential resources are not inadequate. But she will need vast resources to develop her economy fully. Malaya will not only become a member of the Commonwealth, but she is, and will remain, a sterling area country. In return for her rich contribution to the dollar pool, she has the right to expect liberal aid by the richer members of the Commonwealth.

IBRD Loan for Thailand's DVC

THE World Bank has approved a loan for $66 million to meet the foreign exchange requirements of the first stage of the Bhumiphol multi-purpose project in Thailand which is estimated to cost $100 million in all. The loan will be signed after the National Assembly of Thailand has passed the necessary legislation for establishing the new **Bhumiphol Electricity Authority**, which would be the borrower. This project, named after the Thai King, is the largest yet undertaken in that country. It will be the first step toward the installation of an inter-connected electric power system to meet a large part of Thailand's estimated needs for a number of years ahead. It will also make possible the control of floods which at present cause heavy damage, and will provide additional irrigation water for more than 2 million acres, which will make it possible to increase agricultural production by amounts valued at about $15 million a year. The Bhumiphol Electricity Authority, an independent agency being established to operate the project and all major power generating plants and transmission systems in the central part of Thailand, will be the borrower.

Of the project's three principal objectives, power, flood control and irrigation, the most important is to bring to an end the increasingly acute shortage of electricity which Thailand has been experiencing for several years. Demand for power in Bangkok has been rising at a rate of 15 per cent annually over the past six years, despite the severe restrictions which have been in force, and this growth is expected to continue, although at a lower annual rate. The existing capacity of the public utility systems is so inadequate and the service so restricted that all large consumers have to install their own generating units; the total power so produced, in fact, exceeds that of the public utility systems.

The first stage of the project includes the construction, 260 miles northwest of Bangkok, of a 500 feet high arch dam across the Ping River, an important tributary of the Chao Phya which meets the sea below Bangkok, and the installation of two generating units with a total capacity of 140,000 kilowatts below the dam. This may be compared to Bokaro's 150,000 kilowatts. Provision is included for transmission lines to Bangkok, of a combined total length of 650 miles, supplying 11 load centers en route, and the necessary sub-stations. As is customary with Bank-financed projects, bidding for the project will be open to international competition.

Although not part of the Bank-financed project, the construction of additional thermal capacity and of new distribution systems will be carried out simultaneously with it. Twenty 1,000-kilowatt diesel units are now on order and preliminary studies are in progress for a new steam plant of about 20,000 kilowatts.

The first stage of the project will be completed in 1963, and its future development would comprise successive installation of additional generating units in step with the growing power demand until the full capacity of about 500,000 kilowatts is reached. Two additional high-tension transmission lines to Bangkok and other transmission lines will ultimately connect 33 of Thailand's 71 provinces. According to present estimates, the entire capacity of the power plant would be fully utilised by 1975.

The flood control aspects of the project arise from the fact that the Ping River is an important part of the Chao Phya River system which intersects Thailand from North to South. During the rainy season the flow of all the rivers in the system is greatly enlarged, leading to periodic floods in the central plain above Bangkok. Control of the Ping River is expected to reduce the annual flood crest to a point where damage in the plain will be reduced in normal seasons. The Bhumiphol storage which will help to maintain river flow in the Chao Phya River during the dry season, will also be of great value to river navigation, which plays a key part in the economy of Thailand.

The reservoir which will be built behind the Bhumiphol dam will be able to hold about 12 billion cubic meters of water, equivalent to half the storage of all the reservoirs in the TVA system. This will be available for use throughout the dry season to maintain a flow down to the large new irrigation system which has been constructed in the Chao Phya River basin with the help of a Bank loan of $18 million made in 1950. The main features of this earlier project were the recently completed Chainat barrage, about 100 miles above Bangkok, and a system of canals and water distribution channels which will irrigate an area of about 2,260,000 acres in the central plain of Thailand. This system, however, being dependent mainly on the flow of the Chao Phya, is adequate for irrigation only for six to seven months of the year. The water from the Bhumiphol reservoir will therefore make possible the irrigation of large areas throughout the year and allow cultivation of new dry-season crops, such as beans, corn and sugar, over a large area. It is estimated that this feature of the project will lead to an annual increase in agricultural production of about $15 to $20 million, of which $5 million will be from additional rice available for export.

The Bank has previously made five loans to Thailand, totalling $40.8 million. In addition to the irrigation project mentioned above, these loans have been for railways and for the port of Bangkok.

A Calcutta Diary

Going Gaga over the Nagas

CALCUTTA is closer to the Naga country than Bombay, but if anyone thinks this city knows more about the problem than the rest of India he is mistaken. There is no reason to believe that the Nehru Government's attitude to the Nagas is the same as that of the British Government if only because the old policy was more succesful than the present one appears to be—but the comparison is largely irrelevant because the Nehru Government's policy, if there is one, is just not known and so no comparison is possible. It is to be hoped that behind the secrecy, a legacy from the British days, there is a policy as clearly thought out as the British had. A damper to confidence is the fact that there has been more trouble since Independence or less success in dealing with it.

What the recent convention at Kohima decided is an enigma still wrapped in a mystery, and the Assamese protest against the reported decision is no guarantee that it is a good one, but there can be no doubt that the Assam Government is the last Government the Nagas want to have anything to do with. Curious, many may think. Surely, they would argue, the Nagas would rather be with people closest to them than be ruled by distant and unfeeling Delhi. Just the contrary, and the Assamese at least should understand why. Physical proximity breeds contempt, and if Assam prefers a Madrasi or Punjabi post master general to a Bengali, it should be appreciated why the Nagas would prefer to be looked after by non-Assamese officers than by the Assam Government—quite apart from the dubious efficiency, and fairness, of the latter.

Here too may be seen further evidence of the schizophrenia of the Nehru mind, the Indian mind. The Prime Minister has not really made up his mind whether he wants the Nagas to be like himself or remain themselves. He is a great one for civilisation, meaning hospitals and refrigerators and automobiles; he is also a romantic of the upper-class coloniser type. The quaintness of the Naga fascinates him as much it fascinates Verrier Elwyn; he too is "gone on" what is so utterly different from him. There is the pathetic Wellsian faith in the march of civilisation, and there s the T-E-Lawrencian fatuation for the tribal, the primitive, the elemental. As a personal attitude, it is certainly a tenable one. Less so, perhaps, as the begetter of a governmental policy.

Even as it is not true that India is trying to rule Nagaland as a colony, if only because it is part of India, it should be appreciated that in not thinking themselves as full Indians yet the Nagas are not acting vastly differently from many sophisticated and politically-conscious Indians. An emotional awareness of the oneness of the country, transcending all divergences, has not sunk into the unconscious of every Indian, and it is not for us to blame the Naga for behaving as though he is not an Indian at all. Perhaps the most hopeful thing about the recent convention was the reported abandonment of the earlier demand for a separate Naga country. Whatever Mr Graham Greene and a few others may think of it, India could not plainly be expected to concede such a demand. The problem then reduces itself to an administrative and human one—that is, after raids have been dealt with militarily. Without knowing the details of what measures the Government of India and the Assam Government have taken so far, I incline to the suspicion that they have been all three—administrative, military and human in the wrong order and perhaps in the wrong way.

Weakness never impressed an adversary, certainly not in this part of the world—although it sounds brutal when a Churchill or a MacArthur says it. As long, therefore, as the authorities are satisfied that military operations are necessary, they must be pursued with no nonsense about human relations and all that. A haf-hearted military campaign gets you the worst of both worlds; you have no material gains to show, and you have hurt your opponent's pride by the mere fact of striking. There is no point in going to fight and then fainting at the sight of blood. It is impossible to know to what extent the Nehru Government has, or has not, been guilty of interfering with military operations, but the warning is justified by the story that at a moment of triumph in Kashmir, the Government dithered and there has been no end of trouble since on that score.

A more urgent warning is indicated in the matter of administration. All the vague talk of brotherliness and fellow-feeling and all that, in which Pandit Nehru excels, has tended to undermine the importance of administration, efficient and impersonal administration. The politicians will speak of what is called the personal touch, the friendly approach. It has yet to be proved that the public relations department—an enormous racket in the United States—can take over the work of the administrator. The latter's task may be made easier by the P R O, whose usefulness I do not altogether dismiss, but there has grown lately a pathetic faith in the efficacy of advertising and public relations—perhaps as a reaction from the old aversion to any form of publicity and public relations. At this extreme too it is possible to err, and perhaps more grievously than at the other. The other thing may or may not be, but public relations is certainly no substitute for good government.

And this is what may be lacking in the Naga Hills, as elsewhere. Once again, it may be that, contrary to all previous belief, the Indian Army is better equipped than the civil government, Centre or State. From what I hear from various people I form the notion that the Indian Army ran Kashmir remarkably efficiently. Indeed, it is a stupid notion, fostered by politicians, that efficiency and humaneness are separable. Pandit Nehru may be well advised to have the Army Chief of Staff next to him when he meets the Naga Convention leaders. Many are the problems in civil life which are solved the better by sodiers. Isn't there an Indian Mountbatten to make an end of the nagging Naga problem?

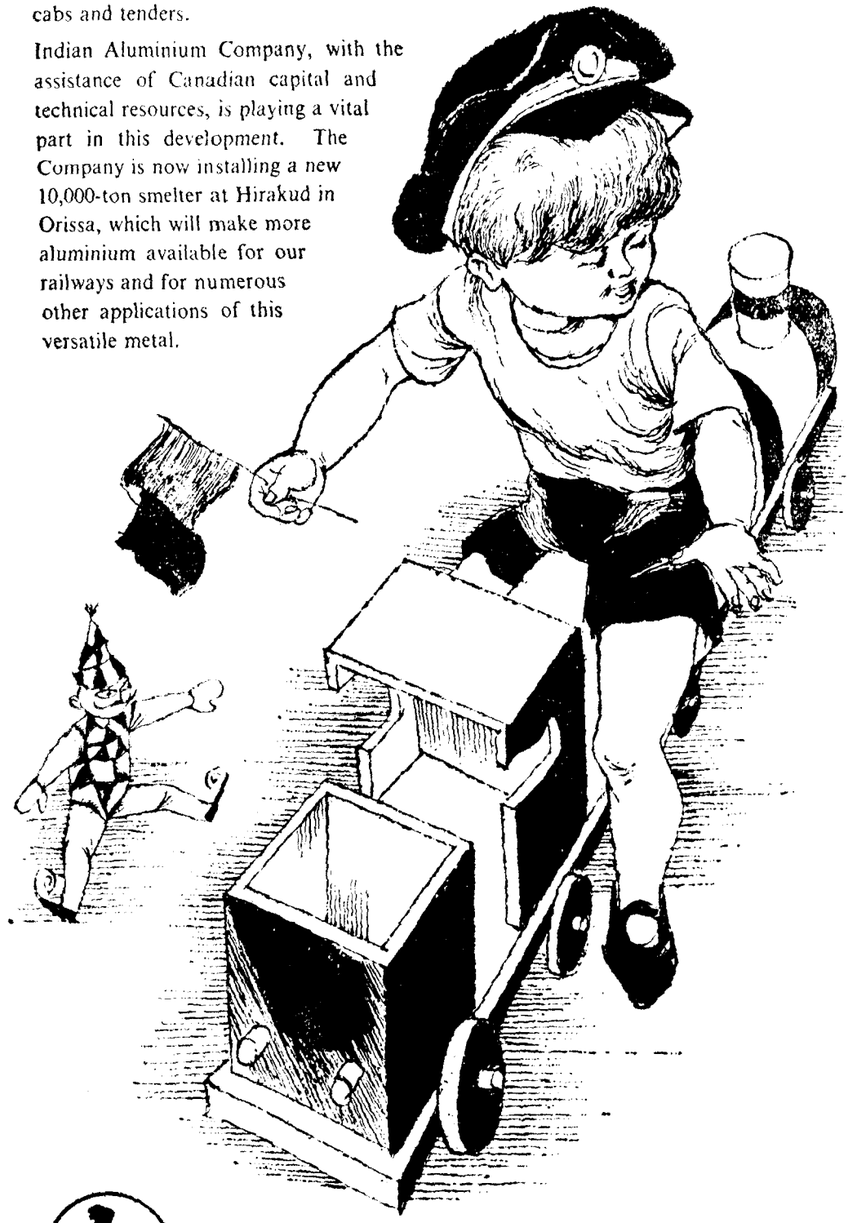
—**Flibbertigibbet**

September 4.

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From the London End

Nuclear Power Foreign Policy and Disarmament

THE United Nations Disarmament Sub-Committee is now likely to report another failure to the General Assembly. After having gone some way towards finding a basis for discussion the Sub-Committee has become enmeshed in an array of complex and almost incomprehensible proposals and counter-proposals all of which indicate only one thing clearly: the great powers are not ready for agreement. By involving the question of a temporary prohibition of nuclear tests, particularly of the fusion type, with the "package approach", that is, by including this question as part of an overall agreement on aerial inspection, and the size of conventional arms, the Western Powers have brought the prospect of failure well into the immediate reality. The new Western proposals which the Russian delegate has described as containing "nothing of real value" are on the one hand comprehensive and each proposal is made inseparable with others; on the other hand, the proposals are in the nature of a "first step"—subsequent measures for disarmament are made conditional on past performance and, more important, on the "settlement of outstanding political issues" implying, in particular, the German question.

'Package Approach'

The complete Western proposals contemplate ten provisions all of which are submitted for negotiation on the understanding that they are inseparable. This 'package approach' has for long been suspected as having no real prospect of being acceptable to the Soviet Union. But what makes this 'package' of limited significance is that it represents in several respects a retreat from certain of the more hopeful proposals made in recent months by Mr Stassen, the American delegate, and the fact that the Western plan makes no mention of the string of American bases in Eurasia which in the Russian view represents the more crucial aspect of their insecurity.

The fact that the Western powers have signified, by the very nature of their proposals, that a step-by-step disarmament system is not acceptable, does not necessarily mean that they are bent on war or for that matter bent on maintaining a permanent state of armed peace. A not too charitable interpretation of all that the West has said and done on this question would be that like the Soviets the West is desperately concerned with the security of the Western countries and their diverse and far-flung interests. Indeed the great concern shown by almost all nations for security is in substance a reflection of the suspicions and distrust that defile the whole atmosphere of international relations. Even the radiation hazards of nuclear test explosions are sufficient to bring together the elements of cooperation in the field of disarmament.

The German Question

In spite of the dangerous course of events in the Near East in the past year, Europe still remains potentially the important source of friction and instability in world affairs; for it is in Europe that the two power blocs face each other in a parallel system of armed alliances. And the crux of the European question remains Germany. Only last month another Western declaration was made to revive the German problem in its more serious perspective. The three Western Ambassadors to West Germany and the West German Foreign Minister, meeting at a moment when the London talks appeared for once to get to grips with the question of disarmament, declared:

> "Any measures for disarmament applicable to Europe must have the consent of the European nations concerned and take into account the link between European security and German reunification."

This in fact was to give Dr Adenauer a virtual veto over the London disarmament talks. And to emphasise the sharp differences between East and West on the German question, M Khrushchev at about the same time was to visit East Germany and there declare that German reunification was possible only in so far as the West agreed to take Germany out of European politics, in a word to permanently neutralize that state in much the same way as was done with Austria.

Total War Strategy

The impasse is fundamental. There does however exist another deadlock, particularly for the West, as shown in the very close and formidable analysis presented by Henry A Kissinger in his book **Nuclear Weapons and Foreign Policy*** just published in London. If one is to attempt an interpretation of the underlying thesis of this well-informed and influential book, it would be that both Russia and America are continually looking towards securing adjustments in the world balance, in influence and in territorial control. In a word, the foundations of 19th Century European politics persist to this day except that it has become global; local factors like nationalism and the sway of public opinion are all merely functions of the struggle for adjustments between Russia and America. In line with this Dr Kissinger enquires whether the total war strategy of the United States is appropriate to meet a situation of small adjustments or to put it in another way, of limited wars. This certainly highlights the strategic problems presented by the Soviet possession of the inter-continental ballistic missile.

The concept of massive retaliation, of total war, places the United States in two positions of sharp conflict if not embarrassment. In the first place it has inhibited the freedom of action of the West. The American preoccupation with the concept of massive retaliation was worked on at a time when, according to Dr Kissinger, it was patent that the Soviet approach to military policy was framed less in terms of maintaining a vast nuclear arsenal or of a giant strategic air force. The Americans are said to have gone into Korea to find the principal enemy but found themselves involved in a protracted, bitter and

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worthless war in which either their own strategy of deterrence proved to be useless or, and this is significant, the strategic arm of the deterrent suffered some damage and so failed to deter total war.

The other limitation of the policy of massive retaliation is the fear of mutual annihilation should total war ever become a reality. And this fear becomes all the greater as the Soviet Union increases its stock of nuclear weapons and as the Soviet Union steals a march by suddenly outdistancing the West in the manufacture of the most advanced types of guided weapons. This fear is likely to paralyse America's will, making that country incapable of wars which are either "peripheral" or "vital". More fantastic in its implications is Britain's defence policy. Possessing neither the resources of America or Russia, Britain has come to embrace the same total war strategy—a strategy which if ever Britain is to invoke, will in terms of retaliation make her considerably more vulnerable than America or Russia.

The true character of NATO in Europe is subjected to devastating criticism. Partly as a sop to West European emotionalism, the string of United States bases coupled with the stationing of Anglo-American forces in Germany are too strong to serve as a "trip-wire" and too weak to resist a major Soviet onslaught. While any war in Europe must lead to a general war, the strategic nuclear forces necessary for it do not belong to NATO but to America and Britain. Herein then lies the essential weakness of NATO.

Since it can be argued that the fear of an all-out war is bound to be mutual, and that the Soviet Union will share the same reluctance as America to engage in any adventures that may involve this risk, it makes all the difference, according to Dr Kissinger, which side is able to extricate itself from the dilemma and present its challenge in less than an all out-form. Herein lies the thesis, a grim one indeed, of a permanent state of conflict between Russia and the West.

The answer for the West is to prepare itself for limited wars involving nuclear weapons—a limited war being a "political act to affect the opponent's will and not to crush him." If all this is correct and if the argumentation is sufficiently influential, as it appears to be, does it create more suitable conditions for an international agreement on disarmament? The analysis of Dr. Kissinger presupposes a continuing conflict, an absence of mutual confidence and a world state of armed adjustment. Such a supposition immediately sets an end to any possibility of the mutual suspicion and distrust that exists now as a fact to be removed. One bright feature of the prospect providing more than cold comfort is the recognition by the great powers that all-out war is not only not feasible but is tantamount to mutual annihilation.

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A Letter from Kerala

The Only Answer to the Challenge

(From A Correspondent)

THE Communists have come to stay, this is the feeling one gets in Kerala and it is inescapable. They have the least intention to pick up any quarrel with the Central Government. They appear to be prepared to work within the Constitution. In their dealings with the Centre, the Communists show reasonableness. The signs are ominous for vested interests and opposition parties. The latter are a little panicky. They fear that when once Communists are allowed to establish themselves, the opposition parties will be liquidated and that the stage will be set for a 'totalitarian' regime. People, however, do not seem to understand the true meaning of the word 'totalitarian.' They ask, is the Catholic Church which spearheads the attack against the Communists 'totalitarian' or democratic? Is it the idea that after years of misrule, Congress should be voted back to power in order to maintain the democratic tradition? Who was responsible for ousting Pattom Thanu Pillai, the leader of the democratic movement in old Travancore, the largest of the three constituents of the present Kerala State, from Congress? Who put the Praja Socialist Party in power when it was only a minority in the legislature and who engineered its downfall later? Has the P S P leader any strong following in the State? You can hear questions like these from the intelligent people in Kerala. They are not Communists; nor are they very enthusiastic about Communist rule. But what is the alternative? This is what they do not know. The Communist Ministers at least are not corrupt, that is the unanimous verdict.

Anti C P Agitation

The best story about the situation in Kerala which I have heard so far is from a monarchist. The person who told me the story was an old man who had retired to his village farm. He had served his 'beloved' Maharaja for 31 years and 8 months and he was now getting ready to go to the other world. As a passport to the other world, he has an old copy of Bhagvadgita which he showed me. One has to die some day, he said. I agreed. His wife gave me a cup of excellent south Indian coffee. The story he told me, I felt, showed some insight into the tangled politics of the State; I shall, therefore, try to recount it as faithfully as I can though I won't be able to convey the finer nuances and the rich flavour of his Malayalee.

It appears that in the thirties, Christian influence had reached its pinnacle in Travancore. The story goes that one of the directors of the powerful Travancore and Quilon Bank (later liquidated under political pressure) had the audacity to boast that in ten years' time, Travancore would have a Christian Maharaja. That was the time when Sir C P Ramaswamy Iyer was the Dewan of Travancore. He sized up the situation quickly and beginning with the temple-entry proclamation (his was the first State to throw open its temples to Harijans) took a series of steps to arrest the growing influence of the Catholic Church. The Church did not take it lying down. It started an anti-Dewan movement. To conceal its communal colour, a political tinge was given to the movement. At that time the policy of the Indian National Congress was not to foment any trouble in the native States. In spite of that, the Travancore State Congress under the leadership of Pattom Thanu Pillai, the present P S P leader, launched a Statewide movement for responsible government.

Common Ground

When the movement started getting out of their control, the sponsors withdrew and put the blame on Gandhiji. Some of the Communist Ministers of today are the products of that movement. At the same time, a mass movement was being organised in Malabar district under Socialist auspices for land reforms. But the Socialist Party of India failed to give it proper leadership and the Socialists in Malabar joined the Communist Party en bloc. During their underground days, the Communists began to migrate to Cochin and Travancore and the younger members of the State Congress and the Communists from Malabar found a common ground.

The next stage in the development came when the leaders of the State Congress in Travancore and the Kerala Provincial Congress Committee in Malabar moved away from the masses. The Communists took full advantage of the situation, came nearer and nearer to the masses and launched a series of struggles, some of them violent, for the amelioration of the conditions of the peasantry and of the landless labourers. The Communist Party eventually became the party of the masses and the Congress that of the bourgeois class.

With the advent of independence in 1947, the Congress gained a new prestige in Kerala as elsewhere, not because of its local standing, but because of its all-India character. In Travancore, Pattom became the first Congress Chief Minister. He, however, did not last long. The moment it became known that he would not remain the show-boy of the Christian clique, he was dubbed a monarchist and thrown out. Since then no Chief Minister has been able to survive for long. And in every ministerial crisis, the influence of the Christian clique has come out very clearly. Even the clever Panambilli, the Chief Minister from Cochin, had to bend before the Christian clique.

The old man had got quite excited by now. He suddenly stood up and asked me, why should the Church interfere in temporal affairs? Can't it confine its activities to spiritual affairs, like the Hindu temples? According to him, the Communists would be doing a significant service if they could establish a really secular State without any communal or religious affiliations. When communal and religious feelings sway politics, they sap the vitality of the nation.

Agitation Against Education Bill

My main interest was to find out the true position in regard to law and order in the State. Curiously enough, one hears more about it outside Kerala than inside it. Is it because people are afraid to express

their opinions freely? I did not get that impression. The Education Bill is the subject of discussion everywhere. Till now, people took very little interest in educational matters. They sent their children to school and paid their fees but parents paid very little attention to what the children were taught. They knew school teachers were underpaid and sympathised with them. Some had also heard that one had to pay 'donations' of Rs. 1000 to Rs 1500 for a teacher's job in a Government-aided school.

But they had not bothered much about such things. It was only after the Education Bill came that phrases like 'regimentation of thought' 'poisoning the young minds' and 'freedom to educate children' began to be heard for the first time. Huge processions and long speeches are the order of the day. People are wondering what is happening. They are with it, but not in it. One professor whom I met compared the situation now prevailing to that of the temple entry days, when many orthodox Hindus found it difficult to adjust themselves mentally to so radical a change. Similarly many orthodox Christians honestly believe today that their religion is in danger. Their reaction to the Bill is therefore purely emotional. The Bill as such is neither read nor discussed. What the opponents of the Bill try to point out is that the Communists in Kerala cannot be in any way different from their counterparts in Russia and China. They fail to understand the role of the Congress in this agitation. It is believed that the Bill as returned from the Select Committee has incorporated all the amendments suggested by the Centre. The Congress has not added to its prestige by its alignment with the 'Christophers'. And the P S P leader's opposition to the Bill has created a split in the ranks of the P S P also.

Law and Order

Law and order, the main subject of this letter, are no better or no worse than they are in any other State. The people of Kerala are highly educated and civilized. They are habitually law abiding citizens. The Chief Minister knows it. His experience of conducting political and trade union agitation is vast and varied. He knows fully well that in the British days, in 99 cases out of 100, the police and agent provocateurs were responsible for instigating mass violence which gave them a pretext to open fire on innocent people and thus quell any agitation. He is convinced that unnecessary police interference in political and trade union agitation increases the chances of violence, instead of stopping it. He has unequivocally stated that the prime responsibility of the police is to detect and to stop social crimes, and that police should keep away from political and trade union agitation, unless there is actual violence. This statement was sufficient to create fear in the minds of factory owners, landlords and other vested interests. The police had also to make mental adjustments to the new policy and the political parties could not realise at first that this would enable them to carry on peaceful agitation without police interference. The fact that huge processions and mass meetings organised against the Education Bill were held smoothly without any major incidents goes to prove that the present policy has not unleashed a fresh wave of violence.

Minor Skirmishes

There have been minor skirmishes here and there, but any impartial observer will have to admit that the agitation against the Bill has been peaceful on the whole. The success of this policy would to a large extent depend on the attitude of the other parties. There is no doubt that the Communist party will strain every nerve to make this policy a success. Government has accepted non-violence as its policy in dealing with political and trade union agitations. Will the Congress and P S P respond? The situation will be watched with interest not only in the other States in the country, but elsewhere in the world also.

Much of the news coming about lawlessness is from the European controlled plantations. Such news travel fast outside the State, but the actual complaints made to Government are few and far between.

Land Reform

The controversy about the Education Bill and the stories about lawlessness will all disappear when the land reform bills are announced. The land tenure in Kerala is complicated and there is not much land to go round also. Any comprehensive reform will react on the entire population of the State in one way or other. The broad outlines of the policy for land reform has been talked about. But the concrete proposals have not yet been published. The discussions on land reform will be more concrete and people will understand them also as the bills will affect the people directly. In the case of Education Bill, controversies were more on the abstract plane, on things like thought control, regimentation and totalitarianism. They passed over the heads of the common people.

President's Certificate

The President's impressions of the State are not far wrong. He must have been advised by the Congress Governor and the I C S Chief Secretary about the state of affairs in the State. The President had no hesitation to say that the Communist Government was "grappling with the State's problems with enthusiasm and in a spirit of service". In his address on the eve of Independence day, the President said:

> "I hope I am correct when I say that you here do not feel any difference because two parties are ruling, one in the sphere of the State and another in the sphere of the whole country. I am sure, we in Delhi do not feel any thing like that". He also said: "I am happy that this great experiment which is being made in your State is going to serve as a great lesson not only to other States, but to the country as a whole, as an example of co-existence of living and working together inspite of differences, for the good of all".

No Cause for Alarm

There is nothing to be alarmed about Kerala. They are only trying to establish good government; because they know very well that if they behave well and establish good government in Kerala, other States will follow them in quick succession. The conditions in other States are in most respects identical to the State of affairs in post-Communist Kerala; the only significant difference is that in other States, the Church is not a vital force in politics as in Kerala.

Democracy cannot be an excuse for bad government. The challenge from Kerala can be met only by good government in other States and in the Centre. There is no other way.

Book Review

Much Sympathy, but no New Light

B Natarajan

Economic Theory and Under-developed Regions by Gunnar Myrdal. Gerald Duckworth & Co Ltd, London. Pp xii + 168. Price 18s.

THIS book of Dr Gunnar Myrdal, till recently Executive Secretary of the Economic Commission for Europe, is a valuable addition to the growing literature on the subject of economic growth of underdeveloped countries. A course of the Fiftieth Anniversary Commemoration Lectures in Cairo, delivered under the auspices of the National Bank of Egypt in 1955, is now presented between stiff boards, having been suitably revised for the purpose.

The Central thesis of the author is that the richer nations are getting richer and the poorer nations poorer, and the inequality of income distribution between them is getting wider, as also inequality within the poorer countries themselves. The blame for this growing national and international inequality is laid at the door of classical economic thinking both in relation to national and international economic policy. The "Circular and Cumulative Causation" of poverty, with the contending forces of "back-wash" effects and "spread" effects, has a free play in a market economy; and that is the mechanism through which the unequal distribution of wealth and income gets intensified. The remedy, therefore, lies in discarding the equilibrating fetters of Classical Theory and in the State taking an active part in breaking the vicious circle of causation. This requires a new approach in economic theory, and it is a great challenge and opportunity to the young economists of the underdeveloped countries in this "epoch of Great Awakening" to forge a body of economic theory, in which both economic and non-economic factors are judiciously blended to form a social theory. And then will they have marched far beyond the scylla of western liberal economics and the charybdis of Marxism!

Yet it is doubtful if the author himself has got away far enough from either. The thesis of the growing inequality between richer and poorer nations looks very much like old wine in new bottle. It is true that, just at present, inequality is more marked in some of the underdeveloped countries than in the developed ones; but there is nothing to show that the gap is widening. At any rate the author does not adduce any statistical evidence in support of his thesis; not even such statistics of indifferent authenticity as a Colin Clark might have readily produced; and in this, the book does not appear to have made any improvement on the original lecture version.

If in the international sphere inequality between the richer nations and the poorer nations has widened, it might well have been expected; for, the growth momentum of the former is higher than that of the latter. It might therefore be that instead of the rich getting richer and the poor getting poorer, the rich are getting richer and the poor less poor; and so the gap may yet be getting wider. Kuznets's remarks on the subject are apposite in this connection. "It is possible that much of Marxian economics may be an over-generalization of an imperfectly understood trend in England during the first half of the 19th century when income inequality may have widened; and that extrapolation of these trends proved very wrong, because due regard was not given to the possible effects upon the economic and social structure of technological changes, extension of the economic system to much of the unoccupied world, and the very structure of human wants." (**American Economic Review**, March 1955).

As for inequalities becoming wider in the underdeveloped countries as a result of economic development, recent studies suggest that this might vary with the phase of development. Kuznets again demonstrates that in the process of shifting the population of the rural sector downward, there will be a peak of inequality reached, following which inequality will narrow. In his model, the shift of population from 80 per cent agriculture to 60 per cent and 50 per cent agriculture results in widening inequality while the move from 50 to 20 per cent agriculture yields narrowing inequality. Commenting on this Mr. R. J. Lapman, in a recent article in the **American Economic Review** writes: "It may be that capitalism puts its own fire of increasing inequality with a long swing from less to more and back to less income inequality." The author therefore has yet to prove his main thesis by support of figures, and figures appropriately interpreted as indicators, as national income concepts differ widely in content and meaning from country to country.

The static character of the Classical theory, the unsoundness of the equilibrium analysis, the inadequacies of the free trade doctrine and the need for State intervention to counteract back-wash effects of the free market mechanism—are all now such familiar stock-in-trade of the literature on new economics that even the backward student of economics in a backward country must feel that the author is flaying a dead horse. Some of these are as old as List and Carey, some as recent as Keynes. In fact, the feeling now is whether the pendulum has not now swung too far to the other side. We shall, however, do well to remember that there are serious limitations to Government intervention in a democracy, and the author who places so much stress on explicit value premises forming the basis of theoretical formulation cannot afford to forget it; for, Governmental intervention in matters of economic growth assumes that Government is sufficiently responsible to the welfare needs of the people, that it is sufficiently wise and sophisticated and sufficiently staffed to act appropriately.

Finally, the author has some very stimulating, though not particularly helpful, ideas on the question of methodology in Economics, the respective provinces of pure theory and fact-finding research. He has a feeling, somewhat akin to that of Barbara Wotton, that the purer a theorist, the more he is under inherited predilections, and that our "theoretical boxes are empty"; and so expresses the desire for a separate theoretical framework for the economics of underdevelopment in place of the large volume of the now grow-

ing literature, mostly made up of concrete facts with an untheoretical slant. And in thus thinking that there is need for a separate body of economic theories for underdeveloped economies, and that it should in all likelihood emanate from the thought repertory of the economists of those countries themselves,—the author is not all alone. Yet I make bold to say that such a body of theory, outside the conventional framework, will never be built up in the descipline of Economics; for, Science does not march that way. It proceeds from more generalizations to less generalizations, rather than the other way about; and as the author himself admits that when special considerations like the "infant industry" arguments have got built into the traditional generalizations, there is hardly any need for a special body of theoretical knowledge fashioned uniquely for the study of the underdeveloped world. In Economics, application is as supreme as formulation. As P T Bauer and B S Yamey, in a recent book on "The Conditions of Growth" aptly point out, all we need is a difference in emphasis, and a due regard for institutional and social variations.

The book on the whole breathes an air of warm sympathy for the aspirations of underdeveloped countries, and there runs an undercurrent of emotional alignment with their lot. An assessment is made of the negligible role the international agencies are playing and the policy of inaction the richer countries are adopting. The underdeveloped countries are therefore to be the architects of their own destiny, and could influence decisions of the richer nations in their favour through the mechanism of international trade, which is in their capacity to regulate. And then there is support from the "Moral Element" in the American policy of anti-colonialism to which the author pays a handsome tribute worth reproduction: "For many reasons anti-colonialism and a sympathy for the poorer nations are much stronger in the United States of America than anywhere else in the richer countries either in Western Europe or in the "White" British dominions." And with these and a new Economic Theory, these economic outcastes may raise themselves by their bootstraps!

Controlled Price of Soft Coke

THE price at which colliery owners are to sell soft coke has been fixed by the Central Government at Rs 26/12/- per ton at the loading point nearest to the colliery. This price was exclusive of Cess, Excise Duty, Labour Welfare Excise Duty and State Sales Tax etc, said Sardar Swaran Singh, Union Minister for Steel, Mines & Fuel, in reply to a question in Lok Sabha.

The following factors were taken into consideration in fixing the retail prices: (a) Railway freight. (b) Central cesses and local taxes. (c) Cartage, handling and other incidental charges including possible losses in transit. (d) Middlemen's commission. (e) Dealer's profit.

The Minister gave the break-up of the retail price per ton of soft coke in Delhi as under:—

	Rs	as.	p.
Pit head price	26	12	0
Middlemen's commission	1	8	0
Rly Freight	17	5	6
Cess duty	0	12	2½
Terminal tax	0	15	9
Unloading charges	0	9	6
Cartage	2	8	0
Stockage	0	9	6
Pilferage	0	1	4
Total	51	1	9½

There is an alternative method of fixing prices, it was explained by the Minister, according to which the retail price per md for Delhi would be as follows:

	Rs	as.	p.
Wholesale price	1	15	6
Profit for wholesalers	0	1	6
Commission to retailer	0	7	0
Final retail price:	2	8	0

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Unesco Study of Bombay Labour

A Rejoinder

Pandharinath Prabhu

MY attention has been drawn to a review of a study of mine by Dr Morris David Morris which appeared in the Special Number of the **Economic Weekly** dated July 6, 1957 under the somewhat arresting caption "The Myth of 'Paradise Lost'."

At the outset, may I say that the study under consideration is an abridged version of the original report which contains, as I have mentioned in its Preface, the full questionnaire and 143 tables analysing the data? Dr Morris is aware of the fact that the published study is not the original full report, and says that "some of the methodological and statistical difficulties would be cleared up were we able to refer to the original report", and yet, he criticizes both the methods of the study and the questionnaire which he adjudges as "improperly designed", without knowing the methods that were used and without seeing the questionnaire at all!

I shall begin my reply by explaining how the study came to be undertaken, and then take up some of the specific points raised by Dr Morris.

The study had its origin in the suggestion on behalf of the UNESCO that the Tata Institute might undertake a modest research project on the social effects of urbanization on the labourers migrating to Bombay city from rural areas. It was agreed by all concerned that with the limited resources available, both in terms of money and time, a full-fledged sample survey of the effects of urbanization on labour in Bombay could not be undertaken. The study was therefore restricted to the in-migrants concentrated in a particular locality in the city and speaking a particular language. The question of sampling, therefore, did not arise. The idea was to stimulate social research activity and encourage young trainees to obtain experience in field work investigation, for which this was only a beginning.

The aspects of social life to be covered were decided upon in consultation with UNESCO's representative through whom the suggestion of the study originated and finally in consultation with the UNESCO's Social Sciences Officer. It was also decided that we should go in mostly for an attitude survey on these aspects. That many more aspects could have been included in an inquiry on the subject or that such an inquiry must be carried out on a sample of the whole working class population in the city in order to obtain reliable results must be pretty obvious without Dr Morris telling us so. But both were ruled out by the conditions governing the inquiry. The Worli Chawls locality was selected as it had a special advantage for us. The Tata Institute has been having a field work centre there, and every year a number of our students take a part of their practical training in this centre. We have therefore excellent relationships built up over a period of some years with the inhabitants there.

Before starting the actual interviewing, we spent about two-and-a-half months or more in meeting the leaders of the locality, explained to them our objectives, asked them if they approved and appreciated the kind of work we proposed to undertake and whether they would cooperate with us and in what way. We found that excellent and wholehearted cooperation was forthcoming from them. On the whole, with very rare exceptions, our investigators had willing cooperation from all concerned, and there was no complaint of any serious difficulty.

The questionnaire took about one-half to one hour, sometimes a little longer, for filling in, but there was no evidence of "educational barriers, (which) separate the surveyors from the unsophisticated subjects, who are inevitably filled with fear and suspicion", such as Dr Morris imagines, or of the questionnaire being "enough to add sheer physical and emotional fatigue to problems of communication"! Similarly, even a perusal of the study as published would give some idea to the reader that cross-check questions have been used in the questionnaire.

As regards the data and results of our study, specific mention is often made in the study to indicate clearly that the results would hold good for our group alone and may not be taken in any wider application,—as is evident from emphasis in statements on pp 53, 58-60, 62-63, 68-70, 81, etc.

This brief statement regarding the origin of the survey itself should take away the edge from most of the criticisms made by Dr Morris. However, I shall now take up some of the specific points he has raised:

(1) Despite the clear indication in the study that its results have a limited application to the Marathi workers living in a particular part of the city, Dr Morris wants to suggest that the study refers to the workers of Bombay as a whole, and then proceeds to criticize the conclusions! He contends that "There is no necessary relation between 'small landowners and labouring classes' and 'lower caste' people Yet the analysis implies that the one means the other." As a matter of fact, we were not at all concerned with any such analysis with a view particularly to establishing the relationship of the lower castes in Bombay with the small landowners and labouring classes in the villages.

The actual caste-wise analysis of our group of workers has been presented on p 61. This shows—for our group—that Mahars (44.46%), Mangs (6.70%) and Chamars (7.84%) together constitute 58.90% of the group; Shudras (1.15%), Kumbhars (0.57%), Kunbis (3.25%), Lingayats (0.95%), Bhandaris (2.48%), Vaishyas (1.53%) and Marathas (30.21%) together constitute 40.14% of the group; and only 0.58% are Brahmins and 0.38% Muslims and Christians. These figures speak for themselves as to the question of relationship between labourers and their castes, so far as our group is concerned.

(2) Dr Morris thinks that the study is a "statistical study." It is, as any reader could easily judge, principally an attitude study which of course uses some statistics for

presentation of the data and gives a number of facts, too, but no attempt is made to assert with any confidence that the conclusions must be taken as facts. There are several issues arising out of the general remarks which cannot be explored with truthful results by merely asking questions, but needed to be explored by visiting the actual rural places from which the migrants arrive. Thus, the causes of any individual's migration from the village which may have anti-social roots cannot be discovered merely by asking questions in this regard to the migrants themselves. And, as regards the other possible causes mentioned earlier in the general remarks, viz, opportunities of fulfilling their ambitions and aspirations, search for greater psychological satisfaction in the urban environments etc, (which, I have said "might have" been some of the other causes), anyone who like me is born and bred in a village would realize from personal knowledge the part that these causes played in the migration towards the city some fifteen to thirty years ago. (A large number from our group migrated then.) Besides, I have not denied the operation of economic causes, but only said that the causes are "not purely economic." The age composition 7--30 supports, in our view, the hypothesis that it is the combined force of economic and other causes that takes the villager to the city whereas in Dr Morris's view it indicates that the causes are purely economic.

(3) Dr Morris takes exception to our statement that Bombay "offers unlimited opportunities of employment to people in search of work and wages". On arriving in the city, the worker may discover that it is not so easy to get employment; nevertheless, he leaves his village in the hope of earning income which he has already found impossible to do in his village, and the city holds out very good prospects in that direction in his view. Our statement refers to the reasons, according to the workers, for which they leave the village; whether they are disillusioned by the city conditions or not is quite another matter (at least in the context from which Dr Morris has picked out the quotation).

(4) Dr Morris observes that our data on income are very dubious. Referring to my statement that 4.3% of our workers were unemployed, which, I have said, is a highly significant unemployment rate among the workers, he says that this rate would not normally be considered "highly significant." Dr Morris should have realized that I was not referring to any statistically standard tolerable rate of unemployment which economists may have discovered, but was speaking from the point of view of the workers' plight.

(5) Dr Morris refers to our data where we have given figures of individuals according to levels of education attained by them in relationship with their income, and have said that "yearly income has no correlation with the standard of education attained." I have given actual numbers of individuals in each of these levels and not percentages mainly because the cases in some groups are too few and percentages in such cases may tend to give a somewhat different idea by having a flattering effect or otherwise on some figures. In the case under consideration, nearly half of the group is illiterate, which might imply further difficulties in interpreting the data on percentage basis. Dr Morris argues that the data "gives us exactly the reverse conclusion", and "shows a direct correlation between education and earnings." My comment on the data presented was as follows:

"It may be seen that higher income group does not contribute (perhaps I should have said, 'does not necessarily contribute') to the standard of literacy. Conversely, higher standard of education does not contribute to higher income, and no positive inference can be had. Further, looking to the conditions in general, it is technical education and not non-technical formal education that contributes to greater income among the working classes" (p 72).

It may be that the income of those who are able to read and write is slightly higher than that of those who are able only to sign their name. But this latter group is no better when compared with the illiterates.

(6) Dr Morris states that "in one place we are told that 71% of the respondents visit their native villages once or more times a year ... If it is true that families go to the villages more often than the worker himself, it is hardly likely that 71% of the workers are going to the village once a year or more." But, surely, the worker himself can also go with the family to the village! Besides, Dr Morris fails to remember that we are reporting the responses of the respondents as they gave them, and if these happen to be self-contradictory, no one can help it. In fact, such a procedure which may yield some apparently or really contradictory information is an evidence of the use of questions to cross-check the validity of the answers. In this particular case, of course, there is no self-contradiction involved. There is no contradiction in saying that the workers retain their original love for agricultural life, that they look upon villages as backward and lacking in several amenities and conveniences which the city has, and that "they are often in a mood to prefer city life." Actually, the whole of the criticism under section IV is based on imaginary terms of reference fabricated by Dr Morris for our study. We had no preconceived notions of our own of a rural "Paradise Lost" to be pitted against the urban "Inferno" upon which we wanted to build up a case!

We have not elicited any data, nor have we made any specific assertion, such as has been attributed to us by Dr Morris, that a large majority of the workers are trade union members. We did not touch that issue in our interviews at all. This should be obvious to anyone who reads the paragraph in the study in which a passing reference is made to trade unions. We found that any questions on trade union at once create a certain suspicion and hesitation in the worker. He then passes the word round to others who are also alerted in advance!

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From the Chair

Sen-Raleigh Industries of India Limited

Mr S K Sen's Review

ADDRESSING the 7th Annual General Meeting of Sen-Raleigh Industries of India Limited, held in Calcutta on the 31st August, 1957, Mr S K Sen, Chairman, said :

It gives me great pleasure to place before you the Accounts for the period ending 30th September, 1956, which have been with you for sometime now. I feel certain you will agree with me that the Company has maintained its record of progress through its 7th year of existence.

Increased Turnover

With Bicycle sales approaching one lakh units per year and an additional Component and Accessory sales valued at Rs. 18,44,107/-, the turnover increased further to Rs. 1,65,07,434 which means an increase of little over Rs. 52 lacs in comparison with last year's figure. The added turnover has allowed the Company to maintain its profits inspite of an over all reduction in the prices of its products. Your Directors have considered it prudent to use the added profits for creation of Reserve Funds under various heads shown in the Company's Profit & Loss Appropriation Account.

A word of explanation is due in the matter of comparison with the previous year's account. The basis of allocation of material expenses has been changed in 1956 so as to conform to the requirements of the Companies Act, 1956. For example in 1955 consumable tools, coal, fuel-oil, repair-materials and packing-materials were clubbed together with raw materials. In 1956 these material expenses were taken out of raw material and allocated to the appropriate expense heads viz: Consumption of Tools, Stores and Spare Parts, Power and Fuel, Repairs, and Packing, Freight and Transport charges. Expenses for consumable tools and repairs have recorded definite increases. In the case of consumable tools the larger scale of manufacture would explain the reason. Repair expenses would obviously rise with the age and intensive use of plant.

Having completed the first phase of its programme, your Company has been actively engaged during the year on expansion plans and in 1956 new lay-outs connected with these expansions were finanlised by your Directors after consultations in the U. K. and West Germany with foreign Associates. The operation of these plans, however, have been unduly held up due to the foreign exchange position of the country suddenly deteriorating towards the end of 1956 and its consequent repercussion on Import Licensing Policy for Plant. The entire programme of expansion by the Company has had to be rephased once again in the light of existing circumstances. For the first time plans for expansion had been drawn up entirely at the Indian factory and the staff rose to the occasion and tackled the problems connected with realignment with commendable speed and efficiency.

The demand for our products justifies the contemplated expansion and I am glad to report that the Government have taken a sympathetic view of our problem and issued some of the required plant import licences in July of this year.

Self-sufficiency

Not only would the Industry now require to expand its production of such components as are already made in the Indian factories but it would at the same time have to explore avenues through which every component and every store required for the manufacture of the bicycle could be procured within the country. Speeding up of efforts to reach self-sufficiency has become even more urgent than to reach higher targets of production in existing lines and planning had to be revised accordingly so that where plant could be utilised for manufacture of additional items, even at the cost of some expansion of production capacity, the sacrifice became essential. Conservation of foreign exchange has become the watchword for the day.

This situation added to the fact that an approach had also been made to your Company for assisting in the growth and development of the Small Scale Sector as an ancillary to the large scale units led your Company to agree with the National Small Industries Corporation (Private) Limited to assist in the development of Small Scale units for the purpose of supply to the Company of components not manufactured by our factories. Your Company would have no finance commitment in the development of these units and its sphere of assistance will be restricted mainly to technical control and guaranteed off-take from the ancillary units in the event of supplies being regular and of approved quality. It is expected that production from these ancillary units will be available to the Company sometime in 1958, when these, in addition to components manufactured under the Company's own expansion schemes, would help to bring the import pack value per bicycle down to a negligible figure.

Tube and Cold Rolled Strip

An event that interests us keenly is the effort of two ventures to set up tube mills in the country with know-how from the U. K. One of these mills will also be rolling cold rolled strip—another basic requirement for the bicycle industry. At last there seems some hope that the Indian bicycle industry may receive its basic materials at prices paid for these materials by their foreign competitors.

The foreign exchange position has also brought to the forefront the need for one or more well set up Machine Tool Factories to meet the expansion requirements of the country in the future. At the present moment, except for some basic categories of machine tools such as lathes, milling machines, drills and presses, we are almost entirely dependent on imports for expansion of capacity in the Light Engineering Industry.

A further need that is felt by the Light Engineering Industry is for consistent and regular supply of tools. The tool production capacity within the country is as yet extremely limited and one of our gravest

problems is to feed the factory with the requisite tools. Although considerable expansions are under way in the tool rooms attached to individual factories, the want of an ancillary tool producing industry is keenly felt. I feel the attention of the Government should be drawn to this fact and till such time as tools in adequate quantity are available within the country, a realistic policy of imports in the case of tools would be essential if production in the country has to be maintained and expanded in accordance with the targets set by the Second Five Year Plan. The very small quantum of foreign exchange spent on tools would be more than amply recompensed by the foreign exchange saving through reduced imports of the end product.

It is my pleasant duty to welcome to our Board Mr. B. L. C. Dodsworth, Assistant Managing Director of Raleigh Industries Limited to fill in the vacancy caused by the resignation of Mr. E. E. Baker. I would take this opportunity of thanking Mr. Baker for all that he has done for the Indian Company since its inception. From my personal association with Mr. Baker, I am sure that his resignation will in no way affect his keen interest in the Indian Company. Mr. Dodsworth is no stranger to the Indian Cycle interests as during his extensive tour of India in 1954, he found time to make friends with a number of dealers.

Articles of Association

In my last address to you, I had referred to forthcoming changes in the Articles of the Association of the Company which would be necessary on the implementation of the Companies Act of 1956.

I am sorry that formalities in connection with getting these revisions approved by the various Stock Exchanges with which we are enlisted as well as with the Industrial Finance Corporation have not made it possible for these amendments to be incorporated in the Articles as yet.

A Tariff Commission Enquiry on the Bicycle Industry was carried out in February last where your Company represented its case before the Commission. Since then, the Commission has published its findings and protection has been accorded to the Bicycle Industry for a further three years ending 31st December, 1960.

Towards Higher Productivity

Your Company pursued its policy of negotiated agreements with the recognized Union and schemes covering new items that went into manufacture in 1956 were brought in within the scope of these agreements. Your Company has now embarked on negotiations connected with the expansion scheme which should go into operation within the coming year. Negotiations for the expansions were originally started in 1956 but suffered a set back due to the foreign exchange position and consequent delays in the issue of licences but with the grant of licences now, they have been resumed. It is hoped that with the higher productivity, it will be possible to set off to some extent the effects of the rising spiral of prices which seems to have overtaken the country on the eve of the Second Five Year Plan. The past few months have shown a steady trend towards higher material cost, higher plant cost and higher cost of living. The only method we have to off-set the general tendency towards the rise in the price of our product is to increase production as well as productivity. We are now working towards this end in all spheres of our activity, so that our competitive position in the market may be maintained. The co-operation of every worker and member of staff is called for to achieve these results.

It is my privilege to express my thanks to my colleagues, all members of the staff and workers and our foreign associates, without whose efforts, these results could not have been achieved.

Note : This does not purport to be a report of the proceedings of the Annual General Meeting.

4¼ PER CENT STATE GOVERNMENTS LOANS

(1) Government of Bombay Rs. 600 lakhs Issue Price Rs. 99.75 per cent.

(2) Government of Mysore Rs. 300 lakhs Issue Price Rs 98.75 per cent.

Both the State Governments reserve the right to retain subscriptions upto ten per cent in excess of the notified amount.

The above loans will be repaid at par on 16th September 1969.

THE LOANS WILL OPEN FOR SUBSCRIPTION ON 16TH SEPTEMBER 1957 AND CLOSE ON 18TH SEPTEMBER 1957 OR EARLIER WITHOUT NOTICE AS SOON AS SUBSCRIPTIONS APPROXIMATE TO THE AMOUNT OF EACH ISSUE.

The loans will bear interest from 16th September 1957.

Subscriptions may be in the form of cash/cheque in respect of both the loans.

3% MYSORE GOVERNMENT LOAN 1958 will be accepted at Rs. 99.75 per Rs. 100 nominal for conversion into the new loan of that Government; interest on the securities of the loan tendered for conversion will be paid upto and including 15th September 1957.

APPLICATIONS FOR BOTH THE LOANS WILL BE RECEIVED AT THE OFFICES OF THE RESERVE BANK OF INDIA AT BANGALORE, BOMBAY, CALCUTTA, MADRAS AND NEW DELHI.

APPLICATIONS will also be received at PLACES WITHIN THE RESPECTIVE STATES as follows:—

(i) At the office of the Reserve Bank of India at Nagpur, branches of the State Bank of India, branches and Treasury Pay Offices of the State Bank of Hyderabad and the Government treasuries and sub-treasuries in the case of Bombay Loan.

(ii) At the branches of the Bank of Mysore Ltd., State Bank of India, State Bank of Hyderabad and at Government Taluk treasuries in the case of Mysore Loan.

Copies of Notifications and Application Forms may be obtained at any Receiving Office.

Company Meeting

The South Madras Electric Supply Corporation Limited

Tiruchirapalli

Speech of the Chairman Mr S Vaidyanatha Iyer

THE following is an extract from the speech delivered by Mr S Vaidyanatha Iyer, Chairman of the Board on the occasion of the seventeenth Annual General Meeting of the Shareholders of the Company held at Tiruchirapalli on 29th August 1957:—

It is my privilege to welcome you to this seventeenth Annual Meeting of the Company.

The Directors' Report and the Balance Sheet and Accounts for the year ended 31st March 1957 have been in your hands for some time and with your kind permission, I shall take them as read.

We have handed over the Pudukottai undertaking and the Manapparai enclaves to Government as approved by you at the last General Body Meeting and the related accounts are expected to be settled in the normal course.

I would like to invite your attention to the fact that a sum of Rs 78,181|- has been appropriated towards profits from the Tariff and Dividend Control Reserve, being the shortfall this year of the clear profit from the Reasonable Return. This withdrawal and re-appropriation to profits is as per provisions of the Electricity Supply Act.

The Income-tax references to the High Court are still pending and it appears it will take some time before decisions are reached.

You will no doubt be aware that the Madras State Electricity Board has been constituted and has taken over the responsibilities of the Government Electricity Department as a statutory body. The formation of such Boards in all States is one of the fundamental objectives of the Electricity Supply Act, intended for the purpose of bringing about a rational development of electricity supply in the States and with a view to the acceleration of the spread of electricity to the villages.

I hope the Government will, now that the Board has been formed, reconsider heir policy of nationalisation. It has been the declared policy of the Government of India and the Planning Commission that new finances should be used for development and expansion and not for the acquisition of well-established and efficient undertakings.

We have established a record of service and of rural expansion, of which we can justly be proud. Out of 2,573 villages in our licensed area of supply, we have already electrified 523 villages which works out to over 20% as against the State average of about 12%. Our annual investment on rural electrification has been of the order of Rs 10 lakhs which again forms nearly 65% of our total capital outlay on expansion. Our tariffs to our consumers compare very favourably with the rates charged by the Government to consumers directly served by them, though we have to bear, in addition an electricity duty and income-tax.

Though investments on rural electrification have been accepted even by the Government as definitely less attractive from the 'profit angle' than urban electrification, your directors have been keenly alive to the Government's policy and the country's needs and have been implementing a sizable rural electrification programme all along. Your directors would further like to assure the Government that they are always eager to continue this policy.

But capital formation presents a serious problem in these present times and particularly so in a regulatory industry like electricity supply, whose financial principles are strictly controlled by the Electricity Supply Act by the operation of which dividends in supply companies are necessarily much lower than in other industries. The problem is accentuated by the new Wealth Tax bill, the implications of which are being examined by our directors. It is therefore necessary that the Government should bear the responsibility of providing capital, by way of loans to licensees, at least to the extent required for rural extensions. Such loans or advances form only a fraction of the cost of acquisition of the undertakings, but the additional development resulting therefrom will be considerable and will enable the State to hold its enviable place as the leader of rural electrification in India.

I would like to take this opportunity to thank the staff on your behalf and on behalf of the Board of Directors for their continued loyal services and cordial relations with the management.

N. B. The above extract of the speech does not purport to be the report of the proceedings of the seventeenth Annual General Meeting of the Company held on 29th August 1957.

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The loan will be closed as soon as a total of approximately Rs. 600 lakhs has been subscribed, and in any case not later than the close of business on the 18th September 1957.

The applications for the loan will be received at:—

(a) the offices of the Reserve Bank of India, Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi.

(b) the branches of the State Bank of India within the State of Bombay except at places mentioned in (c) below.

(c) the branches and treasury pay offices of the State Bank of Hyderabad within the State of Bombay.

(d) the Government treasuries and sub-treasuries in the State of Bombay at places where there is no branch or treasury pay office of the aforesaid banks.

(e) Applications will also be collected by the State Bank of Saurashtra at Bhavnagar and its Branches within the Saurashtra area of Bombay State and forwarded to the nearest receiving office.

Full particulars can be obtained at any of the offices of the Reserve Bank of India, Branches of the State Bank of India, branches of the State Bank of Hyderabad within the State of Bombay, branches of the State Bank of Saurashtra within the Saurashtra area of the Bombay State and the Treasuries and sub-treasuries in the State of Bombay.

Company Notes

Fifty Years of Tata Steel

THIS year the Tata Iron and Steel Co as also the Indian Steel Industry celebrates its Golden Jubilee. A half century of steel is also a half century of India's progress. But the natural temptation to read into the history of the steel industry, variegated though it is, the history of the country's industrial development has to be resisted. Had the one reflected the other, the story would have been so very different.

Jamshedpur indeed is Sir Jamshedji Tata's dream come true to life. Of course the geologists knew what lay underground in the districts of Simbhum and Manbhum. The predominance of British personnel in the Geological Survey of those days and the general inability of the few Indian capitalists who had the capacity of availing of it, to find an opportunity of developing even coal mines of any quality, seem to support the common belief that a hush hush was maintained about the minerals deposits so that no Indian could ever get at them. Why the British did not try to get at some of the world's richest reserves of iron ore, is a question that has never been satisfactorily answered. There is a small bust in Jamshedpur of a Bengali geologist who had divulged the secret of its hidden treasure to Jamshedji and the rest of this beehive of industry is Bombay enterprise to which the imagination and acumen of Jamshedji gave such a sharp focus. The entrepreneur was not only an innovator; he had also unique qualities of leadership which attracted not so much the calculating investor as the patriotic Indian, not necessarily of much means, who saw in the development of modern industry India's path of future progress.

The Company was founded in 1907 with a capital of Rs 2 crores. It sold pig iron and steel for the first time in 1911-12. But already by 1914, it had become a substantial producer of iron and steel. It was the first World War, however, which brought home to the British not the value of steel but the value of steel production in their war flung empire. India was the base for military operations in the Middle East. Behind the Mesopotamian disaster, there was also the failure of supplies from India, the story of which had its unsavoury features that lead to the suppression of the Munition Board case. But the British had learnt a lesson — the nascent steel industry was not allowed to be whisked off as it would have been whisked off by the trade depression of the post-war years. That was the time when Tata Steel was exposed to the blast of Continental competition, intensified by the competitive exchange depreciation. Tatas were enabled to float debentures in the London money market. The amount was small, interest charges prohibitive though the debentures carried the guarantee of the Secretary of State for India Then came he principle of discriminating protection and steel became the model and perhaps one of the few solitary cases of the successful operation for such protection. Before another war came, the Chairman of the Company was in a position to declare proudly that the industry required no protection any longer. Production had by then increased to 6,80,000 tons a year. World War II saw production rise to 8,31,000 tons saleable steel, which is still the record, but it is soon going to be more than doubled!

The immediate post-war years, however, were not happy for the industry, though it was almost the world's lowest cost producer of steel. Price control had robbed the Company of the ability to carry out rehabilitation and modernisation of its old plant and it was only from 1951 when Government realised and accepted that development has to be paid for from the current price that things began to gradually improve. The present plans of expansion to be completed by the end of 1959 will push up production to two million tons of saleable steel. Tatas were for many years the largest single producer of steel in the British Commonwealth. They will regain the position with no fear of challenge when the programme of expansion is completed.

The Company's expansion and modernisation plans for the five years 1955-60 are expected to cost an aggregate of Rs 118.7 crores. Of this amount, the IBRD loan will provide Rs 36 crores, the unspent balance of special Government advance Rs 5.2 crores, bank borrowings Rs 10 crores, retained earnings and sale of investments Rs 37 crores; the balance of Rs 17 crores is proposed to be raised in the USA. By the end of the accounting year 1956-57, the Company had drawn the entire Government advance, and Rs 8.83 crores of the IBRD loan. Of the total amount of Rs 8.99 crores payable on new Ordinary shares in two instalments of Rs 35 each which fell due during the year, only Rs. 8.60 crores was received before closing of accounts. The company sold gilt-edgeds worth Rs 1.76 crores during the year.

The depreciation allowances under the Income Tax Act for the current year amounted to Rs 395 lakhs. Since this will continue for the next two years at least, a sum of only Rs 247 lakhs has been provided for depreciation this year, representing the normal depreciation for tax purposes including the extra shift allowance but excluding double normal depreciation, saving on account of which is estimated at Rs 75 lakhs. This more even spreading out of book depreciation will help stabilise the Company's net income over the next few years. Since heavier taxes and higher Works' consumption of steel have forced reductions in amounts transferred to the Plant Rehabilitation and Development Reserve by Rs 54 lakhs compared to last year, the Company has asked for suitable additions to retention prices to take care of additional taxes.

The Company's extra liability on account of the Budget proposals amounts to Rs 70 lakhs, including Rs 22 lakhs for the Wealth Tax. This amount is, however, more than equalled by the amount set aside for development reserve (saving on tax rebate) of Rs 95 lakhs. The total tax provision made by the Company this year amounts to Rs 357 lakhs, including Rs 15 lakhs for deferred taxation reserve, against Rs 345 lakhs last year. The tax liability has not risen significantly in spite of heavy additional taxation this year due to liberal depreciation allowances.

The Company enjoys an enviable position to-day and there is no

doubt that the earning capacity of the Company will increase substantially when the expansion programme is completed. The expansion is being undertaken mostly through loans obtained with the backing of the Government and the loans are to be repaid through the price increase allowed by the Government. The shareholders have not put in sufficient money for the expansion projects though they can legitimately claim that had there been no price control, the Company would have been able to raise the necessary resources without any help from the Government.

How will the shareholders fare in future and how far can they legitimately expect to share the prosperity of the Company? It depends on what would be regarded as fair returns in a socialistic pattern of society. The question is complicated by the widening disparity between the share capital and the fixed assets of the company. In 1953-54, for example, while the share capital was Rs 17 crores, the fixed values of the assets was Rs 51 crores. By 1956-57, the share capital had increased to Rs. 25.94 crores while the fixed assets had jumped up to Rs 93.44 crores. If the depreciated value of the assets are considered, the disparity is even wider. As against Rs 17 crores of share capital, the depreciated value of the Company's assets in 1953-54 was Rs 18.18 crores while the figures for 1956-57 are Rs 25.94 crores and Rs 54.78 crores respectively.

BURMAH SHELL REFINERIES

Accounts for 1956

THE Directors' Report and Balance Sheet for Burmah-Shell Refineries Ltd. for the year 1956 is of outstanding performance as well as of unusual interest, for this is the first report to cover a full year's working of the refinery.

The Directors report uninterrupted working of the refinery apart from scheduled shut downs for routine inspection and maintenance. The company processed during the year 2.35 million tons of crude petroleum yielding 2.19 million tons of refined products and saving the country Rs 7.51 crores in foreign exchange.

The financial results of the working of the refinery had been sufficiently encouraging to enable the Directors to recommend to the company in September last year that the Government of India be advised that from October 1, 1956 the company would forgo the duty protection on motor spirit of As 2 per gallon provided for under the agreement for the construction and operation of the refinery. This was estimated to yield to the Government of India revenues in a full year of Rs 2 crores.

The net income of the company for the year to December 31, 1956 amounted to Rs 632 lakhs, after providing for normal depreciation and the estimate of liabilty for taxation. Out of this, the Directors propose additional provision for depreciation, in excess of the depreciation (including development rebate) allowed for taxation purposes to date of an amount of Rs 511 lakhs, This leaves a net amount of Rs 121 lakhs out of current year's earnings. Adding the balance brought forward from 1955 of Rs 186 lakhs, the total available for disposal amounts to Rs 307 lakhs from which Rs 302 lakhs are recommended to be paid out in dividends, leaving a balance of Rs 5 lakhs to be carried forward.

No specific provision has been made for debenture redemption and debentures will have to be redeemed, when they fall due, from reserves and from further earnings.

The Directors, however, are not equally optimistic about future financial prospects. Apart from the effect of foregoing protection on motor spirit, the Directors' point out that experience in oil refineries elsewhere shows that maintenance costs of plant progressively increase with each year's operation and this has an adverse effect on profit margins. The recent increase in crude oil prices in the Persian Gulf will also have an impact on refining margins.

The company incurred capital expenditure amounting to Rs 3.02 crores during the year. Its development programmes progressed satisfactorily. The processing unit for improving the quality of kerosene came into operation in June 1956 and the constructon of the platform unit proceeded according to plan so that at the end of the year only minor items remained to be completed.

The training of Indian staff and the programme of Indianisation also progressed according to schedule and the number of expatriate staff was reduced during the year from 43 to 32.

SEN-RALEIGH

SEN-RALEIGH Industries were one of the very first to enter into collaboration with foreign firms for the manufacture of bicycles of worldwide repute which had also an established market in the country. The company completed seven years of its life on 30th September, 1956. That its Annual Report should become available almost a year after the closing of accounts may be regrettable but the company's operations during the year give some reason for satisfaction. Production increased by 50 per cent and sales rose to Rs 1.65 crores from Rs 1.13 crores. The profit margin after depreciation, however, declined from 9.8 per cent to 8.7 per cent on account of substantial reductions in prices. The company is still not subject to income tax due to liberal depreciation allowances but a provision of Rs 45,000 has been made in anticipation of Wealth Tax. Net block stands at Rs 1.13 crores while current assets and investments amount to Rs. 98.5 lakhs and Rs 13.9 lakhs, respectively. Secured loans have risen slightly to Rs 71.8 lakhs, including Rs 38 lakhs from the Industrial Finance Corporation, which has sanctioned a further loan of Rs 15 lakhs.

Paid up capital of the company has increased by Rs 5.8 lakhs during the year to Rs 85 lakhs while reserves and surplus have risen from a mere Rs 71,000 to nearly Rs 10 lakhs, of which general reserve and reserve for repayment of IFC loan are Rs 2 lakhs each while reserve for machinery replacement and rehabilitation gets Rs 4 lakhs. Of the net profit after depreciation of Rs 14.36 lakhs against Rs 11.07 lakhs, distribution including dividend on preference shares amounts to only Rs 4.73 lakhs, indicating the company's firm resolve to plough back earnings.

In February 1957 the Company received permission for substantial expansion of capacity for production of bicycles and components. It has now decided to sponsor a number of ancillary small scale units for manufacture of some of those components the manufacture of which the company does not propose to or is not in a position to take up.

Around Calcutta Markets

Operating Factors

Wednesday, Evening

IN retrospect, it would seem that the behaviour of equities is not so poor or surprising as is commonly supposed. Though cash scrips remain idle, speculative scrips are fairly active. Nor are yields unduly high, in the changed circumstances of today. Active, speculative scrips fetch 5½ to 6 per cent. Sound dividend-paying cash shares yield 8 to 9 per cent. This, in effect, is what TTK has done to markets. Despite inflation, in spite of record industrial production and profits, equity yields have gone up by 3 to 6 per cent in the last eighteen months.

Consider, first, the reasons for the rise in equity yields. It is not wholly or entirely due to high taxation. It is no less a reflection of the rise in the level of interest rates. Today, Bank Rate is high at 4 per cent. Bank credits are not available below 6 per cent. Bank credits are becoming scarcer. In the circumstances, equity yields of 6 to 9 per cent are neither unduly high nor surprising. This relation between interest rates and equity yields are often ignored or minimised in current comments on the behaviour of equities.

Tax Holding

On the taxation front, a truce is supposed to have been declared. TTK has informed Parliament that any further increase in taxation is not likely during the rest of the Plan period. Some of his observations are liable to the interpretation that the standard rate of income-tax may be gradually lowered as the wealth and expenditure taxes begin to yield expanding revenues. Such expectations are not unreasonable. As the income-tax proper is rationalised further, as the small investor is encouraged, investment activity is likely to be more regular and constant.

On the credit front, the atmosphere is less bright. Since the introduction of the policy of selective credit control, bank advances for speculative purposes have been curtailed. But recent developments indicate that the policy of selective credit control has not been quite successful. Bank advances continue to stay permanently at a high level. Whether or not this is what is to be expected in a developing economy, is not the issue in question here. But it is clear that, both the Reserve Bank and the Finance Minister are of the opinion that the level of bank advances is too high. Bank credits are likely to be scarcer. This may impede investment activity.

Output and Profits

What of industrial production and profits? At the moment, both are at record levels. Latest available statistics indicate mounting production and profits. Despite enlarged dividend disbursements, capital formation by industry seems to be quite satisfactory. Much has been said about indiscriminate or hasty imports of capital goods in the last eighteen months. But it is widely conceded that the spectacular expansion of investment in industry has consolidated the base for further industrial expansion.

All this is known to investors. But there are doubts whether the rate of industrial growth will continue to be as rapid in the immediate future. In his budget speech, the Finance Minister has forecasted a slower rate of investment in the private sector in the immediate future. He welcomes such an eventuality in the wider interest of the economy. But investors are concerned that profits may decline if production slows down. Fears also prevail that the recently-imposed tax measures may discourage the private sector to go ahead with its plans for expansion. Some of the prevailing fears are exaggerated. But these apprehensions continue to discourage investment activity.

Flow of Savings

Stock markets can thrive only with a constant and regular flow of savings. Until two years ago, the flow of savings seemed to be growing. Stock markets were active. The new issue market was booming. Today, even sound companies cannot successfully float new issues or even bonus or rights issues. Expansion out of industry's own resources also seems to have halted. Both individual and corporate savings have been affected by high taxation and inflation. Yields from small savings have declined materially. Neither individual nor corporate savings are likely to increase as long as inflation persists and taxation remains at the current high level.

Institutionalisation of savings and of investment has come to stay. But the current trouble in this country is that banks have not enough surplus resources for investment. Official credit agencies created in recent years are not functioning properly or satisfactorily. Only the Life Insurance Corporation is performing the function formerly undertaken by private life insurers. LIC has not been unsuccessful. If TTK initiated the slump in equities, he has also halted it through massive support to stock markets out of the nationalised Life Fund. This support, TTK assured recently, will continue.

Tea Shares

Despite good company reports and dividends for the last year, Tea shares have ceased to attract attention in the last few weeks. Latest weekly auction results have not been encouraging. Both demand and prices for common teas have been poor, though quality teas continue to meet with keen buying support. Prospects are that the Northern India tea crop may show a decline. Indications, however, are that even a lower output may not affect prices favourably.

An appreciable portion of the Northern India tea crop consists of common grades. Besides, the world crop seems to be in excess of that of last year. More disturbing, so far as the Northern India tea crop is concerned, is the buyers' insistence on quality. As long as buying remains selective, Ceylonese, South Indian and East African teas will be preferred to those grown in Northern India. This is what is causing concern to Calcutta tea traders and to investors of Tea shares listed on Lyons Range.

Around Bombay Markets

Significant Recovery

Thursday, Morning

DALAL STREET has staged a significant recovery in spite of reported accumulation of cloth stocks with mills. That this recovery has come about without any significant changes in the economic situation confirms that the recent listlessness was due to reasons which were essentially subjective and psychological. Commencing as a modest improvement, following short covering, the process of recovery gained strength from T. T. K's assurance that no further major tax changes were envisaged for the rest of the Plan period as also from his admission, for the first time, that the Plan might have to be pruned. While scarcely any notice was taken of tax concessions which have dribbled in over the past few days, the market appeared to entertain the expectation that the Finance Minister might unburden himself of a few heartening pronouncements on the eve of his pilgrimage to the financial capitals of the world. Wiser by their past experience, however, operators have not been too willing to bet on T T K's performance in the near future.

Among the other factors responsible for revival of interest were reports of support from institutional investors, including the L I C, and the likelihood that further quotas for installation of automatic looms may be granted and rigorous conditions attaching to them relaxed. Inspired rumours of reduction in cloth excise duty helped sustain Textiles and simultaneously reinforced the tendency for stocks with mills to pile up.

Total stocks, sold and unsold, lying with Bombay mills are reported to have risen to 228,000 bales in July from 186,000 bales in December 1956 which by itself was a rather high figure. This has led to threats of closure of one shift by Bombay mills. While it may be difficult to take these threats seriously—particularly since the Bombay Millowners' Association simultaneously, reiterates its plea for removal of output restrictions—there is no denying the fact that the cotton mill industry has been one of the principal victims of the late vacillation in fiscal policy and common production programmes. Regardless of public statements by the Ministers concerned, industry and trade have endured far too much uncertainty about the levels of cloth excise duties, with the inevitable result that traders have preferred to keep only hand-to-mouth stocks and have passed the burden of carrying stocks on to the mills, most of which have never been in a position to bear it. The tendency has been further accentuated by fears of credit squeeze which is bound to affect trade much more than industry. The outlook is not improved by the justifiable feeling that there is no early prospect of less confusion in Government policy. But there is no alternative to living with whatever Government policy there is, and that is the reason why off-take of piecegoods has started improving now.

The salient feature of the week's trading was the rise of about Rs 4 in Tata Steel from around Rs 161 x d to more than Rs 165. Long realisation has, however, helped cushion the market against bullish sentiment.

Loan Subscriptions

During the week ending August 30, foreign balances have declined by Rs 6 crores against Rs 7 crores in the preceding week. Central Government deposits have fallen further by Rs 11 crores, of which possibly Rs 5 crores have gone into Investments, Rs 2 crores transferred to State Governments and another Rs 2 crores have probably been used to reduce ways and means advances. Between the week ending August 2, before the loans were floated, and the latest week, total borrowing of the Central Government from the Reserve Bank has gone down by Rs 57 crores—the amount subscribed in cash minus the Rs 4-crore increase in Rupee coin. The other notable changes during the week have been the contraction of Rs 13 crores in note circulation, an increase of 22 crores in Bankers' deposits and a rise of Rs 2 crores in loans to them against gilt-edgeds, offset by an equivalent decline in advances against usance bills. Total Reserve Bank lending to banks is, however, still higher, and their deposits still lower, than they were before the the loans.

Banking returns for the week ended August 23 indicate that loan subscriptions in cash by the State Bank have been even higher than the figure of Rs 20 crores estimated earlier. The entire expansion of Rs 31 crores in the gilt-edged portfolio of scheduled banks is attributable to the State Bank, which appears to have taken over the larger portion of the Reserve Bank's cash subscription, which was earlier estimated in these columns at Rs 15 crores. This fact reinforces the conclusion essayed a fortnight back that the response to new loans can hardly be described as very satisfactory. More significantly, the whole procedure followed in 'co-ordinating' the subscriptions of the Reserve Bank and the State Bank, including the delay of three weeks in formally expanding the latter's gilt-edged portfolio introduces a number of further complications in the definition and measurement of deficit financing.

In the aggregate, bank deposits have gone up by Rs 10 crores (demand + 8, time + 2) of which the State Bank accounts for only Rs 2 crores. Advances have, on the other hand, declined by Rs 12 crores (State Bank Rs 4 crores), while call and short money has expanded by nearly Rs 4 crores. There has been scarcely any change in inter-bank call rate but house money and term deposits have become dearer.

Cotton

Erratic Movements

WHILE Sewri has continued to remain by and large inactive, Kalbadevi has been living on hopes of cotton export quotas, rumours of reduction in cloth excise duty and the opposing bearish influence of higher crop prospects. Moglai March has consequently fluctuated widely between Rs 668 and Rs 679. The only export quota announced so far relates to Zodas, pickings,

and the varieties for which there are no exportable stocks at present.

Further export quotas will, of course, take time but, given the conservative attitude of the Commerce Ministry, venturesome export promotion can hardly be considered likely.

New Issue

Ashok Leyland

ASHOK LEYLAND, whose subscription list for a fresh issue was due to close on Friday the 6th, not only underwent a change of name when its shareholders decided at the Annual General Meeting in March 1955 not to call the company Ashok Motors any longer, but a complete transformation. It was not only that the earlier link up with Austin failed to work satisfactorily. The move was forwards and to-day, Ashok Leyland is well set on a line of production where demand has moved ahead of it, viz, in the direction of heavy duty diesel trucks.

The company has an expansion programme on hand for which it needs capital and instead of going in for loans, it has gone in for equity capital. In doing this, it has wisely departed from the prevailing tendency of financing expansion from loans. Large scale expansion financed mainly from loan capital tends to gear up the capital structure of companies and store up trouble for the future. With the wind moving in the direction of a socialistic pattern of society, Parliament would be increasingly critical of high dividends earned by a small group of shareholders. The good offices of the Industrial Credit and Investment Corporation of India has enabled Ashok Leyland to make this departure. The ICICI has taken the new issue under its fostering care. This is of course by no means the first flotation to be underwritten by the ICICI, it is perhaps the tenth. When the directors insert their opinion in the Ashok Leyland prospectus that "the resources of the Underwriters are sufficient to discharge their underwriting obligation", they are merely complying with the requirements of the Companies Act, and are by no means making an exaggerated claim.

One of the five selected by the Tariff Commission in 1953 as approved manufacturers of automobiles in India, Ashok Leyland is currently manufacturing Leyland "Comet" chassis, designed for gross loads up to 12 tons, and intend to take up the progressive manufacture of single deck as well as double deck "Atlantian" passenger vehicles and of "Octopus" goods vehicles of gross loads up to nearly 25 tons.

All this is in the prospectus. But the loads mentioned for the type of trucks to be manufactured would call for an explanation, for in the present condition of our roads, bridges and culverts, a truck 'laden weight' of 7 tons gross is about the heaviest that can be operated commercially. So 25 tons gross load is a measure of the production capacity that is being planned rather than an actual description of the type of vehicles that are likely to roll down the assembly lines in the near future. The Tariff Commission programme for Ashok Leyland therefore advisedly mentions only "truck with a carrying capacity of 5 tons and above".

Considering that the manufacturing programme of the company commenced only in January last year, that 15.8 per cent of the c i f value of "Comets" is already being produced in India is to be considered a creditable performance and the present issue at par of Ashok Leyland which paid a dividend of 6 per cent last year, after making due provision for taxation, depreciation and reserve, looks a good buy. One should perhaps add, since foreign exchange shortage is on every one's lips, that Ashok Leyland has no worry on that account; its British associates are taking care of the foreign exchange required for expansion.

THE INDIAN STANDARD WAGON COMPANY LIMITED

NOTICE

NOTICE is hereby given that the Annual General Meeting (being the thirty-eighth Ordinary General Meeting) of the Company will be held at the Registered Office, 12, Mission Row, Calcutta, at 11 a.m. on Wednesday the 25th September, 1957, for the following purposes:

1. To receive and adopt the Audited Accounts for the year ended 31st March, 1957, 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 25th September, 1957, 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 resolution of which Special Notice has been received.

"That the age limit specified in Section 280 of the Companies Act, 1956, shall not apply to Mr. T. Leslie Martin and this meeting hereby approves any appointment of Mr. Martin as a director of the Company which may hereafter, whilst this Resolution remains in force, be made by the Managing Agents pursuant to Article 109 of the Company's Articles of Association".

The Share Registers and the Transfer Books of the Company will be closed from the 18th September, 1957, to the 25th September, 1957, 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
Managing Director,
F. G. Liversedge
Managing Agents.

Calcutta,
2nd September, 1957.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1470.63	1483.59	1499.49	1424.51
2. Rupee Coin	133.58	132.20	130.32	116.74
3. Deposits				
a) Central Government's	54.35	65.29	51.96	65.77
b) Banks'	102.80	80.85	108.32	56.56
c) Other Governments'	8.19	5.88	3.17	2.91
d) Others'	103.58	108.26	139.13	12.27
4. Foreign Securities	360.52	360.52	375.52	606.68
5. Balances held abroad	19.34	24.92	26.32	24.94
6. Rupee Securities	901.97	901.97	911.81	693.72
7. Investments	215.39	210.42	265.60	50.12
8. Loans and advances to Governments	37.28	38.80	28.54	8.06
Scheduled Banks				
1. Demand liabilities (net)	711.32	702.55	741.92	654.47
2. Time Liabilities	580.94	579.10	568.72	461.90
3. Cash on hand	38.94	39.37	37.53	37.53
4. Borrowings from Reserve Bank	41.99	54.04	32.02	34.63
of which against Usance Bills	37.04	45.62	29.47	28.12
5. Advances and Bills discounted	806.31	820.27	828.71	689.98
of which State Bank's	162.20	166.70	171.72	128.77
6. Invst. in Govt. Sec.	370.52	339.83	332.56	362.01
of which State Bank's	134.92	104.22	105.48	106.19
Cheque Clearance	144.55	88.77	138.76	134.15

† For Reserve Bank week ended 30-8-57. Scheduled Banks and Cheque Clearance week ended 23-8-57.

Bombay Money Rates

	23-8-57	16-8-57	26-7-57	24-5-57
Call Money				
From banks	$3\frac{1}{2}-3\frac{11}{16}$	$3\frac{1}{2}-4\frac{3}{16}$	$3\frac{5}{16}-4\frac{3}{16}$	$3\frac{1}{2}-4$
From public	$4-4\frac{7}{16}$	$3\frac{3}{4}-4\frac{7}{16}$	$3\frac{1}{2}-4\frac{7}{16}$	$3\frac{3}{4}-4\frac{7}{16}$
Three Months	$3\frac{1}{2}-4\frac{11}{16}$	$2\frac{1}{2}-4\frac{11}{16}$	$2\frac{1}{2}-4\frac{5}{16}$	$3-4\frac{7}{16}$
Six Months	$2\frac{1}{2}-4\frac{1}{4}$	$2-4\frac{7}{16}$	$2-4\frac{3}{16}$	$2-4\frac{5}{16}$

Bombay Bullion

(In Rupees and nP)

	5-9-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107.50	108.28	105.55	103.0
Forward	107.40	107.90	105.26	103.12
Silver (per 100 tolas)				
Spot	181.37	181.87	178.70	174.0
Forward	181.37	182-12	179.16	174.37

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 17-8-57	10-8-57	20-7-57	18-8-56
Food Articles	**112.2**	**112.5**	**111.3**	**106.2**
Cereals	107	107	105	99
Pulses	88	88	86	82
Fruits & Veg.	143	142	132	127
Milk and Ghee	109	108	105	103
Edible Oils	131	133	134	131
Fish, Eggs & Meat	101	103	98	103
Sugar & Gur	110	111	110	100
Others	133	136	140	136
Liquor and Tobacco	**92.0**	**92.0**	**94.3**	**83.1**
Fuel, Power Light & Lubricants	**114.6**	**114.6**	**114.8**	**105.4**
Industrial Raw Materials	**119.9**	**121.7**	**121.1**	**117.7**
Fibres	121	123	122	113
Oilseeds	126	128	128	127
Minerals	109	111	113	98
Others	108	108	106	110
Manufactures	**108.7**	**108.9**	**109.0**	**106.0**
Intermediate Products	**108.1**	**108.6**	**108.8**	**112.1**
Finished Products	**108.8**	**109.0**	**109.0**	**105.0**
Textiles	109	109	109	106
Cotton	118	118	117	116
Jute	97	98	99	91
Woollen	103	103	103	97
Silk & Rayon	85	85	85	89
Metal Products	141	141	141	131
Chemicals	98	98	98	93
Oilcakes	113	113	114	106
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	102
All Commodities	**112.0**	**112.5**	**111.9**	**107.4**

INDUSTRIAL DISPUTES IN INDIA

Year/Month	Disputes	Workers involved	Working days lost
1953	772	466,607	3,382,608
1954	840	477,138	3,372,630
1955	1,166	527,767	5,697,848
1955:			
May	120	68,441	961,776
June	152	91,269	1,144,011
July	111	55,260	660,492
Aug	236	90,218	533,999
Sept	251	92,619	580,031
Oct	134	47,600	214,214
Nov	99	48,609	178,112
Dec	129	45,277	239,550
1956:			
Jan	107	61,050	349,655
Feb	122	69,450	786,768
Mar	146	133,188	678,716
April	140	83,524	569,087
May	137	65,037	549,582
June	153	71,047	4,439
Jily	150	100,335	529,151
Aug	138	64,767	2,173
Sept	184	130,667	922,685
Oct	150	113,404	819,619
Nov	138	59,451	499,636
Dec	145	65,851	407,166
1957:			
Jan†	154	128,896	395,003
Feb†	135	103,288	260,794
Mar†	116	42,700	277,013
Apr†	144	59,309	353,245
May†	103	60,427	594,709

†Provisional

Sources: Deputy Labour Commissioner, Govt. of Bombay Labour Bureau, Delhi.

INDUSTRIAL PRODUCTION

		1957 May	Apr	Mar	Feb	Jan	1956 Dec	Monthly Average 1956	1955	1954
I Consumer Goods:										
1) Cotton textiles	mn yds	453.0	464.4	453.1	435.1	483.7	479.3	442.3	424.5	416.5
2) Woollen and worsted fabrics	,,	1.2	1.1	1.1	1.0	1.2	1.3	1.4	1.2	1.1
3) Matches	000 cases	—	56.4	45.5	45.1	50.7	48.1	49.1	51.3	44.1
4) Soap	000 tons	—	9.7	9.4	9.2	10.5	9.7	9.1	8.2	7.3
5) Electric lamps	mn	—	2.9	2.9	2.3	2.4	2.5	2.1	1.6	1.6
6) Hurricane lanterns	000	—	362.2	524.2	372.8	418.3	509.8	431.6	457.3	415.6
7) Razor blades	mn	—	39.1	32.0	34.0	42.3	32.6	22.1	14.5	10.9
8) Sewing machines	000	14.5	15.2	14.6	13.1	13.8	14.1	10.9	8.4	6.7
9) Vegetable oil products	000 tons	26.8	25.4	27.9	25.0	28.6	26.7	24.9	21.3	21.7
10) Electric Fans	000	—	46.7	43.8	38.4	36.4	35.3	28.2	23.5	19.9
11) Radio Receivers	000	—	20.1	14.7	13.6	13.7	15.8	12.6	6.8	4.7
II Raw Materials or Intermediate Goods										
1) Cement	000 tons	448.0	456.4	491.6	427.7	459.0	459.1	410.7	373.9	366.1
2) Coal	mn tons	3.8	3.7	3.7	3.5	3.6	3.7	3.3	3.2	3.1
3) Jute manufactures	000 tons	87.3	86.8	84.7	80.2	88.8	84.9	91.1	85.6	77.3
4) Cotton yarn	mn lbs	150.0	153.7	150.5	143.2	156.4	155.2	139.3	135.9	130.1
5) Paper & paper board	000 tons	17.3	16.9	17.3	16.0	17.5	17.6	16.1	15.4	12.9
6) Asbestos cement sheets	,,	11.7	12.5	13.2	12.6	13.8	11.6	10.0	8.7	6.6
7) Chemicals:										
(i) Sulphuric acid	000 tons	15.8	13.0	15.5	13.8	13.0	13.9	13.8	13.8	12.6
(ii) Caustic soda	,,	—	3.6	3.8	3.3	3.9	3.8	3.3	2.9	2.4
(iii) Soda ash	,,	7.3	7.5	8.5	6.6	9.1	8.8	7.0	6.4	4.0
(iv) Chlorine liquid	tons	1,257	1,246	1,426	1,343	1,446	1,419	1,256	965	815
(v) Power Alcohol	000 gals.	—	765.4	800.7	915.7	847.4	856.7	855.9	869.4	667.3
(vi) Rectified Spirit	,,	—	331.8	441.6	447.6	427.6	391.5	350.8	429.7	385.9
(vii) Denatured Spirit	,,	—	292.2	265.2	251.0	339.5	329.2	281.9	249.1	236.3
8) Paints & Varnishes	tons	3,562	3,444	3,295	3,026	3,449	3,617	3,467	3,253	3,068
9) Rubber Products										
(i) Footwear	lakh pairs	24.7	30.9	28.6	27.9	35.8	35.1	30.1	29.1	26.0
(ii) Tyres										
(a) automobile	000	84.7	92.8	82.3	82.0	87.6	82.5	78.2	73.5	69.4
(b) cycle	,,	615.5	668.3	565.2	586.4	654.1	603.1	526.7	479.0	435.5
(iii) Tubes										
(a) automobile	,,	84.7	84.8	82.0	77.5	91.2	87.2	76.5	65.5	62.4
(b) cycle	,,	608.2	651.4	553.7	559.5	638.3	596.7	531.1	466.1	464.8
10) Non ferrous Metals:										
(i) Copper (virgin)	tons	700.0	700.0	735.0	665.0	381.0	680.0	635.7	606.8	596.8
(ii) Aluminium	,,	—	627.7	670.9	592.3	646.7	674.9	541.7	602.1	407.2
(iii) Lead (virgin)	,,	181.7	276.2	235.5	243.5	177.2	284.0	208.1	186.2	149.0
(iv) Antimony	,,	—	23.0	33.0	43.0	40.0	65.0	49.1	42.0	44.9
11) Iron & Steel:										
(i) Pig iron	000 tons	—	145.8	158.3	145.4	159.4	161.0	150.6	146.4	149.4
(ii) Steel ingots & castings	,,	136.0	145.1	149.8	135.4	152.4	152.0	144.8	142.0	140.4
(iii) Semifinished steel	,,	—	121.1	130.7	118.5	135.2	127.9	123.7	121.4	121.0
(iv) Finished steel	,,	105.0	111.7	116.9	103.7	126.4	113.3	109.7	105.0	103.6
III Capital Goods					1,007	1,039	1,054	998	852	721
1) Diesel engines	nos	—	1,393	1,119	4.5	4.8	4.3	3.9	2.9	2.4
2) Power driven pumps	000	—	5.1	5.2	1,666.4	1,732.1	1,425	839.7	620.0	416.9
3) Machine tools	000 Rs	—	1,065.3	1,679.9	141.6	174.5	155.7	129.1	64.9	44.9
4) Twist drills	000	209.8	31.2	81.2	268	290	242	239	228	157
5) Calico looms	nos	259	255	239	124	123	128	93	72	30
6) Ring frames	,,	115	124	118	79	68	68	61	50	36
7) Carding engines	nos	48	63	92	261.3	311.3	324.0	207.6	119.9	94.5
8) Grinding wheels	000 lbs	—	285.3	293.0						
9) Arc welding electrodes	lakh ft	—	201.9	180.4	153.3	76.1	181.0	156.3	100.8	72.5
10) Dry cells	lakhs	122.5	143.0	141.6	150.5	166.5	179.1	151.2	134.2	123.9
11) Storage batteries	000	—	26.6	27.6	26.3	28.3	27.8	26.2	19.6	15.7
12) Electric motors	000 H P	—	38.6	36.0	33.2	35.1	41.3	29.9	21.0	15.6
13) Power transformers	000 KVA	—	97.7	111.7	93.6	91.8	94.7	75.9	47.1	33.3
14) Insulated cables	lakh yds	—	89.7	83.9	78.5	85.9	86.7	88.0	71.8	52.3
IV Transport Equipment										
1) Automobiles (total)	nos	—	2,664	3,136	3,161	3,025	2,881	2,678	1,924	1,205
of which:										
(i) Cars	,,	—	998	970	1,144	1,134	1,160	1,082	791	—
(ii) Jeeps	,,	—	461	577	533	141	336	345	278	—
(iii) Trucks & Buses:										
(a) Petrol	,,	—	278	337	189	373	281	366	406	—
(b) Diesel	,,	—	842	1,227	1,252	1,353	1,104	828	385	—
2) Bicyles	000	—	64.8	64.0	65.2	61.8	70.9	55.3	40.9	31.0

Source: Directorate of Industrial Statistics.

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might be found by taxing individual taxpayers who have interest also in the property held by Hindu Undivided Families on their total wealth or income (including their share in the joint family interests), while allowing them to offset against their liability a proportionate part of the taxes paid by the Hindu Undivided Family. This procedure would eliminate the need for a higher exemption limit for Hindu Undivided Families.

The total exemption of household assets and of jewellery up to the value of Rs 25,000 makes the tax over-liberal. As has been pointed out by a contributor in these columns (July 6, p 892), "complete statutory exemption should as far as possible be avoided because experience in other countries suggests that statutory exemptions become avenues of tax avoidance and create over time vested interests which are difficult to dislodge at a later stage". Moreover, the imposition of the Wealth Tax afforded an opportunity of collecting information in regard to the gold held in private hands. By exempting jewellery valued up to Rs 25,000, this opportunity has been thrown away and that too without much justification either in terms of equity or economic and administrative expediency. The argument that undue harassment of women is likely if jewellery is not exempted could have been met by appointing women on the revenue staff for purposes of tax collection.

Yet another unwarranted exemption is the one given to residential houses in rural areas. One could hardly concede that it is the Government's intention to encourage the richer classes to invest their funds in tax-exempt country houses; yet, that is exactly the implication of this concession.

The concessions to companies are a mixed lot. The tax holiday to new industrial companies and to old companies for new expansion, as well as the exemption of shipping companies altogether, these can be justified as being well-merited tax incentives. However, the exemption to companies for the year in which they incur a loss might lead some companies to 'manufacture' losses merely in order to avoid the tax. It would have been better to allow for the carry over of the liability to wealth tax from a year of loss to the year of profit and treat this liability as a deduction for the calculation of net assets in the later year.

So much for the changes in the Wealth Tax. As regards the Expenditure Tax, it is really a matter of regret that the Finance Minister failed to persuade the Select Committee to his way of thinking in regard to the original clause that the tax would be payable only by taxpayers whose income assessed to income tax exceeded Rs 60,000. The Finance Minister had himself proposed to drop this clause and replace it by a straightforward exemption limit related to total expenditure on the very sound plea that to relate the liability to expenditure tax to the accrual of income would amount to giving a free hand to persons who lived on their capital. The Select Committee has not accepted the Finance Minister's suggestion, but has reduced the income-exemption limit from Rs 60,000 to Rs 36,000 and also broadened the definition of income for this purpose to include accretions like capital gains. While the new clause is certainly an improvement on the original one, the select committee's argument that an income exemption limit is necessary "to prevent harassment to assessees and to make the administration of the Act somewhat easier" is not very convincing.

The Select Committee deserves to be complimented for recognising that gifts and donations could be used as a method of avoiding expenditure tax. The proviso added by it will not, however, prevent a man from concealing his expenditure in gifts to persons other than his dependents. For under this proviso, only expenditure on or by one's dependents out of gifts or donations made by an assessee to these dependents are to be treated as part of the assessee's own expenditure. The only way in which tax avoidance can be effectively checked is to impose a deterrent gift tax. Such a measure is necessary also to prevent the division of property in order to avoid the wealth tax and as a complement to the existing estate duty. It is therefore encouraging to note the recent disclosure in the Lok Sabha that a gift tax is under the active consideration of the Government.

The above criticism is not offered in disparagement of the new taxes as they have finally emerged. For, inspite of all their defects, they mark a healthy trend towards the reorientation of the tax system to meet the requirements of planned development. The criticism is offered in the hope that it will, in the future, help to modify these taxes so as to make them more suitable instruments for the furtherance of the objectives set before itself by the country.

Gold Against Guns

GRADUALLY but with the inevitability of a Greek epic, the West Asian drama is nearing its tragic end. Geneva may have inspired the drama, but the swift developments in west Asia have been provoked by the Egyptian arms deal in 1955. This is the Western version of the source of the west Asian drama. Neither Moscow nor Cairo nor Damascus accepts this version of the origin of the "cold war" in West Asia. Egypt was forced to look to the East as the West combined to teach President Nasser a lesson. For President Nasser's policy of neutralism, Mr. John Foster Dulles, the American Secretary of State, withdrew the earlier American offer of aid for the Aswan Dam. For Cairo's support to the nationalist movement in Algeria, for President Nasser's act of nationalisation of the Suez Canal Company, Britain and France combined to launch an aggression against Egypt. In Syria, similar developments are being repeated, though the main characters in this third act of the drama are not Britain, France and the Soviet Union, but America and Russia.

To appreciate the logic and sequence of the third act of the West Asian drama, which is centered on and around Syria, it is necessary to recall the story unfolded in the second act. As the first act reached its tragic climax in the joint Anglo-French aggression against Egypt, America entered the stage as a maker of peace. At her instance and initiative, the United Nations policy of ensuring Anglo-French withdrawal from Egypt was successfully implemented. America not only emerged as the hero, but Washington left no room for doubt that it will reject the Soviet Union's claim to be a co-hero. At that moment, America's prestige in west Asia was at its highest. America could have, if she chose, played the role of the undisputed hero of the west Asian drama. But, in its determination to contest Moscow's aspirations to be a co-hero Washington decided to act a different part. By announcing the Eisenhower Doctrine, America directly joined issue with the Soviet Union, in west Asia. This region's trouble, as also the west Asian drama's tragedy, stems from Washington's open declaration that Moscow is the villain of the piece. Neither Cairo nor Damascus accepts Washington's indictments against Moscow. Informed world opinion is inclined to the view that neither America nor Russia is the hero of the drama, but these two countries are waging a "cold war" in west Asia.

If the second act of the west Asian drama is about the Eisenhower Doctrine, the third act is a logical sequel to, and projection of that central theme. As the curtain rises, one sees the Arab states discussing the pros and cons of the Eisenhower Doctrine. Throughout this first scene of the third act, Washington feels uneasy about the lukewarm response to the Doctrine. Then, as the second scene commences, America's wooing of Arab States goes on. Saudi Arabia is the first Arab country which is drawn to the American orbit. Aided by some rash Egyptian gestures and by hasty actions of some Army leaders in Amman, America abandons her role as a tempter; the might behind the Eisenhower Doctrine is disclosed. King Hussein of Jordan is encouraged by the appearance of the Sixth Fleet in Bierut to act against his pro-Left Government. America's triumph in Jordan in May was followed, in quick succession, by the success during the Lebanese elections in June. With right-wing Governments in Jordan, Lebanon, Iraq and Saudi Arabia, Syria suspected attempts at encirclement. In its hour of need, Damascus looked to Cairo for help and support.

With closer ties between Egypt and Syria, the third scene of the third act starts. There is now irritation in Washington that Egypt and Syria are not only swallowing the bait, but are making joint efforts to regain Arab solidarity and to wean Arab States away from the Eisenhower Doctrine. Syria is no longer wooed, but threatened with economic warfare. Loss of French export markets and oil transit dues, American undercutting of Syrian exports in Italy and attempts to undermine the Syrian currency in the Bierut free market and the blockade by her neighbours were aggravating Syria's economic crisis.

But since America seemed to gain control over Syria, the Soviet Union started counter-moves. Syria was in dire need of foreign help, but was reluctant to accept American aid with strings attached to it. Moscow offered a generous 300 million dollar loan to Damascus with tempting terms and conditions of repayment. This tilted the balance in favour of the pro-Communist Army leaders, who assumed control over the Army, but left the nationalist Government in tact.

Even Mr Loy Henderson, the roving American envoy to west Asia, admits that Syria is not likely to accept the Eisenhower Doctrine, although the Syrian President rejects Mr Henderson's allegation that Syria is now a Communist indoctrinated country. In pursuance of the Eisenhower Doctrine, America is now supplying arms and weapons to Jordan at the latter's request. According to a source from Washington, "the air lift is only one of the ways in which we intend to dramatize our aid to Jordan". There are further plans to provide similar military aid to Iraq and Turkey. The "cold war" is warming up. The situation is so tense that, at any moment, an "incident" can be created out of small border skirmishes in and around Syria. Whether American military help can be useful or effective, is doubtful. But there can be no doubt that the west Asian situation has become explosive.

As the west Asian tragedy reaches its climax, the duties and responsibilities of the parties concerned emerge forcefully. Even if it be conceded that Russia is not a disinterested spectator, the Western Powers have yet to justify their repeated rejection of the Russian proposal for a ban on supplies of arms to west Asia. In the circumstances, it is permissible to infer that America and her NATO allies are unprepared to counter Russia's economic aid with offers of similar assistance. Russia has offered a 300 million dollar loan to Syria alone, while the Eisenhower Doctrine envisages aid of only 200 million dollars to twelve Arab States. Informed world opinion will not be wrong in concluding that the Western Powers do not accept the principle of competitive co-existence. So far as Syria (and this applies to all Arab States) is concerned, her Government and the Army have a responsibility to continue to pursue neutralism which involves rejection of aid strewn with strings by either side of the rival camps. Damascus will not be blamed for looking to Moscow for aid. But Syria will be committing a blunder in joining the Communist camp. Moscow has an equal oppportunity to prove that, in helping Syria with men and money, she has no intention to force Syria into the Communist orbit. By strict adherence to Panch Shila, Moscow can demonstrate the futility of America's reliance on the Sixth Fleet.



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★

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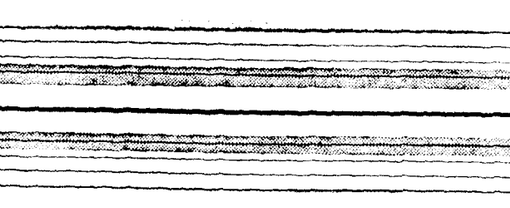
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Weekly Notes

Hungary Again

MUCH has happened since the Hungarian tragedy to reveal that, if the Soviet Union was guilty of intervention in Hungary, there are many other powers who live in glass houses. Interference by any Power in the internal affairs or with the sovereignty of any other Power cannot be supported. Much more reprehensible is any armed intervention by any country in any other country. These broad principles of international law and ethics are beyond dispute. But why blame Russia alone for her action in Hungary? America had much less excuse or justification in showing her military might during the "incident" in Formosa. Some of the implications of America's military policy or attitude to Japan have provoked resentment in the latter country. Some of those who are so vocal and combative about the Russian action in Hungary find it convenient to maintain discreet silence on, if not connive at, the British armed intervention in Oman. Not only those who live in glass houses, but even those who live in houses with many doors open should not throw stones at others.

This is what America and the sponsors of the debate on Hungary by the General Assembly of the United Nations forget. Though the debate is ostensibly on the five-nation committee's report on Hungary, it is clear that the sponsoring powers are interested in exploiting it as a "cold war manoueure." It is not without significance that Ceylon, a member of the five-nation committee, is reported to have expressed her intention to withdraw from the committee. Tunisia, another member, also seems to be suspicious about the ulterior motives of the sponsors of the debate. America's main motive in keeping the committee alive is, according to the **New York Times** to "keep the world continuously informed on developments in Hungary under the new puppet regime".

This may be "cold war" tactics, but it is not diplomacy. By all indications, Washington is not interested in converting the five-nation committee into a good offices commission. There would have been some justification in adopting such a policy. What purpose would be served by the Assembly debate on Hungary or sending Prince Wan Waithayakon on a mission to Hungary? What good is likely to come out even if the Assembly passes, which is probable, a condemnatory resolution, or some such resolution in "repudiation" of the Hungarian representative at the United Nations?

Pandit Nehru is realistic in his argument that no such policy or tactics "can help the situation". New Delhi has expressed its disapproval of armed Russian intervention in Hungary to suppress a national uprising. But New Delhi does not believe that any good can come out of interested attempts to put the Soviet Union on the dock. A wiser and diplomatic policy is called for if it is the aim of the United Nations to help initiate negotiations for an amicable arrangement of the situation in Hungary.

Second Chambers

THERE will be surprise at Parliament's concern over creating an upper house in Andhra, or for increasing the strength of the upper houses in eight other States to the neglect of wider and deeper issues that confront the country. Thinking persons are convinced that the occasion for reorganisation of States should have been seized to abolish upper houses altogether. When economy in expenditure is the urgent need, New Delhi in its wisdom, is trying to multiply and to expand legislative councils! Though the Law Minister does not deny that such a policy can only make legislation more costly, he defends it on the plea of democracy.

As upper houses are constituted in this country, it is difficult to appreciate how these institutions can function as watch-dogs of democracy. In both houses, the Congress is in a majority. In the present make-up of upper houses, it is not possible for State Councils to act as a brake on Assemblies. Even in those countries where the Upper House is differently constituted, its utility is highly debatable. In this country, State Councils can only provide opportunities to the party in power to offer seats to its supporters.

Is this game of pure party politics worth the cost involved?

Exit for Domicile Rules

OF the various forms in which regionalism of the obnoxious variety thrives, the most difficult to tackle is that which covers public employment. That employment in the State or local services should be restricted only to those satisfying rigid domicile requirements is clearly opposed to the spirit if not the letter of the Constitution. The Bill introduced by Pandit Pant in the Lok Sabha this week seeking to repeal all existing domicile laws relating to public employment is, therefore, to be welcomed.

Equality of opportunity for employment under the State is conferred by the Constitution as a fundamental right on all citizens. A proviso to this right provides, however, that Parliament may make laws prescribing domicile requirements for such employment. It is on this clause that the present domicile restrictions are based. The new Bill seeking to remove these restrictions except for a limited period and for certain classes of employment in certain parts of the country, is also drafted under the same clause.

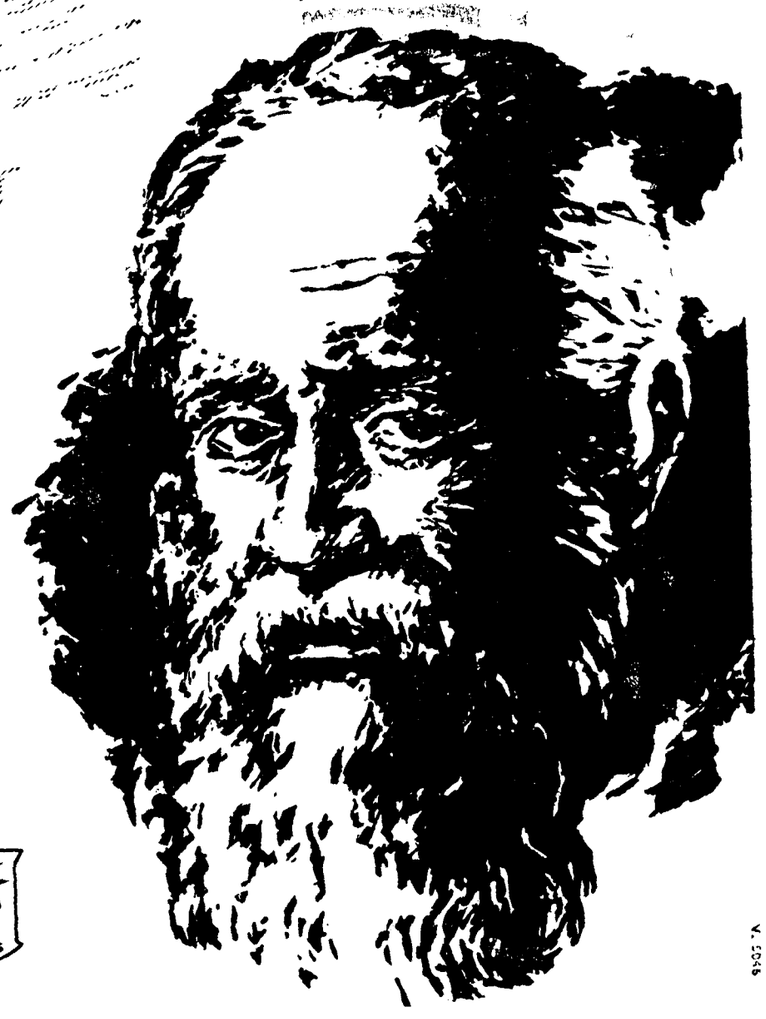
The effect of the Bill will be to open employment under all State Governments and local authorities to all citizens. The Bill will thus help to create conditions of a true 'Union of States' in the country. That the Bill should have been drafted to implement a recommendation of the States Reorganisation Commission will appear as a paradox to many, who disagreed violently with its basic recommendations, but it is actually in consonance with the spirit which animated that Commission.

Can one assume that the Bill will be passed as it has been presented? It appears very likely that there will be strong opposition to it even in Parliament. There are sure to be many attempts to widen the scope of the exceptions to the general repeal of domicile legislation contemplated under it. The extent of this opposition and the strength of the pressure to amend the Bill so as to make it less effective will provide a measure of the extent to which regionalism is rampant in the country.

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Income Tax Arrears

THE disclosure in the Lok Sabha by the Finance Minister that the arrears of income tax outstanding at the close of the year 1956-57 amounted to Rs 200 crores must give cause for great concern. This was more or less implied in the figures published in the Reserve Bank's Bulletin for the month of June, 1957. While the tax demand is reported to have increased by over 17 per cent during the First Five Year Plan, the collection declined by 3 per cent. In other words whatever elasticity the income tax system does possess in relation to expanding incomes, gets vitiated by the fact that the revenue authorities are unable to enforce proper and timely collection. The effectiveness of a tax system as a tool of economic policy, it must be realised by persons who hold the reins of the revenue department, depends upon the promptitude with which the collection of the taxes imposed can be enforced. Inefficiency in collection detracts from the usefulness of the tax system.

It might be argued that the inability of the revenue department is due to the department's reluctance to increase its strength in the interest of economy. One can only say that there could be no worse case of false economy than this. If the department has saved on establishment, say, a crore of rupees per annum over the five years of the First Plan, it must realise that it has thereby been unable to collect *Rs 200 crores.*

Now that the startling proportions which the income tax arrears have reached is known to the public, it is hoped that the Ministry of Finance will urge on the revenue authorities to take immediate steps to recover them. The revenue authorities may be asked to see that by the close of the year 1957-58, the outstanding arrears are brought down to a maximum of Rs 100 crores. But in this campaign for the recovery of arrears, the revenue authorities should not relax over-much the already lenient penalties enforceable under the Income Tax Act. Relaxation in penalties creates a feeling among the taxpayers that the penalties prescribed in the Act can eventually be got over. And this type of feeling goes against prompt enforcement of tax collection. On the other hand, if it is considered necessary, the department should be allowed to expand the strength of its officers, more so now when they are likely to be absorbed for assessment of wealth and expenditure taxes.

Risk and Progress

THE report of a survey by Japanese experts of the much-misunderstood proposal for an underground railway in Bombay City, just published, makes interesting reading. The scheme has been visualised in two stages to cover almost all the traffic congestion points in the southern sector of the City between the Museum and Bombay Central, the total cost being estimated at Rs 28 crores. The time required for implementation of each stage has been put at four years, and for both the stages together at six years. But it has been pointed out that operation could start even when only the first half of each stage had been completed. The work is to be taken up in five sections in respect of each stage, the capital requirements being spread in varied proportions over the period of six years required for execution of the two stages together.

Much of the misunderstanding over the proposal for an underground railway in Bombay has arisen from the assumption, intentional or unintentional, that the proposal had already been accepted by the Corporation, which is the final authority to take a decision on the matter. That is far from the truth: all that has happened so far is the conducting of a preliminary survey, meant to clarify the financial implications of the scheme, its practicability and possible advantage, with no commitment on any side. What decision the civic body will ultimately take on the proposal is more than can be speculated at this stage, particularly in view of the fact that members of the present ruling party, when in opposition before, had not taken kindly to the scheme and certain sections at least of the local press had worked themselves up into a rage over it—a rage that still seems to smoulder.

Nevertheless, there is no ignoring the hard reality that there is no solution, short of an underground railway, that can possibly relieve the increasing traffic congestion in City streets, holding up the movement of men and vehicles particularly at peak hours and affecting the business of the metropolis. So the scheme will have to be taken up some time or other. The only question is when, which is essentially a matter of fixing priorities among the numerous problems facing Bombay in the civic field. The funds could be found, and the indication that in the long run it would be more economical per passenger mile to operate an underground railway than surface transport like bus and tram and that both the stages together would start showing a profit by the end of the fifth year of working is encouraging.

In the circumstances, to mix up some rather unrelated issues is to make the scheme appear as though it were a piece of unwarranted extravagance and imply on the basis that it might well wait till the last civic problem had been solved. This would be an unrealistic and also unprogressive attitude. A number of the unsatisfied civic needs of today which have come to be pitted against the proposed scheme for an underground railway in fixing priorities are by no means of recent origin. They have been with us for decades, and were they to be an argument all along against necessary progress in new and seemingly visionary directions, Bombay would not perhaps have advanced even to the stage of trams and buses. It might well have remained stagnant in the bullock-cart age. We are realising only today the significance of the price that pioneers paid in those relatively conservative times for the sake of future progress, the direction of which was then less predictable and far less clear than now. Progress is the child of calculated risk.

INDIAN PERSPECTIVE
Editor: Mriganka M Roy

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Western Railway Consolidates

WHEN the process of re-grouping railways was initiated in 1951, the Western Railway received what was probably the most heterogenous network of railway systems in the country since the complicated network of State railways in Bombay and Saurashtra as well as Rajasthan was tagged on to the B B & C I nucleus, which itself suffered from a multiplicity of gauges. Ever since then, in addition to the problems common to other railway zones, Western Railway has been confronted with the unenviable tasks of raising the level of efficiency of the old State railways and of expiditing transhipment at the meeting points of various gauges. Since 1952-53, the first complete year of its operation as a re-constituted zone, its principal concern has been the problem of consolidation and rationalisation of administrative arrangements. The latter has now been achieved by changing from the regional-cum-district system to the divisional system, which permits of great decentralisation of authority and expeditious disposal of work.

Between 1952-53 and 1956-57 passenger miles on Western Railway increased by 21 per cent and ton miles by 50 per cent. This increase in traffic was handled largely by more intensive utilisation of capacity. Statistics published in its Year Book for 1956-57, however, indicate that most of the improvement since 1952-53 is accounted for by greater efficiency on metre gauge rather than broad gauge. The number of wagons on the latter increased by 14 per cent but net ton miles per wagon day went up by only 13 per cent against 11 per cent and 15 per cent, respectively, on metre gauge. Similarly, while the number of locomotives expanded during the same period by 17 per cent on broad gauge, net ton miles per locomotive day in use rose by only 31 per cent. Corresponding figures for metre gauge are 15 per cent and 33 per cent, respectively. The story is the same in the case of fuel economies as well. While consumption of coal per 1,000 gross ton miles since 1952-53 has declined by 8 per cent on both gauges for passenger services, the decline in the case of goods trains has been 15 per cent on broad gauge and 23 per cent on metre gauge. Absolute figures of coal consumption per 1,000 gross ton miles indicate that Western's performance has been substantially superior to Central's. (See E W August 3, 1957).

Over these years, capital at charge has risen from Rs 107.48 crores to Rs 139.22 crores, a rise of 13 per cent, while gross earnings have spurted by 35 per cent and net earnings by 21 per cent. The ratio of net earnings to capital at charge has, however, declined slightly from 13 to 12 per cent. Comparisons of the operating ratio are difficult to make for the period, since the Year Books of 1955-56 and 1956-57 give two entirely different figures for 1952-53. If the latter Year Book is to be believed, there has been practically no change in the ratio between 1952-53 and 1956-57 since it has come down again to around 70 per cent after exceeding that level during the intermediate years. According to the former Year Book, however, the ratio fell from 76.29 per cent in 1952-53 to 71.05 per cent in 1955-56.

Among the improvements effected during these years are rehabilitation of track and bridges, including the strengthening of as many as 120 bridges between Bombay and Baroda alone, doubling of some busy sections and conversion of some narrow gauge lines to metre gauge. The marshalling yard at Sabarmati has been remodelled while a new one has been completed at Ratlam. Diesel locomotives have been introduced on the Palanpur-Gandhidam section of 918 miles, their utilisation in mileage going up from 63,000 in October 1956 to 140,000 in May 1957.

Towards the close of the current year, an 'Efficiency Branch' was opened to "diagnose adverse trends" in the use of financial, material and man-power resources. Maximum administrative efficiency through Organisation and Methods is also one of the responsibilities of this branch. Its working and achievements will be awaited with interest in the next Year Book.

Errata

The Only Answer to the Challenge

Issue of September 7, pp 1153—1154

Para 2, last line. For "flavour of his Malayalee" **read** "flavour of his Malayalam."

Para 16, line 11. For "affairs in post-Communist Kerala" **read** "affairs in pre-Communist Kerala."

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A Calcutta Diary

Yield to the Night ... ... and Hear the Shriek of Hunger

AUGUST came, and reminded us as much of the independence that came ten years ago as of the killings of eleven years ago. That is the trouble with this city, laden with the lingering memory of a living humanism which serves only to make the recent past of inhumanity the more poignant. In a piece in **Encounter** Sudhin Datta recently spoke of the way he destroyed the draft of an essay he had written proving that the Bengali was by nature averse to physical violence: this was after he had waded through dead bodies strewn on the streets of Calcutta during that dreadful August. Indeed, Calcutta has never been the same city again since. Violence of a beastly kind lies just underneath the surface, itself subjected to not a little disturbance all too frequently. Death, sudden and violent, is not a stranger in many families, and this affects life longer and more deeply than many pause to think. The corpses have been cleared, and the blood has been washed away; but the sensitive cannot still escape the memory of the many done to death, undone by death.

The other memory which distorts life in Calcutta is of the famine of 1943. The existence of a curious body called the Price Increase and Famine Resistance Committee is not the only evidence; that came only recently. The fear of another famine lurks behind the slightest upward movement in the price curve. And there have been some very steep rises in recent weeks, especially affecting items of food—rice, mustard oil, sugar, fish vegetables, everything in short. That the aforementioned Committee has threatened "direct action"—an ominous phrase—is an inadequate index of the feeling of the Bengalis. (And "direct action" days decrease prices all right, even if famine is not resisted.) This writer woke up last night, about midnight, when he heard the cry of a beggar half-a-block away; she wanted phan, the thick water Bengalis throw away after the rice has been boiled. The cry was so vividly and painfully reminiscent of the famine days that a return to sleep was impossible.

* * *

Bengal has not in fact been to sleep since that nightmare in 1943. The morbid manifestations can be seen as much in the newspapers as in public reactions, and it is more than likely that the food situation bad enough in all conscience, is made the more difficult by the psychological background. To take the Press first, some newspapers have already been coming out with harrowing photographs of hungry men, women and children. Most faces in close-up are disagreeable the hungry ones are horrifying. This possibly premature display of hungry faces has been decided upon because the Indian papers are anxious not to be left behind by the **Statesman**, which first came out with shocking pictures of the famine-stricken in 1943 and later was praised by the Woodhead Commission for it. The **Statesman** this time published photographs of the shop of an identifiable rice dealer and got into trouble; it had to apologise. Everybody is aware that a scare makes things worse, encourages hoarding, and thus brings a famine nearer, but such is the mood of Bengal today, the historical reason for which has already been adduced.

It is possible that the memory of a man-made famine makes it impossible for the Bengali of today to think it possible that the food position in India may really be difficult for unavoidable reasons. Because, however, it has already been decided that there are guilty men around anxious to bring about a famine—fetching a dividend of Rs 1,000 per share, meaning per corpse—it may not occur to us that, in the event of a shortage nobody can help, there may be a thing or two we can do to help. An additional premium on irresponsibility is provided by our own Marie Antoinettes. Dr Roy, for instance, said the other day that eating too much rice caused diabetes and so he ate other things. The latter are more expensive, in spite of the high price of rice, which makes the Chief Minister sound callous. The fact remains that the Bengali does nothing to change his food habits, even when he can afford it, because he is sure the Government does nothing to curb famine-makers. Famines, he is sure, are made.

* * *

If the Mehta Committee can find out whether there is or there is not an absolute shortage of food in India, it will be the first party to do so. It is no secret that the late Rafi Ahmed Kidwai had a healthy disbelief in official statistics, and many attribute to it his success in solving the food problem for some years. It may still be true that in India today there is, in fact, a sizeable shortage of food, if only because the population goes up everyday at a fantastic rate. The sacrifice necessitated thereby can be demanded only after it has been demonstrated that the available stock is being distributed fairly. With the Reserve Bank pathetically appealing for credit restraint against food grains, it must be admitted, the public is to be forgiven for not feeling fully reassured that empty bellies are not filling some pockets. It does seem a cruel joke to talk about a welfare state when men cannot buy food because they have not the money to pay for it.

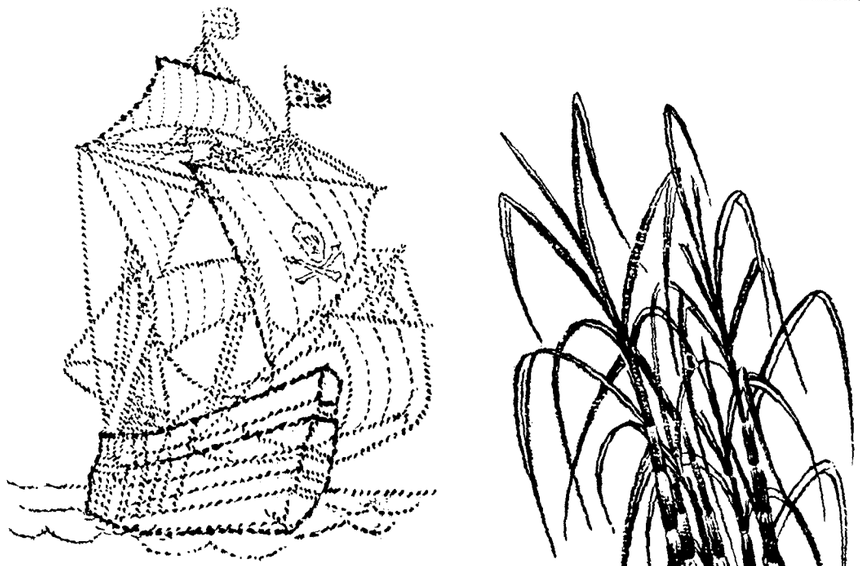
The Government, represented by A P Jain in this context, seems to be in a state of quiet despair. The quietness irritates, and the despair suggests the question whether a government which has failed to solve the basic problem of food is entitled to any credit at all for showy successes in a few other departments. There is no denying the immensity of the problem; there is no denying its urgency either. Country-wide rationing is out of the question; the Government has neither the administrative resources for such an operation nor the stocks that would be needed. The Food Minister has made that much clear, and it is probably arguable that the administrative cost of rationing could be better used to subsidise the cost of food. What makes for uncertainty

is that what the Government will not do is clearer than what it will.

Meanwhile, the Government does not want a panic, and so the country's real deficiency in food, if it is real, is not publicised, which in its turn encourages suspicions that a shortage is being created and prices are being manipulated by the trade. Will a frank admission of the deficiency dissipate doubts and help create a climate in which people will be prepared to do with less or different food? Or, will it be the signal to traders to sit on the stocks they hold, in expectation of higher prices later? Some mill stocks were seized recently by the Government, but the action did not answer the two questions posed above. The Government may not have the answers yet, which are in truth awfully difficult to find. In the absence of an official lead, the questions are being answered by each citizen for himself. In Calcutta at least, the citizens' answers are not such as would delight the heart of A P Jain or B C Roy and Nehru is not being left unmentioned either.

—Flibbertigibbet

September 9.





The cane mutiny

'RISE and fall, rise and fall. I'm getting the bends,' muttered the sugar-cane furiously. 'Here I am, destined for the choicest *confitures* in Sydney — and how do they treat me? Battened down in this hot hold, jounced and bounced around for weeks on this endless ocean. And they expect me to stay sweet. I won't stand it, I won't, I won't, I won't!' And it dissolved into a sticky pool of self-pitying tears.

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From the London End

Approaching the Ultimate

The Farnborough Air Show

THE British Society of Aircraft Constructors' exhibition this year shows, in spite of the official security restrictions, the impact of the country's defence policy on the British aviation industry. The Defence White Paper had described the new military policy as representing "the biggest change ever made in peace time." This change is now transforming the whole character of military aviation. The manned fighters and bombers will now occupy a back seat in Britain's new defence efforts and if the designs of Mr Duncan Sandys, the Defence Secretary, are to go on unimpeded, these instruments of war will have to be abandoned. At the air show the most inviting and exciting of the events was the display of guided missile prototypes now in active production for the armed services. It is, therefore, inevitable that discussion and comment should centre on these weapons and whether their development as the core of the deterrent is wise and, finally, how far the aircraft industry is flexible to withstand the expected fall in government contracts for traditional types of military aircraft.

Guided Missiles

The guided missiles in production are all of the short and intermediate range and although the firms of DH Propellors and English Electric are reported to be working on the ballistic weapon there exists a firm conviction that the stage reached is not particularly advanced. The missiles on show appear to the untutored eye to be of simple shape and construction. The surface-to-air missiles, the Bristol Bloodhound and the English Electric Thunderbird were mounted on their launchers and having regard to their power as an anti-aircraft weapon of devastating accuracy, the size and structure of their launching site complex compares most favourably to that of runways required for fighter planes (who would otherwise be engaged on similar duty). The range of the surface-to-air missiles is said to vary between 15 and 70 miles and the largest of these are capable of carrying atomic warheads. The Armstrong Whitworth Seaslug is made for launching from a sea craft and like the Thunderbird it is propelled by a rocket. The progress made in air-to-air missiles should also to be noted. These missiles (two of which are in production) are carried by fighter aircraft for use against other airborne targets. All are propelled by rocket motors to high supersonic speed.

It is in the field of ground-to-ground missiles that the most feverish activity is bent. These missiles, according to reports, cover the extremes of complexity and size. According to a **Times** survey, the smallest of the ground-to-ground missile may be carried by a man who can fire it at a battle-field target, directing the weapon by electric signals. Through a host of intermediate weapons one reaches the ultimate—the mighty long range bombardment weapon carrying a hydrogen warhead. Of this ultimate weapon two types are discernible: the "winged cruiser" type which is in the nature of a unmanned bomber aircraft and the "wingless ballistic" type. The latter is a development of the German V2 rocket and is in turn classified into two categories according to range, viz, the intercontinental class (5000-mile range) and the intermediate class (1,500 to 2,000 miles.)

British Military Policy

Some of the effects of these developments, particularly the employment of nuclear warheads to missiles thereby giving these weapons the true character of the deterrent, were examined in your correspondent's recent review of Dr Kissinger's **Nuclear Power and Foreign Policy.** These effects have caused considerable anxiety among various people and the occasion of the Farnborough Air Show has indeed been used for a particularly deep discussion of the problems of British military policy. The Defence White Paper of April last has certainly not been the last word on the subject for it is increasingly being realised that the Soviet Union is not the only potential enemy Britain faces. The practicability of what is popularly called the "limited war" and the avowed reluctance of the great Powers to enmesh themselves in a war of mutual destruction now raises questions of serious doubt about the wisdom of the policy set out in the Defence White Paper. Indeed, a certain influential clamour for the maintenance of the tactical air arm of RAF and of a fleet of medium range bombers is being heard. Sir John Slessor, former Chief of the Air Staff, has in an emphatic review of British military policy in the **Times** recently declared that there must be "no undue concentration on the nuclear deterrent." He goes on to say:

> "For as far ahead as we can see, manned aircraft will be required both in the central strategic reserve and in our overseas forces to provide for peripheral wars."

The Secretary of Defence, Mr Sandys, has, however, not retracted his statement of policy that the last of the British manned fighters will be the English Electric P1 (now in production but not likely to be in service for another two years). In fact, the RAF are likely to obtain the defensive missile long before the P1 is delivered. The implication of this exceedingly important situation is sharply posed by the exhibits at Farnborough. Apart from the work on the P1, there exists little development and research in the aircraft industry on supersonic speed problems. This is regrettable because such research is vital to the success of the supersonic airliner which several British firms are planning to produce as a co-operative venture.

Less Dependence on Government

The British aviation industry is in an anxious state of mind for its continued prosperity must now depend on civilian production and exports. The Defence White Paper spoke of "some entailment of the research and development programme" and that other "Savings will be achieved." According to the Director of the Society of British Aircraft Designers, between 85 and 90 per cent of the US aircraft industry's turnover is provided by

the US Air Force and other Government contracts. In addition, the American Government is notably generous in the provision of many costly facilities without any cost to the industry. In Britain, by contrast, 62.5 per cent of the value of the work completed by the British aircraft industry was done under UK Government contracts and 37.5 per cent went to other customers, largely abroad. "Looking at the balance of orders on hand, 57 per cent are on Government account." It therefore appears that the UK aircraft industry is moving into a state of lesser dependance upon Government contracts and increasingly on the uncertain field of civilian aviation and foreign buying.

Aircraft Exports

In 1956 the UK export of aircraft reached £100 million. This export size will now have to be pushed to even higher levels if the employment in the industry and the necessary amount of investment therein are to be maintained. It has been calculated that the intrinsic value of aircraft exports is considerably above that of any other metal or engineering product. The high conversion content of labour to material cost in aircraft is obviously a preferable line of economic activity if standards of living and earnings are to be increased. An aircraft can be exported at more than £10 a pound of structure weight whereas the average motor car sells abroad at considerably less than 10 shillings a pound.

A Question of Policy

These, then, are the impressions of your correspondent of the British aviation industry as seen through the Farnborough Air Show. The sight of formation flying of aircraft possessing a sleekness and a character of precision is possibly the surest indication of high technical performance and capability of the aircraft industry.

The analysis of performance of structure and of deveolpment must remain more in the hands of those who have achieved an expertise that only comes from long specialist technical training. In the last analysis, however, the technique must remain the servant of policy and British policy on all aviation matters is today in the melting pot.

From Electronics to Laundry Machines

THOSE who look for logic in industrial organisation may ponder for a while on the range of products rolled out by the Philco International Corporation of New York, as given out in a talk to press representatives in Bombay by the Regional Manager of the Corporation. Its activities not only range from electronics to washing machines, Philco leads in both. A startling development in the field of electronics and electric appliances made by Philco is the electric microscope which enables the growth of cancer cells to be watched. Though not produced on a commercial scale yet, the microscope has already been extensively used in the United States in cancer research.

Philco 'Ionitron' air-conditioner, it is claimed, is capable of cleansing the air with much greater efficiency than the usual types of air conditioners in that it affords relief and protection from airborne allergies also.

Not exactly true to the kindered points of heaven and home, Philco which has become the largest manufacturer of laundry equipment by taking over Bendix Home Laundry Equipment Co., and Crosley Household Appliances is also the manufacturer of the transmitters through which meteorological and other data will be transmitted back to the earth when the earth satellite is launched later this year. Through its licensees or subsidiaries all over the world, Philco is doing pioneering work in colour television, television receivers, radios and high-fidelity equipment.

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The above loans will be repaid at par on 16th September 1969.

THE LOANS WILL OPEN FOR SUBSCRIPTION ON 16TH SEPTEMBER 1957 AND CLOSE ON 18TH SEPTEMBER 1957 OR EARLIER WITHOUT NOTICE AS SOON AS SUBSCRIPTIONS APPROXIMATE TO THE AMOUNT OF EACH ISSUE.

The loans will bear interest from 16th September 1957.

Subscriptions may be in the form of cash/cheque in respect of both the loans.

3% MYSORE GOVERNMENT LOAN 1958 will be accepted at Rs. 99.75 per Rs. 100 nominal for conversion into the new loan of that Government; interest on the securities of the loan tendered for conversion will be paid upto and including 15th September 1957.

APPLICATIONS FOR BOTH THE LOANS WILL BE RECEIVED AT THE OFFICES OF THE RESERVE BANK OF INDIA AT BANGALORE, BOMBAY, CALCUTTA, MADRAS AND NEW DELHI.

APPLICATIONS will also be received at PLACES WITHIN THE RESPECTIVE STATES as follows:—

(i) At the office of the Reserve Bank of India at Nagpur, branches of the State Bank of India, branches and Treasury Pay Offices of the State Bank of Hyderabad and the Government treasuries and sub-treasuries in the case of Bombay Loan.

(ii) At the branches of the Bank of Mysore Ltd., State Bank of India, State Bank of Hyderabad and at Government Taluk treasuries in the case of Mysore Loan.

Copies of Notifications and Application Forms may be obtained at any Receiving Office.

From U N Headquarters

Accent on Africa

A HIGH official of the U N —head of the Division of Non-self-governing Territories—flew this week to Africa to attend a meeting at Lusaka, North Rhodesia, of representatives of five colonial powers. The official, Mr Wilfrid Benson attends the meeting on invitation - he cannot participate in it—but his flight spotlights the goings-on at Lusaka which are hidden in a shroud of mystery. Very little is known, outside the colonial offices of a few European countries, of the Commission for Technical Co-operation in Africa south of the Sahara. It is officially known as the CCTA—the initials are after the French nomenclature— and its members are the United Kingdom, France, Belgium, Portugal and South Africa, all five countries which have a large stake in Africa. The headquarters of CCTA is in the London Colonial Office, but the Colonial Office is not very eager to make this fact known. For all practical purposes, the CCTA is a kind of a hush-hush organisation, behind whose activities in behalf of research on Africa lies a determination to keep Africa for Europeans.

Not a U N Body

The CCTA, it might be said, is by no means an inactive organisation. The number of meetings that it has held sounds like a roster of scientific meetings. The five powers indeed have been extremely active —since the CCTA was first established in 1950—in gathering material on a number of subjects connected with apparently such insignificant items as forestry, fishing and movement of currents off the African coast. The CCTA is not a U N body; according to information available at the U N—and where the CCTA is concerned the U N does not do much talking—there is very little cooperation between the two organisations. The CCTA, it would seem, is almost anxious to keep the U N out of Africa, if that could be done. South Africa, for instance, does not contribute to the U N expanded Programme of Technical Assistance, but makes substantially large contributions to the CCTA. The CCTA has a regional office at Bukawo, in Belgian Congo. What transpires between London and Bukawo on matters concerning Africa south of the Sahara would hold the key to its future.

Between the five colonial members of CCTA and Rhodesia and Nyasaland, also a member of the organisation, a tacit understanding is seen here to keep the United States out of the continent. But whether the United States which considers Africa as the "soft under-belly of West Europe" is happy over this arrangement is a different matter. The recent efforts in this country to step up interest in Africa show that the United States intends to be in the picture, whether the European powers want it or not. The big American drive for African friendship actually began last year in March when Vice President Richard Nixon, at the direction of the President made a three week flying swing through the northern half of Africa, coinciding with the independence festivities of Ghana, the former British colony. On his return Mr Nixon made a detailed report to the President in which, among other things, he recommended that the United States step up its diplomatic activities in the "dark continent".

U S Interested

The United States, Mr Nixon indicated, should be there in the field ahead of the Soviet Union. He said: "The emergence of a free and independent Africa is as important to us in the long run as it is to the people of that continent". That Mr Nixon's report is being acted upon with haste, if not prudence, is evident from the following reports in the press:

The State Department is setting up a separate Bureau of African affairs with a new and as yet unnamed assistant secretary of state to deal exclusively with African problems.

The U S Information Agency, the country's overseas propaganda arm, is boosting its spending in Africa by almost 10 per cent this year, despite the slash in its overall appropriations by Congress.

U S diplomats are just getting settled in posts at Abidjan on West Africa's Ivory Coast, at Mogadiscio, Somaliland and Kampala, Uganda. Plans are in the works for U S diplomats also to go to Madagascar, Brazzaville in French Equatorial Africa and in Kano, Nigeria.

African countries will get more U S economic aid than ever before.

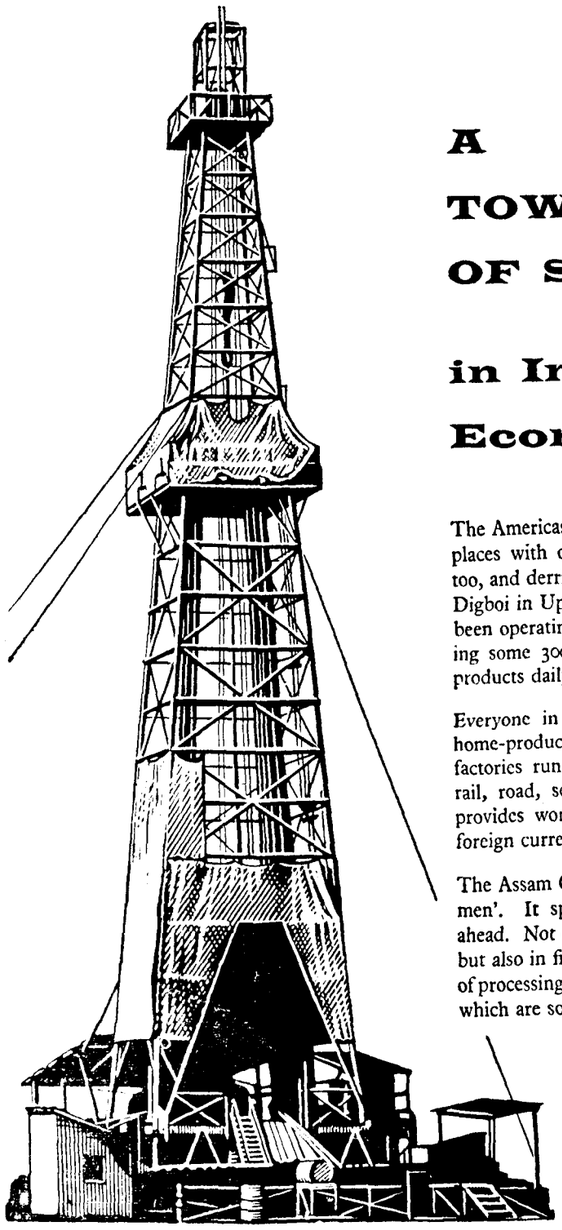
Reservoir of Natural Resources

Mr Nixon's trip was followed up by others, notably by Frances Bolton, a high-ranking member of the House Foreign Affairs Committee, Senator Theodore Green, Chairman of the Senate Foreign Relations Committee and Adlai Stevenson. Why were they interested in these areas, much of which is dense forest or swamp land? The answer was given recently by a Senate Foreign Relations Committee Staff Study on Africa which said that the continent is "the world's largest unexploited reservoir of natural resources", viz, uranium, copper, chrome, iron, bauxite, managnese, asbestos, tin, graphite, industrial diamonds, gold, culmbite, cobalt, beryllium, and other minerals.

The **Wall Street Journal**, in an article recently added: "Africa is a stepping stone between Russia and the U S. Any Soviet domination in Africa would not only threaten the so-called soft under-belly of Western Europe, but would cut off the free world from Middle Eastern oil and directly threaten the U S as well". That's one reason, the journal said, why the U S has built air bases in Morocco and Libya in North Africa and is sensitive to overtures towards any part of the continent. (What is worth noting at the present moment, though, is the fact that direct Soviet activity in Africa is slender. The Soviet Union has embassies in only three countries, Tunisia, Ethiopia and The Sudan, while Czechoslovakia has consulates in the Belgian Congo and the Union of South Africa.)

Power Vacuum

From the point of view of the West, it is not only necessary to keep African wealth out of communist hands, for its own safety, but further it is necessary to fill in what is considered a "gigantic power vacuum" in the continent. There may be differences among the European countries and the United States as to who should own the wealth or who should have the largest share,



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but in the matter of keeping what is purported to be Soviet influence out of Africa, there is unanimity among them.

In the U S there are two schools of thought among military strategists and policymakers. The strategists and policymakers. The first of these is traditional. This view is typified by some members of the U S War College, who, after touring Africa earlier this year, submitted a report criticising the U S State Department for its overtly 'liberal' policy in the political field. Taking a realistic—and from the Asian African point a cynical—attitude towards the new surges of nationalism, these members held that in the United States interests it was wiser to uphold European power in Africa as a sure shield against any possible Communist attack. The second is the Nixon school of thought, which believes that in any eventuality it is wiser to have the local people on the side of the U S rather than the Europeans, as seems clear in Algeria.

U S Bases

That both the European powers and the United States are, meanwhile, going their respective ways in strengthening themselves and digging in their toes is all too clear. On their part, the European Powers, including the United Kingdom, are concentrating in Algeria—only too evidently—and in East Africa, where the British are concentrating their military base in Kenya as part of the NATO network. The United States, more realistically it would seem, has established bases in the independent state of Ethiopia, a highland which in more senses than one, according to one independent report stands above the **Sturm und Drang** now sweeping the colonial lowlands. Ethiopia has a seaboard in Eritrea and it is widely believed that American strategic thinking favours an extension of Ethiopian power throughout the horn of Africa, thus bringing the commanding promotory of Cape Guardafui under American control.

But American "infiltration" is not confined only to political and military projects. To make such overt activity palatable, American capital is doing its bit in many ways to raise the standard of living of the people. U S specialists, for example, are helping Ethiopians drill wells, improve their coffee production and fight endemic diseases. Industrial training schools, according to a **Wall Street Journal** report, are being set up in Uganda, Nigeria and the Central African Federation of Rhodesia and Nyasaland to teach the local people needed trades. The aid-dispensing International Cooperation Administration is hunting for an investment adviser to help Rhodesia and Nyasaland spot potential money-making schemes and bring them to the attention of U S investors. Washington, facing the financial pinch, is also trying out other methods to get American capital to Africa through private channels. A fortnight ago the U S and Belgium signed a new tax agreement designed to spur private American investment in the rich Belgian Congo. Yet to be ratified by the two Governments, the agreement extends to the Congo, the American-Belgian Treaty eliminating double taxation by both Governments on the profits of such ventures.

Altruism Self Interest?

Africa is fast becoming the focal point of interest to Americans. Their interest is multi-sided. In the first place, the United States feels that as a great power it ought to have an interest in the development of Africa, but feels baulked of its legitimate share because it is itself a late-comer in the field of international division of African territories. The Europeans were there first, and show no inclination to abdicate their hold on such colonies as they hold. In the second place, as the leader of the Western bloc, the United States feels that it ought to have a larger say in the matter of running a defensive system in Africa that will keep away Soviet challenge both from within and from without. On this score, the European powers might be—though there is no positive indication yet—willing to listen to the United States.

In the third place, Africa is a land of unexploited riches and a source of unlimited raw materials. As the richest country in the world and one needing raw material in substantial quantities, the United States would be wanting to have ready access to it. In the fourth place, the United States, as the only non-colonial nation among whites feels that it may be listened to with more respect by the newly-independent nations like Ghana, The Sudan, Morocco and Tunisia, Libya and in the not-too distant future, Nigeria. And finally, one should also concede the United States goodwill and a measure of altruism which, though it may not go well with the U S Atomic Energy Commission Experts' nosing around in the Belgian Congo for uranium or the pushing ahead with an eye to war emergency needs for better rail links across southern Africa's mid-section from Angola to Mozambique, nevertheless squares to some extent with some $50 million of new American investment poured into Africa last year, on top of a half-billion dollar stake Americans already have there.

Proposed Investments

But whether it is altruism that is the driving force behind American investments or not, the fact is that the United States is getting more and more interested in Africa, wherever, in fact, American capital can have a useful outlet. According to the most reliable reports, a top American firm, the Frederick Starr Contracting Co, is dickering with Chase Manhattan Bank for financing a shipbuilding yard in Morocco. American aluminium companies are surveying bauxite deposits in Ghana and French Guinea. U S oil concerns such as Gulf, Sinclair, Jersey Standard, Standard of California and Shell are poking around for crude deposits in Libya, Mozambique, Ethiopia and Somaliland. And mining firms are seeking copper, manganese, iron chrome and other vital metals scattered around in the Rhodesias, Liberia and the Union of South Africa. To exploit these resources without seeming to step on African nationalist sentiments, to establish giant enterprises without playing into the hands of rabble-rousing union leaders, to have liaison with African politicians without laying themselves open to the charge of exploiting black peoples, to safeguard United interests without fear of being challenged by the Asian African bloc—these are some of the problems facing the United States both on an official and non-official level.

The feeling is slowly settling down in the upper official echelons that the European powers are a spent force in Africa and that sooner or later, as more and more African countries get rid of their white masters, the struggle will be on for bringing them either within the Western or Soviet spheres of political influence. That the United States sees no great challenge from

the Asian African bloc is both a tribute to the non-aggressive character of the bloc as well as a quiet challenge to at least some of its leading members. Do countries like India, Japan and China have nothing to say in the matter of keeping Africa out of the East-West context?

What can India do to help—if such help is asked voluntarily raise the educational standards of Africans in many lands? What social philosophy can India impart to Africa? Ghana is strategically located on Africa's west coast. India's leaders are liked and respected in Ghana. Indian films are extremely popular in Accra's theatres. India has no strategic interests in Africa and in that sense therefore, her *bonafides* are likely to be accepted. India will be abdicating her responsibility, therefore, if she hesitates to play her part in Africa.

And if India will not, other nations will.

August 29.



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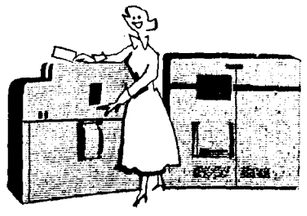
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A Wage Policy for Economic Development

Subratesh Ghosh

A WELL-CONCEIVED wage policy is an essential condition for the success of a plan. Economic planning and social co-ordination having been accepted as instruments for smooth and rapid progress of the country, the need for a national wage policy is now self-evident. In fact, even in the advanced economies which put less emphasis on planning the necessity of a national wage policy has been recognised and it has come to be accepted that wage stability in the short run and a moderately rising level of wages in the long run are necessary conditions for economic stability. The objectives having been accepted, it requires only one further step to conclude that they cannot be left at the mercy of the unregulated market forces and a national wage policy becomes the only alternative.

The conditions of stability are not, however, also necessarily sufficient conditions for development. In an underdeveloped economy, it is more important to enquire about the objectives of a wage policy that will not only be consistent with development, but will directly contribute towards that process. Our search for such objectives may be helped if we remember that wages are not only *incomes* to the workers or *costs* to the industrialists, but also *incentives* for further effort and a mechanism for distributing the workforce among different industries. Keeping these in view, it may be possible to outline the broad objectives of a wage policy which aims at helping the process of economic development.

I

In the underdeveloped countries the prevailing wage rates in most of the industries being inadequate to maintain a decent standard of living and to improve labour efficiency, fixation of minimum wages in order to ensure a minimum standard of living becomes imperative. The minimum wage also helps, at the same time, to maintain a minimum level of managerial efficiency, as the survival of the marginal firms will no longer be possible on the strength of sub-standard wages. With the enforcement of minimum wage standards, these firms will be compelled to search for the means of improving their technical and managerial efficiency for sheer survival.

Besides, a wage policy for economic development will also have to re-examine the existing wage structure so as to establish and maintain a pattern of relative wages which will help to regulate the distribution of the workforce in a manner consistent with the planned development of different sectors of the economy. In a purely authoritarian economy such a distribution or redistribution of labour may be achieved by decrees, but the method of compulsion being unacceptable, wage incentives remain the only instrument to obtain the desired result. This naturally points to a wage structure which will allow for reasonable income-differentials between different occupations and jobs, the relative importance of which are given by the pattern of development envisaged by the planning authorities.

Such income differences, however, need not go against the accepted ethical standards of equality and social justice. In fact, in a period of development the concept of equality has strong economic justifications as well. The marginal propensity to consume being too high in a backward economy to be consistent with the overall needs of capital formation, it is essential to encourage austerity and thrift among all sections of the community. These will increase the marginal propensity to save, at least by restricting non-essential consumptions. The existence of large degrees of inequality in earnings and wealth, however, makes such a restriction of non-essential consumption impossible because of the inherent tendency of man to imitate the standard of consumption of the proximate higher income-group and also due to the encouragement which it gives to conspicuous consumption for business purposes. Thus the creation of a favourable psychological climate for rapid economic development underlines the necessity of minimising inequality in every respect.

This may appear to be inconsistent with our previous appreciation of the role of wage-differentials as an instrument of regulating the distribution of labour in the economy. But it is really not so, as a little reflection will show. For in fact, it is only at the strategic points that special economic incentives will be necessary to encourage the flow of labour, and they may not be very large in number. Thus barring these exceptions, the wage relatives may be so adjusted as to produce, in general, a climate of greater equality. It may be asked whether reduction of inequality in general would affect in any way the supply of superior skill, more particularly in view of the bottlenecks which developing economies have often to face because of the relative scarcity of the managerial personnel in a period of rapid expansion. The apprehension, that it may, however, completely fails to take note of the extra-economic factors which influence the supply and formation of superior skills and which are no less strong.

The fact that in the present social set-up, positions of importance and status also necessarily carry high remuneration makes it difficult to view them separately. Social status, responsibility and power are by themselves sufficiently strong incentives for people of superior talent; given the minimum economic security, they would need no further incentives. In India, the Cabinet Ministers in the States as well as in the centre earn far less than successful medical practitioners, lawyers or businessmen. But that does not prevent the flow of sufficient talent to ministerial positions, even from the above occupations. Many responsible administrative posts in the government services carry a much lower remuneration than posts of high responsibility in important commercial firms, but that never causes a dearth of superior talents in the civil service or brings about a large-scale exodus from the government services to private industries. It may be, therefore, expected that even after allowing for necessary exceptions generously, a proper balancing of the two apparently contradictory objectives would be possible without much difficulty.

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as the 'fair wage' may be considered at this stage, viz, equal pay for identical work in different industries or firms. The argument has its basis not only in ethics, but in sound economic considerations as well. Although mobility between industries and occupations is necessary in the sense that there being pull for skill and scarce resources from different industries of unequal social importance, a transfer of resources from the less important to the more is desirable, there is little social benefit in unnecessary labour turn-over within the same industry, or even between the industries, if not warranted on above grounds. However, from the individual point of view, such socially useless labour turn-over becomes attractive, if the remuneration and conditions of work for identical situations substantially differ in different firms of the same industry or in different industries. The fair wage principle which emphasises equal pay for indentical work will thus help in stablising the labour force in a way consistent with the requirements of economic growth.

We thus see that a rational wage policy for economic development will have to satisfy the criteria of

(i) the minimum wage principle, which wants to ensure a minimum standard of living to all workers;

(ii) readjustment of the wage structure so as to provide for a reasonable degree of wage-differentials, justifiable on labour allocation and incentive considerations, having at the same time due regard to the accepted values of social equality; and

(iii) the fair wage principle, in the sense of equal remuneration for work of equal skill, knowledge, responsibility, or degree of unpleasantness.

This will naturally mean for all the underdeveloped economies, an upward revision of wages. But the attempt at the practical enforcement of the policy will raise another problem. As a consequence of such wage revision, in most of the industries having some degree of competition, the existence of the marginal firms which survive on sweated labour may be endangered. The favourable possibility that as a result, such firms may improve their managerial efficiency has already been noted. Some firms may succeed but there may be others who may go into liquidation for their failure to improve efficiency. If there were no unemployment problem to bother about, such a 'penalty on inefficiency' could be easily supported. But as underdeveloped economies also have the problem of chronic unemployment, it is impossible to neglect the possibility of aggravation of the unemployment problem from the closure of such units. As a way out, the Planning Commission has suggested the amalgamation of such marginal firms into larger units, voluntarily if possible, but compulsorily, if necessary. Formation of larger industrial units and reduction of wasteful competition having other attractions from an economic standpoint, a hastening of the process because of the need for enforcing fair wage standards, therefore, may be an additional benefit of the rationalisation of wage policy.

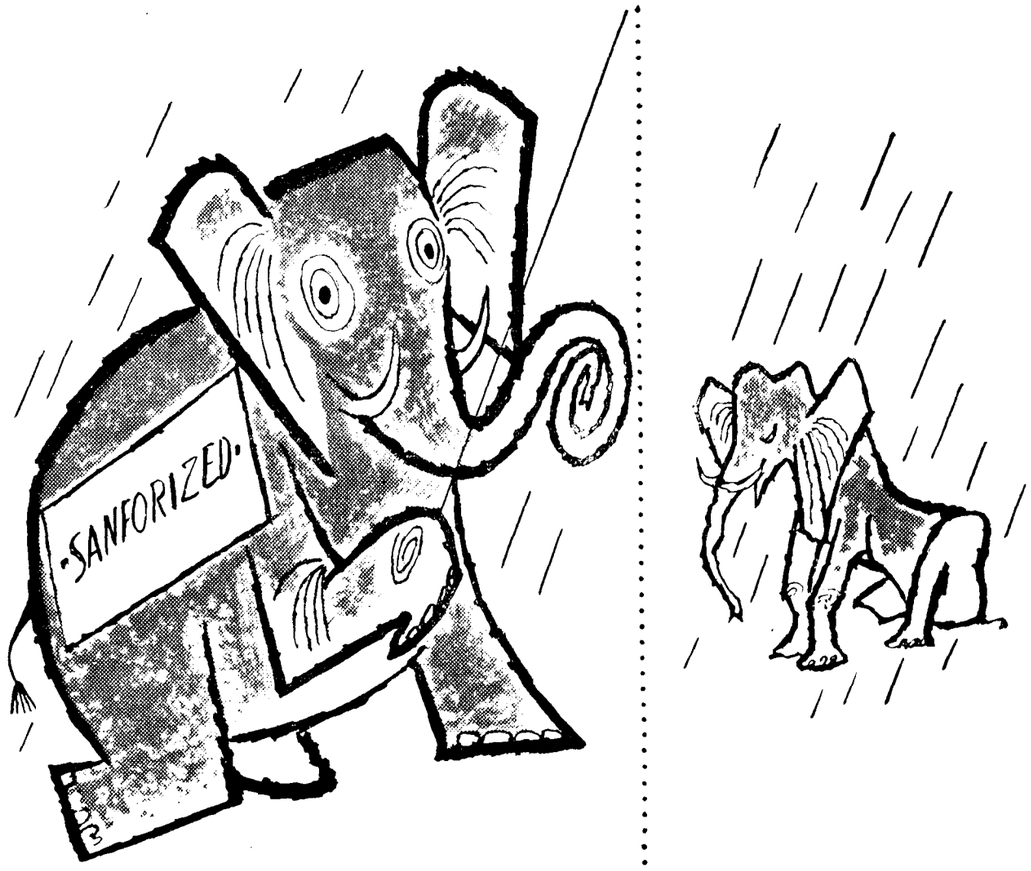
So much about the immediate necessity of upward revision of wages according to the criteria mentioned above. But there remains the problem of the future, ie, the further question of workers' sharing the benefits of economic development. The workers being a part of the community and partners of the adventure for economic progress, justice demands that their incomes also should rise with the development of the economy. This is possible by arranging for increase of the workers' real earnings with the improvements in labour productivity, the latter being a cause as well as the result of economic development. However, there are two possibilities of achieving this and it is desirable to enquire about their applicability in a developing ecnomy.

Workers may reap the benefits of improved productivity either (i) through a policy which maintains the wages stable, while prices move in the opposite direction to productivity, or, (ii) by a policy of increasing the money wages directly with the rise in productivity, while keeping the prices stable. In other words, in the first, gains in productivity are translated via lower prices, while in the second, they are transmitted via higher money wages.

In current discussions, the first alternative has been rejected and the general support goes for the second. A continuous reduction of piece rates will become necessary, if wages are to be kept constant while productivity increases. Payment by results being the prevailing system of wage payments in many of the industries even in the underdeveloped countries this would naturally create serious friction. Moreover, "it is highly improbable that with the industry organised as it is at present, prices would really be lowered fast enough to offset increases in productivity." Thus, practical possibilities of the first alternative being strictly limited, the choice necessarily falls on the second. But even accepting that wages should rise in accordance with gains in productivity, our problem is not solved. How to apply the principle in practice? Should the wage level be related to average increase in productivity, or to increases in productivity within each branch of industry? The second principle may affect the wage relatives now and then and as a result, frictions may develop in one industry or other from time to time. But the first alternative has the attraction that it will leave unaffected the wage relatives that have been accepted by the authorities and the representatives of the parties concerned while formulating the wage policy as a constituent of the development plan. The estimates of costs for the plan, therefore, would not be disturbed. The acceptance of the second alternative, however, may create such disturbances.

II

We now have some general outline of the objectives of a wage policy which will meet the requirements of a developing economy. We have also assumed some sort of economic planning and social regulation of the economy under consideration. But economic planning may be democratic as well as authoritarian. In the former type, the planning process operates through and in accordance with the democratic institutions while in the latter type, planning as well as its implementation is mainly through the decrees of the state. The machinery of formulation and application of the wage policy in the two cases would, therefore, naturally differ. In an authoritarian economy, the objectives having been decided, the problem would be merely one of effective implementation through decrees of the state planning authorities. In a democratic country, however, given the existence and freedom of voluntary economic associations, the lat-

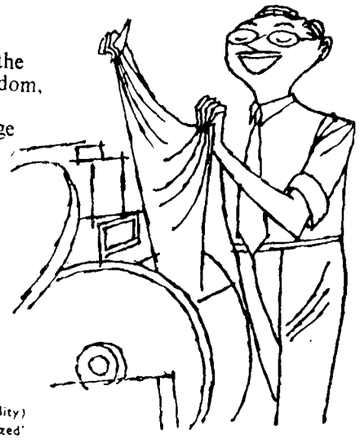


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ter not only participate in detailed formulation of the objectives and the principles, but the policy itself is implemented through their active participatioon. Thus the wage policy in such an economy is implemented through three groups, viz, trade unions, the employers and with the extension of state regulated compulsory arbitration, the arbitration boards, although all of them work under the broad norms set up by industrial and labour legislations, which in turn originate from the policy of the planning authority.

Although in the immediate post-war years, most of the developing economies, particularly in Asia, were quite enthusiastic about compulsory arbitration, after the experience of all these years, its extension outside public utilities and a few basic industries is no longer much appreciated. Apart from the practical difficulty of extending its scope to a large number of industries, compulsory arbitration has been found to be of limited utility. Awards of the arbitrators may prevent work stoppages for the time being, but they cannot develop the genuine spirit of cooperation and good will, without which permanent industrial harmony is impossible. Collective bargaining, besides being a democratic institution giving much scope to free participation of the producers in the regulation of industrial conditions, has a special attraction in this respect. Conciliation and mediation also contribute a good deal from this point of view.

But how can collective bargaining, which has uptil now been conducted only at the industry or factory level, meet the requirements of a national wage policy? As an answer to this, the suggestion of a centralised trade union and on the other hand a centralised employers' federation may come to mind. But such a centralisation of wage policy, in the sense that wage bargains on the part of labour should be conducted exclusively by the national trade union centre instead of individual unions is neither desirable, nor practicable. The wage bargain being the most important function of a trade union, the removal of wage bargaining from its jurisdiction will naturally make the trade unions much weaker and workers, in their turn, would lose their interest in them. Moreover, in most of the underdeveloped countries, the national trade union centres are weak and have very little effective control over their constituent units because of their organisational defects and the existence of many rival national trade union centres and other factors promoting disunity. A centralised trade union wage policy in such a case, cannot but be a thoroughly impractical proposition. On the other hand, wage bargaining on the basis of industrial units may not be well informed of social values and economic realities and may result in excessive wage increases which in turn may develop inflationary pressures. A workable solution may be found by developing the practice of wage bargaining on the industrial basis. This would call for the development of national industrial unions representing workers in each industry in place of completely independent one shop unions. Realisation of better organisational efficiency of the national industrial unions is slowly dawning in the minds of the trade unionists of different underdeveloped countries of Asia. Malaya and Burma have already made some definite progress towards it. Given proper guidance and encouragement, other underdeveloped countries also would not lag behind.

It should be emphasised at this stage that although with the growth of such industrial unions and employers' industrial federations, free collective bargaining should be given proper scope for determining wage rates and wage relatives in the industry concerned, subject to the limits set by a national wage policy, perodic revisions should be made according to the plan period. Before the commencement of each plan, the representatives of workers and employers should sit round a table in order to review and, if necessary, to revise the existing wage level and structure. The planning authorities and the labour department of the government may also help the process by appointing neutral experts and mediators to enable the parties to reach some rational settlement. The resulting settlement should be registered in the form of an agreement and it must be inviolable during the plan period. The planning authorities, therefore, having complete evidence about the level and structure of wages during the plan period, will make their estimates on the basis of these. Thus there will be no danger of the plan being upset by haphazard changes in wages, although no restriction of the reasonable freedom of collective bargaining will be necessary for ensuring wage stability during the plan period.

Prop-jets for Short Haul

THOUGH turbo-props have entered the field of internal air transport also, it is only for long distance flights. Supersonic speed and short hops had hitherto made no sense hence the earlier mis-adventures of the Indian Airlines Corporation with the Heron. Jet planes built for speed have to attain a certain height before they can take full advantage of their capacity for speed, and it had meant so far that they could operate to advantage and therefore, commercially, only on long distance non-stop flights.

Lockheeds have now announced a model, however, which threatens to knock out some of these fixed notions of commercial aviation, a model which may open up the internal air services also to the magic charms of jet propulsion. The Electra, a new four engined prop-jet commercial airplane designed by Lockheeds for short distance hauls, promises to carry 44-88 passengers at a cruising speed of 400 miles per hour. The designers are confident that this model will be able to operate profitably even on routes where the stops are as near as 150 miles, while still retaining a maximum range, without consuming reserve fuel, of 2,740 miles. By the time that the Electra goes into service two years hence, its Allison Model 501 prop-jet power plant will have accumulated at least two million hours in flight.

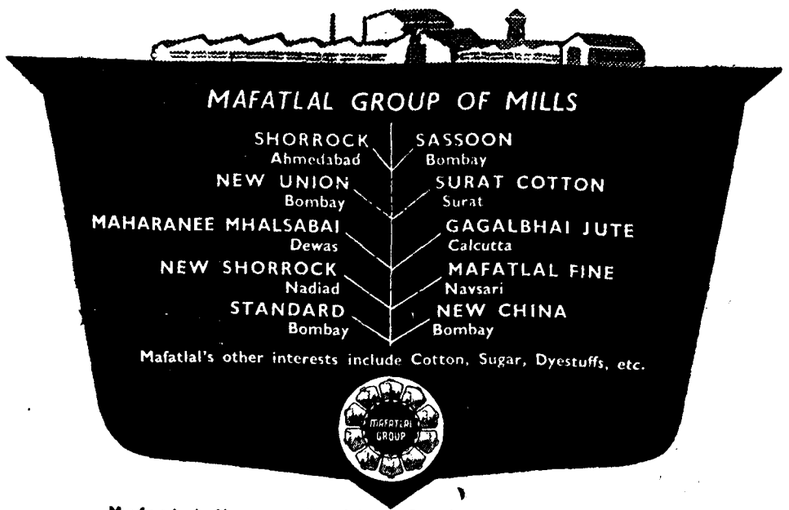
Major airlines seem to have fallen for the Electra. They have ordered a total of 132 of these wonder planes even before its first flight. This means orders worth approximately $ 270 mn, the highest recorded so far for any airplane before its first flight, now under construction.



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Trade Unions on the Offensive

(From Our London Correspondent)

THE British trade union movement, by virtue of its size and influence, possesses a far greater power to determine economic and political trends and policies than possibly any similar movement elsewhere in the Western world. Indeed, no British government can be so independent as to ignore the views of the Trades Union Congress and where it risks a policy formulated without regard to the views of the TUC there exists every chance that the policy will founder on the rocks of trade union opposition.

So long as the TUC is governed by a moderate leadership the Government can expect cooperation and industrial peace. In the past two years there have been some quiet changes in the composition of British trade union leadership. As long as there was an Earnest Bevin or an Arthur Deakin to lead the 1,800,000 strong Transport and General Workers' Union and hence the Trades Union Congress, no British government needed to have the anxieties that currently pervade the Tories. For now the silent revolution in the leadership of the British trade unions has decidedly forced the TUC to shed its moderate features and take decisions of a far-reaching political character which not only undermine the Government's economic policy but sharply conflict with the moderate objectives of the Labour Party on such crucial questions as Nationalisation and economic controls and planning.

New Leadership

The trade unions meeting in Blackpool last week have by their decisions and by their relegation of the moderate elements into relatively back-seat positions, created a new situation for Britain. The TUC annual conference was dominated by Mr Frank Cousins, the new leader of the Transport and General Workers' Union. He combines a simplicity of approach to all trade union questions with a remarkable socialist fervour. It has been this combination which forced the **Times** to consider him to be the principal menace, the symbol of the "purely destructive attitude into which the movement has been led." The remarkable power of Mr Cousins is reflected by the proceedings at the TUC conference. All the main decisions, including those on wages policy, on nationalisation, on social insurance and on disarmament, were taken unanimously. For the first time there was no resort to the card vote. It was certainly the smoothest TUC conference in a whole decade.

Against Wage Restraint

The simplicity of Mr Cousins's approach is seen at its best in his exposition of TUC policy on wages prices and inflation. The approach lead to the rejection of the Government's plea for wage restraint. Mr Cousins declared that no trade union movement can be told how the "national cake"—the national product—is to be divided unless it was told also "how to control those who controlled the size of the cake."

When the Government dismantled controls of every form in the economy it was inaugurating a "free-for-all' mentality and this had enabled the possessors of capital to invest in projects of limited social profitability like cinemas and garages when in fact the nation's needs dictated otherwise. A government which was bent on controlling the price of labour but nothing else was a government of an anti-working class character. And so the TUC took up one of the strongest stands against any post-war British Government.

Nationalisation

The fact that the trade unions are now one step ahead of the Labour Party was sharply reflected by the resolution on nationalisation. The Labour Party policy statement **Social Ownership** reviewed in the columns of this journal recently conceived of the state as owning some shares in private companies as a more satisfactory alternative to outright nationalisation. The TUC, dictated by considerations of a general election in two years' time, did not wish to expose its difference with the Labour Party leadership. It did, however, give its acceptance of the Labour policy a very conditional character. In its resolution, the TUC conference accepted the statement on **Social Ownership** as only "an adjunct to a nationalisation programme and not a substitute for such a programme." The powerful National Union of Railwaymen, in its statement to the conference, poured scorn on the Labour statement:

> "....the politicians have decided that the workers could be emancipated through the board rooms, the managing directors and the benevolence of the shareholders."

And so there appears in the trade union movement a new attitude of meeting fundamental problems fundamentally and not, as the Labour Party Executive has been prone to in recent years, by "finding or inventing solutions which invariably carry a superficial and an opportunistic flavour."

Free Trade Area

The trade union tendency towards clear thinking was, however, not always as all-embracing in the TUC conference discussion. This was particularly shown in the discussion on the Free Trade Area. Few appear to understand the distinctions between this project and the Common Market. The merits and gains from a re-distribution of occupational activity between member countries of the projected Free Trade Area was completely lost in a general fear that the British workers were likely to suffer unemployment and a lowering of living standards.

This year's TUC conference presents for the Government the most difficult problems of economic policy. The question of inflation can now be tackled only, if industrial peace is to be assured, by a widespread abandonment of the Conservative philosophy of no economic controls. For failing that the only alternative is that of a conscious deflation leading, as it must, to mass unemployment and industrial war. Indeed, for the Government, this represents a dilemma of almost insoluble proportions.

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(b) the branches of the State Bank of India within the State of Bombay except at places mentioned in (c) below.

(c) the branches and treasury pay offices of the State Bank of Hyderabad within the State of Bombay.

(d) the Government treasuries and sub-treasuries in the State of Bombay at places where there is no branch or treasury pay office of the aforesaid banks.

(e) Applications will also be collected by the State Bank of Saurashtra at Bhavnagar and its Branches within the Saurashtra area of Bombay State and forwarded to the nearest receiving office.

Full particulars can be obtained at any of the offices of the Reserve Bank of India, Branches of the State Bank of India, branches of the State Bank of Hyderabad within the State of Bombay, branches of the State Bank of Saurashtra within the Saurashtra area of the Bombay State and the Treasuries and sub-treasuries in the State of Bombay.

A Critical Appraisal of Income Tax Statistics

ONE of the most puzzling features of the post-war economy drive of the Government of India was the decision of the Central Board of Revenue to discontinue the publication of income tax revenue statistics. As from the income tax assessment year 1951-52, these statistics are published as part of the Annual Abstract of Statistics which usually comes out after a time-lag of one and a half to two years, by which time the figures usually cease to be of much topical interest. To get some idea of the behaviour of income tax revenue, therefore, one has to depend on the Bulletin of the Reserve Bank of India which publishes, annually, a summary of income tax statistics. This year, the June issue of the Bulletin has published a comprehensive set of figures for the period covered by the First Five Year Plan.

Scope of Data

The data published admit of some useful analysis, but their limitations must be borne in mind. These statistics are prepared to meet the requirements of the Central Government for budget purposes and other administrative needs of the income tax department and are therefore not always suitable for economic analysis without proper adjustments. The data relate to the number of assessments completed in a year and include a number of assessments pertaining to earlier years while some assessments of the current year are carried over to the next year. Tax figures given relate only to tax demand made and not to actual collections. The form of presentation also has changed since 1952-53. Until then assessed income was indicated after deducting earned income relief. This system has been discontinued and assessed income indicated is gross of earned income relief.

The coverage of income is far from comprehensive. Apart from the fact that a large number of incomes are understated for purposes of income tax assessment or are not disclosed at all, incomes of companies, firms, individuals, etc, which are declared to the income tax authorities, are not fully indicated because of the deductions admissible under the Income Tax Act on account of development rebate, initial allowance and accelerated rates of depreciation allowance. One wishes that the C B R could persuade itself to publish gross income figures and then indicate its breakdown. Such a step would be extremely helpful for purposes of economic analysis. Further, since capital gains did not come within the purview of income tax (except in the exceptional case when capital gains comprised regular income accruing in pursuance of a commercial job), a large part of income was excluded. This would serve particularly to understate incomes in the higher zones of income since capital gains are likely to be concentrated in these zones.

Tax Revenue Grows Slowly

The data, as published, present a picture of gradual improvement over the First Five Year Plan. The total income assessed to income tax rose from nearly 6 per cent of the total national income in 1950-51 to a little over 8 per cent in 1955-56 However, while the total income assessed during this period increased by 36.5 per cent the tax assessed rose by only 17.4 per cent and the actual tax collection declined by nearly 3 per cent. Ordinarily, under a progressive rate schedule, a rise in the income assessed should bring about a more than proportionate rise in the tax assessed. This has not happened presumably because the increase in total assessed income was registered at the lower rungs of the ladder. To some extent, this is borne out by the fact that the total number of assessees has risen during the period under review in spite of the raising of the minimum exemption limit from Rs 3,600 to Rs 4,200. Increase in tax reliefs may be said to be at least partially responsible for this comparatively slow rise in the amount of tax assessed.

It is interesting to note that, as compared to 1950-51, the number of persons who contributed to provident and superannuation funds went up by 29 per cent and their contributions by nearly 73 per cent. Similarly, the amount of insurance premia on which rebate was claimed increased by nearly 60 per cent as between these two years. The increase in provident fund contributions and insurance premium payments, in so far as it indicates a genuine rise and is not due to better reporting, should be regarded as an index of the rise in the savings of the income tax paying classes. The drop in tax collection, however, is attributed mainly to appeals.

Type of Tax Payers

The assessed income of salary earners shows a remarkable rise of 64 per cent. Since salary incomes have the minimum number of avenues open to them for tax avoidance, the changes recorded in their total may be taken as the most reliable guide to income changes in

Income Tax Assessments by Types of Assessees

	(Income assessed and tax in Rs crores)		(% of total)	
	1950-51	1955-56	1950-51	1955-56
Individuals:				
No of Assessees	3,95,017	4,54,695	83.61	83.16
Income Assessed	342.35	500.54	59.61	63.77
Tax	63.70	79.41	41.09	43.65
Hindu Undivided Families				
No of Assessees	52,401	39,633	11.09	7.51
Income Assessed	64.41	62.25	11.21	7.93
Tax	14.25	11.04	9.19	6.07
Unregistered Firms				
No of Assessees	16,482	23,148	3.49	4.39
Income Assessed	21.99	33.97	3.83	4.32
Tax	7.13	9.01	4.60	4.95
Companies				
No of Assessees	8,519	10,261	1.80	1.94
Income Assessed	145.92	118.14	25.39	23.97
Tax	69.97	82.46	45.13	45.33
All Classes of Assessees				
No of Assessees	4,72,419	5,27,737	100	100
Income Assessed	574.67	784.90	100	100
Tax	155.04	181.92	100	100

Distribution of Income and Tax Assessed According to Sources of Income
(Rs crores)

	1950-51		1955-56		Percentage to Total	
	Income	Tax	Income	Tax	Income	Tax
Salaries	125.88	12.76	206.46	21.15	26.04	11. 9
Interest on Securities	10.30	3.53	10.21	4.54	1.25	2.16
Property	22.81	4.95	29.69	6.11	3.77	2.88
Business including companies	359.37	110.54	457.82	139.06	57.61	66.82
Dividends	38.23	14.91	45.97	19.26	5.78	9.23
Other sources	42.19	17.27	44.16	16.35	5.53	7.69
Total	598.78	163.95	794.32	207.45	100.00	100.00

Distribution of Assessees, Income and Tax—Main Industries
(Rs crores)

	1952-53			1953-54			1954-55			1955-56		
	Assessees	Income	Tax	Assessees	Income	Tax	Assessees	Income	Tax	Assessees	Income	Tax
Coal Mining	688	5.35	2.29	798	5.80	2.58	783	3.96	1.83	830	6.48	3.23
Tea Plantations	609	9.51	4.91	488	7.06	3.55	543	10.25	5.36	744	11.50	9.36
Sugar	418	2.53	1.24	329	7.54	3.88	366	5.25	2.69	351	5.22	2.70
Tobacco	2488	7.69	3.22	2600	12.59	5.55	2216	4.12	1.21	2281	12.45	6.28
Cotton Textiles	3084	28.18	14.28	2511	26.27	13.03	2897	21.20	10.33	2614	20.58	10.19
Jute Manufactures	325	6.34	3.54	180	3.74	2.04	251	10.18	5.65	315	9.46	5.15
Cement	103	3.71	1.88	58	3.91	2.08	58	3.81	1.94	53	5.35	2.91
Rubber Manufactures	115	4.52	2.36	78	4.62	2.50	120	2.77	1.49	85	3.44	1.88
Electricity Generation and Supply	116	6.03	2.95	92	1.40	0.77	**96**	1.53	0.86	103	1.57	0.89
Road Transport	7397	7.49	1.97	6371	1.44	3.70	**6297**	6.23	1.16	8209	8.12	1.54
Banks	644	4.40	2.06	568	5.21	2.60	488	5.49	2.76	441	2.77	1.38
Insurance Companies	496	6.06	3.02	227	4.12	2.16	237	6.32	3.40	251	4.76	2.55
Money-lenders & Indigenous Bankers	11336	7.69	1.30	10586	9.30	1.49	10071	9.08	1.36	10365	9.81	1.68
Retail Trade Commodities	120723	75.25	7.51	106169	86.57	7.94	112422	92.98	7.95	122354	99.59	8.49
Wholesale Trade Commodities	38981	86.20	29.67	34759	80.16	25.40	33229	86.57	29.10	34920	85.44	28.90
Total (including others)	286238	408.39	133.07	257252	455.26	144.90	262354	429.01	128.99	283567	452.11	137.96

the economy. Short-falls, in other income groups may be an indication of the extent of tax evasion, unless the discrepancies can be explained otherwise. In support of the rise in salary incomes is the fact that the number of individuals earning Rs 5,001 to 15,000 has nearly doubled during the period 1950-56.

The assessed income of Hindu undivided families has, on the other hand, recorded a decline of nearly 4 per cent which may be due to relatively greater tax evasion or the gradual disintegration of such families. Most probably the former explains the decline. Companies increased their earnings by 29 per cent and unregistered firms by 55 per cent. On the assumption that the latter are typical of commerce and the former of industry, the inference is perhaps justifiable that, over the First Plan period, commerce has prospered even more than industry.

Sources of Income

Dividend income assessed, which in 1950-51 amounted to Rs 38 crores, was higher at Rs 46 crores in 1955-56; of this amount, individuals accounted for nearly 58 per cent, companies for 32 per cent. It is of particular interest to note in the context of current discussion on the propriety of imposing the wealth tax on companies that among the individuals, though 60 per cent of the assessees are concentrated in the income range Rs 4,201 to 15,000, 68 per cent of the income assessed is in income groups over Rs 25,000. To claim therefore that the wealth tax on companies is regressive in incidence (as is being done in some very respectable business quarters) does not hold much water. As regards companies, 40 per cent of the assessees and 90 per cent of the income assessed are in the income groups above Rs 1 lakh.

Total income from securities assessed to income tax in 1955-56 amounted to Rs 10 crores—the same as in 1950-51—though it has shown surprisingly wide fluctuations during the period, rising as high as Rs 24 crores in 1952-53. This decline from Rs 24 crores in 1952-53 to Rs 10 crores in 1955-56 is difficult to explain except in terms of a shift from holders of securities liable to income tax to those who are exempted or from non-exempt to tax-exempt securities. This is a point which deserves further examination. Companies accounted for 64 per cent of the income from securities in 1955-56 while individuals got only 29 per cent. Among companies, about 45 per cent of the assessees and 90 per cent of the income assessed were in income groups above Rs 1 lakh. In the case of individuals, however, assessees and income from securities were fairly evenly spread between different income groups. Income from property was derived almost wholly, 90 per cent, by individuals and Hindu undivided families. The major part of the property income of individuals was accounted for by income groups below Rs 25,000.

Industry-wise Classification

The industry-wise classification of the distribution of assessees' income and tax is available only from 1952-53 onwards. Commerce, transport and communications form the major category both by the number of assessees as well as the income assessed. They accounted for 59 per cent of the assessees and 44 per cent of the income assessed in 1955-56. Since 1952-53 the income of this group has gone up by nearly 14 per cent, but the number of assessees has gone down a little. This is perhaps an indication of the tendency towards concentration of business in fewer hands.

Between 1952-53 and 1955-56, tea plantations recorded a rise of 84 per cent in income assessed and nearly 24 per cent in the number of assessees; tobacco, jute and cement industries recorded increases of 65 per cent, 50 per cent and 43 per cent respectively in their assessed incomes. These appreciable increases are quite understandable since the profit indices in these industries have also risen steeply. Curiously enough, the assessed income of the sugar industry has increased in spite of a decline in the profit index. This may be because the better-managed sugar mills have been making high profits while some units have been sustaining losses due to one reason or another. While the losses get reflected immediately in the index number, they are usually diffused over a number of years in the income figures for purposes of taxation, depending upon the time taken to offset the losses. This argument is supported by the fact that the number of assessees in the sugar industry has declined by nearly 9 per cent. In the textile industry too, we are faced with this paradox. In spite of a rising profit index the assessed income has dwindled by 27 per cent. This is perhaps due to the substantial depreciation allowances allowed over the past few years in respect of new equipment.

Banks and Insurance Companies

In the case of banks, the income assessed declined by 36 per cent while the number of assessees went down by 44 per cent. The former may be explained in terms of rising establishment costs; the latter may be a reflection of the fact that the Reserve Bank has been refusing licences to a number of banks.

Between 1952-53 and 1954-55, the number of assessed insurance companies declined from 496 to 237, whereas the income assessed rose from 6.06 crores to 6.32 crores.

Retail trade in commodities recorded a rise of nearly 33 per cent in the income assessed, while the assessed income of the wholesale trade in commodities remained more or less the same. The explanation of this discrepancy again has to be sought either in terms of better enforcement and consequently better reporting of retail trading incomes or in terms of greater evasion of tax in the wholesale trade.

Egalitarian Effect

Some idea of the income-levelling impact of our income tax can be had from the fact that although assessees in the income range Rs 4,201 to 15,000 accounted for 52 per cent of the total income assessed in 1955-56, they were charged only 13 per cent of the tax assessed, while assessees with incomes over Rs 1 lakh, who accounted for 30 per cent of the total number of assessees, were charged 64 per cent of the total tax assessed. Again, among this latter group of 2,139 individual assessees, with a total income among them of Rs 48 crores in the income range of over Rs 1 lakh before tax, only 324 assessees with a total income of Rs 6 crores were left in the same range after tax.

It is however well to remember while appraising the egalitarian impact of our income tax that evasion is taking place on a very large scale and to the extent that evasion takes place in the higher income groups the egalitarian purposes stand defeated. And he will be a bold man who asserts that evasion in the higher incomes is of any mean proportion!

Around Calcutta Markets

Steel Outlook

Wednesday, *Evening*

SIR BIREN MUKHERJEE is, apparently, not an optimist. His pessimism is not merely a reflection of his mental make-up or temperament. He may be a traditionalist in his outlook. But he reveals, in his address before the annual general meeting of IISCO, his intimate familiarity with the steel industry and its problems. He is certainly, provocative in his comments on the future of the Indian steel industry, as well as on the future of his own Company.

Steel is the foundation of the economy. Even the man-in-the street now knows that an expanding economy cannot be built without a broad-based steel foundation. There is hardly any aspect of the Second Plan which has not been under fire. But even those who do not like the ambitious look of the Plan like the look of the hard core of the Plan. And steel is the essence of this hard coore. Not only informed opinion, but even the common man takes a patriotic pride in the gradual expansion of the country's steel industry in the welcome improvement in the output of private producers, in their expansion plans, in the three new projects within the public sector.

Sir Biren, himself a steel magnate, cannot, possibly, be opposed to a policy of steel expansion. But his brilliant address before the annual general meeting of IISCO is liable to the interpretation that he has mental reservations about the pace as well as the target of steel output envisaged in the Second Plan. He expresses doubts whether the expansion projects in the public sector can be completed as scheduled, by 1959-60. Recent developments would seem to lend weight to his doubts. He has also his doubts about the ultimate cost of the steel plants in the public sector. Prices are rising. Both men and materials for these steel plants are becoming costlier. So, the actual cost of these steel plants may be far in excess of original estimates. Sir Biren is not alone in having his doubts.

These aspects of the problem are not quite unknown. But Sir Biren's informed assessment of the outlook for steel exports will deflate hopes that India will emerge as a large steel exporter in the near future. TTK has more than once assured Parliament and the people that the money and foreign exchange now being spent on expansion of steel and machine tool industries will fetch good dividends as the years roll by. India's jute, tea and cloth industries may lose their status as valuable exchange earners. But, by the end of 1959-60, India will emerge as a steel exporter. Her steel exports will earn foreign exchange. With these earnings, she will meet the transitional foreign exchange deficit.

Sir Biren has his doubts. India is, will be, in need of sterling and hard currencies. These can only be acquired if Indian steel can be exported to sterling and hard currency areas. Steel exports to such destinations are not likely. Only in under-developed Eastern countries can India hope to export her steel. Even on the assumption that these countries buy steel from India, she is not likely to acquire valuable foreign exchange in the shape of sterling or hard currencies. These countries would like to pay for their steel imports by offering some of their goods in return. There is something in this argument.

So much about the foreign exchange aspect of steel exports. Can India emerge as a major steel exporter? Sir Biren is not optimistic. For one thing, he is doubtful whether steel projects within the public sector can be completed according to schedule. He has also his doubts whether the expansion programmes of the private steel producers will be executed according to the timetable. Moreover, even if both the sectors work up to schedule, India's steel output at the end of the Second Plan may not be much in excess of the internal demand. That being so, the exportable surplus is not likely to be large.

That is not the end of the story. Sir Biren is critical of India's ability to compete in export markets for steel. He doubts whether the steel plants within the public sector can produce or export steel at prices below the internal price within the country, or world steel prices. CIF duty-paid export steel prices may not be competitive—the more so, as the actual cost of steel production in the three plants within the public sector may exceed original estimates. Not only Japan, but other established exporters will certainly try their utmost to compete with Indian steel exports. Indian steel may be priced out of export markets.

So much about the wider issues relating to steel output and exports. Sir Biren is no less discouraging about dividend prospects for IISCO. Sir Biren expresses the hope that, as the 1953 expansion projects will be completed "in the near future", it will be possible to relax control over dividend payments. Incidentally, Sir Biren concedes that the logic behind the Government's policy relating to steel dividends cannot be seriously challenged, as it is aimed at consolidating the finances of the private companies concerned so as to facilitate the financing of their expansion plans.

But Sir Biren has his doubts whether IISCO, like the steel plants within the pubic sector, can complete the expansion plans according to schedule. There are many "ifs". Labour trouble is brewing. It may become acute. For expansion, IISCO will require increased quantities of iron ore and coking coal. Both these raw materials are in short supply. There is, besides, the transport bottleneck. Moreover, there is the problem of transporting the finished product to markets. Sir Biren concludes that IISCO may work up to schedule only if the "hard core" of the Plan is implemented according to the original time-table.

Around Bombay Markets

Gains Partially Realised

Thursday, Morning

LAST week's significant recovery has been followed by partial realisation of gains on reports of troop movements in Pakistan-occupied Kashmir and the Finance Minister's threat of tightening the credit squeeze still further, if necessary. Sentiment has also been affected adversely by the debate in Parliament relating to affairs of Tata Loco, which consequently lost nearly Rs 8 over the week. Indian Copper weakened on reports of lower copper prices, while British India and Hindustan Motors turned particularly febrile because of unfavourable rumours about their working. Shipping has been the only section in equities to remain free from realisation, while gilt-edgeds have in general turned steady after a fairly long time, due partly to the imminence of interest payments and partly because of some support from banks.

The outlook for the immediate future is rather obscure since the market is awaiting, among other things, some firm news about the magnitude of aid that may be expected from the USA. This will help to clarify Government policy for the rest of the Plan period.

Two organisational innovations have occurred in the market over the last few days. Since the control of stock markets came into effect this month, the Stock Exchange at Dalal Street has acquired a legal monopoly of trading, which until recently it had shared, albeit on a very small scale, with its poor relations at Phirozeshah Mehta Road. Members of the other body will now have to buy their way into Dalal Street if they wish to remain in business. The other innovation is the ban on kerb trading, an activity which lent round-the-clock zest and exuberance to Dalal Street. A solitary police constable now occupies the narrow pavement outside the ring, which at one time used to accommodate a sweating crowd of gesticulating speculators till well after sunset. The presence of the Law however, does not seem to prevent some rather extraordinary gatherings of 'friends' in the corridors of nearby buildings.

It is a foregone conclusion that regulation of stock exchanges will prove far more successful than that of forward cotton, if only because of the unique confidence, of Government as well as brokers, enjoyed by the President of the Bombay Stock Exchange. There will be no Commission to administer the law and regulation will be implemented departmentally in consultation with the Exchange President. Flexibility, it is gathered, will be assured through informal arangements. Some months will have to pass, however, before any evaluation of the working of stock exchange control can be attempted. Sooner or later Government will have to face the crucial issue of restricting blank transfers—and that will be the occasion for testing the efficacy of regulation.

Foreign Securities Decline

Foreign securities held in the Issue Department of the Reserve Bank have declined by Rs 15 crores to Rs 345.61 crores during the week ending September 6. But since 'Balances held abroad' have gone up by Rs 13 crores, the payments deficit for the week amounts to only Rs 2 crores against Rs 6 to 7 crores for each of the previous two weeks. It would still be premature however, to say that the external drain has been substantially reduced. The position now is that if the deficit continues at an average rate of around Rs 5 crores a week, the floor of Rs 300 crores will be reached in barely 9 weeks. Even if a substantial dollar loan comes through, therefore, there appears to be no alternative to lowering the reserve requirement towards mid-November, since negotiation of the loan will inevitably take some time.

Other notable changes in the financial picture that have occurred during the week have been a rise of Rs 15 crores in note circulation balanced by an equivalent increase in Rupee Securities. Investments, too, have gone up by nearly Rs 11 crores while ways and means advances have risen further by Rs 4 crores to Rs 41 crores. The last figure is substantially higher than that for several months in the past and probably reflects a procedural change in the financial operations of State Governments. Central and State Government deposits have gone down by Rs 2 crores and Rs 1 crore, respectively, but deposits of banks are higher by Rs 7 crores, while loans to them are lower by Rs 11 crores, of which advances against usance bills account for Rs 6 crores. The latter now amount to only Rs 29 crores, as against the peak of Rs 73 crores for the week ending March 22.

Net demand liabilities of scheduled banks have recorded no change during the week ending August 30 but net time liabilities have risen by Rs 15 crores, while total deposits of the State Bank have contracted by Rs 12 crores. The cash ratio has spurted from 8.94 to 10.79 per cent, but the State Bank accounts for as much as Rs 19 crores of the Rs 25-crore increase in cash balances. Bank credit has declined by Rs 8 crores, lowering the credit ratio to 66.37 per cent against the peak of 76.81 per cent for the week ending May 17. Greater liquidity is also reflected in the expansion of Rs 2 crores under call and short loans, and of nearly Rs 1 crore in the gilt-edged portfolio. The money market has tended, on the whole, towards relaxation of stringency, which, however, has yet to make a significant impression on interest rates.

Cotton

Erratic Movements

COTTON has been erratic in response to divergent reports about rainfall in cotton growing areas. After opening weak, a firm tone beame evident at Kalbadevi on reports of heavy rains in the Punjab and inadequate rains in Gujerat, Khandesh and Berar. Five to ten per cent of the Punjab crop was said to have been damaged, but in view of the large expansion in acreage there, bulls were unable to maintain their advantage for long.

Subsequently, news of showers in Western areas helped push Moglai March down to Rs 683.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1485.86	1470.63	1516.11	1424.51
2. Rupee Coin	132.38	133.58	129.71	116.74
3. Deposits				
a) Central Government's	51.97	54.85	85.48	65.76
b) Banks'	104.24	102.80	85.13	56.56
c) Other Governments'	6.88	8..9	16.90	2.90
d) Others'	110.03	108.58	138.73	12.27
4. Foreign Securities	345.61	360.5.	375.52	606.68
5. Balances held abroad	31.79	19.34	17.51	24.9₃
6. Rupee Securities	916.87	901.97	911.81	693.72
7. Investments	223.14	215.39	280.41	50.12
8. Loans and advances to Governments	41.11	37.28	28.83	8.06
Scheduled Banks				
1. Demand liabilities (net)	713.83	711.32	728.80	654.74
2. Time Liabilities	597.03	580.94	578.93	461.3₂
3. Cash on hand	38.92	38.94	36.59	37.58
4. Borrowings from Reserve Bank	40.27	41.99	37.33	30.99
of which against Usance Bills	35.23	37.04	31.87	22.00
5. Advances and Bills discounted	793.90	806.31	827.47	689.27
of which State Bank's	159.23	162.20	169.61	124.22
6. Invst. in Govt. Sec.	371.24	370.52	332.42	367.41
of which State Bank's	134.96	134.92	105.30	106.18
Cheque Clearance	132 97	144.55	149.56	131.16

†For Reserve Bank week ended 6-9-57. Scheduled Banks and Cheque Clearance week ended 30-8-57.

Bombay Money Rates

	30-8-57	23-8-57	2-8-57	31-5-57
Call Money				
From banks	3½-4¼	3½-3 11/16	3 3/16-4 5/16	3 1/16-4 7/16
From public	3¾-4 7/16	4-4 1/16	3¾-4 7/16	3¾-4 7/16
Three Months	2¼-4 11/16	2½-4 1/16	2½-4 7/16	3-4 7/16
Six Months	2-4 7/16	2-4 5/16	2-4 5/16	2-4 7/16

Bombay Bullion

In Rupees and nP

	12-9-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107.59	107.50	107.57	103.50
Forward	107.78	107.40	107.39	102.50
Silver (per 100 tolas)				
Spot	182.44	181.37	181.99	173.06
Forward	183.19	181.37	182.51	173.56

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 24-8-57	17-8-57	27-7-57	25-8-56
Food Articles	**112.0**	**112.2**	**112.1**	**105.3**
Cereals	106	107	106	100
Pulses	86	88	89	83
Fruits & Veg.	152	143	138	125
Milk and Ghee	108	109	105	100
Edible Oils	129	131	136	131
Fish, Eggs & Meat	101	102	103	101
Sugar & Gur	110	110	110	99
Others	133	133	138	128
Liquor and Tobacco	**92.0**	**92.0**	**92.0**	**83.1**
Fuel, Power Light & Lubricants	**114.7**	**114.6**	**114.7**	**105.**
Industrial Raw Materials	**118.2**	**120.0**	**122 0**	**117.5**
Fibres	119	121	123	113
Oilseeds	123	126	129	126
Minerals	111	109	111	103
Others	108	108	107	110
Manufactures	**108.5**	**108.6**	**109.0**	**106.5**
Intermediate Products	**108.0**	**108.0**	**109.0**	**112.6**
Finished Products	**108.5**	**108.7**	**109.0**	**105.5**
Textiles	108	109	109	106
Cotton	118	118	118	116
Jute	96	97	98	93
Woollen	103	103	103	97
Silk & Rayon	83	83	85	89
Metal Products	141	141	141	131
Chemicals	98	98	98	93
Oilcakes	113	113	114	109
Machinery and Trans Equipment	102	102	102	99
Others	111	111	110	102
All Commodities	**111.6**	**112.0**	**112.4**	**107.1**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages or Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads*
1955	3,184	2,742	3,608
1956	3,287	2,913	2,766
1955: 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	3,608
1956: Jan	3,196	2,789	3,586
Feb	3,358	2,691	3,813
March	3,362	2,235	3,911
April	3,223	2,865	3,815
May	3,316	2,871	3,836
June	3,194	2,877	3,727
July	3,165	3,165	3,379
Aug	3,308	3,176	3,018
Sept	3,123	2,819	2,881
Oct	3,177	2,940	2,662
Nov	3,324	3,026	2,565
Dec	3,678	3,038	2,766
1957: Jan	3,628	3,138	2,780
Feb	3,508	2,841	3,029
March	3,652	3,251	3,000
April	3,792	3,187	3,087
May	3,330	2,915	3,246

*At or about the end of each period.

Source: Directorate of Industrial Statistics, Calcutta.

CLOTH PRODUCTION IN INDIA

	Mill-made Yarn mn lbs	Cloth mn lbs	Cloth mn yds
1954	1,561.0	1,161.3	4,997.7
1955	1,630.4	1,186.9	5,094.5
1956	1,671.2	1,200.1	5,306.6
1955: April	130.9	94.2	419.2
May	129.4	92.2	406.4
June	132.3	95.5	415.0
July	142.6	105.0	447.8
Aug	137.2	98.4	415.0
Sept	141.4	103.3	435.0
Oct	144.0	104.0	437.3
Nov	133.5	95.4	401.6
Dec	150.7	109.0	466.3
1956: Jan	132.5	94.1	413.8
Feb	133.6	96.0	425.5
Mar	132.6	92.9	418.8
Apr	131.0	93.2	420.8
May	135.4	99.4	452.7
June	137.0	100.5	451.4
July	145.3	105.5	467.0
Aug	140.3	100.5	438.3
Sept	146.2	106.6	465.6
Oct	142.5	101.0	443.4
Nov	139.5	99.0	430.1
Dec	155.2	111.4	479.3
1957: Jan	156.4	111.8	483.7
Feb	143.2	100.8	435.1
Mar	150.5	105.3	543.3
April	153.7	108.3	464.4
May	150.0	105.0	453.1
June*	138.0	96.5	413.7

*Provisional

Source: Te xtile Commissioner.

RAYON PRODUCTION IN INDIA

(in lakhs)

	Yarn (lbs) Viscose	Acetate	Fabrics (yds)
1955	128.37	23.28	2431.44
1956	166.81	31.66	2957.52
Jan	11.17	2.59	169.07
Feb	11.56	2.40	169.73
Mar	13.87	1.80	196.69
Apr	14.13	1.28	186.17
May	14.08	2.21	239.12
June	13.88	2.84	239.20
July	14.44	3.30	243.72
Aug	14.24	2.33	222.50
Sept	13.74	2.99	250.00
Oct	13.41	3.27	197.82
Nov	18.12	3.13	176.36
Dec	16.04	3.02	228.22
1957			
Jan	16.74	2.98	247.23
Feb	15.23	3.10	214.71
Mar	18.13	3.52	232.91
Apr	16.69	3.23	210.81
May	16.35	2.69	196.58

Source: Textile Commissioner.

WORKING CLASS COST OF LIVING INDEX

(Monthly Average or Calendar Months)

	Bombay 1934 = 100	Madras 1936 = 100	Calcutta 1939 = 100	Kanpur 1939 = 100	Delhi 1949 = 100	Ahmedabad 1949 = 100	Kharagpur 1949 = 100	Ludhiana 1949 = 100	Cuttack 1949 = 100	Jharia 1949 = 100
1952	337	330	351	441	373	104	97	92	109	110
1953	363	351	349	453	366	111	101	90	107	104
1954	359	341	327	408	360	98	93	90	100	82
1955	338	321	321	371	339	87	92	84	99	77
1956	352	358	347	424	377	..	..	..	..	..
1955: Apr	340	314	311	352	329	81	87	79	95	73
May	336	307	375	335	318	82	87	80	100	75
June	333	311	317	347	318	85	93	80	101	76
July	340	316	325	371	336	90	96	82	101	77
Aug	341	318	329	373	348	92	95	83	103	78
Sept	333	322	327	373	347	90	94	84	105	79
Oct	331	323	334	385	347	91	95	85	100	80
Nov	330	327	339	392	354	92	96	86	100	79
Dec	332	334	329	393	365	93	96	90	99	77
1956: Jan	334	334	319	404	363	92	93	90	98	78
Feb	337	333	315	394	358	90	93	89	97	77
Mar	350	340	325	398	362	93	96	90	99	80
Apr	358	354	338	409	365	96	101	92	105	84
May	357	356	342	408	365	95	102	91	110	87
June	358	365	350	419	368	97	104	92	112	89
July	354	369	365	436	375	98	105	93	114	91
Aug	361	372	368	445	382	102	106	94	116	91
Sept	352	368	366	445	386	103	107	92	113	92
Oct	358	362	364	448	399	105	107	93	103	92
Nov	356	369	361	446	403	105	107	96	104	93
Dec	355	370	356	436	375	98	105	93	114	89
1957: Jan	355	372	354	436	389	102	104	96	103	89
Feb	357	369	350	438	392	102	104	96	105	93
Mar	358	367	348	433	392	102	104	95	108	90
Apr	356	369	345	427	386	103	107	98	105	91
May	362	369	368	440	392	104	108	96	109	96
June	385	373	372	445	395	..	..	..	..	..

.. = not available

Source: Central Statistical Organisation.

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So the Plan is Cut

WHEN early this year the mounting deficit in the balance of payments and the continuing rise in domestic prices started arousing concern, a high official of the Planning Commission committed the indiscretion of thinking aloud in a speech broadcast by A I R. Not that he was unduly alarmed, but he did suggest that the difficulties confronting the Plan might compel the Plan to be 'slowed down' or 'staggered'. But this was just before the General Elections and it was perhaps considered politically unwise to confess that the magnitude of planned expenditure needed cutting down. That might have exposed the party in power to the charge of lax and defective planning or at worst to the accusation that the party leadership was bowing to the demand of the protagonists of free enterprise who had been clamouring for a cut in the size of the Second Five Year Plan since its very inception. The officer concerned was, as those with an unduly long memory of public events will remember, very sharply pulled up and the Government completely dissociated itself from the views he had expressed. It is clear now that what the officer concerned had said at the time had reflected the working of the minds of important members of the Planning Commission, though it is true that the stage for making a decision or at any rate for making that decision public had not yet arrived.

Though the economic difficulties facing the country have kept piling up, it has taken the Government about six months to declare publicly that the Plan as originally conceived would be difficult to complete within the stipulated period of five years. The Minister for Planning, Shri Gulzarilal Nanda, told the Lok Sabha last week that it would not be possible for Government to achieve the order of developmental outlay originally contemplated in the Plan, and that what the Planning Commission only hoped now was to achieve the financial target —in terms of present prices. Developmental outlay over the period of five years would in that case be smaller by 12 per cent, in real terms, as compared to the original Plan estimates. This would in turn mean a smaller rise in national income and therefore in the standard of living, though this would no doubt depend upon the income-generating impact of the particular expenditure items that are cut out.

Shri Nanda did not say anything on this subject, but one gathers from his speech that the Planning Commission has still been unable to decide where exactly the axe should fall. What seems to have been decided is that the **hard core** of the Plan comprising of 'iron and steel projects and mining, transport and ancillary power projects' must be fulfilled. As for the rest of the outlays, the criterion will probably be the foreign exchange cost (or the import component) of every project, for it is in the sphere of foreign exchange that the Plan is faced with the major difficulties at the moment. Shri Nanda specifically noted that the Planning Commission was engaged in re-examining the Plan from the point of view of foreign exchange commitments and requirements for projects of key importance already taken in hand.

That foreign exchange has proved the Achilles heel of the Plan is beyond dispute. It was not however in the sphere of foreign exchange but in that of internal resources that the gloomy prophets cast their

suspicions when the Plan was drawn up. The targets of domestic resources to be mopped up by the public sector were regarded as over-optimistic. Who could have imagined then that the Government could at one sweep introduce additional taxation which would fetch over Rs. 100 crores a year? In fact, if the State Governments play their part, the target in respect of taxation may well be over-reached. But it is doubtful whether the States will. Doubts regarding other items of receipts like market loans, small savings and current receipts under providend fund and other deposit heads might also prove to be justified, unless special efforts are made to increase these collections; receipts under these heads have been much below expectations so far. This would not have bothered so much if the situation on the price front had been less disturbing; in that case an increase in deficit financing need have caused no qualms. As it is, the situation is rather bad, particularly because of the sharp rise in the prices of food articles within one year.

What are the factors that have brought about this rise in prices? Is the expansion of money supply the villain of the piece? Money supply including both notes in circulation and demand liabilities of the banking system has registered an increase of about Rs 150 crores in one year. Against this must be placed the fact that during the last year, the deficit in the balance of payments on current account was far larger and the part arising out of the private account was of about the same size as the increase in money supply. It is this portion which can rightly be set off against the incremental money supply; as for the deficit on Government account, only that part is of relevance which can be said to augment marketable supplies in the economy.

If this is the picture, what is the explanation for the inflation? According to Shri Nanda, the rise in prices and the deterioration in the balance of payments situation mean that domestic savings are insufficient in relation to the scale of investment. This seems to be a reasonable explanation of what has been happening to our economy during recent months. Let this not be misunderstood, however, to imply that productive investment is taking place on a large scale. Inspite of the fact that investment in organised industries has had a most unusual boost during the earlier months of the Second Plan, it is not certain that total productive investment in the economy has been significantly larger than before. What is almost certain is that investment in inventories has been on an unusually large scale particularly in inventories of food articles. This appears to be the only way one can explain the recent rise in prices. Even though deficit financing may not have been the cause of the recent price-rise, it has to be conceded that the awareness that deficit financing is being resorted to by the Government reinforces the forces in terms of which the above explanation of current price behaviour has been given. It is this aspect of deficit financing which should make the Government hesitant about resort to it on any significant scale for the present.

Resort to deficit financing can only be thought of during the rest of the Plan period, provided positive steps are taken to restrain the forces which are now upsetting the economy. In the absence of this pre-requisite to further deficit financing, the Plan may have to be cut still further. The cut which has been applied now is due to foreign exchange difficulties; the cut that may come next will be due to domestic difficulties.

Western Germany

DR. ADENAUER'S success was a foregone conclusion, though the comfortable majority secured by his Christian Democratic Union was not anticipated by political prophets. Is CDU's decisive victory in the elections a reflection of the political bias of the West German people? Dr. Adenauer has interpreted the election results as a vindication of his political and economic policies. So have West Germany's NATO allies. But this is a negative assessment of the election results. It is only a part of the story. To a large extent, CDU's triumph stems from the complex system of elections. CDU has gained ground at the cost of small, splinter groups and parties. It is not without significance that, not only the small right-wing parties who have always supported Dr. Adenauer, but the German Party, CDU's right-wing coalition partner, has also lost seats in the recent elections. No less significant is the clear fact that Social Democrats, the main Opposition Party, gained ground at the cost of these supporters of CDU, who are more to the Right than Dr. Adenauer's Party.

This focusses attention to a political trend not only in West Germany, but in Western Europe, which may have been temporarily halted for certain extraneous reasons, but does not seem to have been reversed. In many countries, though not in America and West Germany, parties of the Left gained in influence and power immediately after the war. In Britain, a Labour Government came to power.

Both in Italy and in France, the Communist Party emerged as a major political force. That and Marshall Aid were the main reasons why Socialist parties could not gain hold in Western Europe, where right-wing Christian Democratic parties assumed power. Both in Italy and in France, there has been a shift in political balance against right-wing parties as Communists have lost influence. Though the challenge of M. Mendes-France was not successful, the Party in power now in both France and Italy is not extreme Right. Nor is Dr. Adenauer and his Party. Though the West German people have voted Dr. Adenauer to power again, the rejection of extreme right-wing parties underlines this political trend in Western Europe. But for the unfortunate happenings in Hungary, and the problem of Algeria in France or of unification in Germany, this trend might have been more pronounced.

It would be unwise to ignore this developing political trend, as reflected in the gains of the Social Democrats and the simultaneous electoral losses of right-wing parties in West Germany. Dr. Adenauer was voted to power for his spectacular economic achievements. West Germany's economic recovery has been amazing. Today, the German mark is as strong as the Almighty Dollar. West Germany's recovery may have been initiated by American support and help, but Dr. Adenauer now claims, not without some show of reason, that current prosperity reflects the superiority of private enterprise economy in West Germany. During his election speeches, he repeatedly reminded his voters that the West German people now earn and eat more than those in Socialist countries. Not only rich industrialists, but even the people conceded this claim as they elected Dr. Adenauer and his CDU for the third term. There is also a negative aspect to Dr. Adenauer's election victory. It does not necessarily mean that the West German people accept Bonn's NATO alliance without reservations. But it implies the West German people's grudging acceptance of the incidental political and economic benefits of the NATO alliance, in the absence of any agreed formula for unification of the two Germanys.

Though unification was not a direct issue in the elections, the majority of the people seem to have mental reservations about the issue of atomic bases or atomic weapons for the Army. Dr. Adenauer is in power again. But it would be hasty of the Chancellor to ignore the mood and temper of the people. They reluctantly accept the Western alliance in the prevailing circumstances. But they do not seem to be in favour of a policy of closer collaboration with the West, or of any aggressive policy which may complicate further the problem of German re-unification.

Dr. Adenauer is an old man. It is tempting to speculate about the future of CDU when Dr. Adenauer retires from politics. With Dr. Adenauer as the leader of CDU, a coalition between CDU and the Social Democrats may be ruled out of consideration. In his absence, CDU may be forced to change its political complexion. In this event, a fusion between CDU and the Socoal Democrats is not inconceivable. But any such eventuality depends as much on the emergence of an influential, responsible leader who can replace Dr. Adenauer in his absence or retirement as on statesmanship on the part of the present leaders of the Social Democrat Party. In the wider interests of Germany as well as of European peace, such a possible political development is to be desired.

Saving the Pound

THE sharp increase in the British Bank Rate from five to seven per cent is the Conservative Government's answer to the acute internal and external financial situation that has been developing in the United Kingdom during recent months. The inflationary situation has taken a turn for the worse during the second half of the year and the drain on reserves has been accentuated by the recent unofficial devaluation of the franc and the refusal of the West German Government to revalue the mark inspite of its exceptional strength and the gigantic surpluses which that country has accumulated.

The statement of the Chancellor of the Exchequer that "The Government intend to maintain the existing exchange rate parity..." holds therefore, the key to the situation; the drastic measure is an attempt to save the pound from devaluation. The impact of the higher Bank Rate on the structure of interest rates in the U K will cause a sharp contraction of credit, and ultimately bring about a fall in the internal price level, and an increase of exports as well as a decrease of imports. Through this measure, therefore, the British authorities hope to restore strength to sterling. There may also be some inflow of short-term funds from abroad.

The consequences of these changes in the economy will not necessarily be favourable to labour. The British Employers' Federation has admitted that some people will lose their jobs and it is an open question whether the trade unions will take this prospect lying down, in view of the attitudes they adopted on most questions at their recent Conference. The Trades Union Congress has in fact rejected the alternative solution to the problem which lay in reducing the level of wages; it has refused even to hold wages at their present levels.

The attitude of the Congress is exemplified by the statement that when the Government was dismantling existing controls against private enterprise, it had no right to demand wage restraints from labour. The raising of the Bank Rate will no doubt mean the imposition of some restrictions on private enterprise, but the implications for the workers are unlikely to be acceptable to them.

From the international point of view, the fact that the measure comes on the eve of the meetings of the International Monetary Fund and the Commonwealth Finance Ministers Conference is of considerable significance. At the I M F meeting, the Chancellor of the Exchequer will be able to present his views against the background of a strengthened sterling. Perhaps, he may be in a position to ask for appropriate measures on the part of West Germany to reduce the pressure on his own country's economy. At the meeting of the Commonwealth Finance Ministers, he will be in a strong position to demand some sharing of the sacrifices involved in a dear money policy. For India, in particular, irresistible pressure may be built up to modify her present programme so as to lighten the burden imposed by it on the common pool of foreign exchange reserves.

The raising of the British Bank Rate will remove Britain from the picture as a possible source of foreign aid to this country. The wide difference between the British and Indian Bank Rates will eliminate the London money market as even a limited source of funds for the Exchange Banks in India. By helping to raise interest rates in this country, the British action may ultimately cause a revision of the Bank Rate in India too. Not that such a step will be desirable, but it will undoubtedly be considered by the Reserve Bank in view of the possible impact of of the British decision on the Indian economy.

The Indian Finance Minister has already left the country. There are hopes that he will be able to obtain substantial aid for the Five Year Plan from various foreign countries. His task will be made more difficult by the sharp change that has now been made in the British Bank Rate.

Weekly Notes

Bon Voyage !

WHEN the Finance Minister told reporters that he would not be disappointed if he failed to obtain substantial foreign aid during his visit to the United States, he probably wanted to prevent the building up of excessive hopes on the matter in the country. But those who know how much depends upon his success or failure will await developments with anxiety. As the Prime Minister told the National Development Council during the week, even if more foreign aid is received, the country will have to exercise the greatest restraint. Imports, he told the Council—and this is of course well known—would have to be cut to the barest minimum in any case. What then will be the situation if foreign aid is not forthcoming?

That the Finance Minister will try and secure substantial foreign credits for the Plan during his American and European tour is, therefore, clear. The Prime Minister specified this in his address to the N D C. It is obvious, however, that the major hope has to be pinned on the possibility of a large loan from the United States. There has been some talk of special legislation for providing such a loan to this country, though reports from the United States are pessimistic about the prospects of such legislation, in view both of the economy-minded approach adopted by Congress to foreign aid proposals during recent months and of the American failure to appreciate India's foreign policy.

Alternatively, it has been suggested that India may be able to obtain assistance from the new 300 million dollar U S Special Development Fund. Even on the assumption that India receives the same share of this fund that she has been getting from other funds for development in underdeveloped countries made available by the United States during recent years, it should be a useful amount. It is being suggested, however, that India will be able to obtain an even larger proportion than usual from this particular fund, because allocations from it are to be made on the basis of specific projects of which this country has quite a few that are certainly credit-worthy.

Whatever the particular source of foreign assistance that the Finance Minister is able to tap, it will be certainly welcome. In fact, unless he is able to obtain a substantial amount or at least pave the way for it to be made available in the near future, the prospect for this country will be somewhat bleak. Even if, as T T K suggested, there is a prospect of our getting over our foreign exchange difficulties by March 1959,—and that does seem to be rather optimistic—the immediate situation will still have to be met. It is to be hoped, therefore, that the Finance Minister will succeed in his mission. One wishes him, therefore, "Bon Voyage!"

A New Approach

AGAINST the background of the indignation frequently expressed over the present police technique of handling irate crowds, the experiment tried by the Bombay police in cordoning off a fairly turbulent congregation of Municipal workers on strike last week deserves notice. The policemen were wholly unarmed while the officers carried only light rubber truncheons; and at least a section of the mob, which they had to deal with, appeared, at certain stages, to be bent on storming the Municipal Head Office, where the Councillors were in session. Foiled in this attempt, this section threw stones at passing vehicles and generally made a nuisance of itself and gave rise to not a little excitement and tension in the area. Normally, this should have been enough provocation for the police to butt in and make use of force to clear the road and infuse into the mischief-makers a healthy respect for law and consideration for the rights of other citizens, passing by on foot or by vehicle. But actually what the unarmed policemen did was to hold back the surging demonstrators with no aid save that of their hands. They formed a long cordon and turned the crowd back slowly, and yet steadily into the neighbouring maidan. The new technique did seem to work; but whether it can be applied to all situations alike and at all places is more than can be foreseen at this stage.

It must be admitted that the mere sight of the lathi, cane, teargas squib or rifle, made detestable by frequent use on unarmed, peaceful crowds in the days of alien rule, acts as an irritant even on peaceful, law-abiding citizens who have no reason to dread any action from the police, nor any memories of personal injury rankling in their minds. To a demonstrative crowd, running the risk of attracting police blows or nursing old wounds, the flourish of these weapons must naturally be much more provocative. The absence of these items from the police equipment may, therefore, be in itself an alleviating factor to most folk whose idea of a demonstration is the lodging of a peaceful protest and not mischief or violence. But any demonstrative congregation is bound to contain various types of people and also those who, lacking other interesting or worthwhile occupation, step in for what may most mildly be described as a 'spot of fun'. Whether these, the ones inclined to inexpensive violence or mischief—inexpensive only to themselves and not to others—whether these will feel psychologically disarmed by the sight of an unarmed policeman to the same extent as the more sober and restrained of the demonstrators, and if not, whether the saner elements can exercise sufficient control over their erring companions, are questions of considerable importance. Otherwise, at least in the present atmosphere which still has something of the sickly hangover of the British days, an unarmed policeman may at times be no more than an object of amusement to the mischievous fringe and possibly also a target for missiles. Restraint in the policeman must be matched by an understanding of the new role of the policeman as a friend and benefactor of people on the part of the public at large and also by the responsive exercise of equal restraint and discipline by the latter. Otherwise a state of affairs that is bad enough today may become far worse tomorrow.

The police, or at least the Bombay police, have now made a gesture. Its success and the possibility of its wider application will now depend on the reaction of the people

Base in Goa

PANDIT NEHRU, in his dual capacity as Prime Minister and Foreign Minister, has to exercise greater restraint than the Foreign Minister of any other country in his statements on India's foreign policy. To some extent, this has led to some confusion as well as misunderstanding about India's foreign policy. Pandit Nehru's moral attitude to world problems has occasionally been resented as an attempt to read lessons in morals to other nations. Even as this has led to some misunderstanding between India and some powers, it has created confusion about India's foreign policy. It is, therefore, as well that Pandit Nehru's recent statement on Goa in the Rajya Sabha leaves no room for doubt or confusion. He was clear and forthright in his declaration that any attempt by any power bloc to establish or to fortify a base in Goa would be considered an unfriendly act by India. Sometime ago, there were reports that Portugal was trying to convince NATO about the strategic significance of Goa. India's approaches to some NATO powers elicited the information that Goa did not come within NATO, but that it was free to arrange, if necessary, fortification of NATO powers' overseas territories as bases.

In his Rajya Sabha speech, Pandit Nehru referred to some ominous "whispers" about moves to establish a NATO base in Goa. To avoid any possible misunderstanding, Pandit Nehru issued a clear warning that any attempt to form a base in Goa "would be an unfriendly act to India, and every country that helps or supports that move will thereby be committing this unfriendly act against India; and India will not tolerate it, whatever the consequences". Portugal and her NATO allies can no longer be in any doubt about India's firm policy to Goa. India has tried all possible means, short of war, to settle the problem of Goa. But Portugal seems determined to perpetuate colonialism in this area which is an integral part of India. There is far less excuse of other democratic powers to connive at, or to lend support to, Portugal's evil designs. It is a possibility that some NATO Powers may justify attempts at fortifying Goa as a base on the plea that such action will not constitute any threat to India. None of these powers can be unaware that Afro-Asia suspects SEATO, Baghdad Pact and arrangements for creating bases in Afro-Asian countries as devices to perpetuate colonialism. With American military aid and bases in Pakistan, any NATO base in Goa will justify effective retaliatory moves and measures by India against military encirclement.

Kashmir Once More

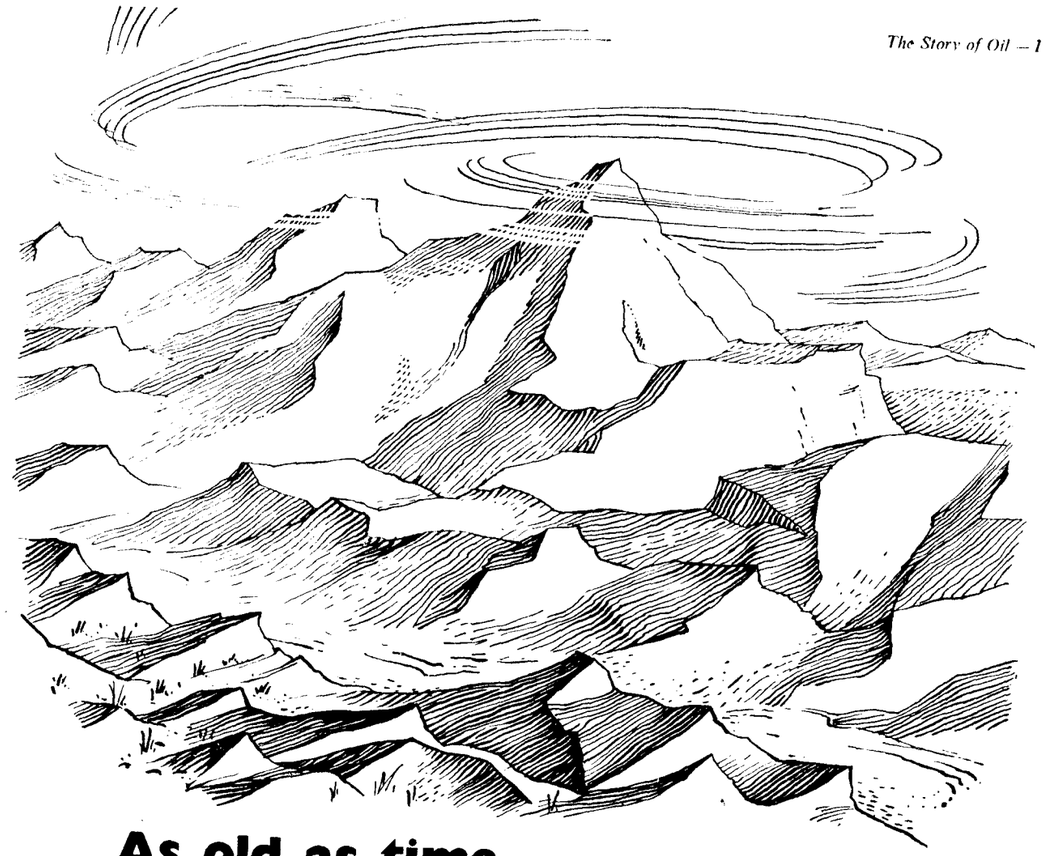
CONFUSION widely prevails over the Kashmir issue. It is partly due to the earlier mishandling of the problem by New Delhi. It is being, has been, fostered and aggravated by some interested powers determined to exploit the Kashmir issue in their attempts to take revenge on India for her neutralist foreign policy. Though it would be crying over spilt milk, it is necessary to emphasise that confusion about the Kashmir issue is, to not a little extent, due to the apologetic or weak defence by India during the earlier debates on this problem by the United Nations. Only since Shri Krishna Menon's spirited rebuttal of Pakistani charges and allegations during the last U N debate on Kashmir, has India's case been clarified and put forward effectively. In their speeches during recent visits to Kashmir, both Pandit Nehru and Shri Menon have firmly reiterated this stand. On the eve of the Security council's forthcoming debate on Kashmir, such reaffirmation of India's case was as necessary as it was timely.

Even those who are sympathetic to India have a feeling that India has gone back on her promise to hold a plebiscite in Kashmir. As the nature, origin and the conditions under which such a promise was made are not widely known, it is necessary to recall the relevant facts and circumstances. India made the promise of a plebiscite to the people of Kashmir, and not to Pakistan. This promise was made so that the people, and not only the Ruler and the Government, of Kashmir could express their will in a referendum about the issue of Kashmir's accession to India. That wish of the people has been expressed through the general election and the acceptance of a Constitution by the elected representatives of the people of Kashmir. Under this Constitution, Kashmir's union and integration with India has been completed in a democratic and legal manner. So far as the State of Jammu and Kashmir is concerned, the plebiscite issue has been settled already. It has relevance only to that portion of Kashmir which is under unlawful occupation by Pakistan.

So much about the basic issues involved. But Pakistan has tried to make confusion worse confounded by its clamant demand for a plebiscite. New Delhi made no such specific, unconditional, promise either to Karachi or to the United Nations. Pakistan has no right to demand a plebiscite in Kashmir. Ten years ago, India referred the Kashmir issue to the United Nations. This reference included a protest by India against Pakistani aggression in Kashmir. India's accusation that Pakistan has committed acts of aggression against Kashmir, has been accepted by UNCIP. Pakistan can, therefore, have no moral or legal claim over Kashmir. She has no right to be in the State, or to have any voice in the internal affairs of that State. She has no right to maintain troops in the parts of Kashmir under her illegal occupation. She has far less right or justification to intimidate the people of the State. Recent explosions and disturbances in Kashmir have been, it is now clear, instigated by Pakistan. Karachi's motive is to create communal trouble so as to aggravate the Kashmir situation. Such actions involve interference in the internal affairs of the State of Jammu and Kashmir, and justify lodging a further protest by India to the Security Council. American military aid to Pakistan, creation of American bases in Gilgit and in other parts of Pakistan, Pakistan's membership of SEATO and the Baghdad pact have changed the whole complex of the Kashmir problem. Above all, Pakistan can, under no circumstances, demand a plebiscite in Kashmir as long as Pakistani and tribal troops remain within areas now under unlawful occupation of Pakistan.

Counter-speculation for Food ?

AT long last, it appears, Government has moved towards finalisation of its scheme to maintain buffer stocks of more than 2 million tons of food grains. These would consist of a million tons of imported wheat, most of it under P L 480, and the rest of almost



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equal quantities of indigenously procured coarse grains and rice. The maintenance of such a level of stocks with Government had been recommended long ago by the Purshottamdas Committee on Foodgrains Policy, but it was only at the end of 1952 that Government stocks attained that level, with the help of the 8.6 million tons imported during the two years, 1951 and 1952. The absence of deliberate planning behind this accumulation became obvious when, during 1953, Government stocks were allowed to run down from 19.2 lakh tons to 14.7 lakh tons on the ground that home production had gone up by 6 million tons and that, therefore, it was not necessary to lock up funds and storage space when there was no emergency in sight. A further increase of 9 mn tons in food production during 1954, however, compelled initiation of a price support policy, as a result of which stocks with Government rose to 16.4 lakh tons at the end of 1954.

The false optimism generated by the aggregate increase in food production of more than 16 mn tons over the period 1951-54, which is now part of history, had its impact on stocks, which were allowed to run down to 9 lakh tons at the end of 1955, with the inevitable consequence that Government was caught unprepared when production declined from more than 58 mn tons in 1954 to less than 55 mn tons in 1956. In spite ot doubling the level of imports from 7 lakh tons in 1955 to 14 lakh tons in 1956, Government stocks at the end of 1956, thus, declined to the precariously low level of 3 lakh tons.

Since little can be done to remedy lack of foresight in earlier years, it is all the more important that the new scheme be planned with care and executed with business shrewdness. Press reports so far, however, do not inspire confidence that this 'virtually finalised' Government decision would be capable of effective and quick implementation. It is proposed to announce "fair" or even "incentive" prices for procurement of rice and coarse grains in time for the next kharif crop due in October, and assure success of this purchase policy by restricting credit to traders and by suitable timing of Government entry into the market. Past experience of the latter at least has not left behind a very commendable impression. In the present context, it is hardly realistic to hope that prices will not rise as soon as Government entry is expected and even before it becomes effective, and till the end of the year, at any rate, Government's stock position would not be so satisfactory as to enable it to unload and push down prices. Moreover, the suggestion that procurement would be carried out on a 'voluntary-cum-controlled basis' does not clarify the picture very much. Details of this experiment in procurement are not yet known but it would obviously have to be judiciously tied up with the extension of credit, marketing and other facilities if it is to have a chance of success.

Life Funds and Socialism

THE way the Life Insurance Corporation has been using its funds during the first few months of its existence has attracted a good deal of attention. When life insurance business was nationalised, the fear was expressed in business quarters that apart from other things, this would deprive the private sector of a very important source of funds. The assets of the nationalised life insurance companies when the Corporation took over amounted to Rs 341 crores. Of these assets, investments in equities were of the order of Rs 57 crores, i e, 17 per cent. In order to allay the fear of the private sector the Government gave an assurance that the proportion of investment of life funds in the private sector would not be allowed to fall.

A few days back the Finance Minister speaking in the Rajya Sabha indicated that funds of the Life Insurance Corporation and the proposed Providend Fund Trust or the Pension Fund would be increasingly invested in the private sector with a view to diverting the profits of private industry to public channels. To emphasise that this measure was a step towards socialism, the Finance Minister claimed, somewhat exuberantly though characteristically, that what Mr Hugh Gaitskell was contemplating in the U K today had been thought of in India even before—only there had not been so much money before—namely the Government acquiring an interest in private industry by purchase of shares and thus influencing and controlling it.

Not all persons who subscribe to democratic socialist ideals would agree that the measure announced is the proper way of achieving the socialist objectives. While the Government can hope to make its presence felt, effectively in the deliberations of any private concern only when it has acquired over 50 per cent of the shares in that concern —unless, of course, the Government hopes to align itself with some of the private shareholders, in which case it may have to yield on some issues in order to win them over to others —the investments of a proportion smaller than that may only amount to propping up private interests with public funds without having any effective voice in the utilisation of these funds.

However, even to those who are disposed favourably to this type of measure, this might hardly appear to be the appropriate time for its introduction. The investment programme laid down in the Second Plan for the organised private sector is already within sight of achievement. Therefore, if in pursuance of the policy now announced, new financial support is made available to private enterprise, this will naturally enable the private sector to exceed the Plan targets. At the same time, the public sector is desperately short of funds and the fear is that the Plan targets in the public sector may have to be cut drastically. Unless, therefore, it is argued that the original programmes for the private and public sectors were based on a wrong scale of priorities, the policy enunciated by TTK can only be viewed with concern.

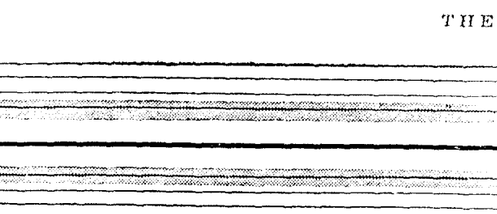
To some extent, the distribution of L I C funds even before the Finance Minister's announcement under discussion had shown a trend towards larger investment in the private sector. The proportion of L I C's current investment in equities is estimated to be in the region of 30 per cent, which when compared to the corresponding proportion of 17 per cent when the Corporation took over, indicates the direction in which investments were already being channelled.

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A Calcutta Diary

Labour's Love's Lost

MORE regular than the cuckoo in spring and the green-fly in summer is the cry in Calcutta at this time of year for a Puja bonus. With less than a fortnight left before the ten-armed goddess actually arrives, thus causing a most welcome four-day break in the unspeakable monotony of Bengali life, the demand for a bonus has been getting more strident with the passage of every day. The shops are full, more with stocks than with buyers, for the latter are mostly on the streets or the maidan, raising slogans or making speeches declaiming the utter ruthlessness of the employers as a class. The police have to watch, from a slow-moving wireless van, ten processions a day on the average. On Saturday the number rose to thirty. There are employers who have refused to pay anything, and in their offices and works there is go-slow. Those who have agreed to pay fifteen days' basic wages by way of bonus are faced with the demand for a month's and those who promised a month's are confronted with the demand for two months' and so on. It should be mentioned in passing that Indian owned business houses have more trouble than those owned by foreigners, because the latter run their shows more efficiently and are in consequence able to pay their staff better.

So the goddess Durga will have to wait a while before the Bengali is ready to hail her. At this present he is busy demanding a bonus, and he needs it very badly too. This is the time when he must buy new clothes for his children, of whom the more makes him the sorrier. And that eleventh child needs a pair of slippers too. The wife has not had a **sari** since last Puja. Then that outstanding bill with the grocer; he has refused further credit and insists on immediate settlement of the previous bill. The sky is beautiful with light-coloured autumn clouds, and there is an undefinable something in the air. All this, however, is powerless against the butcher and the baker and the candlestick maker. The florist must wait; read, rather, the advertisement of the Calcutta Flour Mills Association, which promises **atta** at 6 as and 6 pies a seer.

* * *

Even as the most poignant part of **The Way of All Flesh** is that which shows the old man standing outside the window in snow through which he sees his family enjoying itself at the Christmas party, it is at this time of Durga Puja that the sadness of Bengali middle-class existence today is seen in its barest ugliness. Nature and children conspire to make the unhappy unhappier. The rains are over, or will be in a few days. The clear sky is an invitation to joy, one the Bengali middle-class householder is no longer able to attend for he has not the wherewithal. The relative coolness of the air brings no joy. There are the children with their demands for toys or clothes or contributions to the local community Puja fund, little knowing that the poor man has not the money needed for all these things. The **shehnai** wails on in the Puja pandal close by, and the sadness of the tune chosen reflects more the sorrow of the moneyless father than that of Durga having to go back to Kailas after four days with her people in the plains.

This evocation of the pre-Puja pathos of the Bengali Hindu may well seem sentimental. The answer is that sentiment is an essential ingredient of the mental make-up of every middle class, which would be less than itself without it. There are many things the Bengali **bhadralog** goes without all through the year. He may sigh or he may not. Puja is a different proposition altogether. Not to be able to wear a new dhoti, not to be able to give one's wife a new **sari** on the occasion, not to be able to clothe one's children in colourful garments for those four days—these are tragedies in the fullest sense of the term.

* * *

Religion has nothing, or very little, to do with it all. As Nirad Chaudhuri wrote in his autobiography, it would require the ingenuity, learning and patience of a Frazer or a Dumezil to unravel all the things that have gone on for centuries to make Durga Puja what it is today in Bengali life. Those who participated in it in their childhood—and what Bengali did not?—can never forget what these four days once meant to them. Especially true is it of those who spent their boyhood in a Bengal village or small town. There was nothing to match this festival. For three days Durga brought Bengalis to life, and on the fourth day she departed. And on that day everybody would embrace everybody else, forget all differences and be one. It is in those four days that Bengalis looked like being a people with a common way of life. The priest was a brahmin, but the drummer an untouchable and the man with the **shehnai** was almost always a Moslem. This alone should make it obvious that the religious element in Durga Puja may not be the most important.

The economics of Durga Puja are as important. This is the buying season. The image makers brought to their labours something more than mere skill, and the drummer did not play only for money. There was not an aspect of Bengali life which was left untouched by the Puja. It was the time for family reunion, for the old tie with the village to be revived. It is not for nothing that, as nationalism permeated Bengali life it became a part of the Puja too. When the young enthusiasts shouted "Victory to Durga Mother," and followed it with a shout for Gandhi or Subhas Bose, it seemed nothing incongruous. In the famous song **Vande Mataram** by Bankim Chatterji, you never know, at a given moment, whether he is speaking of Mother Durga or Mother India. Durga represented everything that the Bengali valued.

* * *

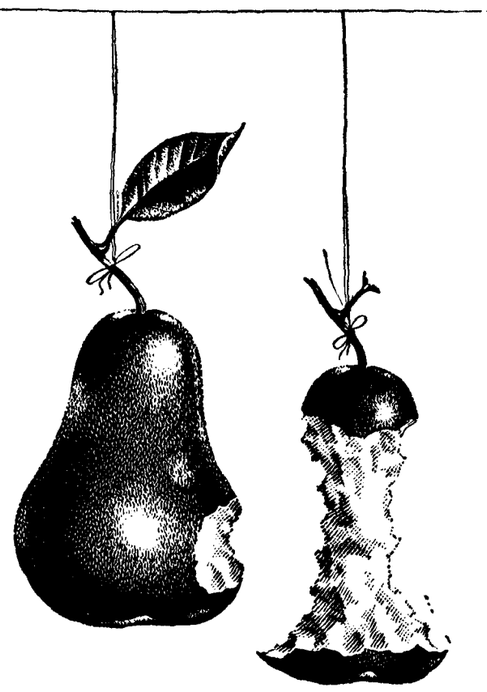
There is no reason why employers must pay a Puja bonus. Indeed, somebody recently called it a relic of a bygone age, when labour had low wages and no rights and when the boss sought to seem generous once a year by giving a **bakhshish.** It reminded him of the continuing feudal

character of Indian capitalism. There is something to be said for these arguments, but employing interests in Bengal would do well to remember the extent to which Durga Puja affects the Bengali. Not having a Puja bonus means not buying those saris and shoes and toys that industry has put out. It means the retailer will be left with his stock, which he had bought in advance. It means the drummer will have fewer assignments, and the pandal makers will be idle. It means that employers who complain of a lack of demand will miss the opportunity of the only season of conspicuous consumption in the life of the people as a whole.

More, it will mean that Bengali life will not light up even for four days. The sore created by the sad face of the child without new clothes will be on his father's heart for many days, and when at work with his huge ledger in the merchant's office, his calculations will probably go wrong from distraction. This is something the employer in Calcutta is wrong to leave out of calculation.

—Flibbertigibbet

September 16.



Appearances...and a pair of pears

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From the London End

Whither Germany?

BY the time this dispatch is in print the West German general elections will have taken place and the victor known. So far every reasonable forecast puts Dr Konrad Adenauer's Christian Democratic Union well in the forefront of the likely victors of this extremely crucial election the first held in fully sovereign West Germany. In a certain fashion the present elections will determine the face of Europe and thus of international relations.

Adenauer—a Man of Skill

No one can fail to admit the considerable skill of Dr Adenauer in spite of his evident authoritarian tendencies. He took advantage of the French rejection of the still-born European Defence Community arrangements to extract from the three Western powers the full transfer of sovereign power to the machinery of Government set up in Bonn in 1948. He sought military security "on the cheap" by agreeing to involve Western Germany into the NATO system of defence and his Ministry of Defence dragged its feet in arranging the West German contribution in arms and men to that system.

He contrived, by periodic pilgrimages to Washington, to alter the course of American policy and make the Americans look upon the Federal German Republic as the showplace of free enterprise and unrestrained capitalism. And so without incurring the burdens of full-scale rearmament Dr Adenauer was able not only to convert West Germany into a showplace but to add a volume of economic power to his country which stands up in strange contrast to that of his neighbours, and more important, which has played havoc on the European economic balance.

The Church and Herr Krupp

The Christian Democratic Union has certainly made vast use of this evident economic power to show the German electorate that only the sharp individualism of private capitalism can now give West Germany a comparable nationhood. While state ownership and nationalisation is the path being progressively adopted in other countries, Dr Adenauer is now liquidating the state-owned Volkwagonwerke to private interests. Behind all this philosophy of individualism which the Christian Democrats espouse with such force stands the prompting powers of two vast forces—the Church and Herr Krupp von Bohlen. To realise this one has only to be reminded of the fact that Dr Adenauer's C D U was able to spend over £2½ million on its election campaign—more than all the funds disbursed by all the political parties in the 1955 British general election—and that the Catholic Church with its silent but devastating powers of persuasion had lent itself with undue publicity to the services of the C D U.

The history of Herr Krupp under the Adenauer regime makes anxious reading to anybody who remembers the birth of the Hitler movement in 1933. Herr Krupp was imprisoned for life as a war criminal at the Nuremburg Trials. After serving some six years he was released and gradually his pre-war Ruhr empire was returned to him. Since then Dr Adenauer did nothing to comply with the Allied instruction of 1949 that the former Krupp combine was to be dissolved. It is now learnt that the Adenauer Government has requested the Allied powers to rescind that instruction. Today the C D U represents the truest character and interests of the reviving West German monopolies and combines and in line with the requirements of the Catholic hierarchy the state under the C D U is scheduled to play an ever-decreasing role in German industry. And hence the election slogan of the C D U: "no experiments."

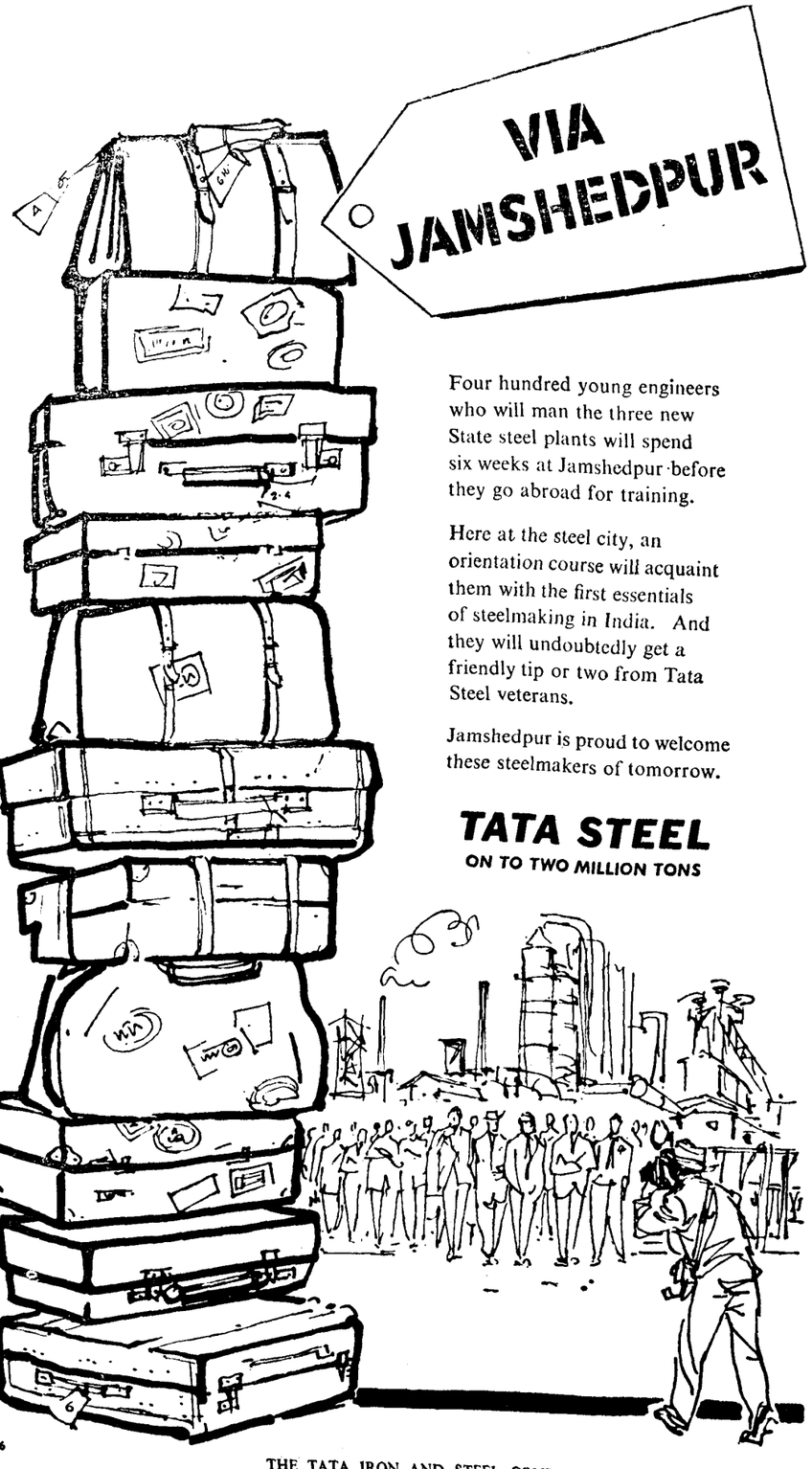
Social Democrats

The principal secondary party, the Social Democrats, are a poor second. They do not have the same record of achievement. They cannot but congratulate the C D U for the "economic miracle" and while their leader Herr Ollenhauer, has stated that much of the social legislation adopted in Bundestag was the result of Social Democratic initiative, he cannot easily convince the average German that he is a man of destiny, as they believe Adenauer to be. The Social Democrats nevertheless possess a more meaningful appreciation of national responsibility within the perspective of the far-reaching implications of German politics for Europe and world peace.

German Reunification

The essential content of national responsibility for the Federal German state must necessarily be concerned with the ways in which the unity of both East and West Germany can be achieved. The Christian Democratic Union in the whole period of its power had made its Foreign Ministry what **The Times** recently called the "European outpost of the American State Department," for among European sovereign states the West German authorities alone accept the infallibility of Mr Dulles. From this follows a C D U policy of achieving German unification without providing anything in the nature of **quid pro quo** to the Russians. In a word, the Dulles policy of refusing to make concession to obtain concession—a policy of "liberation" through a process of weakening Soviet power—is the hallmark of the Adenauer Government on this question. Hence the C D U campaigned during the election on maintaining the American link, of fostering German participation in NATO and of sealing all hopes of direct West German approaches to their East German counterpart. Indeed, the past pursuit of this policy made West Germany the forward area in the military system of NATO.

In contrast to this policy of naked strength to secure Russian conceesions, Herr Ollenauer has given the only visible piece of substance to his election programme—that of a German unification within a wide system of European security embracing both Eastern and Western Europe. In other words, Herr Ollenhauer desires a reunificaton on the wholly feasible assumption that its achievement is dependent on two considerations: first, the assurance to the Soviet bloc of its own security and second that there must take place a detente between the Great Powers on the basis of an abandonment of the military systems of NATO and the Warsaw Pact. It is this policy which has aroused strong suspicion in London and Washington against the German Social Democrats.



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Letter from Paris

Bourges - Manoury's Two Months

IT is now a little more than two months that M Bourges-Manoury stepped into the shoes of Guy Mollet. A lot of green-black water has flowed since then under the thirty or so beautiful bridges of different ages that span the Seine. A lot has happened in these two months, and many difficulties have harassed Palais Bourbon and Hotel Matignon. But has anything really happened? Has any outside observer who does not follow French events with special interest noticed anything, anything that might be due to a change in Government policy? M Lacoste, the Socialist administrator of Algeria, who has been promising since about a year that the solution (through pacification) of the Algerian problem was just another quarter-of-an-hour off, goes on pursuing his policy as before. M Pineau's foreign policy has not undergone any change and the same M Moch continues to represent France in the Disarmament talks.

Yet a ministry has fallen, and the consequent ministerial crisis took about a month to resolve. When there is a change in the American Presidentship, changes in American home as well as foreign policy of such violent character take place as to make their effects felt all over the world. A change of government in Great Britain, if it does not usually make itself felt in foreign policy, certainly brings radical changes on the home front; as a matter of fact, even the choice effected by the Queen as between Messrs Butler and Macmillan has made some difference in this respect—which incidentally is a commentary on the common observation that royalty does not play any part in British politics. However, hardly any policy change ever follows an ordinary ministerial change in France.

The Parliamentary System

This brings out the shallowness of the popuar view that French politics are unstable. As a matter of fact, despite ministerial instability, French politics may be regarded as one of the stablest. The explanation is not far to seek. Because of the proportional representation system of voting, the French Assembly is more representative than elsewhere of the diverse classes and interest groups that make the society, and the existence of several parties of comparable strength make it imperative that any important decision taken by Government be a compromise between the different or even rival standpoints of the different parties. The fact that party discipline and the use of and obedience to the whip is less here than in many other countries permits even the smaller interests incidentally represented by the different parties to exercise along with the major dominating interests their influence on state policy in proportion to their vote.

The two party system, on the other hand, ranges under each party a whole host of class and group interests with the result that if Government policy is a compromise between the interests of the classes and groups represented by the party in power, it completely excludes the interests represented by the other class. It therefore follows that a change of government under the two party system would bring about sharper policy changes than in the French system. The French Parliamentary system is more democratic in the sense that it requires government to be representative of a larger section of the population than is possible under the two party system. Of course, being a compromise between more rival groups and class interests, such a government's policy has necessarily to be further removed from each of the individual interests and standpoints contributing to making the policy. (The inferiority of the French system with regard to the two-party system is therefore only in efficiency; in order to be logical however, the critics of the French system should suggest as alternative the one party system, for that is even more efficient than the two party system.) A change of ministry in France is not always necessitated by any change in the balance of forces of the classes and interest groups. The same parties and the same forces usually keep influencing state policy. Ministerial changes are brought about by the dislike of French politicians, haunted by the fear of Bonapartism, of any one man becoming too important or too popular or too used to power. It has become almost a gentleman's agreement that all the parties will in turn be given the opportunity to lead the Government and that even from the same party different leaders will be called upon to be the Premier on different occasions.

Devaluation and Common Market

Guy Mollet came into power at a time when the French economy had reached its peak of prosperity, and when he left it was in the grip of the most impossible financial difficulties. France's cumulative debt to the European Payments Union had surpassed 2000 million dollars and the upper limit of the credits that could be given was almost reached. The advance that the I M F accorded last spring was exhausted; and the Gold and Reserves of the Bank of France had to be dipped into. Internally, there was on the one hand inflationary pressure and on the other budgetary deficit. It will be remembered that it was the demand of the finance minister for certain taxes on capital that led to the ministerial crisis. There was of course the Algerian stalemate and the Common Market scheme.

These then were the four problems with which the new Government had to start wrestling as soon as it came into being: Common Market, Foreign Exchange, Inflation and Algeria. In analysing the methods the Government is employing to tackle these problems we shall once again be struck by their mutually annihilating character, which seems to be unavoidable.

The first major event was the ratification by the Assembly of the Common Market Scheme and the Euratom. This passed away smoothly as expected. The majority was assured: Mendes-France opposed, the Communists opposed, so did the Poujadists, but the rest mostly voted in favour.

The very next step the Government had to take, however, went straight against the principle of the Common Market. The move that was interpreted unilaterally by foreign Central Banks as devaluation

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of the franc was presented as a set of discriminatory subsidisation and taxation measures obviously in order to save the psychological shock of devaluation. This, with the earlier arrest of the gradual liberation of exchange control, supposed to be precursor of the more comprehensive measures envisaged in the Common Market plan, could not but have given second thoughts to the other partners of the Market whether with the best of will France would really manage to play the game. Whether other Governments will protest or take countermeasures remains to be seen. In the meantime, however, M Gaillard, the new and young Finance Minister, has been able to report reassuring results to his measures. Since the steps were taken, the French account with the European Payments Union has shown a surplus every week. A small surplus no doubt; but what is important is that at least the drain has been stopped. How long it will last is yet to be seen. For concession has to be made to the fact that the cheap rate coming right at the top of the holiday season has attracted a very large number of tourists and that there has been an initial wave of speculatory flow of capital into the country.

It would certainly be too much to expect that this measure could possibly cure France's economic malady, which we have seen is due to the structural distortion her economy has suffered in being an Imperialist country. It is hard to visualise how without a drastic structural change France can pay for her imports with her exports. What will happen if imports were strictly rationed to the same level as her exports? The answer is simple, if the cut is applied to either raw materials or fuel, production will have to fall; unemployment will follow, and rise in the raw materials prices would lead to still higher prices for her exports. If the cut be applied to consumer goods, that will lead to a rise in consumer goods prices and thus to a wage-price spiral. Both the alternatives are socially and politically inadmissible.

The 'Loi-Cadre' for Algeria

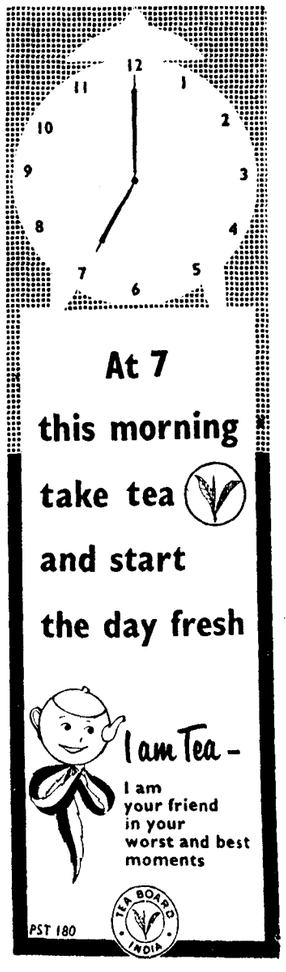
At one time in the past the Government was inviting the rebel leaders to cease-fire and negotiate a settlement. That was long ago. The attitude has changed. The Government and several official and non-official spokesmen of the different parties have explicitly declared that there is no question of independence for Algeria: Algeria will remain French. Last autumn the United Nations had politely washed their hands off the "internal affairs" of France expressing the confidence that France would arrive at a "just solution" to the problem by herself. This would have been the end of the matter if, as in those happy days before the second World War, only politically 'mature' nations were to discuss international matters. France and her Western allies are however bitterly aware that the Assembly is getting more and more full of new and small nations who are politically immature and do not understand why British action in Oman is helping a friend, French action in Algeria is France's domestic affair but Soviet action in Hungary is aggression. Not that France is afraid of any reversal in the General Assembly, for as Habib Bourguiba, the Tunisian leader, has sadly remarked "America will not abandon France". It can be therefore safely predicted that by the time this letter is printed a majority in the General Assembly composed of the enlightened 'Western Democracies' and their camp followers of South and Central America would have again expressed their confidence in France finding a "just solution" to the problem and left it at that.

But France has to produce some tangible evidence of the progress she has made since the last U N session in finding the "just solution". To this end has been worked out a new constitutional arrangement for Algeria called the 'Loi-Cadre'—entirely for the consumption of the United Nations, for neither the Algerians nor the Colons have been consulted. The essence of the arrangement is to divide the country into six parts, some of them having a European majority, to be governed on limited autonomy basis, with a Federal Government at Algiers. The powers of this Government will be limited, Finance, Defence and Foreign Relations being retained by Paris. The Federal Government will send thirty representatives to the French National Assembly. Elections will not take place on separate electorates basis for the Algerians and the Colons, though the proportion in the French Assembly of the thirty Algerian representatives will not bear any relation at all to the proportion of the population of Algeria to that of France. The Algerians will certainly not like it, as this arrangement does not speak of independence; the Colons also will not like it, as the separate electorates arrangement is removed; but who cares, when Mr Foster-Dulles has liked it?

Meanwhile De Gaulle has again declared that no rebellion has ever been suppressed, no rebellion can ever be suppressed, nor will the pacification in Algeria ever come to an end.

Wage-Price Spiral

M Gaillard has ordered prices to stop rising. Has his order any more chance of being carried out than was King Canute's to the waves? Of course a Finance Minister is not necessarily as helpless before prices as a man is before a rising tide. All the same it would indeed be almost miraculous if prices could be



held steady, without all round physical controls, when costs as well as wages have already gone up. The price rises were of course expected and inevitable, as has been shown in earlier letters. For a long time they were artificially suppressed by subsidisation and de-taxation measures to keep the 213 articles in the Cost of Living Index under the 5 per cent minimum wage rise barrier. The barrier was of course finally crossed, and once it had the Finance Minister had no longer any reason to continue the subsidies and de-taxation measures; further, their removal was the only means by which the sum that had been demanded by Ramadier and refused by Capital could be obtained. Hence, not only did the Cost of Living Index cross the barrier, it was allowed to go substantially beyond. As a result an automatic rise has taken place in the minimum wages, which has again pushed up the prices.

The traces of a wage-price spiral are already discernible, but not yet too marked. This, however, is not due to the appeal that is being made repeatedly to the wisdom and the cooperative spirit of the wage earners and consumers but to a purely local circumstance which does not give M Gaillard any ground for optimism. It is that August is the holiday month for the French people: it is the month when the whole population seems to go out on holidays, all at a time. Schools, colleges, theatres, cinemas, factories, presses, 80 per cent of the shops and even a large part of the cafes and restaurants had all gone out on holiday. It is understandable that the Trade Unions were silent when all the workers were sunbathing on the beaches. Now, however, they have started to come back, refreshed and tanned, and the French papers are holding their breath in the expectation of calamities, especially as the I M F meeting is also scheduled this month. The holiday season had provided a valuable breathing time to M Gaillard and he has been active. He is trying to stop the wage price chase from getting beyond the point it has already reached by a price freeze applying to all prices, intermediate as well as final, at their levels of 31st July.

Physical control measures are being applied only with regard to some of the basic prices, like that of wheat and steel. For the rest, he has remained content with an appeal to the good sense of the big chainstore retailers. The very enthusiastic response they have given to the appeal—they have not only agreed to keep prices steady, but have even, in some cases, lowered them!—reminds your correspondent of the hearty cooperation certain Indian capitalists always used to give to Gandhiji. Whether their French friends are displaying this magnificent spirit because they are after all basically good human beings, as Gandhiji believed even capitalists to be, or whether they are doing it to embarass their smaller competitors and at the same time to put the Finance Minister into a useful debt is a matter for conjecture. The French economic papers are however shaking their heads. Prices, they say, are going up all over—because the prices that are held steady and those that are even reduced are merely sensational exceptions.

Apart from traders, those who are the most immediately hit are the farmers. Over and above the price freeze—enforced, in a number of cases—they have to suffer the loss of some of the subsidies and credit facilities. This tendency of specially hitting the agriculturists strengthens one's suspicion that there might be an attempt somewhere to weaken the political force of the peasantry, a suspicion that is inspired by the fact that the peasants are the surest losers in the Common Market Scheme.

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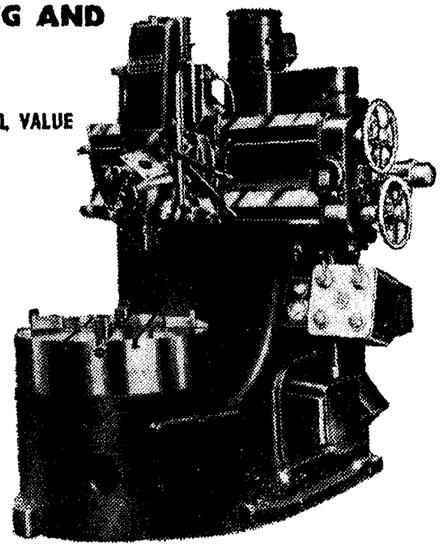
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From the Chair

The Indian Iron & Steel Company Limited

Speech of the Chairman Sir Biren Mookerjee

THE following is the full text of the speech of Sir Biren Mookerjee, Chairman of the Indian Iron & Steel Company Limited, delivered at the Fortieth Annual General Meeting of the Shareholders held on September 11, 1957:

Gentlemen,

It is my privilege to address you this year as Chairman of the Board of Directors in the absence on very well-earned leave of Mr. Leslie Martin. It is, however, the intention of the Managing Agents that on his return to India, Mr. Martin should resume his former position as Chairman, and to this end I commend to you the resolution that will be proposed at a later stage of this Meeting to provide for his reappointment.

Production and Despatches

The total production of iron at 695,156 tons showed a decrease of 11,830 tons from that of the previous year due to the reduced output of the Blast Furnaces at Kulti. These Furnaces with their ancillary plant are now very old and uneconomical and subject to frequent shut-downs for repairs. Under the 1953 Extensions Programme it had originally been the intention that heavy capital expenditure should be incurred in effecting their complete modernisation and rehabilitation, but on a later examination of the position in connection with the Company's 1955 Extensions Programme and the overall Second Five Year Plan of Government, the conclusion was reached with the concurrence both of Government and the World Bank that such expenditure would not now be warranted having regard (a) to the surplus pig iron that would be available from the new Blast Furnaces at Burnpur and from the other new or expanded plants and (b) to the inevitable higher cost of production at Kulti owing to inherent operational difficulties. It was accordingly decided that the Kulti iron plant should be closed down when the new Blast Furnaces at Burnpur came into operation.

In consequence of this decision, Government withdrew as from the 1st January 1956 the special depreciation element of Rs. 6|8|- per ton included in the sale retention price of iron to the Company despite protest that the resultant price was quite uneconomical. Possibly in view of feared delay in the bringing into operation of the new plants, Government have recently requested that the Company should examine the possibility of the Kulti Blast Furnaces being maintained in production for a period of about four years. This position would be capable of achievement only by the incurring of considerable expenditure on the plant and our Consulting Engineers are now examining the matter. In the meantime it has been indicated to Government that the Company would expect all such emergent expenditure to be met by Government and the retention price of iron to be adjusted in relation to the actual cost of production.

Production of the Burnpur Blast Furnaces was 476,336 tons against 473,172 tons for the previous year, the slight increase being due to the fact that the relining of No. 1 Furnace during 1956-57 was effected in a still shorter period than that of No. 2 Furnace in 1955-56, thus constituting a fresh record for the Company.

As regards the out-turn and despatches of steel, you will have realised from the particulars given in your Directors' Report that a number of special factors operated to inflate the position for the year 1955-56. These factors did not recur during the year under review which accounts for the decrease shown.

Profit

In view of the reduction of 31,114 tons in the despatches of steel there is naturally a fall to a more normal level in the gross profit earned for the year under review and the effect on net profits of this fall has been greatly accentuated by the severe increase in the rates of corporate taxation imposed under the Finance Act 1957. The severity of this increase will be realised when I tell you that had the Reserve for Taxation been calculated at the rates previously prevailing, the charge would have amounted to Rs. 269 lakhs as compared with the sum of Rs. 319 lakhs that has had to be provided to cover liability at the new rates. The incidence of the increase of taxation on the profits of the year under review accordingly amounts to no less a sum than Rs. 50 lakhs.

In face of this position it was decided that the time had now come to commence adjustment of the large balance standing on the Reserve for Taxation Contingencies and an initial write back to Profit & Loss Account of a sum of Rs. 47 lakhs has accordingly been made in the Accounts now before you. The Reserve in question is maintained to offset the increased incidence of taxation in subsequent years as a result of the special depreciation allowances granted in earlier years in the case of plant and buildings. The major part of the Reserve is attributable to the initial depreciation granted in previous years which has the effect of cutting off any further depreciation allowance for taxation purposes once the value of the asset has been written down to a certain level, and write back from the Reserve on the account will, in consequence, operate only as and when that level is reached. In addition, further special depreciation is allowable on plant and buildings during the first five years of their life which has the effect of reducing the allowance for each subsequent year with a consequent increase in the liability for taxation. It is to offset the position in this latter respect that the write back of Rs. 47 lakhs, which is not an arbitrary figure, but a calculated amount covering the position up to the 31st March 1957, has now been made. It is the intention periodically to examine the position so that the balance of the Reserve may gradually be adjusted.

Initial depreciation now no longer applies having been replaced in the case of plant and machinery by the grant of Development Rebate giving an outright exemption from taxation of 25% of the cost of new plant and machinery installed. The approximate tax saving on this account for the year under review amounts to Rs. 9,50,000 which sum has accordingly been transferred to General Development Reserve raising the balance of this Reserve to Rs. 16,50,000. As and when the

major items of the extensions plant are commissioned the Development Rebate and the consequent saving in taxation will be substantial and, as was explained last year, we count to a large extent on the continuance of the Rebate for finance of the 1953 and 1955 Extensions Programmes, which apart from the pure capital cost of the added plant will involve a very considerable increase in the working capital requirements of the Company for the finance of rolls, spare parts, stores, raw materials stocks and the generally increased financial requirements of the expanded undertaking.

Dividend

The fullest representation was again made to Government for admission of the Ordinary shareholders to some added participation for the year under review in the continuing prosperity of the Company, it being urged that with the limitation of dividend imposed in the past, the financial position of the Company had been strengthened to such an extent that the stage had now been passed where it could be validly contended that a small increase in the dividend distribution would in any way prejudice the finance of the cost of the Expansion Programmes or the due repayment of the indebtedness that is being incurred. It is a matter of regret to your Directors that Government have been unable to accept the views of the Board in this matter and in their letter dated the 29th July 1957, a copy of which has been appended to the Directors' Report, have notified that restriction of the dividend must continue until the Expansion Programmes have been completed. This reply is a slight improvement on the earlier attitude of the Government. As the 1953 Extensions are expected to be completed next year, whilst one of the two batteries of coke ovens and one of the two blast furnaces will be ready for commissioning this year, I trust it may be possible for the Government to relax their control in the near future. In the meanwhile, your Directors would again point out that the decision of Government cannot be challenged without serious detriment to the interests of the Company and would urge that the position be accepted with good grace in the hope and expectation that the justness of the claim of the shareholders to a reasonable participation in the improved and continuing prosperity of the Company must ultimately be recognised.

Future Prospects

I should perhaps sound a note of warning as regards the present year. We are now feeling the full effect of the disruption of current operations that is inescapable when a plant is being expanded and constructional and operational work has to go on side by side. In these circumstances there has inevitably been a drop in production and whether this can be made up will depend entirely upon the date when it will be possible to bring into operation the first of the new blast furnaces at Burnpur, a matter with which I will deal in more detail at a later stage.

As to the future in general, I have no hesitation in saying that if it depended entirely on the efficiency, diligence and enthusiasm of all of us alone, your prospects would appear to be bright. However, in the day to day changing moods of the workers, not only in the industries but in all those departments whether in the Government or outside, who have to make their contribution towards the national effort, nothing can be said even with reasonable certainty as to what we may expect in future. Extreme lack of discipline has manifested itself particularly during the last few months amongst all classes of workers, in many essential Government or other services, the Ports, etc., accompanied by actual or threatened strikes and by violence. Political agitation, sometimes accompanied by violence, has also played its part in interrupting industrial production and disturbing the public peace. This state of affairs may, if it continues, entirely upset not only our own expectations as regards the future operations of our plants, but the entire economy of the country. I would, therefore, with all the emphasis I can command, urge upon Government the vital necessity that violence be severely dealt with the punishment meted out with promptitude not only to those by whom the overt act is committed but also to those to whose subversive background activities this violence is directly attributable.

In our own works, in spite of an almost continuous improvement during the last few years in the conditions of service and emoluments, to which I shall refer later, it is regrettable that the workers allow themselves to be influenced by a minority affiliated to a certain political party and activated by the motive of supplanting the recognised Labour Union. This unfortunate position has been evidenced during the year by sporadic illegal strikes of short duration in the essential services sections, which have been particularly serious in the case of the Gua Ore Mines where even murder has been resorted to in an endeavour to terrorise workers belonging to the recognised Union and to disrupt normal operations. I cannot too strongly condemn this manifestation of an influence which for the gaining of its own party ends can contemplate with equanimity the disruption of all planned progress towards the achievement of the country's social advancement and industrial self-sufficiency. As you must have noticed, similar troubles have been reported also from Jamshedpur in the speeches of the Chairman of the Tata Locomotive and Engineering Co. Ltd., and the Tata Iron & Steel Co. Ltd., at their recent annual meetings.

Mere condemnation, however, is of little use unless it is coupled with some suggestion as to how the position may be met. My personal opinion, based on a study of similar situations in other industrial countries, is that the evil can best be countered by the building up of really strong and representative labour unions having the full support of the workers and capable of restraining the subversive influence of those few who for their own ends attempt to cause disruption to the detriment of the general welfare and that no other unions should merit Government's recognition. I would in fact go further and say that what affects one section of an industry must have repercussions upon the whole of that industry and therefore the ultimate solution may lie in the building up on an industry-wise or craft-wise basis, of unions under the leadership of responsible bodies of men who have the interest of the country and the workers genuinely at heart and who are not swayed by political influences or the desire for self-aggrandisement.

We have progressed a long way since the days when an employer could contemplate with equanimity, as reducing the bargaining power of the workers, dissension within

a single union or the formation of a number of rival unions. It is now the desire, I am inclined to believe, of all enlightened employers that they should be able to deal with one strong labour union enjoying the support and truly representing the interest of its members. Given such strong and representative unions, employers and workers could readily resolve the difficulties that must from time to time arise between them and could act together in full cooperation and mutual trust, thereby enabling the country to advance to new fields of prosperity and social security.

There are, however, other difficulties which will discourage any prudent man from trying to peep into the future. The solution of these difficulties almost exclusively depends upon the success of the more than Herculean tasks to be performed by the Government according to schedule for the implementation of what has been lately described as the "hard core" of the Second Five Year Plan, particularly in respect of the supply of good quality coking coal and the transport of this and all other raw materials and ultimately the finished products. This "core" consists of the development of iron and steel, coal, transport and ancillary power and necessarily includes the two major units in the private sector of the steel industry. I shall try and explain to you briefly how the success or the failure of the Government's efforts in this respect is likely to affect the operations of our extensions with which your future is naturally linked up.

Expansion Schemes

In your Directors' Report and in the report by our Consulting Engineers that was issued therewith, a full description has been given of the stage which the schemes have already reached. We have, as you are aware, two programmes of expansion in hand, the earlier of which is described as the 1953 Extensions and the later one as the 1955 Extensions. The latter scheme was undertaken by us at the request of Government to form part of the Second Five Year Plan. It is intended to enable us to produce more finished and expensive products by reducing the excessive output of the semi-finished ones and of the saleable pig iron contemplated in the 1953 Extensions. The total production after the completion of the 1955 scheme will be 1,000,000 tons of ingot steel or 800,000 tons of saleable steel instead of 700,000 tons of saleable steel as planned under the 1953 Extensions.

The 1953 Extensions, which you may remember suffered an initial delay of nineteen months, are expected to be completed by the end of 1958 if no unforeseen difficulties arise in the meanwhile, in which case we shall have made up seven months of the delay. Towards the end of the current year we expect to bring into operation one of the two batteries of coke ovens and one of the two blast furnaces included in the scheme, and the conversion of the old 600 ton active mixer into a 300 ton steel-making furnace, whilst the second coke oven battery and blast furnace are expected to be completed and function towards the end of 1958 along with the completion of the new Open Hearth melting shop.

In order to work the first battery of coke ovens we shall require an extra 54,000 tons of coking coal per month. This will bring the total monthly requirements of coking coal for Burnpur to 146,000 tons and we have been advised, and very rightly, by our Consulting Engineers and by the plant manufacturers that the new coke oven battery should not be lighted unless we have built up and can expect to maintain a stock of at least 100,000 tons in our works.

At the moment I can only say that the attainment of this stock position by the time the new coke oven battery is ready appears to be remote and in fact even the maintenance of supplies of coal for existing operations causes no little concern. As an indication of the seriousness of the position I would say that during the current year we have literally been living from hand to mouth and that recently orders had to be given to reduce the throughput of the coke ovens owing to the dangerously low level of the coal stocks which in turn has meant a reduction in the production of steel. The fullest representation has all along been made in official quarters and it has been somewhat disheartening to be referred from one department to another, each in turn refusing to acknowledge responsibility for this sad state of affairs. I am hopeful, however, that as a result of intervention at ministerial level lately, the position may improve.

Similarly, we shall require a further 60,000 tons of iron ore per month to work the first new blast furnace. Owing to the late delivery of mining plant and machinery, caused by the strikes in America and the closing of the Suez Canal, the full mechanisation of our Gua Ore Mines will be delayed by about five to six months. For this reason, we have been advised by our Consultants to stock pile about 225,000 tons of iron ore at Burnpur. Although the target has not been reached yet, we have every hope that this position will be achieved by the end of November next.

Each of the new blast furnaces is designed to produce about 1,200 tons of pig iron per day which can be converted into about 1,000 tons of steel. Taking the present average import price of foreign steel at Rs 700 per ton which is perhaps Rs 150 per ton lower than the price at which steel is being imported at present, the bringing into operation of the first blast furnace will mean a saving in foreign exchange to the country of more than Rs 2 crores per month. The completion of the second blast furnace will double this advantage.

The second battery of coke ovens and the second blast furnace will also need about 54,000 tons more of coking coal and about 60,000 tons more of iron ore per month. Our total requirements including our present consumption will, when the 1953 Extensions are completed, be about 200,000 tons of coking coal and about 185,000 tons of iron ore per month, which means the transport of more than 4 million tons per annum in addition to considerable quantities of limestone, stores and other essential materials for our Burnpur Works equal to another one and a half million tons. In addition there will be 800,000 tons of saleable steel per annum to be moved. Allowing only four days turn round for the wagons, the Railways will have to provide for us carrying capacity for about 21 million tons or so per annum, about one third of which will have to consist of specially built hopper wagons for iron ore. These, I would emphasise, are the transport requirements for Burnpur only and take

no account of the requirements of your Kulti Works.

In this connection it may not be out of place for me to observe that when the three Government plants and the extensions of the Tata Iron & Steel Co. Ltd., come into operation, the problem of transport may prove to be very difficult as most of the steel works will have to draw their principal raw materials from more or less the same area or neighbourhood which will cause a considerable amount of congestion on the railway lines and consequential delay. In such circumstances it is natural on the part of the private sector to apprehend that in the distribution of the transport facilities some discrimination may be made between it and the public sector. We are quite certain that at the ministerial level any discrimination between the private and the public sectors is unthinkable. We cannot, however, be certain that unless strict control is observed at the ministerial level or by some other high authorities, the administrative staff in charge of the transport or supply of the raw materials, particularly coking coal, may not exercise some discrimination between the two sectors. They may naturally imagine that their primary duty is to enable the Government projects to function before those in the private sector. Some public assurance, therefore, that continuous priority will be given in respect of this matter to meet regularly the requirements of the private sector, both for stock piling and normal use, is highly desirable if the two producers in the private sector are to meet punctually their obligations in respect of the heavy foreign loans contracted by them to finance their extensions.

Employees Welfare and Emoluments

In previous years we did not think it necessary to give an account of the wages and other emoluments of our employees and of the many amenities provided by us. But all those employed in industries in whatever capacity have in recent years attained what is now described as the status of partners in the fortunes of the industry concerned. It is desirable, therefore, that I should place before you briefly what we have so far done and plan to do in the future, as well as give you some idea of their wages and other emoluments and the amenities provided for them.

From past experience and statistics it is found that whenever an increase in wages has been given, the prices of food and other commodities have moved up almost simultaneously to the extent of 80% of the rise and in order to combat this evil we firmly believe in providing permanent benefit by increasing amenities for employees. It will perhaps be of interest if I give an indication of the lines on which we are progressing. We have always taken pride in the medical facilities that are made available free of cost to our entire staff and workers and to their families. These facilities are now being enlarged by the considerable extensions that are being made to the hospitals at Burnpur and Gua where an augmented staff of medical specialists and general practitioners are equipped to give the fullest and most careful attention to all cases that may arise.

With the expansion of the Gua Ore Mines we have been able to plan on up-to-date and enlightened lines a model township which will provide an improved standard of living accommodation for all classes of workers. This position applies equally in the case of Burnpur where a large area of land adjacent to the steel works has been acquired for construction of a new township of the most modern design to provide more accommodation and amenities for our workers.

At Burnpur also, enlarged training facilities are being provided which will include four hostels for the accommodation of those undergoing instruction for their future positions as artisans and supervisors; a new cinema has been built to provide film shows at concessional rates and plans have been drawn up for the construction of a building to form the headquarters of a social and welfare centre called the Mahila Mangal Sabha for all the womenfolk of the station. We are now building a large and modern canteen in the works for the workers in place of the older ones and at Kulti have a large construction programme for additional housing for the workers, of which much has already been completed.

We have up to March 1957 already spent large sums on the town including housing and the provision of many amenities. Our present programme which I have just explained involves an immediate expenditure in the region of one and a half crores of rupees and will be followed by further developments and expenditure in accordance with our plans for the progressive improvement of the standard of living of all employees. This is a matter to which I personally attach great importance. In order that shareholders may have knowledge of what is being done, I have had a small booklet prepared showing the designs of some of the amenities for issue to shareholders with the print of this speech.

Emoluments

We have given a great deal of thought to building up the structure of the wages and other emoluments of our employees on lines which on the whole have been generally acceptable to them. The total emoluments take the form of monthly cash payments or deferred payments and the provision of various kinds of amenities. The principal items constituting the total earnings or emoluments include a basic daily or monthly wage, dearness allowance, free housing or grant of rent allowance in lieu thereof a production or incentive bonus, a profit sharing bonus, Provident Fund benefits, leave allowances of various kinds, free medical service for all employees and their families and free or aided educational and training facilities.

It is not possible for me in a speech such as this to enter into any great detail, and must therefore restrict myself to giving you in outline the position for the year 1956-57 in regard to remuneration as it concerns our entire Burnpur staff who are members of the Labour Union. Our First Staff, who form but a small percentage of the total number of employees and occupy the higher technical managerial and administrative jobs, are not members of the Labour Union and therefore nothing that I say now will have any application to them.

The largest proportion of our employees are unskilled or semi-skilled workers on daily wages as distinct from the monthly paid workers who are mostly skilled men employed in the productive departments. The wages rates in both cases vary from department to department according to the nature of the work

done and the ability of the worker. The semi-skilled and skilled workers naturally get higher wages and have higher earnings than the unskilled. The minimum daily wage varies between Rs. 1.00 and Rs. 1.94 per day according to the department concerned. At the former figure the total earnings, comprising basic wages, dearness allowance, quarters allowance and production bonus only, ranged between Rs. 73 and Rs. 90 per month again according to the department concerned. At the latter figure of Rs. 1.94 per day, the total earnings were Rs. 132 per month. The maximum departmental daily wage varies between Rs. 2.87 and Rs. 7.37 per day, the total monthly earnings aggregating Rs. 176 and Rs. 463 respectively, which latter amount was the maximum a daily rated worker in the Melting Shop earned.

In the case of the monthly paid workers the basic salaries vary similarly from department to department. The minimum basic salary is Rs. 60 per month, the total earnings in such case ranging between Rs. 144 and Rs. 183 per month, while the maximum basic salary is Rs. 460 per month resulting in total earnings of Rs. 1,042 per month.

In the case of most of the employees in question there is provision for the granting of annual increments.

Taking all the factors into account, I think you will agree that we are giving our employees emoluments, amenities and opportunities for advancement that compare favourably with other similar major organisations. Under the guidance of honest and competent Labour Union leaders powerful enough to eliminate those who, having infiltrated themselves into the Union or otherwise, are bent on causing disruption by fermenting sporadic strikes or go-slow methods, the Company as well as the employees can ensure for themselves a better and more stable future.

Domestic Demand and Export

Before concluding I would like to give you my views on the form the operation of the iron and steel industry may take after all the three Government plants and the Extensions of the two major producers have not only begun to function, but reached their rated productive capacity. For this purpose an important assumption will have to be made to the effect that this event will happen as scheduled by 1959-1960. To my mind this is an optimistic assumption as regards the three Government plants, though no one will be happier than I myself if it proves to be well-founded. Grave delay in the erection of the plants is likely to be caused by the admitted shortage of domestic civil engineering capacity.

The operation of the plants at their rated capacity implies not only their complete construction, but also the availability of ample traffic facilities, supply of electric power and of all the principal raw materials of good quality, particularly coking coal and limestone, and such auxiliary materials as refractories, ferro-alloys etc., without prejudicing in any way the provision of similar advantages for the private sector. It has also to be assumed that the necessary technical, skilled, semi-skilled and administrative personnel will have been trained and made available to meet their own requirements as well as those of the three Government townships.

Taking only the present demand into account, the output of the two major producers after their extensions have come into full operation may just be adequate, if the steel is carefully used, for domestic consumers including the Government. But as the Government plants begin to operate, there may be some exportable surplus. I am not prepared to make any forecasts as to what this surplus may be or when it may arise. But if the output upto the rated capacity does not materialise until 1959|1960, most of what may be produced may be required for the complete implementation of the re-phased Second Five Year Plan particularly relating to the projects for the manufacture of heavy castings, machinery, etc.

I am, however, prepared to assume that some surplus iron and steel may be available for export. The next question that requires consideration is the C.I.F. duty paid price at which it can be supplied to the export markets. In this connection it must be borne in mind that the entire iron and steel industry, particularly in Europe, including the Soviet block, may be competing in the same markets, for they are fast expanding the industry for this very purpose as well as for domestic use.

As regards the selling price, we have to take into account first of all the works costs, of which no accurate estimate can be made. The estimates previously made must have already gone out of date for the reason that the prices of all the raw materials and of labour and the cost of transport have considerably increased since they were made. To the uncertain works costs will have to be added the overheads, including depreciation, interest on capital including provision for repayment of borrowed money and perhaps a return on investment and such taxation as the Hindusthan Steel Company may be subjected to. On these points we have no reliable information.

In the first place we are not told, and I am rather inclined to think that the Government themselves do not know, what the ultimate capital costs not only of the erection of the plants, but of the ancillary services which I have mentioned earlier, would amount to. We have been told from time to time that the capital costs have increased, but no reliable final figure has been or can be ascertained yet. But this I would say, that in view of the persistent rise in foreign and domestic prices and wages of labour, the capital costs and the overheads would in every case be very much higher than those, not only of the two major producers, but of the foreign competing producers who build their own plants, and competition thereby may be made much more difficult than people seem to believe at present.

I do not propose to go into the theoretical economic aspect of the matter, but to a layman like me it seems that it may not be possible for the countries in the East, who may be our principal customers, to afford to import iron and steel unless they are able to pay the price by the export of their own products. The foreign exchange that we need is mainly from the sterling or hard currency areas where it is doubtful whether they would require the imports of our iron or steel at a price which would prove to be remunerative for us.

Finally, there is one more point in connection with this matter which has received less attention

than it has deserved on its merits. The manning lists of the three Government plants in so far as they have been made available to the public, have assumed the employment of far fewer men than have to be employed by the two major producers for historical reasons. It is not beyond the bounds of probability that the employees under any labour union which may be established in the Government plants may compel the Government, which has promised to create more jobs through industrialisation, to employ a higher number of men than necessary and to bring them into line with those almost compulsorily employed by the present major producers. Also, hundreds of Indians have been sent abroad for training, but from our own experience we know it is possible that when they return they may not be satisfied with the scale of wages that are prevalent for similar jobs, and Government may be compelled to accept their claims for higher wages. Then again, scores of foreign technical personnel are being imported at very high salaries and with many amenities and enjoying exemption from Indian income tax. This is bound to have its repercussions on the permanent employees in the private sector. It is plain that as a result of the operation of all these factors, the labour costs may rise to so high a level, as indeed they have been already doing throughout our economy, that our C.I.F. duty paid export prices may not be below the domestic prices prevalent in the competing countries and our own domestic prices may get beyond the means of our consumers.

Acknowledgments

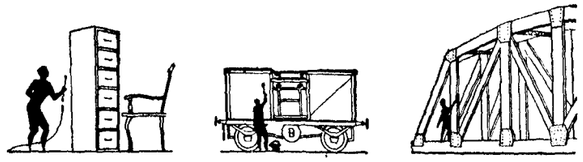
In conclusion, I should like to express on behalf of all of us our appreciation of the services rendered by the General Manager, Mr. McCracken, and his staff throughout the year. Conditions are not easy when production and construction works have to proceed together and the fact that until such a late stage of the construction period the disruption of normal production has been held at such a low level speaks very highly for the careful and painstaking planning of Mr. S. L. Bengtson the head of our Consulting Engineers, the International Construction Company Limited, and for the spirit of mutual co-operation that exists on all sides. I would particularly mention the staff of the Gua Ore Mines who, in the circumstances I have earlier described, have most loyally carried out their duties under difficult conditions and at times even under threat of personal violence.

I should also like to express my great appreciation of the consideration shown by the World Bank during the recent negotiations in connection with the further loan of $20,000,000 for finance of the foreign expenditure on the 1955 Extensions, which enabled the negotiations to be concluded in such a short period and the loan consequently to be made available at a very favourable rate of interest.

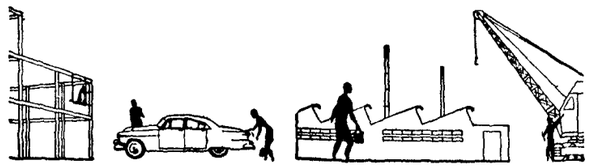
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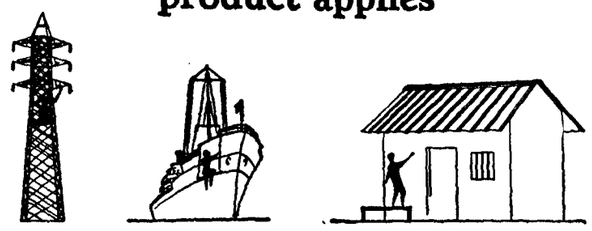
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SPW 359

New Data on Cotton Mill Workers of Bombay

Morris David Morris

FOR many years the Bombay City cotton textile industry has been a favourite meadow for academic browsing. The importance of the industry is one factor accounting for this interest. Another is the fact that Bombay University is a degree-granting institution with a great need for topics for M A and Ph D dissertations. Not least in the array of features accounting for academic preoccupation with the industry is the fact that probably no other Indian industry has been as well-served for so long with documentation and statistical material. For this last characteristic we are primarily indebted to the Millowners' Association, Bombay whose annual reports, memoranda to official bodies and miscellaneous publications have been a major source of information.

Once again we are indebted to the Association for an impressive contribution to our knowledge of the Bombay cotton mill industry, this time a study of its labour force. R G Gokhale, Association Labour Officer, has given us the results of a large survey done in May 1955.* The service records of some 74,700 operatives in twenty mills have been analyzed, and the results have been presented with a minimum of comment. The survey includes all the permanent operating work-force on all shifts but excludes clerical workers and supervisory personnel above the rank of jobber. More than 33 per cent of the total labour force in the Bombay mills is included, making this by far the largest survey ever conducted in the industry. The twenty mills surveyed are scattered from Kurla to Colaba, and it is fairly safe to agree with Shri Gokhale that the results are "applicable to the whole body of workers working in the Bombay cotton mills ..."

While the results of the survey are presented virtually without comment, Shri Gokhale has placed them alongside the results of a similar survey conducted by him in 1940. This earlier investigation covered 37,600 operatives in nineteen mills, 25 per cent of the total Bombay mill workforce at that time. Although there are some difficulties, the judicious confrontation of the 1955 survey results with those of 1940 makes it possible for us to get a picture of India's largest single group of industrial workers as it has changed over a period of fifteen years. For no other group of workers is such information easily available, and we must be grateful to Shri Gokhale for the service rendered.

Of the total group surveyed in 1955, 7.3 per cent were women operatives who are mainly employed in the winding and reeling departments. The women constituted anywhere from 3.6 to 13.3 per cent of the workforce in the individual mills. In 1940 they constituted 16.2 per cent of the operatives. This 1940 figure somewhat exaggerates the importance of women in the workforce at that time because the survey did not give full representation to second and third shift employees, shifts from which women are statutorily banned. Nevertheless, the decline in the relative importance of women workers between 1940 and 1955 has been substantial, something of the order of 50 per cent. This decline is mainly to be associated with the growing importance of second and third shift working. There also seems to have been a slight absolute decline in the number of women employed, a phenomenon identifiable with the diminishing importance of the winding and reeling sections in the industry. It is likely that this pattern will continue in the future unless women are given opportunities in other departments.

With all due regard for the inevitable inaccuracy of age data, perhaps the most striking feature of the survey is the indication that the average age of the Bombay mill workforce has risen quite sharply between 1940 and 1955. The modal average has risen from 26 - 30 years in 1940 to 31 - 35 years in 1955. In 1940, 45 per cent of the labour force was 30 years or younger but in 1955 only 25 per cent of the operatives were that young. During the same period the proportion of workers aged 46 years or more had increased from 8 to 21 per cent.

The female work group has aged even more rapidly than the male. Even in 1940 the women workers as a group were somewhat older than the men, but by 1955 the difference had become striking. The 1955 modal average age for women was about 40 years, some five to eight years greater than for male workers. Women in the under 31 years age group declined from 39 to 12 per cent of total women workers and in the over 45 years age group the proportion had risen from 11 to 35 per cent.

The increasing age of the workforce is not a surprising phenomenon. It is a characteristic of mature industries everywhere in the world. The more rapid increase in the average age of women operatives is the special result of their declining absolute as well as relative importance in the industry. Since 1940 relatively few new women have been given employment. We have had the natural aging of the existing female workforce largely undiluted by the addition of new, young workers.

The survey also gives us data on length-of-service of workers in the industry in 1955 as compared with 1940. Shri Gokhale adds data based on a Bombay Labour Office sample relating to 1927-28 so that it is possible to view the situation as it has developed over nearly three decades. The table below shows the length-of-service of workers in Bombay cotton mill industry (in per cent).

Length of Service	1927-28	1940	1955
5 yrs or less	37.5	29.5	9.7
6 to 15 yrs	39.3	47.3	59.6
16 yrs or more	23.2	23.2	30.7

The table gives us the picture of increasing average length-of-service in the industry, a phenomenon becoming most marked in the last decade and a half. This phenomenon is reinforced by the data given for length-of-service in the mill. The data show a remarkable increase in the apparent stability of the workforce. In the fifteen year interval between 1940 and 1955 the number of workers with five years service or less in one mill declined from 36 to 17 per cent; those with six to fifteen years service rose

* R G Gokhale, **The Bombay Cotton Mill Worker** (Bombay: The Millowners' Association, 1957), pp 1-126. Price: Rs 5.

from 48 to 58 per cent; and those with sixteen years service or more in one mill increased from 16 to 25 per cent.

There are many weaknesses in the data. Nevertheless, the length-of-service data indicate that the stability of the cotton mill workforce in Bombay will compare favourably with that of the industrial workforce of many industries in Western countries. Whatever the ambition to return to the villages that lurks in the hearts of the workers, the objective facts revealed by length-of-service in industry and mill suggest that the Bombay cotton mill worker is an industrial worker.

Shri Gokhale in his "Introduction" promised us only statistics, and he keeps to his spartan vow of eschewing analysis. Yet one is tempted to enquire into the factors accounting for the increase in average length-of-service shown in the statistics. Without going into the historical details, it is my opinion that the instability of the cotton mill workforce prior to 1930 has been greatly overstated. My own investigations suggest that even before the first World War a substantial portion of the workers were permanently attached to the industry. Instability was as much a function of movement among mills in the city as it was the result of movement between city and village. This constant parade of workers among mills must be attributed to the traditional system of labour organization maintained by the employers. The badli system, instability of employment patterns, arbitrary discharges, and the gross inequality of wage rates and earnings among the Bombay mills induced a high labour turnover in the pre-World War II era. The sharp increase in average length-of-service in the mills between 1940 and 1955 especially is undoubtedly proof of this point. The increased age of the workforce and its greater stability seems to have occurred as a consequence of the stabilization and improvement of employment practices in the industry after 1934. The passage of the industrial relations legislation of 1934, 1937 and 1947, the introduction of the annual bonus, the gratuity, provident fund, state insurance and the decasualization scheme have all quite obviously contributed to the reduction of labour turnover. If this interpretation is correct, it suggests that the problem of creating a committed labour force in newly developing societies has been and is more a matter of social policy than of worker psychology.

The data on workforce place-of-origin confirms already established judgments. In 1955, 45 per cent of the workforce originated in the Konkan districts, 30 per cent in the Deccan and 18 per cent in Uttar Pradesh. The pattern has not changed substantially since 1940. There has been a six point decline in the proportion of workers from the Konkan and a 4 per cent increase in workers from Uttar Pradesh. The statistics are broken down for us by mill department so that it is possible to have a rather general impression of the extent to which workers from certain regions tend to be concentrated in certain activities.

There is serious weakness in the place-of-origin data. In both the 1940 and 1955 surveys Shri Gokhale collected his data only for very large regions—Konkan, Deccan, U P, etc. While this may have been the easy way, the value of the data for analytical purposes is reduced considerably. Cast in this fashion, it is impossible to calculate the distance of migration, nor is it possible to tell what proportion of the workforce has been born in Bombay City.

The survey produced data on languages spoken by the workforce which is consistent with the place-of-origin data. The overwhelming proportion (70 per cent) claimed Marathi as their mother tongue in 1955 and another 17 per cent spoke Hindi. Nearly 7 per cent spoke Telugu, a rather substantial increase over the 2 per cent Telugu-speaking group in 1940.

The data on religion similarly provides no surprises. 95 per cent are Hindus. Muslims have declined from 4.5 to 2.9 per cent of the total workforce, probably as a result of Partition. Jains, Christians and Parsis, noticeable elements of the Bombay population, constitute insignificant fractions of the total workforce. In fact, only four of the 74,600 workers surveyed were Jains! Although we are aware that Jains have constituted an essentially trading community, this virtually unanimous non-participation in the cotton mill labour force indicates that sociologists and anthropologists would find an interesting field of investigation here.

Literacy has risen among mill workers during the past decade and a half from 29.7 to 42.5 per cent. Shri Gokhale attributes much of this increase to the adult literacy classes conducted by the Association member mills. If a foreigner's impressions are of any value, there also seems to be greater incentive to learn. By comparison with five years ago, I have been struck by the number of workers I have seen in the mill areas sitting on the pavements teaching others to read. Given official determination to establish universal literacy in India, scholars could usefully study the factors which have accounted for the very sharp increase in literacy rates. The rise in literacy is, of course, much more pronounced among males. Literacy among women is still shockingly low, but even here the rate has risen from 2.9 to 5.9 per cent in the fifteen year period.

In addition to the data already discussed, Shri Gokhale has given us a batch of miscellaneous information. There are data on 260 workers living in mill-owned chawls and some pages of miscellaneous statistics which would be more helpful if sources and methods of computation had been provided.

There is no question that Shri Gokhale's volume will become a basic source of information for students of the industry. The test of a good piece of work is that the reader is left asking for more of the same. Shri Gokhale has not given us as many correlations as would be useful. Various aspects of information about the workforce could have been correlated in greater detail so that a more complete picture would be available. Although this would increase the burdens of tabulation, it would make future surveys more useful.

There are some weaknesses in the survey. Unlike the 1940 investigation, the 1955 survey excludes any information on caste. It is probable that this has been done as a contribution to the national objective of minimizing casteism in the society. A similar situation has been occurring in the United States where distinctions between Negroes and Whites are increasingly ignored in the records. But what is politically desirable may be academically unfortunate. It becomes increasingly difficult for scholars to analyze the dynamics of social change.

However, even the caste information in the 1940 survey was not very accurate confusing as it did castes and regional classifications. Given the complexity of the problem of classifying caste, it may be that such work can only be done through samples built up by trained anthropologists who are familiar with the detailed working of the caste system.

Another weakness of the survey is the classification of the workforce by department rather than by occupation. As a result, it is impossible to tell anything about the changing skill patterns in the industry. We can only hope that in the future Shri Gokhale will provide us data on the basis of occupational classification as well as departmental division.

There is one rather careless handling of age and length-of-service statistics. For example, the first category is labelled "below 20 years" and the next category is entitled "More than 20 years". Into what category have the workers aged twenty years been placed? They don't logically fall in the "below 20" category or in the "more than 20" category. Probably Shri Gokhale intended the categories to read "20 years and below" and "21 to 25 years", but the error is more than terminological. The questionnaires sent to the mill Labour Officers had this error of classification and it is anybody's guess as to how these people interpreted the matter.

In conclusion I would like to say that Shri Gokhale's restraint in matters of analysis while admirable is not desirable. As Labour Officer of the Millowner's Association for over twenty years, he probably knows more about the career of the workforce during that period than almost any other person. We would be indebted to him if he would give us the fruits of his experience and thinking about the statistical data in his next volume.

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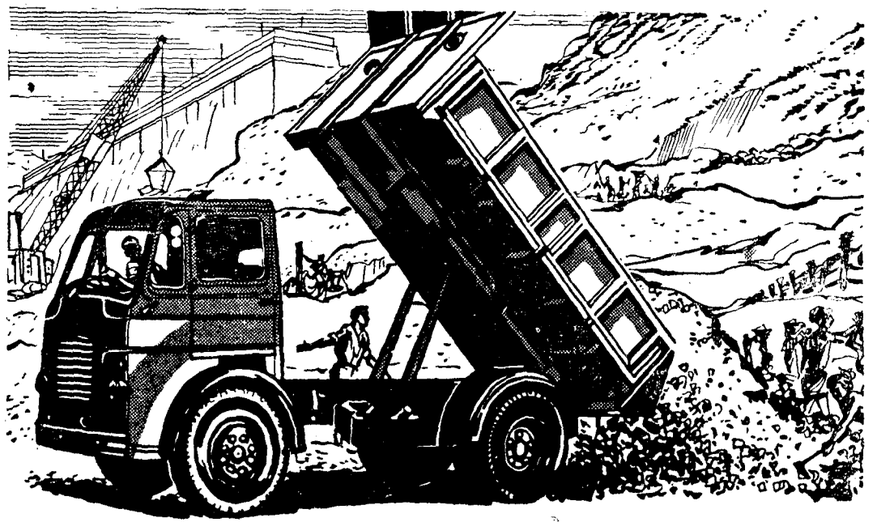
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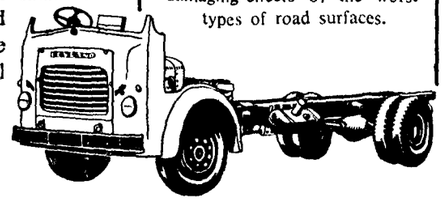
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Official Papers

The World Bank's Approach

The Economic Development of Syria. Report of a Mission organized by the International Bank for Reconstruction and Development. The John Hopkins Press, Baltimore. Pages 486. Price $7.50.

A REPORT of this kind may be of interest from three different points of view. It provides an opportunity to assess the broad principles on which the World Bank's policy is based. It helps to throw light on methods of economic analysis in relation to the problems of underdeveloped countries with special reference to the nature of the forces determining economic growth. Finally, it usually provides a wealth of information about the economy of the particular country concerned, much of which has been brought together for the first time and some of which has probably not been available before.

The report of the World Bank's Mission to Syria is of more than usual value from the viewpoint of assessing the broad attitude which the World Bank adopts to problems of economic development, because, unlike the reports of some of its other missions that have been published so far, it contains an explicit statement on this subject. The reports of the missions sent out by the I B R D to different countries do not, of course, bind the Bank in any way. It can fairly be assumed, however, that the attitude adopted by these missions reflects the general attitude of the Bank itself. The explicit statements relating to its attitude which have been made by the Mission to Syria must, therefore, be welcomed as they make it unnecessary to depend merely upon inferences from the analysis made and the measures proposed to obtain such a picture of the Bank's approach.

Role of Public Investment

The Mission was charged with working out an economic development programme for the consideration of the Syrian Government. The programme it has elaborated is one for government action. This is because under a free or private enterprise economy, production and investment by private individuals cannot be programmed. The Mission does not deny that this investment can be influenced by Government action. On the contrary, it insists that there is an intimate relationhip between the Government's programme and private effort. In Syria, the Mission found that while a considerable volume of private investment had taken place in the economy during the post-war period, there were signs pointing to a decline in the rate at which the private sector was growing. The Mission points out that "the trend in private economic activity makes an effective programme of government action all the more urgent." From this approach as outlined by the Mission itself, one may be justified in inferring that the Mission would like as far as possible the development of the country to be fostered by private enterprise, but since it is opposed to strict programming of private investment, and activity in the private sector is in any case tending to slow down, it feels justified in recommending a programme of public investment. In fact, it probably looks upon the programme of public investment as one which would be conducive to the stimulation of private enterprise as well.

The Mission specifically recognises the role of public investment in stimulating production and improving conditions of life. Every form of public expenditure, even when it does not constitute investment, significantly affects the level of economic activity. That is why the Mission recognises that a development programme does not consist merely of a series of public investment projects, although these may be related to each other.

Non-developmental Expenditure

While seeing the interrelationship between all forms of public expenditure and the growth of the economy, the Mission found itself unable to discuss the levels and patterns of non-developmental expenditure in the public sector, primarily in view of the political and social judgments involved. It has, therefore, confined itself to indicating the general lines along which development should take place and the approximate allocation of government resources which appeared appropriate in the light of available facts.

Although the Mission was not in a position to make any recommendations with regard to the levels of non-developmental expenditures which Syria should undertake in various directions, it could not avoid some political and social judgments in certain other directions. It has done this by making certain assumptions about the way in which the Syrian Government would behave in relation to certain problems and by pointing out the consequences of its not doing so in fact. The Mission assumes that measures will be taken to train people for certain parts of the programme to obtain more technical assistance from abroad and to raise the standards and improve the efficiency of the government service.

Financial Resources

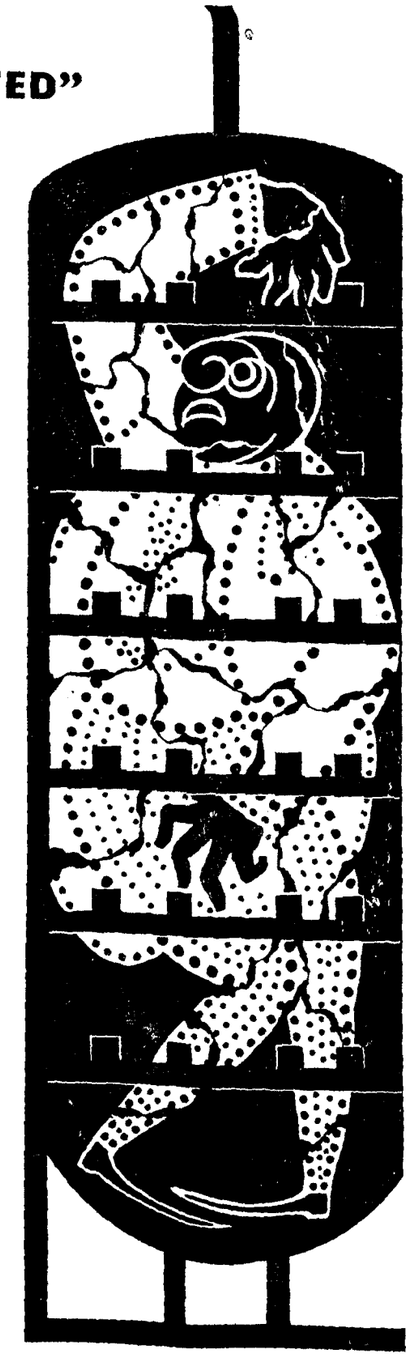
The programme of development for Syria is not enunciated in the report before an analysis of the financial resources open to the public sector. At the same time, it is not unaware of the impact of economic development on tax revenues. The order in which the questions are tackled may be taken, however, as an indicator of the approach of the Mission and, therefore, of the Bank. At the same time, the Mission recognises very significantly that a programme of economic development necessarily implies measures for drawing into the treasury an increasing proportion of the national income, both in order to increase the total volume of investment in the country and to give it the necessary direction.

That is why the Mission has first made an attempt to appraise the effect of future economic development on tax revenues. In doing so, however, the Mission has assumed that the economy would not expand as rapidly as in the past. Why it should have done this, it is difficult to say. No doubt, it has emphasised that private investment is tending to slacken, but in view of the programme of public investment recommended by it and the probable impact of this programme on the level of private investment, there appears to be no reason why it should not have been more optimistic about the course of future growth in the economy.

"I AM FRACTIONATED"

stammers Adipocere

(Pronounced 'adi-po-saire')



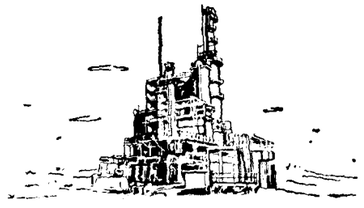
After drilling me out of the earth, they take me to the Refinery. Here I am passed through a continuous process in which I am heated in pipes running through a furnace.

By now I am a mixture of hot vapours and liquid discharged into a fractionating or "bubble" tower, and I pass through vents in a series of trays. As my fractions are separated at different boiling points the residue is drawn off at the bottom, the lubricating oils at the middle of the column, motor gasoline and kerosene fractions still higher up.

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Plan Outlay

However, after making an assessment of the effect of economic development on tax revenues, the Mission has explored the possibility of increasing government revenue by more efficient collection of existing taxes and levying new taxes. It has then made a number of assumptions regarding the development of non-tax receipts including domestic borrowing and foreign financial assistance. The Mission has proposed an increase in the expenditure in the developmental fields from the level of £S 88.3 million in 1953 to an annual average over 1955-60 of £S 164.3 million, after allowing for an increase from £S 221.7 million to £S 317.2 million in General Administration (including the effect of an increase in Government salaries) and Defence.

As one should expect in a country undertaking a programme of planned economic development for the first time—and starting from relatively low levels of living and national income—the major parts of the programme are concentrated on agriculture, irrigation, land reclamation and transport or communications. The highest proportion of the total development expenditure proposed during the period concerned is, however, on education, which perhaps reflects a trend of expenditure already in operation. Public health also gets a fairly substantial allocation, and so does electric power.

Expenditure on Industry

The expenditure on industry proposed in the programme is very low, barely 1.25 per cent of the total developmental outlay over the period. This reflects, presumably, the view of the Mission that industrial development can be left safely in private hands, particularly when public outlays in other directions provide the necessary stimulus. As the Mission points out, "Since manufacturing is a field for private enterprise in Syria, the mission has concerned itself not with individual projects, but rather with government policies which guide and stimulate private industrial investment."

In support of this attitude towards the industrial development of Syria, the Mission brings the additional argument that "there have been no conspicuous cases of misdirected investment in industry." This conclusion is drawn from the fact that investment has taken place by and large in fields where Syria should be able in the long run to achieve efficient production capable of withstanding foreign competition—in other words, in fields in which it might be said either to enjoy some natural advantage or at least not to suffer any serious disabilities in comparison with other countries.

Industrial Investment Bank

At the same time, the Mission seems to have come to the conclusion that the period of rapid industrial growth engendered by the high profits of the immediate post-war period has come to a close. Syria's industrial programme has been drawn up on the assumption that the improvement in efficiency and more careful, selective expansion are the principal problems which her industry faces. It is in this connection that the Mission makes its recommendation for the establishment of an investment bank as an institution capable of furnishing both technical and financial assistance to industry. This institution, the Mission recommends, should be privately managed and privately owned.

The Mission has also made a number of recommendations with regard to the settlement of new lands, which are at present owned by the State. The Mission has also envisaged this as a source of revenue for the finance of the programme recommended by it.

Higher Duties

In regard to finance, the other important measures recommended by the Mission are a change in the base for application of **ad valorem** import duties from the price at the official to the price at the market exchange rate, the imposition of new excises, import duties and fees, the institution of global income tax and the levy of a tax on large landholdings. These are all measures with an economic justification and it is clear that the Mission does not flinch from recommending measures which may not always be very favourably viewed by the private enterprise sector.

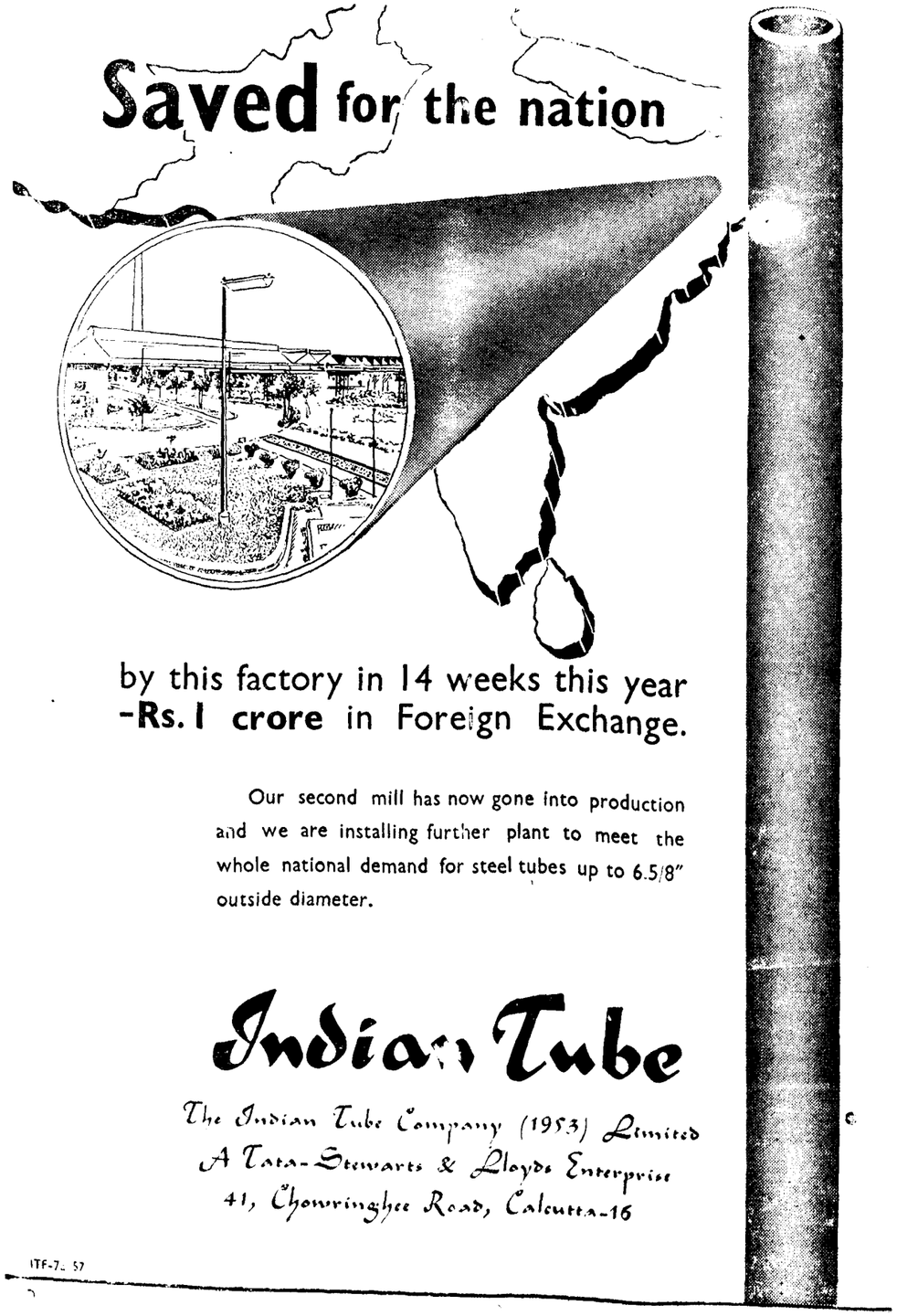
The broad conclusion which one may draw with regard to the attitude of the Mission is, therefore, that it is rather more favourable to private enterprise, views the industrial sector as primarily a field for private enterprise, is quite willing to visualise an increasing role for the public sector in the promotion of economic development in the country even to the extent of proposing measures for drawing an increasing proportion of the national income into the treasury, does not flinch from recommending tax measures for this purpose which may not be quite favourably viewed by the private sector, and finally is also willing to recommend measures for the alleviation of the lot of the small farmer which may not be welcome to the large landholder, who it is also proposed should be subject to special taxation.

There is nothing much in the report about which one can comment from the viewpoint of analysis. The pattern of analysis is one which previous reports have made us familiar with. It is competent and in view of the inadequacy of data with which the Mission has had to contend, this is something to be thankful for.

There is one feature of the analysis, however, to which it is necessary to draw attention. This is to be found in connection with the proposal for laying out the farming communities to be established on newly-settled state land. The technique used appears to be based on the hexagonal pattern of regional development visualised in the theoretical formulation of Walter Christellar, who presented it in connection with city development, and of August Losch, who was thinking of one-product regions. Since, in a sense, this is the first attempt to apply these theories in practice to mould the development of regions being settled for the first time, these particular sections of the book are of special interest. The authors do not, however, care to relate their specific recommendations to the theoretical formulations on which they appear to be based.

Finally, a word may be said about the utility of the work as a source of information about the Syrian economy. The members of the Mission have succeeded in bringing together a vast mine of information about this country and have presented it in a form which makes for clarity in understanding the problems faced by it. Much of this information has never been published before and certainly it could not have been easily available to the general reader.

—H E



Joint Family System— Its Present and Future

R Datta Choudhury

THE future of the joint family system in India has been a subject of much speculation in recent years; pronouncements ranging from its gradual decay to its slowly regaining fresh strength and vigour have equally forcefully been made by contending schools of thought. But neither side has supported its pronouncements on the trends in the joint family system with sufficient evidence. Before the last Census, though an effort was made to assess the position of the joint family, no systematic information was collected with that end in view. The observations had, therefore, to be made partly on the basis of directly relevant facts as they came to notice and partly on the basis of information collected for other purposes. In the 1951 Census an attempt at systematic collection of relevant statistics was made in all the States, excepting West Bengal, and the various Census Commissioners in their reports tried to assess the position of the joint family in their respective States.

Size of the Family

The average size of a family in India works out to between 4 and 5 persons. In 100 rural families there are about 491 persons, while the corresponding figure for urban areas is about 471 persons. In the different Census zones of India the distribution of the size of rural families (average number of persons per 100 rural households) is: Central India—473; North-West India—511; North India—511; South India—483; and West India—500.

Except in South India, the size of urban households in every zone is smaller than that of rural households. In South India there is practically no difference between the sizes of rural and urban households. This is also reflected in the figures for the three States shown in Table I. Of these three States, Uttar Pradesh has the largest size of family and Madras the lowest. But in the Punjab region the average size of a family in most of the districts exceeds five members. In the case of West Bengal these figures are not comparable because the State adopted a different definition of 'house' and 'household' in the 1951 census. For this reason the Registrar General in his all-India review of the Census figures has left out Eastern Zone. However, West Bengal's figures per Census 'house' are roughly comparable with the figures of 'households' of other States. The average number of persons per census house in West Bengal ranges between 5.12 in Malda and 4.21 in Calcutta. It is significant that as in the case of Madras there is no substantial difference between the sizes of rural and urban households in West Bengal, and in many districts the latter is significantly larger; this is in sharp contrast with the all-India figures which show almost a uniformly bigger size of rural families than of the urban.

Table I—Size of an Average Family in Three States

States	Whole State	Rural	Urban
U P	5.04	5.07	4.87
Bombay	4.90	5.00	4.70
Madras	4.70	4.70	4.70

The West Bengal Census Commissioner has explained this phenomenon by saying that many of the rural households have left their rural homes with their families to live in towns and cities; that in many places the figure has been inflated by the number of refugee households most of whom are now settled in urban camps; and that the urban households tend to draw away more and more rural members by their greater facility to provide occupation to the residents. While it is difficult to say how far the above explanation is applicable it is almost certain that part at least of the explanation of the bigger size of urban households in West Bengal lies in the manner of Census count of houses and households in that State.

Definition of House

A 'house' was defined as a building or part of a building in which at least one commensal family lives together; but in the congested conditions of West Bengal there might be more than one family living in a single 'house' in which case the definition of a 'house' rested on the 'rock-bottom foundation' of a room. It is only to be expected that in this circumstance the average size of a household could not be ascertained, since two families living in a single room might be treated as a single 'house'. Nevertheless the trend in the average number of persons per census 'house' in West Bengal is significant for purposes of comparision.

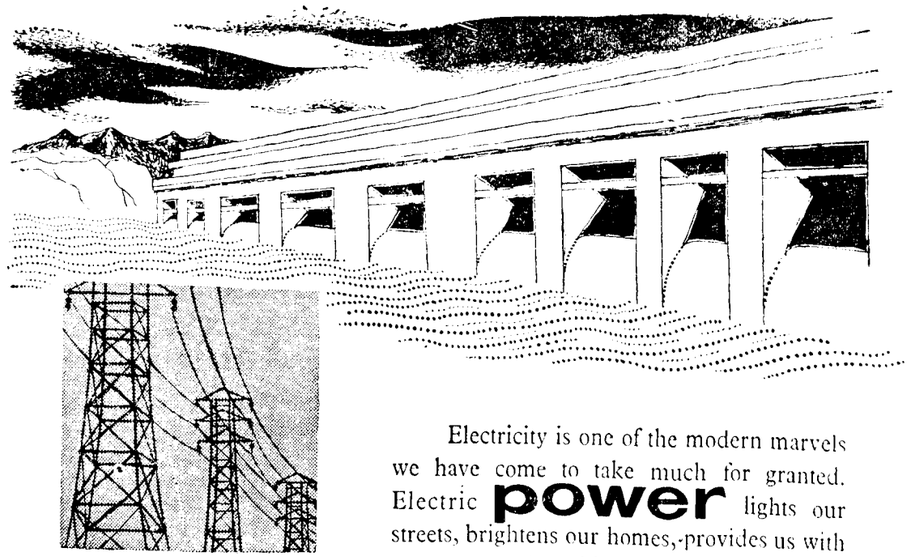
The extent to which the size of an average family has varied over the past decades is difficult to determine in the absence of truly comparable figures for the different decades. For this reason the Registrar General refrained from such a comparison in his review of the all-India Census figures. But some of the State Census Commissioners have made such a comparison, for instance, the figures given by the U P Census Commissioner (see Table II). As these figures were not collected on a uniform basis they should be treated with reservation.

Table II—Average Size of Family in Uttar Pradesh

Year	Whole State	Rural	Urban
1911	4.63	4.64	4.54
1921	4.56	4.57	4.54
1931	4.77	4.52	4.40
1941	5.04	5.01	5.25
1951	5.04	5.07	4.87

It will be seen from the table how the size of an average family has fluctuated between 1911 and 1951. First, there was a fall in the decade ending 1921 and thereafter a continuous rise until it rose to 5.04 in 1941. Since then it has remained stationary. The Census Commissioner of U P accounts for these variations as follows:

"The population fell in the decade 1911-21 by 3.13 per cent and the number of households by 1.71 per cent, thereby causing a decrease in the size of household by 1.71 per cent. In the decade 1921-31 the population increased by 6.67 per cent, the number of households by 2.02 per cent, thereby causing an increase in the size of household by 4.56 per



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Life Insurance Corporation of India

ASP/LIC-E 4

cent. In the decade 1931-41 the population rose by 13.57 per cent, while the number of households increased by 7.62 per cent only, resulting in an increase of 5.5 per cent in the size of household".

Is Joint Family Breaking?

The changes in the relative size of an average family since 1911 do not establish the conclusion that there has been a tendency in U P for the joint family to break up; on the contrary it might be permissible to draw the opposite conclusion, since there has been a steady rise in the size since 1921. The fall of the decade ending 1921 might be explained in different ways: such as, the defective count of the Census houses (many empty 'houses' were also counted as Census 'houses') and the influenza epidemic of 1919, in which many families were simply wiped out. In in the case of West Bengal too a similar fall in the average size of a family was registered due to the same cause, viz, the influenza epidemic. It is probably significant that in the decade ending 1941 when the full effects of the economic crisis of the early 30's on the population came to be reflected, there was a rise in the size of families in urban areas where, however, the average size of a family has been consistently lower in other decades. This was the result of the large influx of population from rural to urban areas in search of work in times of acute economic distress.

Composition of the Family

It must be conceded that it is somewhat difficult to determine the trend in joint family from a study of the average size of a family. Various factors having no direct relation with the trend in joint family seem to influence the size of the family. Increase in birth and death rates, emigration and immigration and other factors may influence the size of a family. But to draw any conclusion as to the trend in joint family from a study of these figures which are influenced by indirect causes is not prudent. Probably the information regarding the composition of an average family may be more helpful for observing the trend in the joint family.

The joint family system is a variable concept. In the western countries where individualistic sentiment is very strong, the composition of an average family is made up of husband, wife and their children; where a variation occurs in this normal pattern by the addition of such members as the in-laws it is considered a 'calamity'. But in India it would be considered a normal pattern if a family were to include, besides the heads of households, such relatives as fathers-in-law, mothers-in-law, etc; the social conscience would still revolt against anyone who protests against such addition. Thus the nature of the composition of an average family would indicate better the trend in the joint family in India.

In the 1951 Census, information on the composition of an average Indian family was collected for the first time; consequently, it could not be compared with such information in the past. Unfortunately, even the information that has now been collected is neither very exhaustive nor very accurate. For instance, under the heads 'male relatives' and 'female relatives' all the distant and near relations of the heads of households are lumped together; these do not give us the precise relationship of the relatives with the heads of households. It is well-known that in India due to custom and practice, it is usual to recognise one family member, such as the eldest brother or the father, as the head of the family, while for all practical purposes there might be more than one head of family in such cases, as for instance, when two brothers with independent incomes live together. It would be useful to have information on this type of relationship in order to determine the financial status of the joint family; but the Census figures of relatives in general do not afford us this type of information. Consequently, we can only guess as to how many independent and dependent members there are in a family.

The average composition of 100 Indian households as given in the Consus is shown in Table III. The number of male heads of households exceeds the figures of wives of households, because there are 19 widowers. The figure of female heads of households probably represents the number of widows who have become heads of households on the death of their husbands. One thing appears to be clear from these figures: polygamy among the Hindus is very rare. If polygamy was widespread the number of wives should have shown some tendency to exceed the numbers of male heads. Among the children of the heads of households the daughters form a lesser proportion than that of the sons because of the fact that they are given away in marriage. Of the sons, a large proportion live with their parents to an advanced age, probably because (a) the sons marry at an early age, and are unable to live on their own with their families, for a considerable period after their marriage and (b) a large proportion among them may be minors and dependents. Among the relatives, as might be expected, females outnumber males for the simple reason that a large number of them consists of daughters-in-law of the heads of households. Another reason is that female relatives such as widow sisters or aunts of the heads of households often come to live with them. Probably the figure of the male relatives indicates the number of unemployed relatives to be found in 100 households; where the head of households is other than the father, the figure of the relatives might include a brother who might be an earning member. To the extent, therefore, these figures conceal this type of members they could not be an indication of the number of unemployed dependents in a family.

The Trends

The average Indian family still includes a considerable number of both male and female relatives—

Table III—Composition of Hundred Households

Heads of Households		Wives of Heads of Households	Children of Heads of Households		Relatives of Heads of Households		Others	
Male	Female		Sons	Daughters	Male	Female	Male	Female
90	10	71	108	81	48	72	4	3

about 24.6 persons in 100 households. The fact, therefore, indicates that the traditional joint family still remains by and large, the most common characteristic of the Indian family life. The largest number of families are composed of several members besides the heads of households. Consequently the "large" type of households is still the most numerous. This would be revealed by a study of the proportion of four types of households among 100 households as given in the 1951 Census. (See Table IV).

It will be seen from Table IV that the 'medium' type of households forms the largest number of households both in the rural and in the urban areas, followed by 'small', 'large' and 'very large' types, in that order. If 'medium' type of households is also regarded as comprising a large family we might consider 'medium', 'large' and 'very large' households jointly. In that case it would be seen that the largest number of households is still of the joint family type. To this we must also add the circumstance that these figures are based on a sample, which recognisedly resulted in the selection of fewer 'large' type of households than of the 'small' type. If therefore actual figures were known they would reveal a yet larger number of 'large' type of households; and this would further strengthen the conclusion that the 'large' type of households still characterises Indian family life.

Table IV—Proportion of Different Types of Households

	Urban	Rural
Small (3 or less members)	33	38
Medium (4.5 and 6 members)	44	41
Large (7.8 and 9 members)	17	16
Very large (10 or more than 10 members)	6	5
	100	100

But one fact should nevertheless be noted about the trend in joint family which is recognisable from these figures: the 'small' type of households today forms a substantial proportion of the total households. It comes next to the 'medium' type of households which is the single largest type of households and in every three rural households there are to be found today at least one 'small' type of household. The proportion of the small type of households is larger in the urban areas than in the rural. The explanation for this can be ascribed partly to the immigrant character of the urban population and partly to the break up of joint family.

The conclusion seems irresistible: the most common type of family in India today is still the joint family. But a significant proportion of the total households also forms the 'small' type of households. What is difficult to state at this stage is whether the trend is towards the 'small' or the 'large', i e, joint family, household. For that we shall have to wait for the 1961 Census.

Manufacture of Automatic Looms

THE Government of India has set up a 7-Member Committee, with the Textile Commissioner, Shri V Nanjappa, as Chairman, to inquire into the quality, production and delivery of indigenous automatic looms.

The Committee which will begin its work immediately will recommend measures for improvement of quality and increase in the rate of production of automatic looms. The headquarters of the Committee will be in Bombay.

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Around Calcutta Markets

Poor Turnover

Wednesday, Evening

AS Indian Iron behaves, so does Lyons Range. This may be a tribute to IISCO. But, at the moment, it means that Lyons Range remains depressed along with Indian Iron. Immediately, the reason for the drooping tendency in Indian Iron is the Chairman of the Company's discreet silence about dividend prospects on the increased share capital. Investors hoped that Sir Biren Mookerjee would give some assurance that the dividend, even though the capital has been doubled, would be maintained. In the absence of any such promise, Indian Iron have been climbing down. In sympathy, Lyons Range has developed weakness.

Not only the absence of any assurance about the dividend, but some disclosures by Sir Biren have spread the gloom. Production in the current year may suffer as an incidental consequence of technical changes relating to expansion plans. If output falls, investors are wondering, can profits be maintained? And, if profits fall, can the dividend on the enlarged capital be maintained? These are pertinent queries. But pessimists need the reminder that a dividend adjustment fund has been created. Also encouraging is Sir Biren's hope that, as the 1953 extensions are completed, it will be possible for the Government to lift dividend control "in the near future."

Rising Costs

Not only Indian Iron, but a group of Engineering shares has also been a cause of worry to Lyons Range. In recent days, a group of these shares has been falling consistently. As active and speculative shares ease, cash scrips, naturally, develop weakness. That is what is happening at the moment. Some days ago, Indian Copper suffered a setback on rumours of a spreading strike. Though Indian Copper have settled down to lower levels, the possibility of labour trouble has cropped up as an additional "bear" factor.

Sir Biren Mookerjee dealt at length with the brewing labour trouble. Prices of the necessities of life are rising. There is a bank strike in Calcutta. There is a growing demand for higher wages and dearness allowance as compensation for rising costs of living. As these demands gather momentum, apprehensions grow that higher wage payments may affect industrial production costs. That being so, recent measures to check the rising trend in food prices are being welcomed. Restrictions on bank credits, it is hoped, should have a salutary effect on speculation and hoarding of foodgrains. Lower food prices may indirectly have a sustaining influence on stock markets.

A Smaller Plan

Wider issues and their possible repercussions are no less disturbing. It is now beyond doubt that the Second Plan is going to be slashed. This may or may not be welcomed by economic pundits. But industry and stock markets are not likely to be enthusiastic about a smaller Plan. It became apparent some time ago that the foreign exchange crisis will force a slowing down of investment in the private sector. Besides the effects of higher taxation this has been one of the major factors responsible for the depression in equities. Fears grow that, as difficulties multiply, the Government would like to keep the expansion plans in the public sector intact at the cost of the private sector.

Simultaneously, there are fears that a smaller Plan, along with higher taxation and lower deficit financing, may not only halt inflation, but may have a deflationary effect on the economy. These fears seem exaggerated. But there is no denying the fact that the foreign exchange crisis may create a temporary slowing down of activity in the private sector. Even so, it is necessary to have a realistic view of the situation. Further expansion plans in the private sector may have to be postponed. But the projects that are in the process of execution will be completed. This assures full activity in the private sector in the near future.

Assurances

At the moment the outlook about the Plan may be uncertain. It is clear that the priorities of the Plan are being carefully scrutinised. It is also clear that only the "hard core" of the Plan can be implemented. Discussions of the National Development Council indicate that the expenditure target of the Plan has been revised down again to the original estimate. With the rise in prices, this does mean a cut in the Plan. But undue pessimism is not warranted. Latest reports indicate that prospects of an adequate loan from America are not bleak. If TTK's mission succeeds, the Plan may escape substantial curtailment.

Meanwhile, industry has now some assurances which are reassuring. For one thing, TTK has declared a tax holiday for the rest of the duration of the Plan. As the Government's efforts to check inflation succeed, industry would benefit. Demands for higher wages will be less insistent. Costs of industrial raw materials will tend to be stabilised. Some of the illusory benefits of inflation will not be felt. But industry will be the gainer because of stability in prices. At the same time, industry has the assurance that its expansion plans will not suffer from lack of bank credits. Banks have been directed to reduce their overall lendings. But this directive is to be followed without any prejudice to bank advances to industry. This is a welcome indication of the Government's concern for the private sector.

Group Leaders

Against this broader background, the behaviour of some groups of shares may be analysed. Since the set-back in Indian Iron, the upward movement in Jute shares has been halted. At the time of this writing, the bank strike is having a depressing effect on cash scrips in general. But the underlying influences continue to be in favour of Jute shares. Recent company reports are encouraging. Though raw jute prices are hardening, there has been a relative rise in jute goods. That means that the spinner's margin continues to be in favour of the industry. Besides, it is cheering news that the World Bank will offer

a loan for financing modernisation of the jute industry. This is the biggest long-term "bullish" development in relation to the jute industry, and, hence, to Jute shares.

There are many reasons why Engineering shares have turned hesitant. It is inevitable that these shares will develop an irregularly lower trend as Indian Iron and Indian Copper suffer set-backs. Both the latter scrips are now steady at lower levels. And the outlook for Engineering shares remains moderately optimistic. Tea shares have been rather quiet in the last few weeks. There is no selling pressure. But buying support is lacking. Tea shares are inactive, but not perceptibly quieter. In the last few days, there has been a gradual revival of activity in Coal shares. Some scrips, in this group are being quoted at levels which are not unattractive. There are, indeed, many shares in the various groups which, at current levels, fetch good yields. This is the main reason why there is no selling pressure.

Around Bombay Markets

Low Morale

Thursday, Morning

ECONOMIC and political uncertainty, at home as well as abroad, overwhelmed Dalal Street during the week, though bear covering towards the end brought about some recovery. T T K's announcement of his intention to levy a gifts tax initiated the process of unloading, which was accentuated by reports that the cloth excise duty may not be lowered in spite of strong representations from millowners. Financial difficulties on the eve of the busy season imparted weakness to commodity markets, contagion from which spread to Dalal Street Rumours that the Life Insurance Corporation was temporarily short of ready investible funds on account of flotation of State loans also had an adverse effect. Growing international tension, lack of confidence in sterling and the pronounced slump in copper prices, together with inventory accumulations in the U S A, proved more than enough to neutralise the little good news that came in from cloth markets.

Underlying recent price movements is the perceptible fact at Dalal Street that turnover has shrunk considerably. The situation is not so bad as in the late twenties and early thirties when members of the Stock Exchange were reduced to the necessity of living upon one another, but under-employment has sapped morale. If the speculative public takes it into its head that speculation in shares has ceased to be exciting, then the future is bleak indeed. But with no evidence of a moral revolution in sight, excessive pessimism on the part of brokers may be considered unjustifiable.

The uncertain outlook for equities has favoured gilt-edgeds which, unlike what has been happening in London, have gathered friends and strength over the last fortnight. As a result, the 4¼ per cent Bombay and Mysore Loans have been heavily oversubscribed. Subscriptions for the former amounted to Rs 742 lakhs against the offer of Rs 600 lakhs and for the latter to Rs 503 lakhs against Rs 300 lakhs. All conversion applications, totalling Rs 130 lakhs, for the Mysore Loan and cash applications upto Rs 10,000 for both loans will receive full allotment; others will be allotted 88 per cent for Bombay and 52 per cent for Mysore applications, subject to a minimum allotment of Rs 10,000. The relatively greater success of the Mysore Loan is attributable not merely to the conversion and higher discount facilities offered, but also to more intensive canvassing. The extent of support given by banks to these issues will be known only after a week or so, when relevant statistics become available.

External Drain Slows Down

Deficit in balance of payments, as measured by the decline in Reserve Bank's foreign balances, amounted to Rs 3.5 crores during the week ending September 13, as against Rs 2 crores during the previous week. Foreign Securities in the Issue Department remained unchanged at Rs 463 crores. Excluding the Rs 10-crore loan to Burma, average weekly drain of foreign balances over the last six weeks has been Rs 4.9 crores against Rs 8.9 crores during the preceding six weeks. Central Government deposits have gone up by Rs 1 crore but State Government deposits are lower by Rs 0.5 crore. There has been no change in Investments and Rupee securities but ways and means advances and the Treasury bills portfolio have together expanded by Rs 5.5 crores. Loans to banks have declined by Rs 1 crore, those against usance bills contracting by Rs 2 crores. Note circulation has gone down by Rs 5.5 crores with an almost equivalent rise of notes held in Banking Department.

Scheduled bank credit stood at Rs 847 crores during the week ending September 6, as against Rs 882 crores a month before and Rs 855 crores a week before. Of this decline of Rs 35 crores over the month, the State Bank accounts for only Rs 13 crores. Evidently, the Reserve Bank directive is being obeyed in earnest. If the present rate of contraction continues bank credit should be down to Rs 800 crores within six weeks, i e, by the third week of October. The gilt-edged portfolio contracted over the week by Rs 5 crores in spite of an expansion of Rs 1 crore at the State Bank. Borrowings from Reserve Bank against gilt-edgeds have declined to less than Rs 2 crores against Rs 14 crores a month back and Rs 28 crores a year ago, indicating how eager banks are to keep back their gilt-edgeds to maintain their liquidity ratio. Borrowings against usance bills at Rs 29 crores are also lower by Rs 6 crores compared to the preceding week. Easiness in the money market is reflected by the rise of Rs 4 crores in call and short money.

Cotton

Gamble on Weather

KALBADEVI has been fluctuating in tune with weather reports from Saurashtra, Gujarat and Vidarbha. Offtake of piecegoods and figures of stock accumulation with mills have also had their impact. Daily turnover has varied between 7,000 and 15,000 bales, while Moglai March has moved energetically, with a bearish undertone, from between Rs 684 to 668 over the week.

Sewri has been largely devoid of interest in expectation of firmer estimates of the new crop, though daily turnover has been steady at around 2,000 bales. Mills are none too eager to extend their financial commitments on account of the large cloth stocks they are carrying, while traders are known to be hard hit by the credit squeeze.

Bullion

Smugglers Active Again

SMUGGLERS of gold are on the prowl again. The bearish impact of smuggling has, however, been counteracted by the West Asian situation.

Silver has been erratic but its firm undertone lifted values by Rs 3 over the week.

Company Notes

From Jute to Chemicals

THE uncertain outlook facing the jute industry is inducing diversion of resources to other industries which offer better prospects of expansion and profit. New Central Jute (Chairman: Shri A K Jain), one of the largest firms in the industry, has decided to take a plunge into chemicals and fertilisers in a big way by projecting a Rs 3.5 crore plant in U P with the help of a loan of Rs 1.45 crores received from the State Government. Its capacity will be 40,000 tons each of soda ash and ammonium chloride. Installation is expected to be completed by the end of 1958, though import licenses for a portion of the equipment, particularly power plant boilers, are still awaited. The new plant will be operated by a subsidiary company to be named Sahu Chemicals.

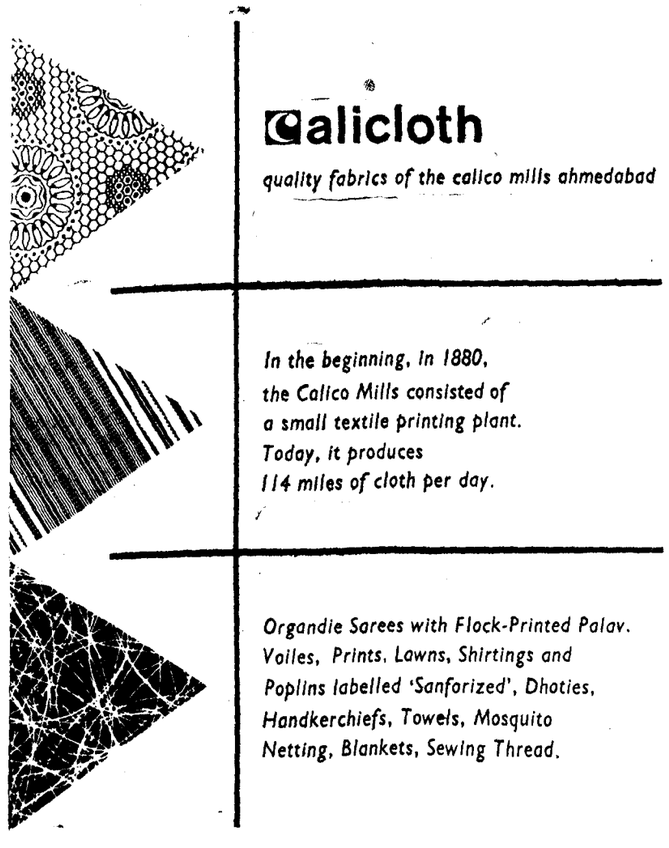
The decision to divert available resources to a new line derives ample justification from the fact that though sales in 1956 went up to Rs 721 lakhs from Rs 454 lakhs in 1955, profit margin (before tax) on sales declined from 9.6 per cent to 3.9 per cent, and net earning after tax per ordinary share of Rs 10 fell from Rs 3.60 to Rs 2.90. Distribution for 1956 amounts to Rs 1.50.

The fixed assets of the company were written up by Rs 188 lakhs in November 1955 on revaluation. Net block at the end of 1956 stood at Rs 368 lakhs, including Rs 6 lakhs on account of Sahu Chemicals, against Rs 333 lakhs the year before. Current assets and investments were higher at Rs. 242 lakhs against Rs 162 lakhs, but current liabilities rose to nearly Rs 91 lakhs from Rs 15 lakhs due to orders for machinery, etc. On account of increase in depreciation from Rs 2.50 lakhs to Rs 10.25 lakhs, and decline in profits from Rs 43.64 lakhs to Rs 28.03 lakhs, tax liability has gone down from Rs 13 lakhs to Rs 3.25 lakhs. Reserves and surplus have gone up slightly from Rs 280 lakhs to Rs 290 lakhs.

Ashoka Cement

INITIAL difficulties in setting up a new plant are fully reflected in the report of Ashoka Cement Ltd (Chairman: Shri S P Jain) for the six month period ending March 31, 1957. Transport bottlenecks delayed receipt of machinery at factory site and erection could be completed only in August 1956. Trial production in November indicated serious defects and disproportion in equipment while the unsatisfactory quality of the clinker conveyor led to frequent breakdowns. With the aid of locally manufactured auxiliaries, the kiln is now in a position to load 600/650 tons per day; the capacity would be increased to 775 tons on receipt of proper equipment.

In addition to its share capital of nearly Rs 60 lakhs, the Company has a 6½ per cent loan of Rs 50 lakhs from the I F C and an unsecured loan from unspecified persons amounting to Rs 64 lakhs. Current liabilities are Rs 29 lakhs. Against these, fixed assets are valued at Rs 156 lakhs and current assets at Rs 33 lakhs. No provision has yet been made for depreciation. Interest paid during the period amounted to 2.54 lakhs, while sales earned Rs 15.27 lakhs, and excise duty paid came to Rs 1.29 lakhs. The profit of nearly Rs 13,000 is proposed to be carried forward.



CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1480.31	1485.86	1508.45	1432.45
2. Rupee Coin	133.11	132.38	130.27	117.08
3. Deposits				
a) Central Government's	52.86	51.97	70.21	73.40
b) Banks'	104.59	104.24	75.88	53.72
c) Other Governments'	6.16	6.88	2.83	19.54
d) Others'	109.95	110.03	139.59	14.39
4. Foreign Securities	345.61	345.61	375.52	596.74
5. Balances held abroad	28.23	31.79	16.62	33.14
6. Rupee Securities	916.87	916.87	911.81	703.65
7. Investments	223.14	223.14	250.66	52.19
8. Loans and advances to Governments	44.50	41.11	28.84	5.07
9. Other loans and advances	63.74	65.05	87.58	76.73
Scheduled Banks				
1. Demand liabilities (net)	714.55	713.83	704.60	639.38
2. Time Liabilities	601.66	597.03	577.22	459.04
3. Cash on hand	37.31	38.92	40.19	35.51
4. Borrowings from Reserve Bank	80.51	40.27	68.83	52.24
of which against Usance Bills	28.85	35.23	54.37	24.40
5. Advances and Bills discounted	793.47	793.90	826.17	711.88
of which State Bank's	159.42	159.23	170.98	183.93
6. Invst. in Govt. Sec.	365.90	371.24	338.10	366.38
of which State Bank's	135.20	134.96	104.42	106.29
Cheque Clearance	157.97	132.97	181.06	170.33

† For Reserve Bank week ended 13-9-57. Scheduled Banks and Cheque Clearance week ended 6-9-57.

Bombay Money Rates

	6-9-57	30-8-57	9-8-57	7-8-57
Call Money				
From banks	$3\frac{1}{2}$-$4\frac{1}{4}$	$3\frac{1}{2}$-$4\frac{1}{4}$	$3\frac{1}{2}$-$4\frac{9}{16}$	$3\frac{1}{2}$-$3\frac{11}{16}$
From public	$3\frac{3}{4}$-$4\frac{9}{16}$	$3\frac{3}{4}$-$4\frac{7}{8}$	3-$4\frac{7}{8}$	$3\frac{1}{2}$-$4\frac{7}{8}$
Three Months	$2\frac{1}{2}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{11}{16}$	$2\frac{1}{2}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{7}{16}$
Six Months	2-$4\frac{7}{16}$	2-$4\frac{7}{16}$	2-$4\frac{6}{16}$	2-$4\frac{5}{16}$

Bombay Bullion	12-9-57	In Rupees and nP Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107.59	107.50	107.57	108.50
Forward	107.78	107.40	107.39	102.50
Silver (per 100 tolas)				
Spot	182.44	181.37	181.99	173.06
Forward	183.19	181.37	182.51	173.56

ALL-INDIA FINAL CROP ESTIMATES

(1956-57)

(Area '000 acres: Production: '000 tons)

	1956-57	1955-56	+ or —
Foodcrops			
Rice			
Area	78,174	76,864	+ 1,310
Production	28,142	26,846	+ 1,296
Wheat			
Area	32,891	30,386	+ 2,505
Production	9,068	8,569	+ 499
Jowar			
Area	41,314	42,904	— 1,590
Production	7,427	6,602	+ 825
Bajra			
Area	27,542	28,024	— 482
Production	2,926	3,379	— 453
Maize			
Area	9,244	9,116	+ 128
Production	3,020	2,554	+ 466
Ragi			
Area	5,674	5,693	— 19
Production	1,914	1,820	+ 94
Small Millets			
Area	12,209	12,713	— 504
Production	2,010	1,937	+ 73
Barley			
Area	8,594	8,382	+ 212
Production	2,744	2,749	— 5
Gram			
Area	23,980	24,157	— 177
Production	5,930	5,331	+ 599
Tur			
Area	5,696	5,637	+ 59
Production	2,047	1,830	+ 217
Other Pulses			
Area	16,166	15,567	+ 599
Production	1,664	1,632	+ 32
Other Crops			
Sugarcane			
Area	5,019	4,564	+ 455
Production	66,890	59,317	+ 7,573
Chillies (dry)			
Area	1,450	1,490	— 40
Production	354	355	— 1
Oilseeds			
Groundnut *			
Area	13,101	12,692	+ 409
Production	4,086	3,862	+ 224
Castorseed			
Area	1,403	1,405	— 2
Production	129	124	+ 5
Sesamum			
Area	5,433	5,653	— 220
Production	451	457	— 6
Rape & Mustard			
Area	6,211	6,317	— 106
Production	1,017	848	+ 169
Linseed			
Area	3,758	3,781	— 23
Production	349	414	— 65
Fibres			
Cotton			
Area	19,843	19,978	— 135
Production†	4,723	4,001	+ 722
Jute			
Area	1,883	1,739	+ 144
Production‡	4,221	4,197	+ 24
Mesta			
Area	738	572	+ 166
Production‡	1,474	1,159	+ 315

* nuts in shell; † bales of 392 lbs each; ‡ bales of 400 lbs each.

Source: Ministry of Food and Agriculture.

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 24-8-57	17-8-57	27-7-57	25-8-56
Food Articles	**112.0**	**112.2**	**112.1**	**105.3**
Cereals	106	107	106	100
Pulses	86	88	89	83
Fruits & Veg.	152	143	138	125
Milk and Ghee	108	109	105	100
Edible Oils	129	131	136	131
Fish, Eggs & Meat	101	102	103	101
Sugar & Gur	110	110	110	99
Others	133	133	133	128
Liquor and Tobacco	**92.0**	**92.0**	**92.0**	**83.1**
Fuel, Power Light & Lubricants	**114.7**	**114.6**	**114.7**	**105.4**
Industrial Raw Materials	**118.2**	**120.0**	**122.0**	**117.5**
Fibres	119	121	123	113
Oilseeds	123	126	129	126
Minerals	111	109	111	103
Others	108	108	107	110
Manufactures	**108.5**	**108.6**	**109.0**	**106.5**
Intermediate Products	**108.0**	**108.0**	**109.0**	**112.6**
Finished Products	**108.5**	**108.7**	**109.0**	**105.5**
Textiles	108	109	109	106
Cotton	118	118	118	116
Jute	96	97	98	93
Woollen	103	103	103	97
Silk & Rayon	83	83	85	89
Metal Products	141	141	141	131
Chemicals	98	98	98	93
Oilcakes	113	113	114	109
Machinery and Trans Equipment	102	102	102	99
Others	111	111	110	102
All Commodities	**111.6**	**112.0**	**112.4**	**107.1**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages of Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads*
1955	3,184	2,742	3,608
1956	3,287	2,913	2,766
1955: 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	3,608
1956: Jan	3,196	2,789	3,586
Feb	3,358	2,691	3,813
March	3,362	2,235	3,911
April	3,223	2,865	3,815
May	3,316	2,871	3,836
June	3,194	2,877	3,727
July	3,165	3,165	3,379
Aug	3,308	3,176	3,018
Sept	3,123	2,819	2,881
Oct	3,177	2,940	2,662
Nov	3,324	3,026	2,565
Dec	3,678	3,038	2,766
1957: Jan	3,628	3,138	2,780
Feb	3,508	2,841	3,029
March	3,652	3,251	3,000
April	3,731	3,158	3,087
May	3,792	3,187	3,246
June	3,330	2,915	..

* At or about the end of each period.

.. not available.

Source: Directorate of Industrial Statistics, Calcutta.

WAGON LOADING

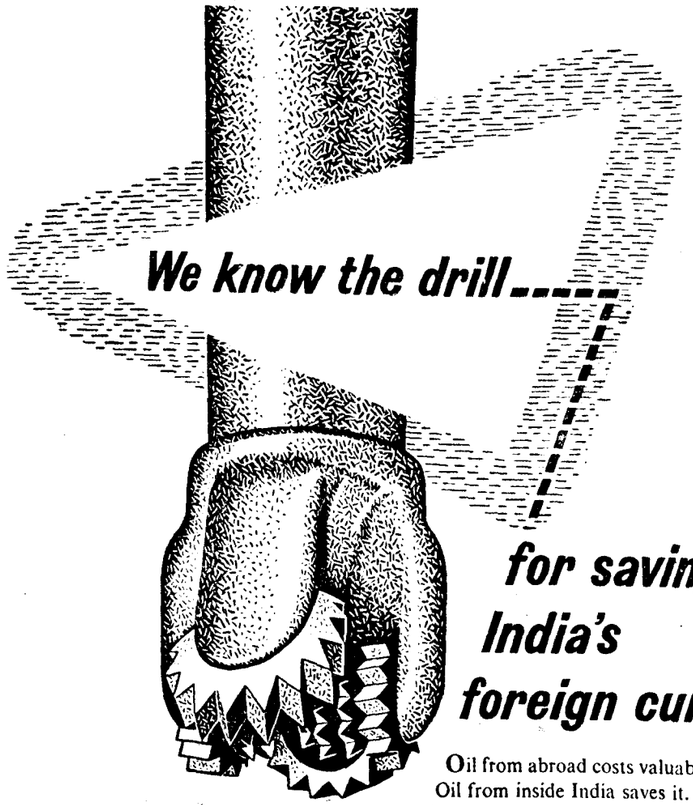
(in terms of 4-wheelers)

	Broad Gauge			Metre Gauge		
Revenue Earning	*June 57*	May 57	June 56	June 57	May 57	*June 56*
Coal & Coke:	77,490	85,718	73,658	16,731	19,891	18,081
(a) For Public	227	240	174	—	—	—
(b) For Non-Govt Rlys	38,671	40,713	30,171	37,411	34,513	28,712
Grains and Pulses	4,296	6,469	4,886	5,389	7,634	5,293
Oilseeds	3,050	3,676	2,794	3,243	3,538	2,926
Cotton (raw)	1,664	2,597	1,685	1,543	1,701	984
Cotton (mfd)	5,069	6,109	3,010	4,012	5,655	2,369
Jute (raw)	465	642	445	391	659	411
Jute (mfd)	6,387	5,739	3,536	7,499	7,788	6,755
Sugar	1,498	9,044	8,145	11,150	16,222	3,363
Sugarcane	11,700	14,208	13,190	8,608	9,586	8,092
Cement						
Iron and Steel	1,006	1,174	863	701	509	640
(a) Pig iron	14,353	15,846	13,296	3,005	3,658	2,949
(b) Others	720	686	1,108	1,802	496	2,432
Tea						
Metallic Ores	6,844	6,230	5,006	1,570	2,132	1,926
(a) Manganese	16,196	16,557	13,933	4,206	3,472	3,177
(b) Iron ores	1,428	1,601	1,425	1,510	1,160	342
(c) Others	128,101	141,453	123,600	106,286	118,419	95,308
Miscellaneous full wagons	30,685	35,035	32,767	24,316	27,699	27,514
Miscellaneous smalls						
Non-Revenue Earning	19,975	22,571	20,019	18,698	19,519	13,964
(a) Coal for homeline						
(b) Coal for other Rlys & mfg. units	30,427	34,196	29,250	815	626	759
(c) Other stores	12,914	15,189	12,743	8,330	8,917	8,959
Total	413,166	464,693	401,695	267,499	293,794	233,956

Source: Ministry of Railways.

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Pakistani Politics

PERSONALITIES count in the politics of every country. But in Pakistan, politics seem to centre mainly around personalities. This explains the frequent changes in party tactics and the policies of parties. In such circumstances, as is only to be expected, political stability eludes the country. It is tempting to draw a parallel between Pakistan and France. There are some similarities in the underlying conditions in Pakistan and Indonesia. But there are limits beyond which such comparisons are misleading. Even as President Soekarno experiments with "guided democracy", President Iskander Mirza talks about "controlled democracy". But the Indonesian President's policy is based on an ideal, whereas the Pakistani President's interference with the affairs of the State is solely justified on considerations of that country's integrity. That also is the main, if not the only, binding force among parties and politicians in Pakistan.

Yet, experience and developing events make it increasingly evident that Pakistan's march to progress cannot be ensured on such negative foundations as the country's integrity, annexation of Kashmir and the ever-present problem of maintaining a precarious balance between the country's two wings. Instability will haunt that country as long as political parties and personalities waste their time and energy in jockeying for office and position to the neglect of the interests of the people. These reflections are prompted by President Mirza's rejection of the proposal, passed by the West Pakistan Legislature, for the break-up of West Pakistan into four or more autonomous provinces on a linguistic basis.

There will be sharp differences of opinion as to whether Mr Suhrawardy or the Pakistani President is constitutional or wise in rejecting a proposal passed almost unanimously by the West Pakistan Legislature. But neither the President nor the Prime Minister is inconsistent. Recent events cast doubts whether West Pakistan can continue to exist as a single unit. It is already clear that this will be one of the main issues in the promised elections next year. There are also indications that, in the coming struggle for power, both the Muslim League and the Republican Party may be badly mauled. In the absence of certain tactical and constitutional adjustments, it is doubtful whether East Pakistani political parties will lend unqualified support to the proposal for a re-division of West Pakistan into separate units. But both the Pakistani President and the Prime Minister are consistent in their postponement of the proposal until after the elections. Both can claim consistency in their insistence that such a proposal cannot be implemented now as it would delay the elections. Mr Suhrawardy is also not inconsistent in his repeated challenge that the present Republican Party and the West Pakistan legislature are not representative of the people. President Iskander Mirza is as much opposed to the break-up of the one-unit West Pakistan. But there will be suspicions that the President is not unwilling to lend support to the Republican Party as a potential weapon to fight Prime Minister Suhrawardy in certain future contingencies.

To appreciate properly the cross-currents in Pakistani politics, it is necessary to recapitulate the events leading to the formation of West

Pakistan into a single unit. It was so created, and the new set-up was included in the Constitution eighteen months ago, with two main motives. One was to eradicate provincial jealousies and corruption in West Pakistan's various provinces. Punjab's domination of West Pakistani politics was resented by the other provinces. West Pakistan had to be formed into a single unit in order to match East Pakistan's claim to equality in the National Assembly. It was this second objective which induced the parties and provinces in West Pakistan to agree to the integration of the various provinces into a single unit of West Pakistan.

It was the Muslim League which sponsored the one-unit idea. West Pakistan was formed into a single unit. But the Muslim League lost its popularity because of its policy of merging the various provinces of West Pakistan into one unit.

Subsequent developments reflect the Muslim League's changed tactics to regain power as well the gradual shifts in the complexion of the Republican Party. As the Muslim League discovered that the one-unit plan was unpopular with the politicians of the provinces, it started a campaign for the abolition of the one-unit system. There was enthusiastic response to the Muslim League campaign. Threatened by an adverse vote on this issue in the West Pakistan Assembly, Dr Khan Sahib, the then leader of the Republican Party, advised the President to suspend the Legislature. Emboldened by the success, the League demanded that it should be asked to form a Government. Mr Suhrawardy rejected this demand on the plea that a Party, which was untrue to the Constitution in demanding the abolition of the one-unit plan, could not be entrusted with office or authority.

It was at this stage, when the West Pakistan Assembly was suspended, that the complexion of the Republican Party underwent a gradual change. Dr Khan Sahib ceased to be its leader. To shorten the duration of President's Rule, the reoriented Republican Party was put into power immediately before the return of Mr Suhrawardy from his tour of Europe and America. Though the Republican Party continued to lend tacit support to Mr Suhrawardy, the Prime Minister was confronted with a split in his East Pakistani Awami League. Under the leadership of Maulana Bhasani, the National Awami Party was formed. This Party's western wing, composed of eminent leaders like G M Syed, Khan Abdul Gaffar Khan and Mian Iftikharuddin, entered into an alliance with the Republican Party. In return for the former's support, the latter promised to pass a resolution in the West Pakistan Assembly recommending the reconstitution of West Pakistan into autonomous provinces on linguistic lines. As the Republican Party has stolen the thunder from the Muslim League, the latter has gone back on its earlier support to the plan for dissolution of the one-unit system.

It is not without significance that the resolution passed almost unanimously by the West Pakistan Assembly goes beyond a demand for a return to former provinces in recommending re-organisation of West Pakistan on a linguistic basis. Nor is it without significance that Feroz Khan Noon, a prominent Republican leader, has conceded that a separate Pushtu-speaking province may be considered. This demand for linguistic States is likely to gather momentum. In the changing make-up of parties and of party alliances, the composition of the future Central Cabinet and of Mr Suhrawardy's future become quests of significance. Mr Suhrawardy and his Cabinet rely on support of the Republican Party in West Pakistan. As the Republican Party is committed to abolition of the one-unit plan, its continued support to Mr Suhrawardy is doubtful; the more so, because of its latest alliance with NAP, Mr Suhrawardy's political opponents. In East Pakistan, Mr Suhrawardy's Awami League is still in power, but can no longer claim its earlier popularity with the people. Will Mr Suhrawardy be forced by circumstances to enter into an alliance with the Muslim League? Will such an alliance be tolerated even by the present leadership of the East Pakistani Awami League? Above all, can Mr Suhrawardy hope to have support from any Party or any section of the people of East Pakistan if he chooses to lean on the Muslim League for his position in the Central Cabinet? None of these problems is likely to be solved before the elections. But there are already indications of major changes in party complexions and alliances.

The Lesson of Gramdan

ACHARYA VINOBA BHAVE began his work with a movement for voluntary land gifts for the purpose of redistribution amongst landless labourers. He set himself the target of 5 crore acres of land by 1959. Achievements so far have not been spectacular, but are none the less quite impressive. The latest figures show that land collected in gifts exceeds 40 lakh acres. This is no mean achievement if one remembers that people in India are by tradition particularly attached to land. One of the findings, for instance, of the Reserve Bank's Rural Credit Survey was that a large proportion of the borrowings, of the small cultivator in particular, was for the purchase of land.

But though the message of the Bhoodan movement spread rapidly, there were many, sceptics. Suspicions arose first about the genuineness of the land gifts. It was perhaps true that in several cases the land given was of inferior quality and may be in a few cases it was not even suitable for profitable cultivation; this was not, however, true of the majority of gifts. Then it was also contended that the distribution of the land to landless labourers would be a retrograde step for it would only result in reducing the size of the unit of cultivation in India still further, thus making agriculture in India still less efficient. In fact, it was feared that the Bhoodan Movement might make it impossible to achieve larger and larger agricultural surpluses so necessary for rapid economic development, surpluses which could come only through the adoption of more intensive and possibly mechanised techniques of cultivation.

For Acharya Bhave, however, Bhoodan was only the beginning. "Bhoodan", he said, "is not a movement but an ascension. The more you climb up the larger is the vision that opens out before you." It is the success of Bhoodan which has urged him on to Gramdan and has emboldened him to believe, that he could depend upon the Indian agricultural community to make a still bigger sacrifice than it has done so far. In a Gramdan village, the villagers are supposed to surrender to the village community all their property rights and from then onwards there is no private ownership in land. The entire land in a Gramdan village belongs to the village community and is distributed amongst villagers for purposes of cultivation on an assessment by the village community of every family's requirements.

The Gramdan Movement is in its infancy; it is hardly one year old. Already, over three thousand villages have been offered as Gramdan by people who have renounced their private ownership in land in favour of the village community. Judging by the age of the movement the result is quite remarkable. That is why, it has attracted the attention of the Government as well as the public. There is also another reason why the Gramdan Movement is these days in the news. The evaluation reports on the working of the Community Development and National Extension Programme are not as reassuring as one would have liked them to be. But this programme is the chief prop of the agricultural part of the Second Five Year Plan. In fact, when in May 1956 the Plan targets for food and other agricultural output for the Second Plan were raised, the responsibility for achieving the higher targets was placed on the Community Development and National Extension Programme. Hence the realisation that something more needs to be done.

The one important thing which the C D and N E S Programme has not been able to attain in sufficient measure is the creation of a 'strong sentiment of self-reliance and initiative whether individual or cooperative' among the villagers reached by the Programme and the result is that they rely to an unduly large degree on Government assistance in every sphere of advancement. But if the higher targets in food and other agricultural output are to be attained without any substantial increase in Government outlay, then reliance has to be placed primarily on the reform of those of the existing institutions in our villages, whose existence is not conducive to maximum production. One such institution is that of individualistic cultivation. This institution operates adversely in our Indian conditions because of the extreme smallness of the average unit of cultivation in this country which makes individualistic farming uneconomical. Hence, the present emphasis on cooperative farming.

But how is the change to be brought about? Not through compulsion, of course. The method of persuasion has not yielded particularly gratifying results. This might be so, however, not because the achievements of the cooperative farms already existing in the country are not very encouraging, but perhaps because there is something wrong in the approach made to the villagers. The achievements of the Gramdan Movement give a lie to those who contend that our Indian farmers are basically averse to the cooperative idea. Rightly approached, the Indian farmer not only is not unwilling to partake in a cooperative farming venture in which he retains for himself ownership rights in the land contributed by him to the joint pool, but is prepared to go much further. He is prepared to forgo his private ownership in favour of the village community and become a partner in village life on the basis of equality even with those in the village who have less or even no land to contribute to the joint pool.

It is in this light that the outcome of the Yelwal Gramdan Sammelan has to be reviewed. The participants in the Sammelan, who included Ministers of the Central and State Governments, and representatives of the Congress, P S P and Communist parties affirmed their unanimous faith in the Gramdan Movement and its non-violent and voluntary techniques. They also held the view that "the closest cooperation is desirable between the community development movement and Gramdan Movement."

The Sammelan's statement, as reported in the press, does not indicate the spheres in which this cooperation could be most fruitful. It is clear that the community development movement will have to lean heavily on the leadership of the Gramdan Movement for guidance in the technique of approach. At the same time, the Gramdan villages, because of the special atmosphere generated there, hold promise of the best possible return on development outlay; those institutional resistances which come in the way of the full fruition of agricultural development programmes elsewhere should not exist in Gramdan villages. In so far as cooperative working is considered desirable, there could not be greater readiness to adopt cooperative practices, whether in farming or in other walks of life, than in Gramdan villages.

From Pandit Nehru's statements it appears that the Prime minister is quite alive to the importance of Vinoba's work. But the difficulty is that Shri Nehru's insight hardly affects the so-called intellectuals, who constitute his economic advisers; they are hardly known either for their imaginative insight into the workings of a developing economy or for their moral and intellectual courage so very necessary for bold experimentation.



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Weekly Notes

Kandla Nearing Capacity

ONE of the major consequences of the Partition on India from the viewpoint of transport was the loss of Karachi as a major port on the West Coast. The immense strain that was imposed on the port of Bombay as a result of the loss of Karachi created a bottle-neck, so that congestion and delays became a normal feature of the working of this port during the immediate post-war period. It was this which led the Government of India to appoint the West Coast Major Port Committee charged with the selection of a port on India's western coast line north of Bombay for development into a major port. Acting with commendable speed, the Committee—within a period of three months—recommended Port Okha for this purpose. This recommendation was accepted by the Government of India almost immediately and work was commenced on the project with the minimum of delay.

Approximately a decade after the Partition, the construction of this port has been completed and the port is now ready to handle ships and cargoes of all types. Kandla is equipped with all kinds of facilities such as alongside and mooring berths, transit sheds, warehouses, open areas, cranes, basin for sailing vessels traffic and a separate oil berth for handling dangerous and nondangerous petroleum. Designed to handle initially about 13 lakh tons of cargo annually, Kandla serves a vast hinterland covering North Gujerat, Rajasthan, Delhi, East Punjab, Western U P and Kashmir. The port has a metre-gauge rail link with Delhi.

As the construction of the various facilities connected with the conversion of Kandla into a major port has been completed, traffic has shown a continuous increase. It is reported that during the first four months of the present year, over three lakh tons of traffic has been handled; it is hoped the figure of one million tons will be achieved during the current year. There can be no doubt that the special advantages of Kandla and the special facilities it provides to shippers has contributed to the rapid increase in its traffic, though the general increase in the volume of our trade as a result of the Second Five Year Plan must be considered an important factor. The port authorities have pointed out the special advantages of the port in terms of broad quays with rail sidings, spacious transit sheds, extensive double storeyed warehouses and quick handling of cargo as factors responsible for the increasing traffic in oil, foodgrains, iron ore, iron and steel, salt, cotton and general cargo which have been passing through the port.

From the viewpoint of the country's transport problem, what is of significance is that almost in the first year of its existence as a complete port it will have almost reached the limits of its planned capacity. It is true that more alongside berths are being constructed at the port under the Second Five Year Plan and these will increase the capacity of the port to some extent, but this is unlikely to be very significant in relation to the increases in traffic that are to be expected in the near future. In view of the fact that Kandla is the ideal port for all sea borne trade originating from or consigned to the North-West areas of India, there seems to be an urgent need for the carrying out of a new assessment of future requirements in terms of port facilities at Kandla and elsewhere.

Reassessment Necessary

DEVELOPMENT of Kandla as a major port was originally viewed as a means of reducing the pressure on Bombay. The fact that Bombay has been suffering from acute congestion from time to time in spite of the increasing volume of traffic being serviced at Kandla suggests that the entire question requires to be re-examined. As the situation stands, one would not be far wrong in arguing that the pressure on Bombay will continue to mount even when Kandla carries the maximum volume of traffic that it can manage, which on present reckoning may be fairly soon.

The West Coast Major Port Development Committee had also been charged with the duty of recommending the establishment of a major port between Bombay and Cochin. This Committee took three years before it submitted its second report, part of the delay being caused by the need to carry out technical studies. In spite of this, the final recommendation of the Committee was not acceptable to Government, and as is usual in such cases, the report was shelved. But so much has changed since then that surely now it is time that the report is brought out of cold storage and subjected to a re-examination.

Whether the establishment of a major port between Bombay and Cochin is necessary or whether expansion of the facilities at the existing ports of Bombay and Kandla will meet the situation can only be determined by a thorough examination of the problem. The solution might even be found to lie in the development of still another major port to the North of Bombay. Steps to improve the working organisation of all the existing ports, major and minor, and better coordination between the port and other transport authorities may themselves bring about a substantial stepping up of the volume of traffic that can be handled by the ports without congestion.

It is probable that a combination of all these steps will be necessary, particularly in the long period. What is important is that the problem be viewed as a whole. A properly determined pattern of priorities can then be laid down in relation to these various possible ways of meeting the need for substantial increases in the port handling capacity on the West Coast in the future. The fact that it has taken nearly a decade for the works connected with Kandla port to be completed only highlights the need for advance planning in this field.

It is true that the congestion that was recently choking the Bombay docks has almost disappeared as a result of a series of measures initiated by the Bombay Port Trust and increased efficiency on the part of labour, but this should not engender complacency. It only highlights the importance of organisational and labour efficiency in increasing the handling capacity of the port. Ultimately, these will need to be combined with measures for increasing port facilities along the entire West Coast.

Pibul Goes

IT is not quite clear whether Marshal Pibul has been a victim of rivalry among generals, or a casualty of his reluctant concessions to democracy earlier in the year. Nor is it as yet clear whether Marshal Sarit's successful coup is a prelude to the establishment of a democratic regime in Thailand, or a substitution of one-man military dictatorship by Army Rule. But subsequent developments indicate that Marshal Sarit is not opposed to Pibul's policy of alignment with the Western Powers. Bangkok remains the centre of SEATO. Marshal Sarit's choice of the provisional Premier underlines his acceptance of SEATO and all that it implies. So far Washington has judged the situation correctly. Developments to date indicate the people's as well as the Army's resentment against political, social and administrative curruption.

Marshal Sarit has promised another general election after three months. As long as the elections are not held, the situation is likely to remain fluid. For the first time since Pibul came to power, a general election was held in February last when political parties were allowed to contest the elections. Though Seri Manangisila, the official Party, won the elections, its rivals were gaining in popularity since the elections. Since the restoration of free speech, the Press has been vocal and combative. Indeed, the immediate cause of Marshal Sarit's coup was Pibul's refusal to comply with the demand for the resignation of the Police Chief against whom allegations of corruption had been openly made. Marshal Sarit, himself a member of Seri Manangisila, admits that the February elections had been "completely dirty". His brother is the leader of a progressive Party which is gaining ground. Also, the Democratic Party is becoming popular. By nominating a politician like Mr Pote Sarasin, SEATO's Secretary-General, as the provisional Premier, Marshal Sarit and the Army have shown an inclination to establish a democratic form of Government. Even those of Thailand's neighbours who dislike Bangkok's active collaboration with SEATO will welcome the beginning of attempts to establish a democratic system in the country.

Welcome Rapprochement

THOSE who have been confidently predicting that Indonesia will go the way of Syria may not be impressed with the latest political developments in the former country. But Indonesia's well wishers will welcome the rapprochement between President Soekarno and the former vice-President, Dr Hatta. President Soekarno's bias to Communism may have been exaggerated. But his experiments with "guided democracy" have created suspicions both within and outside the country. President Soekarno started his experiments as antidotes to separatitst, regional movements fostered by multiple parties and numerous Army rebels. His experiments have not been quite successful as the outlying provinces have resented the President's efforts to consolidate the position of the central authority in Java. His alleged authoritarian leanings had alienated respectable politicians like Dr Hatta. It is, therefore, comforting news that Dr Hatta has now decided to lend support to President Soekarno. In a joint statement, these two leaders have promised to defend Indonesia's independence. No less reassuring are the deliberations of the National Conference between the Jakarta Government and the Army and political leaders of the various provinces. As a sequel to these talks, Jakarta is not likely to cease looking toward Moscow for economic and technical aid. But the understanding between Jakarta and the various regions of the archipelago is likely to ensure stable democracy in Indonesia.

Problem of Housing

THE symposium on housing, organised by the Bombay Tenants' Union last week, has served to focus attention once again on a problem that continues to cause anxiety. Attempts made so far, whether by Government, the Municipal Corporation, co-operative bodies, industrial establishments or private builders in general, has hardly touched the fringe of the problem at least so far as the less well-to-do sections of the population are concerned. Among them industrial workers might have had a slightly better deal because of the special emphasis laid on their welfare; but members of the lower middle class, not technically qualified for the benefit of some of the public programmes of housing, have tended to be sadly neglected. The private sector, naturally keen on getting a good return for its investment, cannot be expected to interest itself in the erection of cheap tenements for the benefit of the poorer classes when, with the same investment on a better type of buildings for the more well-to-do section, it can secure a larger return. So it becomes the duty of Government, the Municipality and other public bodies and also of co-operative organisations to get together to tackle this problem with whatever assistance they can hope to secure from the private sector.

The need is to build not only cheaply, but also expeditiously inasmuch as the housing situation tends to become worse with every passing day, what with old houses collapsing or turning unsafe and with a steady increase in the City's population both through birth and an unending inflow of people from the neighbouring areas. As things are today, the problem is not so much of finance as of finding suitable building sites and materials. If with all the resources that can be tapped, there is still a shortage of funds, it could be met by taking deposits or advances which even the poorer folk might be able to pay and which they are indeed found paying to all sorts of agencies, which are exploiting the situation. What, under the present stress, they pay as advance or premium to doubtful agencies, often getting cheated in the end, they would be only too willing to pay to a properly-constituted public authority and get amply benefited by it too. That leaves us with the problem of building sites and materials. There is no real dearth of sites in Greater Bombay though, pending the reclamation of areas in the City proper, one will naturally have to look to the extensive and sparsely-populated suburbs for convenient sites. There is no harm in this, for, the older parts of the City, teeming with public offices, business houses and workshops and overflowing with humanity, are hardly fit for purposes of residence. In any case, there can be no further addition to the already-suffering population here. So far as the suburbs are concerned, there is no lack of open spaces or attractive sites for building; and the problem, if there be any, is one of evolving a more speedy procedure for the acquisition of sites and keeping down

the cost of land. Then there is, of course, the question of providing basic civic amenities which the Corporation has to attend to which it easily can.

Scarcity of Material

IN fact, if there is any truly formidable obstacle in the way of providing housing accommodation to the poorer folk on a large scale, it is to be found in the scarcity of building materials like cement and steel and their rising cost. While efforts might and must indeed be made to tackle this shortage, there could at the same time be a worthwhile quest for substitutes like bricks, mortar or even timber. Let us give up the idea of building for eternity. The problem of housing is so pressing that it should be enough if we build for the next decade or two, anyhow with material that is easily available, leaving the task of more lasting constructions to more propitious times or carrying it on side by side in such a way as not to interfere with the short-term programme. What is immediately needed is the building of a large number of barrack-like tenements in vast open spaces with a war-time sense of urgency and also in a wartime spirit of makeshift—tenements of brick and mortar or wood or any suitable material, available easily, cheaply and in sufficient quantity, which will immediately provide safe and fairly comfortable shelter to the thousands who are homeless or ill-housed today. Maybe, these tenements will not prove very durable; but they will at least serve the purpose of providing provisional accommodation to people while long-range schemes of a permanent character are under way. In this connection, the suggestion made at the symposium on housing that the Municipality should start kilns of its own to provide bricks at a cheap rate and also supply ready-made door and window frames deserves attention. The implication of this suggestion could well be of even greater practical significance than what has been proposed so far: that people of the poorer classes be enabled to build houses of their own in sites and out of materials made available to them at a cheap price by public bodies. Whatever may be the method adopted, the supreme consideration should be to ensure accommodation on a very large scale and with speed to the needy on the highly practical principle that some roof is any day better than no roof at all.

U P's Tax on Large Holdings

THE Uttar Pradesh Legislature witnessed the strange spectacle of the P S P opposition attacking the very feature of a Bill which the Government considered most revolutionary. Under the Large Holdings Tax Bill sponsored by the Government, it is proposed to tax the big landholder irrespective of whether he is using his land productively or not. The P S P opposition took the view, however, that it was inequitable to tax a holding which was not under cultivation.

To tax an item of property—which in this case is agricultural land—on the basis of its net computed annual value, instead of its actual yield, puts a premium on productive investment and a price on unproductive uses of property. That is why such a measure is so desirable at a time when the country is trying to develop its resources as rapidly as possible; there appears to be little justification for opposition to a measure of this kind from the P S P. The Government spokesman suggested that the new tax would compel those landlords who were not making sufficiently productive use of their land to give it up. That is certainly a possibility, which should have been welcome to the P S P.

The extent to which the Bill will actually achieve its objective will depend upon the ability of the State Government to evolve an objective method of calculating the annual value. To the extent, therefore, that local or individual pressures operate to mould this calculation in a direction favourable to assessees, the purpose of the Bill will be defeated. That is a danger of which the U P Government must beware.

Bank Rate Change and India

THE reverberations of the jolt that was administered to the British economy by the sharp increase in the Bank Rate last week are bound to be felt, one way or the other, in the Indian economy also. Although there does not appear to have been any inflow of funds during the recent past—particularly since the middle of 1956—the repatriation of funds to the United Kingdom by exchange banks operating in India, which has set in since then, may gather momentum now that the cost of borrowing in the London money market has shot up. Such an outflow, however, is unlikely to be significant.

More important may be the inducement to the exchange banks, which normally discount their export bills in London immediately after they receive them, to hold such bills till maturity to avoid the higher discount rates that will now prevail there. The pressure on India's reserves is likely to be further strengthened as a result of this, though it needs to be emphasised that such pressure will be purely temporary—lasting for a month or so—after which it will taper off. The high interest rates that will now prevail in the U K will also make the raising of long term loans there very unattractive and uneconomical, apart from the probability of a lack of response from the market to any such move.

Perhaps the most important implication for this country of the increase in British Bank Rate, however, relates to India's sterling securities held in London. The present move by the British monetary authorities is bound to accentuate the conditions in the gilt-edged market in London, which had already become rather difficult. This means that if we sell our sterling securities now, we will have to lose heavily in a falling market. At a time when our foreign exchange position is already so difficult, these losses are bound to hit us very hard.

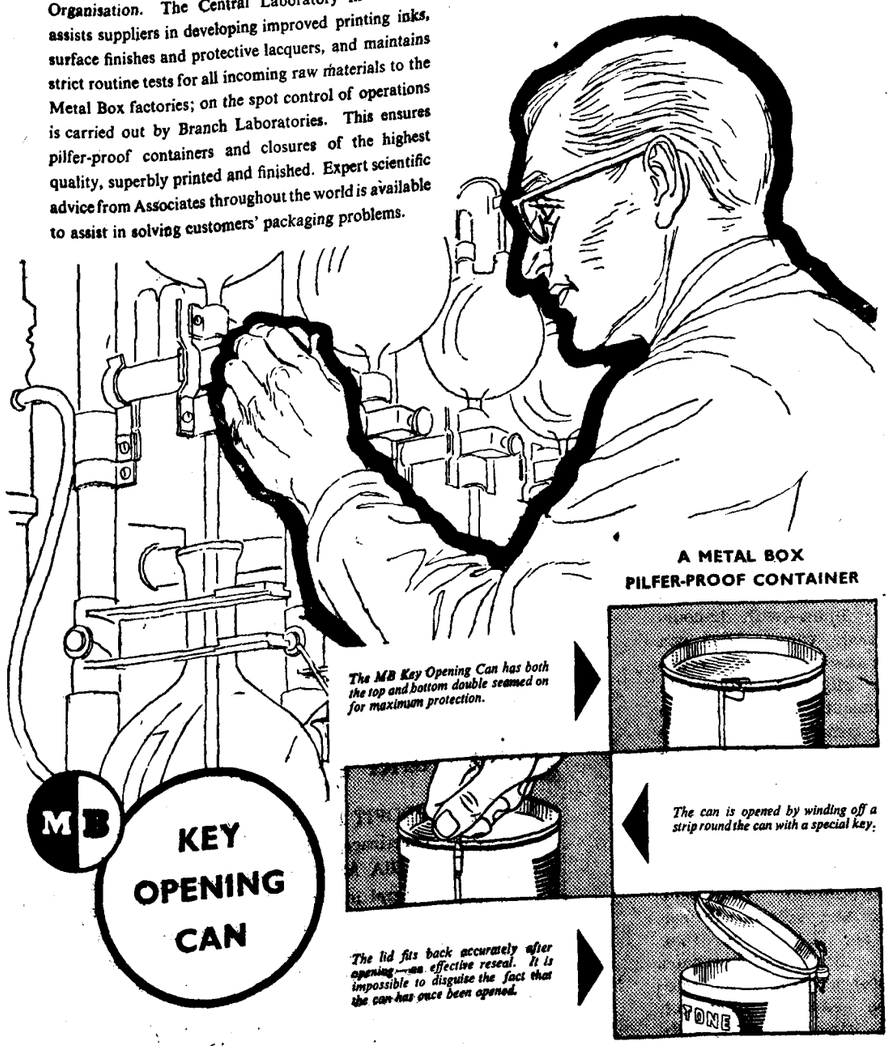
Production of Radio Receivers

THE production of radio receivers recorded an increase of over 85 per cent in 1956 over the previous year's output. The number of radio receivers produced in 1956 was 150,596 as compared with 81,200 in 1955. The installed capacity in 1956 increased to 213,000 radio sets from 138,100 in 1955. There are sixteen units manufacturing radio receivers in the country. Nine schemes, one for the establishment of a new factory and the remaining for substantial expansion and production of new articles, have been approved by Government

During the first six months of this year, 10,000 cabinets, 38,000 transformers and chokes, 37,000 dials and 4,44,000 carbon resistances were produced by ancillary units for supply to manufacturers of radio sets.

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Letter to the Editor

Chair-borne Critics

RURAL development is really too vital a matter to be treated as our Press in India presume to do. I have just been reading in **Kurukshetra** (September 1957) the assembled editorials of what are supposedly the "leading newspapers" of Northern India, on the subject of the Lok Sabha budget debate about Community Development. I have previously read the pontifications of these same newspapers upon the publication of the Fourth Evaluation Report of the Planning Commission—which is charged with detailed scrutiny of the National Extension Service's development of rural areas, as far as possible by "community" methods.

My feeling is one of shame. I am as embarrassed as one feels when some boor boasts about his achievements at a dinner-party. The newspapers seem to me to exhibit every sign of the cad. They know nothing whatever about the villages, nothing, except on paper, of what goes on nowadays in the Development Blocks where the C D and N E S are struggling to work, and yet they are ready to dish out praise and blame as if they were intimately concerned.

The fact is that editors and journalists in India—with honourable exceptions whom one can count on the fingers of one hand—have not the slightest interest in rural development. To them, the village people remain just the cattle that they were supposed to be by India's foreign rulers. It is time that this insufferable swank of newspapers ended in India. It is time that, like the Extension workers, and some other development cadres of Government, they sent reporters into the villages to see what goes on. It is time that some of the editors—and perhaps even the proprietor-fantasts who often call the editor's tune—got out of their air-conditioned offices and sweated for their bread and words.

The rest of the country's population has made some effort to take its collective and individual coat off, roll up its sleeves and get down to a job of dirty-handed work. The newspaper boys seem to be unwilling to do this. Come on, Babu Bubblegumwalla, or Shri Pitambarabara Pop, or whatever your name is; skip the "Freedom of the Press" and the Indian and Eastern Newspapers muck-a-muck, and get out into the countryside! Or, if you are too lily-livered to get out yourself, at least do your V I P stuff by ordering some of your better newsgatherers and feature writers to go.

Call your boys off the Information Officer's purlieus, where all they mop up is handouts! Cease haunting the unfortunate Prime Minister, and hanging on every word uttered by T T K. Get out into some villages; stay there for some nights, and try to talk to village people, including the gram sevaks. Then, my once good friend, you will earn the right to call yourself a man and a responsible commentator on the news again.

Go and get the news about rural development yourself! Or do you like being pompous and ignorant?

Evelyn Wood

Morfa House,
Colaba,
Bombay 5.
September 21.

Railway Traffic Targets

INDIAN railways have been asked to work to their original Second Plan goods traffic target of 180 million tons, or about 19 million tons more than provided for in the present Rs 1,125 crore Plan. This was disclosed at the meeting of the Railway General Managers with the Railway Board earlier this month.

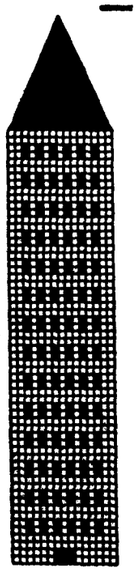
The General Managers were requested to plan the completion of their marshalling yard, track, doubling and other works in time for the anticipated heavy spurt in traffic, which was expected to materialise in 1959.

During a review of the progress of the Second Railway Five Year Plan, the meeting was informed that, as a result of the orders placed abroad by the Railway Steel Purchase Mission, the position in regard to the supply of steel was now expected to improve. Supply of cement and other essential materials was also improving.

Regarding economy it was emphasised that what Government expected was the elimination of "prestige" and other inessential items of expenditure, and not arbitrary cutting down of expenditure which was likely to adversely affect efficiency or hamper development work.

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A Calcutta Diary

Not by the Police Alone

LAST week the Commissioner of Police, Calcutta, published figures to prove that there had been a decrease in the incidence of crime in the city. The Inspector General of Police, some serious charges against whom personally were recently answered less than convincingly, is also ready with statistics to show that the same is true about the rest of the State. Both may be correct. It all depends how you define crime, how you interpret or implement the various provisions of the Indian Criminal Procedure Code. (It was held against Comrade Namboodiripad that he had fiddled with the Code. The fact is it has ever been a flexible thing.) But, if the Government of West Bengal will care to take it as a compliment, it may fairly be said that under Dr B C Roy the police administration in West Bengal has truly been streamlined. It is a better force today, in spite of partial provincialisation—meaning the Chakrabartis and Mukherjees among the Dubeys and Chaubeys.

The police have been under no small strain recently. Ill-conceived schemes of a Bengal-Bihar merger and the campaign against an increase in tram fares are not the only ones one has in mind. The movement launched by the Price Increase and Famine Resistance Committee—why don't they have names which can be conveniently abbreviated, like SHAPE and UNFED? The latter would be excellent—has already accounted for three thousand odd arrests. The strike by bank employees is, from the police point of view, much more troublesome. And yet, both have been handled so very smoothly that, so far, no serious trouble has broken out. The police are doing a good job of work.

* * *

It was a policeman, still, who told the present writer that he was not sure of what the future might hold. The future is indeed to be viewed with some apprehension. Caste riots, such as Madras has known in recent weeks, are not very likely. In this part of the country the brahmin has never been so sure of his superiority as to treat everyone else with contempt. Communal riots too are not on the card. Kashmir generates more heat on the banks of the East River and the Indus than on Tolly's Nullah or the Hooghly.

Remains the possibility of bread riots, which hereabouts means rice riots. Whether there have been such incidents is difficult to say. Newspapers report starvation deaths, and the Director of Publicity invariably attributes them to dysentery or tuberculosis or over-eating. It is not impossible that "disturbances" are being explained away similarly. One doesn't know. That argument between the fisherman and his customer (two arrests) may not have been because the former used Billingsgate language; he may only have asked for a price the latter could not pay. That fight between a passenger and a bus conductor (three arrests) might never have started if the naye paise conversion were not so obviously in the latter's favour.

* * *

The organisation in charge of evaluating progress in community development projects recently recommended a reversal of priorities for district officers in India. Law and order, it said, should take a back seat, and development be the first concern. That is how it is in established societies. They can take law and order for granted, and then proceed to direct all attention to development—either of agriculture or of armed forces to counter external aggression. It is to be doubted whether ours is an established society in this sense. Before criticising the Government, therefore, for not doing what the Labour Government did in the United Kingdom, one must acknowledge that the Nehru Government has been able to keep the administration together, more or less. So many were, and are, the fissiparous tendencies that it was altogether a good thing that internal order and external security were given the priority they deserved.

The time may, however, have come to ask whether the attention given to law and order has not begun to create a situation which is making the law-and-order problem daily more difficult of solution. If so, it will not be enough to blame the police for its possible failure to deal with future trouble. Thirty odd Opposition M L As going to gaol for rousing public opinion is one thing; the police can deal with that. Thousands of farmers and other people courting imprisonment as a means of solving their food problem, for there the Government must feed them, is another—and it is not a police problem at all.

* * *

There are reasons to think that a situation not very different from that hinted at in the foregoing is approaching in West Bengal, if not elsewhere too. One senses it as one looks at the faces of black-coated workers in procession on the streets of Calcutta. They are the farthest thing from Marx's proletariat, but it is in the middle classes of Bengal, once among the docilest creatures on earth, that one now sees a militancy one would not have thought possible a bare two or three years ago. This is the section of the Indian people who should have been infected first by the idealism to build a new India, even at considerable cost to itself. This is the section that appears to have fallen the first victim to despair and frustration.

The Prime Minister has a contempt for the Bengali babu which is reminiscent of Kipling. Not all of it is unjustified. But the babu has his own quiet way of taking revenge. It is often said in Calcutta that Gandhiji's contribution to Indian politics was that he freed the average Indian from the fear of going to jail. It is added that Subhas Bose freed him from the fear of getting killed. There is a touch of bravura in it, as in most Bengali claims today. And yet, and yet, New Delhi is unwise to consider the Security Council, Pakistan, U S military aid etc etc as the only sources of trouble to India. Frequenter and closer looks within seem clearly indicated.

—Flibbertigibbet

September 23.

From the London End

Seven Per Cent and the Foreign Exchange Crisis

THE measures taken by the British Government are suspect on at least two grounds. In the first place the measures are announced almost one month late. This error in timing has already given the impression that the measures constitute nothing more than the last desperate act of a Government powerless to stave off the inevitable: the devaluation of sterling. And secondly the whole history of the past six years is a pointed lesson on the inefficacy of the Bank Rate weapon as a controller of contemporary economic problems. That the startling and wholly unexpected increase in Bank Rate should be the ultimate resort to which the authorities should find refuge, in spite of a whole year of production stagnancy, reflects particularly seriously on the ability of the Government to formulate a policy. In a word, the current exchange crisis finds a British Government completely lost in its bearing exhibiting an almost unprecedented absence of ingenuity and reason on either formulating a diagnosis of the crisis or of contriving purposeful policies to meet it.

Naive Approach

The pressure on sterling has persisted for well over two months. In this period a vast flow of short-term funds has found its way out of London to Frankfurt, Zurich and New York. Throughout the sterling exchange rate has limped along the lower support level and the financing of the outflow from London has been borne by the gold and dollar pool of the sterling area. In August alone the fall in these reserves was of the order of £ 80 million—more than 10 per cent of the total reserves. The total reserves now stand at the dangerous level of £ 765 million in spite of the recent drawing of £ 201 million by Britain and £ 70 million by India from the International Monetary Fund. At this level it is doubtful whether the reserves are capable of covering £ for £ the outstanding short-term sterling liabilities to non-sterling area residents, let alone the liabilities to the overseas sterling area. There is indeed a crisis of formidable dimensions for sterling. And it is only on a correct diagnosis of the crisis that the correct policies can follow.

The British Government's decision to push up short-term rates to a level unknown in 37 years and to severely restrict the volume of internal bank credit and of industrial and other investment, appears to take the character of a full-scale attack on the internal economy in the hope that somehow or other the classical role of monetary policy will in its impact seep through to the foreign exchange market and hence restore balance on the external front. This utterly simple, and, without risking the charge of being ungenerous, naive approach is exposed for its worthlessness not only by the rich experience of the past six years but by the very fact that the United Kingdom has been doing extremely well on its foreign trade accounts and by all measure is likely to earn a surplus on its balance of payments for the whole of 1957. Even if the classically construed external impact of pure monetary control is considered to be realisable, the present crisis is not of the order of the traditional external imbalance: what Britain is facing is not a balance of payments crisis but an external crisis, characteristic of a large part of the Western world, that is the problem of international liquidity and of the dollar shortage. The hope that the increase of interest rates in London will result in a return flow of gold on short-term capital account as in gold standard times can be immediately dismissed. The psychological effects—and it is now conceded that Bank Rate changes are mainly directed at establishing a certain psychosis—are likely to be of an adverse type, that is, it is likely to exacerbate the outflow of funds from London.

Insufficient Liquidity

There exists on the face a certain distortion of European exchange rates and this was recently reviewed by your Correspondent in the columns of this journal. There followed from this distortion an effort at adjustment by France and Finland—the French franc being devalued by 30 per cent and the Finnish mark by 28 per cent. These efforts brought the whole question of European exchange rate adjustments to the forefront of international discussions. In British eyes the disturbing factor was the undervalued West German Deutsche-mark while to the Germans the problem was formulated, not without due safeguards for self-interest, in terms of inflation within the British and other European economies. What appears to have been lost in this discussion of mutual recrimination is the considerable fact that behind, and at the root of the exchange rate problem lies the deeper problem of the insufficiency of international liquidity to finance the ever-expanding volume of world trade. (See Table below.)

The gold and dollar reserves of all countries excluding that of the Soviet Union fell from about 54 per cent of world trade to 32 per cent between 1937 and 1956. The relation of gold stocks alone to world trade fell more heavily from 49 per cent in 1937 to 20 per cent last year. This decline in the period 1937-1950 was due mainly to the value of gold falling to keep pace with the increase in international commodity prices. The further decline after 1950 was occasioned not only by commodity price increases but by the rapid expansion of world trade. Between 1937-56 the value of world trade rose by just under

Table Showing Currency Reserves and World Trade

	1937	1950	1956
Currency Reserves ($ 000 mn)	27.7	54.5	60.3
Gold Reserves (,,)	25.3	35.2	37.6
World Trade (Imports plus Exports) (")	51.5	116.1	191.0
Currency Reserves as % of World Trade	53.8	46.9	31.6
Gold as % of World Trade	49.1	30.3	19.7

400 per cent. The world monetary gold stocks went up by a much smaller rate. This relation between liquidity and world trade presents the absolute problem.

Dollar Shortage

An important aspect of this problem is the dollar shortage. In 1937 the United States held about one-half of the world's monetary gold stocks and by 1950 its share rose to two-thirds; by the end of 1956 it had declined slightly but still amounted to over three-fifths of the world's gold reserves. The slight change for the better occurred in the latter stages of the Marshall Plan, but for the United Kingdom and the overseas sterling area the level of gold and dollar reserves was no higher in 1956 than at the beginning of the Marshall Plan. A crucial overall change in the world's distribution of monetary liquidity has however become apparent and it is this which gives the problem of liquidity its character of full severity. There has been a change in the United States balance of payments from deficit to surplus. The payments deficit of the rest of the world vis-a-vis the United States which began in the last quarter of 1956 continued to rise in the first quarter of 1957 at an accelerated pace. For the period October 1956 to March 1957 the United States had a payments surplus of more than $ 1,000 million—the result of the steady increase in American exports. Moreover the West German payments surplus has progressively increased in recent months as an adjunct to the American surplus.

The re-emergence of the world dollar shortage in the nature of a United States surplus on its current account and the $ 800 million increase in its monetary gold reserves between October 1956 and March 1957 must necessarily possess a greater impact on sterling precisely because the British Government is bent on financing, through London, almost half of the world's trade. Today no intelligent central bank or commercial bank in the non-sterling world thinks twice before deciding to sell their sterling balances for U S dollars on the unofficial transferable sterling account markets on the European continent and since the Bank of England is equally committed to uphold unofficial rates of exchange, sterling has to all intents and purposes become fully convertible at a somewhat maintained range of exchange rates. And thus a U S payments surplus inevitably means pressure on sterling and a drain on the United Kingdom gold and dollar reserves. Formulated in this way the crisis takes an essentially capital character.

Britain's Changed Status

The British authorities with their memories of the era when sterling was supreme, persist in the belief that it is possible to continue into the present the traditional functions of the City of London and the sterling currency. This unrealistic approach to international economic problems has probably been more responsible for the periodic crises of the past six years. The fact that Britain's changed status no longer allows the pursuit of old policies is the crux of the present problem. Today Braitain's short-term liabilities are more susceptible to outward flights precisely because of two facts: the short-term assets of the United Kingdom are grossly inadequate, this merely emphasises the international insufficiency of monetary liquidity, and secondly there are other centres of international finance providing greater security and stability for short-term funds.

Variable Exchange Rates

The answer to the problem of insufficient liquidity must in present circumstances be sought for not by any deflationary policy as the British authorities are bent on undertaking, but by resort to either one of the expendients of floating exchange rates or of the re-establishment of exchange control over currency transfer of a short-term capital character. The policy of floating or variable exchange rates has been discussed internationally for a considerable number of years and here the merits of such a policy, particularly its role as an insulator against the international transmission of depression conditions, does not require examination. What needs to be emphasised is that the defence of the £ sterling within the present narrow exchange rate margins of 1½ per cent is proving very costly as is shown by the loss suffered in August by sterling area's gold and dollar reserves. The need to use further reserves in the fight against speculation should however strengthen the inclination of the British Treasury to reduce losses by means of more flexible exchange rates and make life difficult for speculators by widening the margins.

Must Avoid Exchange Control

The question of control over short-term capital movements does not raise any administrative problems precisely because it was widely used by the United Kingdom in the general machinery of exchange control. Such control must and can be avoided because it represents a movement away from currency convertibility and a more liberalized system of world trade and finance.

These possible paths to meet the immediate crisis do not detract from the long-term requirement that Britain should abandon all ideas of financing a large part of world trade. Such ideas have contributed much to the weakening of sterling and to the cohesion of the sterling area as a region of at least free trade and payments. With the prospect of greater volumes of Colonial held sterling balances being thrown on the foreign exchange market as Ghana, Nigeria and others develop economically, Britain's main function now is to gradually remove the burdens arising from the fluctuations of currency transfers among non-sterling area residents.

It is against this background that the British measures—of a 7 per cent Bank rate and of cut backs on investment and bank advances—appear not only inappropriate but positively dangerous. It inaugrates a deflationary movement which is likely, in circumstances of wage rigidities, to cause a fall in production and a rise in costs and hence in prices—a set of tendiencies precisely to be avoided when the American economy is showing symptoms of slump and unemployment.

CHANGE OF ADDRESS

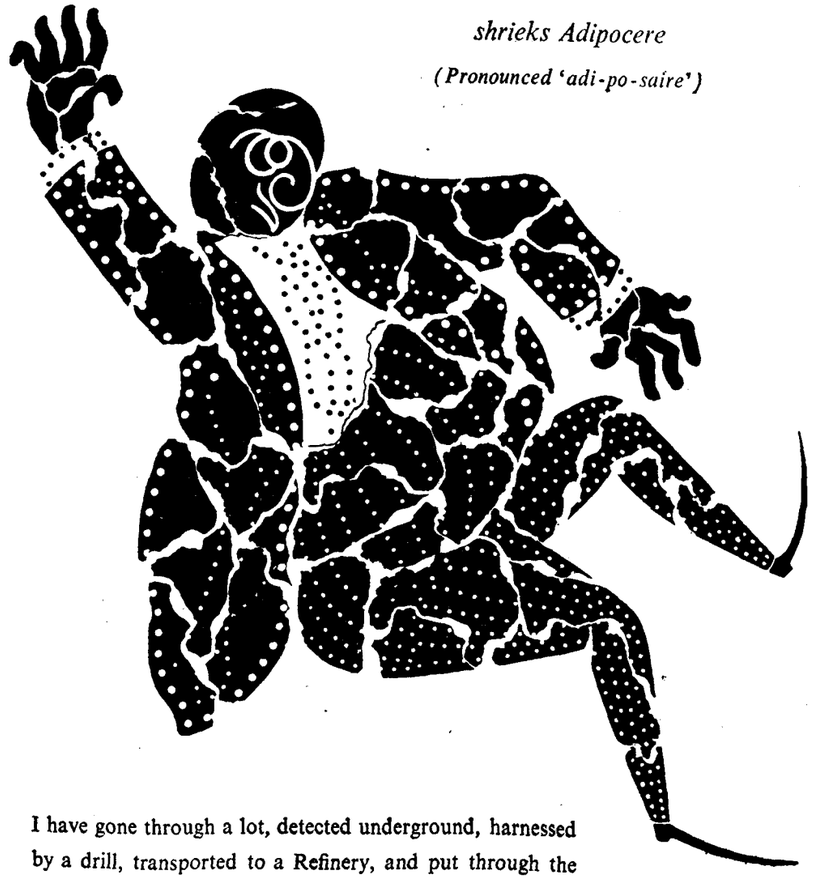
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"I AM CRACKED"

shrieks Adipocere

(Pronounced 'adi-po-saire')

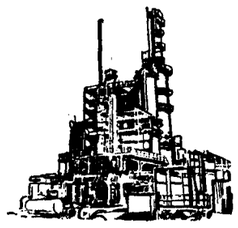


I have gone through a lot, detected underground, harnessed by a drill, transported to a Refinery, and put through the fractional distillation process. Now I am put through a further step of catalytic cracking...in fact, I'm being cracked.

(A catalyst is a substance which promotes chemical changes in other materials without undergoing change itself)

By this process of cat cracking, a higher yield of several products is possible. My final stage of processing includes "treating" and "sweetening" which removes corrosive and odorous impurities from me; in other words I am "refined".

Keep watching these columns for what is to happen to me.



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UN Headquarters

The Secretary General

LAST month, at one of the last pre-Assembly press conferences held by Mr Dag Hammarskjold (he does not hold conferences when the Assembly is in session), a Yugoslav correspondent asked him a question which was on the minds of several of his colleagues. "Sir", he said, "Do your personal plans for the future exclude the possibility of giving us the pleasure of meeting you at press conferences in the next few years?" It was, as everyone present knew, a loaded question. The Secretary General's term ends in April 1958 and it has to be renewed—as there is every indication that it will be—by the Security Council. The questioner obviously wanted to know whether the Secretary General himself felt he would continue in his office for another term. But Mr Hammarskjold refused to rise to the bait. With typical urbanity and a completely straight face he replied: "I do not think that your ambition should be aimed so high; I think it will be quite enough and a pleasure—to be able to meet you all during this winter". And when another questioner persisted, he snapped: "I really would not like to pursue this discussion at all. You know just as well as I do that there is not a man in the world who is not expendable".

International Civil Servant

So far, no other alternative candidate has been suggested by the big four and the chances are that Mr Hammarskjold will again be elected for a further term. It is quite possible, of course, that no man is so precious that he is not expendable. But the general consensus of opinion among diplomats here is that the tall and now perceptibly aging Swede has done as good a job in being the world's number one international civil servant as could be expected of anybody—even a neutral Swede. Mr Hammarskjold's personal virtues have often been written about. But he would seem to be the antithesis of Mr Trygve Lie, his ebullient, extrovert predecessor. He is a bachelor, whose hobbies are hiking and reading. At his press conferences he is fond of occasionally quoting a well-known writer; Indians sometimes compare him with Chintaman Deshmukh; Hammarskjold, like Shri Deshmukh is scholarly, but not pedantic, shy, but not a snob, conscious of his role as a civil servant and zealous in keeping strictly "neutral". A man with a lesser understanding of his role might well have fallen into the easy trap of being a partisan in the fiery controversies that engulfed the United Nations over the Suez and Hungarian issues. But not Mr Hammarskjold. To the last, he maintained an even keel, refusing to pander to the whims of either power group and thus acting as the flag-bearer of true international civil service.

How strictly he adheres to his code of civil service practice can be guaged from a typical press conference question-and-answer session. Here is a random sample:

Question: Do you feel that both sides will be adequately presented in the coming session on Hungary?

Mr Hammarskjold: I hope so.

Question: Are you satisfied with the manner in which Egypt is handling the Suez Canal—the operation and everything?

Mr Hammarskjold: What interest is attached to my satisfaction or lack of satisfaction? I think the record is a public one and everybody has the right to have his own views on how it has worked out.

Question: In view of the vast quantities of arms which the Soviet Union is supplying to various countries in the Middle East, Senator Humphrey suggested the other day that at its next session the United Nations General Assembly should discusss an agreement to limit the supply of arms to that area. What do you think of such a plan? Do you think that would be feasible?

Mr Hammarskjold: I should not like to go into the last part of that question; it brings us a little into territory that is too adventurous. I think that the problem which has been raised is primarily a problem for those few countriers which are in a position to supply arms. If those countries can agree on a policy on the lines you indicate, that is one thing. It is a different thing for the United Nations, with all the countries represented in it, to sit down and make statements about what should be done. I think that this is first of all a case for diplomacy of the classical type, and only in the second instance a question for the United Nations as such."

Not in Favour of Weighted Voting

Consider his approach. Mr Hammarskjold is not one to rush in where angels fear to tread. This, of course, does not necessarily mean that he does not hold opinions of his own. Indeed, he has decided opinions on matters where he resolutely refuses to make any comment. Those who watched him during the eventful days that followed the Anglo-French attack on Suez and the Soviet interference in Hungary hardly had any doubts on his views. To many he seemed particularly upset over the British and French invasion of Egyptian territory. As the secretary general he cannot openly come out in favour of any oppressed country particularly where controversial issues are involved. But where he could express opinions freely—and this is possible when he submits his annual report to the General Assembly—he does so, with just that urbane restraint characteristic of the man. His comments on the question of weighted voting in his current report to the General Assembly is an eloquent example of his general approach to smaller nations. It must be understood that for some time now there has been some discreet mumbling among some of the western powers that the smaller Asian African nations, because of their sheer number (they total 28 among eighty two) can act as a vetoing bloc in the General Assembly. One way to clip their power, it has been suggested, is to rearrange the pattern of one country one vote to something that would give powerful nations additional weightage.

This, Mr Hammarskjold said in his report, is about as foolish as it could be. "I believe," he said with all the emphasis at his command, "that the criticism of the system of one vote for one nation, irrespective of size or strength, as constituting an obstacle to arriving at just and representative solutions, tends to exaggerate the problem. The General Assembly is not a parliament

of elected individual members; it is a diplomatic meeting in which the delegates of member states represent Governmental policies and these policies are subject to all the influences that would prevail in international life in any case". And then he delivered a broadside against those who have been criticising the smaller Asian African nations for banding together to protect their interests. He said: "Smaller nations are not in the habit of banding together against the larger nations whose power to affect international security and well-being is so much greater than their own. Nor do I see justification for talk about the responsible and the irresponsible among the nations. The two thirds rule applied to all major decisions in the General Assembly should serve as a reasonable assurance to those who may not fully share the views that have been here expressed".

U N O—Imperfect but Indispensable

There have been few better judgments on the cohesion of the smaller nations than this one. Mr Hammarskjold must necessarily be careful in his comments. At the same time he also has to serve as an alarum clock, as a giver of timely warnings to all concerned on the state of the world. This is by no means an enviable task. To turn a blind eye to the goings on in the world on the pretext that a secretary general has merely to obey the dictates of the United Nations would be as much shirking of a major responsibility as seeking to direct the course of history from his perch on the thirty eighth floor of the U N building would be deviating from one's role as the first civil servant. Mr Hammarskjold does not pretend to be anything else but a civil servant who finds it his painful duty to inform the world of its destinies, and let the chips fall where they may. Is there a national awakening in Africa on the model of Asia? Yes, says Mr Hammarskjold, there is. "With its increase in membership", he said, writing the finis to his report on the world organisation's working last year, "the United Nations more fully mirrors the realities of the present world situation than ever before, although necessarily the picture given in the debates and votes in the United Nations can be truly evaluated only after a careful analysis. The United Nations reflects, but is in no sense a cause of, the renaissance of Asia. The awakening of Africa, and the other great changes that are under way in the balance of power and relationships of the peoples are likewise part of the dynamics of history itself. As always, they bring with them many grave problems of adjustment. These all too easily may become the occasion for arousing passion, fear and hatred and lead in turn to violent upheavals and to the ultimate disaster of war in this atomic age".

One notices here Mr Hammarskjold's philosophical approach to history; man, he seems to say, everywhere in the world, but more especially in the hitherto "backward" areas, is struggling towards the light, and needs assistance. In his fight for liberty and freedom, man struggles against fellow man, all these relationships between man and man being "part of the dynamics of history itself". Mr Hammarskjold tends to look at the world as a unit, the struggles of smaller nations and weaker peoples as but part of the larger, painful process of integration of all mankind. The United Nations cannot often do much to alleviate the suffering, because it is no world authority enforcing the law upon nations. But would it be fair to turn aside from it for that same reason? Mr Hammarskjold's answer is an emphatic no. "We should rather", says the Secretary General in his report, "recognise the United Nations for what it is—an admittedly imperfect but indispensable instrument of nations in working for a peaceful evolution towards a more just and secure world order".

Classicist in Diplomacy

If one were to define the qualifications of a secretary general, they would include among other virtues, patience of a high order. The man who fills the post will have to be not only a man of distinction, but a scholar, a philosopher and an incurable optimist who sees in every rolling black cloud a streak of the most dazzling silver lining. The temptation is to say that he should be all things to all people, but that would not be true, for he should be able to present to all people the same vision of one world. This is by no means an easy task. With eighty two countries pulling in an equal number of directions, the task of reconciling conflicting interests calls for understanding of a high order. Mr Hammarskjold, in that sense, is a classicist in the field of diplomacy. He makes silence speak more eloquently than words.

Right now nobody else seems to be in the running for the post of the secretary general. The Soviet Union seems satisfied with Mr Hammarskjold's performance and despite the persistence of the cold war, it is unlikely that Mr Hammarskjold will be sacrificed at its altar, as was Mr Lie. Looking back in retrospect, Mr Lie, it would seem, took on the burdens of the world on himself, seeking to draw the lines between right and wrong as his personal responsibility. Mr Hammarskjold has no such grandiloquent ideas. He would not offer to go to Moscow during the Hungarian crisis though Mr Trygve Lie might have, and indeed did, in similar circumstances In a large measure, Mr Hammarskjold has drawn rules of conduct for himself and for those who will, inevitably, have to follow him in the future. Mr Hammarskjold, it would seem, has learnt from the mistakes of his predecessor.

How Many Terms?

It may be that at least for some time to come, the Security Council will do well to ask Mr Hammarskjold to continue in his post. No doubt there are other men who could fill the post with equal dignity and efficiency. No man is indispensable, said Mr Hammarskjold and he certainly has no illusions on the score. Besides, it seems but apt that one who has learnt the nuances of the game is given another term to usefully employ his experience. What should be the tenure of a secretary general? To put it in other words, for how many terms should a person be appointed secretary general? The presidentship of the United States is limited to two terms. Such an arrangement has its appeal. But the United Nations is still a young organisation and rules governing the number of terms a secretary general can serve can undoubtedly be made in the future as the Organisation grows.

The question of how long a person can serve as a secretary general, of course, can be endlessly debated. A great deal will no doubt depend upon the individual himself. his ability to be "neutral"—in the best sense of the word—in the conflict between the major powers, his ability to help in the resolution of these conflicts without seeming to be bending too much on any one one and on such other virtues that would go well with the high office.

Judging from any standpoint, Mr Hammarskjold would fully justify re-appointment as secretary general. His worst critics have not been able to accuse him of partiality and he conducted himself with complete fairness during the dark days of November 1956. But some of his own appointments have been the subject of controversy. One of the key posts to which Mr Hammarskjold has appointed Mr Ahmed Bokhari, it has been said, has been poorly administered. Mr Bokhari was handpicked by Mr Hammarskjold, but a widely held opinion among the international corps of journalists working at the United Nations is that Mr Bokhari has been a poor choice. It would seem that Mr Hammarskjold chose Mr Bokhari to the key post not so much for his administrative talents, but as a pipe-line to the minds of Muslim statesmen from countries ranging from Morocco on the one hand to Indonesia on the other. Mr Bokhari was also allegedly an adviser to the Secretary General in Middle Eastern affairs. The former All India Radio official, however, is not in favour in many Arab countries. As a former Pakistani, he is held in deep suspicion by Egyptian and Syrian delegates. Indonesians do not hold him in high trust either, and it is said that Mr Hammarskjold does not depend overmuch on Mr Bokhari anymore. But apart from this, there is little other criticism of Mr Hammarskjold's own appointees. By and large, therefore, Mr Hammarskjold's administration of the United Nations stands scrutiny and this no doubt will be admitted tacitly when the Security Council takes up the question of the Secretary General's continued tenure.

Surely the Secretary General seems to be heading for a second term. The world has reason to wish him well.

September 17.



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Official Papers

The Case for Exchange Flexibility

International Monetary Fund: Annual Report 1957. Bank for International Settlements: 27th Annual Report.

R A Jahagirdar

THE Report of the International Monetary Fund for the fiscal year ended April 30, 1957 has recorded increase in its activities and in the assistance which it gave to the member countries to tide over difficulties of balance of payments which were partly the result of the boom conditions that prevailed in 1956 and partly of events such as the Suez crisis. The experience of the past year shows that within the framework of its charter the Fund can play an effective part in the restoration of the balance of payments equilibrium. The Fund concedes that there are "important unsolved problems in the fields of public policy" but hopes, however, that "a steady movement towards a fully multilateral system of international payments will be maintained."

'Transitional Period'

The Fund is obviously discharging with admirable swiftness its functions of shortening the duration and lessening the degree of disequilibrium in international balance of payments but it is handicapped by the continued existence of certain conditions which make the establishment of fully multilateral system of payments difficult if not impossible. These conditions were associated with the period of transition of five years after the Fund started functioning. Literally defined this period of transition has ended; defined any other way also, it must be deemed to have ended for it would be difficult to trace or relate the 1957 problems to the 1939-45 War. However, the currency problems continue to be with us; many countries are still grappling with balance of payments difficulties and the conditions for the ushering in of a multilateral system of payments are conspicuously absent. Currency problems of the post-war world have outlasted the currency consequences of the last War.

There is no point in pretending that the current currency situation is a legacy of the War which we would get rid of some day. Despite one devaluation and many other measures severally taken by different countries, the problems remain unsolved—but not insoluble if some bold steps are taken. Two things must be borne in mind. First, the currency problems that are with us will be solved not in the manner originally envisaged. There is not going to be relaxation or elimination of exchange restrictions under the auspices of IMF and a return to normalcy after a transition period. These problems are partly at least independent of the effects of the War. Secondly, the solution must be a permanent one and not an "ad hoc" one as that of 1949. It is necessary not to regard the present difficulties as of particular significance but to look a little ahead and aim at an overall structure of exchange rates, which can be expected to withstand and outlast temporary stresses.

The Problem Analysed

What are the constituents of the current problem? There is first the problem of international payments, and second, the problem of domestic inflationary forces. The Annual Reports of both the International Monetary Fund and the Bank for International Settlements point out the upward trend in world trade since 1953. The development of foreign trade in 1956, as the B I S Report points out, was a continuation of trends that have now been in progress for some years. One aspect of these trends is the faster expansion of the trade of continental O E E C countries since 1950 than of North America and the United Kingdom. This is explained partly by the fact that post-war recovery and reconstruction, held up in the early post-war years, took place rapidly after 1950, and partly by the momentum acquired by the continental economies due to investments made earlier. Secondly the trade of the industrial countries in general, and the O E E C countries in particular, with one another has increased more than with the rest of the world. This was mainly due to the greater liberalisation of intra-European trade. Another important trend noticed in the previous year has continued, namely, Western Europe's increasing trade with Eastern Europe and the U S S R: imports increased from $ 801 million in 1950 to $ 1,530 million in 1956, and exports rose from $ 643 to $ 1,276 million (Table I).

Table I—Western Europe's Trade with Eastern Europe and the U S S R
($ mn)

Year	Imports from Eastern Europe & the USSR	Exports to	Balance with
1950	801	643	— 158
1951	1,014	747	— 267
1952	995	739	— 256
1953	910	789	— 121
1954	1,042	979	— 63
1955	1,357	1,095	— 262
1956*	1,530	1,276	—254

* First three quarters, at annual rate

Source: **B I S Report**

The picture of the balance of payments, however, is not equally inspiring. The increase in 1956 in the gold and dollar reserves of countries outside the USA and the Soviet area was about $ 1.5 billion—a little higher than the increase in 1956. But the increase was not the result of higher earnings from transactions with the USA, which, at $ 550 million, were only half of those in 1955. The increase in the reserves was to a great extent the result of net drawings of $ 580 million on the Fund—owing to or consequent upon the Suez crisis—and partly of current production and Soviet sales of gold. The year 1956, however, distinctly showed that the balance of payments difficulties arose more on account of changes in internal demand than of movements in foreign demand.

West Germany, with a credit policy aimed at restricting domestic demand (but note, not imports) went on increasing its external surplus and has thus confronted the world with the 'mark problem'. France, on the other hand, continued to suffer from difficulties on external payments account—thanks to its

weak internal policy and the Algerian War. Betwen these two extreme cases of persistent surpluses and persistent deficits lies the case of the United Kingdom which was managing to keep a balance but whose balance was not strong enough to withstand even a temporary set-back—sterling had to be fortified with the resources borrowed from the IMF and other sources at the time of Suez crisis. Other countries can be classified into the one or other of these categories.

Corrective Measures

Since the external payments difficulties were due more to the domestic demand conditions than to the fluctuations in foreign demand, measures to restore equilibrium were taken in several countries to control internal demand. This was so particularly in the case of European countries. Bank rates were raised in 1956 in the UK, Belgium, Netherlands, Sweden and Turkey and in 1957, in France and Switzerland. Often credit policy was not used alone, but in combination with other measures aimed at directly reducing the liquidity position of the banks, reducing the cost of living by allowing liberal imports and, as in the Netherlands, by controlling wage movements. These measures have not led to great success, partly at least, due to speculative flight of short term capital as in the U K where the Bank rate was revised to 7 per cent this month.

The domestic policies of surplus countries were not of much help as they were not often effective and not always enough and needed to be supplemented by other measures. The high rates of interest in the USA was another reason which detracted from their usefulness. West Germany had a dear money policy but allowed liberal imports and took steps to discourage the inflow of short-term funds and encourage exports of private capital. These measures do not seem to have had any perceptible effect upon the surplus problem even till this month when the bank rate was reduced by ½ per cent to 4 per cent.

Payments Problem Not Temporary

Under these circumstances, the Fund's financial activities were naturally on a high level. Both the amount of currency sold and the stand-by arrangements concluded or extended during the year under review were higher than in any previous year, and, as shown in Table II, the stand-by arrangements this year exceed the sum of those in all the previous ones.

Table II—Summary of Fund Transactions

Year ending April 30	Total purchases by members	Total standby arrangement	Total repurchases by members
1948	606	—	—
1949	119	—	—
1950	52	—	24
1951	28	—	19
1952	46	—	37
1953	66	55	185
1954	231	113	145
1955	49	113	276
1956	39	98	272
1957	1114	1212	75

Source: **IMF Annual Report**

The Fund regards this increased use of its resources as a recognition by the members of the significance of the Fund's policies and resources. But it is also the result of the belief that the payments difficulties in which many countries are repeatedly finding themselves are of a temporary character which (alas!) never seems to end. The current practices of the members to meet their payments difficulties stem from the misunderstanding that the structure of prevailing exchange rates is suited to the normal conditions that may be expected to prevail in normal post-war period in spite the persistent dollar problem and the rise of the mark problem.

Reappraisal Essential

Unless we re-examine the fundamental character of current exchange rates and reorient the policies in the light of lessons learnt by such a reappraisal, the world will not move towards exchange stability —at least not at the rate desired. First, let it be recognised that the fixed exchange rates are not sacred for all times, nor are they rational under all circumstances. Fixed exchange rates give rise to speculative activity. The speculator knows the limit of his losses; he speculates one way only, he may gain or he may not, but he loses little. Exchange authorities, on the other hand, play the game with one hand bound. Secondly, fixed exchange rates, as Harold Wincott has pointed out, make the exchange authorities timid when they are required to take corrective action. Many countries which ought to devalue have clung to their exchange rates and taken other measures to prop them up. Thirdly, scientific fixation of exchange rates at a particular point is clearly impossible. The example of Cripps fixing the £-parity in 1949 at $ 2.80 on the basis of black-market price demonstrates the shaky character of exchange rates.

A fixed exchange rate structure, at least under the conditions of today, is neither practicable nor desirable. This is not, however, to argue that exchange rates should be left completely free to fluctuate but to plead for a wider margin for them. There is no reason why the UK authorities, for instance, should intervene when the sterling-dollar rate touches $ 2.78 or $ 2.82. A wider margin would afford a greater room to manoeuvre. The advantages of wider margin are clear. First, it enables a flexible exchange policy to be adopted. It discourges, in the second place, large scale speculation as it increases the risk of the speculator. And speculation has been the most serious threat to stability of exchange rates, as for instance, in the case of the UK. Thirdly, it gives a greater and freer scope to monetary authorities to meet the threat to payments position. They need not, under wider margins, rush to the protection of the currency at the very first appearance of disequilibrium. Fourthly, it makes possible devaluation, when the need arises, without the speculative consequences of devaluation. Finally, it enables a bold domestic policy to be followed without fear of its consequences on exchange rates.

Such a system of wider margins need not necessarily be established around the existing exchange rates. In fact, the time has come for a thorough revision of the prevailing exchange rate structure with a view to making it more relevant to the conditions of today and some time to come. The present rate structure, fixed immediately after the War, has become unreal in spite of one devaluation. After all the inflationary situation regarded earlier as of temporary character has, to some extent, come to stay. Exchange rates must now learn to live with inflation. Secondly, the exchange rates have

gone out of harmony in a world which has changed fast and changed in different degrees. The rise of the German problem is an emphatic illustration of this point.

The Gold Question

Once it is agreed that a change is to be made in the nature and the levels of exchange rates it remains to find out a **modus operandi** for effecting it. Such a method is made possible by the still unsolved problem of gold prices. Just as the levels of the current exchange rates have become unreal in the circumstances of today, so also the price of gold has been torn away from the realities of world situation. In fact, gold reserves of different countries have become inadequate in terms of monetary transactions carried on today. It is necessary to revise the price of gold in an upward direction to make the utility of gold conform to the needs of current international trade. Such a revision, it has been alleged, will create certain problems for which at least some countries are not prepared. It is argued that such a revision will benefit the wrong people—the US which has large stocks of gold and the Union of South Africa which is a large producer of gold. But a measure should not be opposed merely because it would benefit some more than the others; if, in the process, it does not harm others, it should be acceptable. The gain to the US is not however as great or as real as it appears to be. Being a surplus country in relation to the World it will, after the revision of the gold price, receive less of gold—whose price in terms of dollars will have risen—for the settlement of the same amount of the world's debt to the US. If a rise in the price of gold is feared because it will create domestic inflationary pressures, the US should find methods of meeting them by fixing a higher ratio of gold to note circulation or by transferring the surplus thus created to a special account (as in 1934) or by other appropriate domestic credit policies. The South African Government may tax the increased value of production or adopt any other suitable measure. If we want gold to serve as a means of international settlement, we should pay the price for it. Incidentally, we may note that revision of gold price in terms of all currencies will be perhaps the least objectionable from the US point of view, particularly when it is accompanied by an overall readjustment of exchange rates.

Conclusion

The operation that is being suggested here consists of two parts: first, a revision of the price of gold in terms of all currencies and secondly, but simultaneously, a revision of the exchange rates of the world. Many of the countries will have, under the circumstances, to resort to devaluation, a process that should be carried on a conference basis. The fear that such a conference might lead to excessive speculation is lessened by the fact that the proposed system of exchange rates will allow wider margins and hence will increase the risk of the speculator and discourage him from doing damage to the balance of payments.

The year 1957 has shown, more than any other post-war year the dubious foundation of the present exchange structure and the difficulties it creates. The ulitmate basis for a sound exchange policy is of course a sound domestic policy which would restrain demand for foreign exchange to the limit set by foreign exchange earnings. The present situation is partly a result of the failures of domestic policy. Revision of exchange rates is only a beginning, and must be followed up by domestic measures to keep the exchange rates realistic.

Stores Purchase Policy

The price preference extended to indigenous products in Government's store purchases is not a fixed proportion, but varies according to merit in individual cases from 5 to 25 per cent. This was revealed by Shri K C Reddy, Minister of Works, Housing and Supply in reply to a question in the Rajya Sabha.

Shri Reddy added that in special cases, preference of upto 50 per cent or more is allowed. Even relaxation of quality, where justified, is permitted from time to time provided it does not prejudice the functional utility of the store and its end-use.

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From the Chair

Life Insurance Corporation of India

Speech of the Chairman Shri G R Kamat

THE following is the text of the speech of Shri G R Kamat, Chairman, Life Insurance Corporation of India, delivered at the Eleventh Meeting of the Corporation held on September 1, 1957, at the Headquarters of the Life Insurance Corporation, Oriental Building, Fort, Bombay:—

Four weeks ago we submitted an Interim Report to Government giving a detailed account of our activities and achievements during the first ten months. This Report has been placed before Parliament and has been published. As indicated in the Report, we devoted the greater part of our efforts during these months towards bringing about a smooth transformation of the life insurance industry. Even now, the change-over is by no means complete in all respects. Nevertheless, almost all our new business offices are now working normally and after a brief initial shortfall, our new business, both as to proposals received and policies issued, has shown a progressive increase each month. Aggregate new business during the first six months of 1957, though somewhat lower than that for the corresponding period of 1956, compares favourably with the business underwritten by private companies during the first half of 1955. In the month of June, our new business offices in India surpassed the output of the earlier months by receiving insurance proposals of Rs 21.64 crores and by underwriting new business of Rs 21.68 crores, in terms of the sums assured.

This rate of progress has been maintained during the months of July and August. In July, the business introduced in India was as much as Rs 24.5 crores and the complete business was Rs 19.5 crores. Although up-to-date figures for the month of August are not yet available, the performance during the first three weeks indicates that the output for the month of August should be similar to that in July.

July and August are often regarded as lean months for insurance business. This record for the months of July and August further confirms that our divisional and branch offices are working efficiently. We can now look forward with added confidence to their rising to greater heights during the forthcoming busy season and to their justifying our expectation that we shall close the year with a high level of new business.

The publication of our Interim Report has been followed by various comments. Generally speaking, these comments have shown appreciation of our achievements and of our difficulties. Nevertheless, in some places there has been a tendency to draw pointed attention to the short-fall in our new business during the first few months, and to insist that since nationalisation, the standard of policy servicing has deteriorated.

Persons who continued to criticise us in this way, have not appreciated what a revolutionary change this nationalisation has brought about in the structure of the life insurance industry. It is not as if a going concern has been taken over by Government. Before the appointed day, some 243 autonomous organisations had been functioning in the life insurance industry. Over years and decades, these organisations had evolved certain procedures and methods of work. Most of these offices were competing amongst themselves for a greater share of the insurance business within limited sectors of the population. Their procedures and methods were adapted to suit the particular needs of canvassing business in a highly competitive market, but within a narrow sphere. Frequently, the mis-management and inefficiency of even a few units of the industry, affected the confidence of the common people in life insurance and placed further handicaps to the efforts of the well-managed concerns to expand their field of operation.

Changing Pattern of Organization

It is the main objective of the nationalised life insurance industry to promote this confidence and to expand its business into those sectors of the population which the privately managed industry could not reach. Inevitably, the nationalisation of the insurance industry involved a transformation of the entire organisational structure. In place of so many units of the industry operating vertically, a single organisation was, therefore, brought into existence, dividing its work between Zones, Divisions and Branches on a territorial basis, so that eventually we reach all sectors of the population throughout the country. The relative responsibilities of each of these offices had to be carefully defined and the offices themselves had to be equipped with suitable personnel and equipment taken over from the private companies. New and uniform procedures had to be evolved for the effective discharge of the functions of these offices.

Considering the nature and magnitude of this structural transformation and of the accompanying re-adjustments, it is not surprising that at the outset there was some moderate dislocation in our business and some of the offices have taken time to reach an adequate level of efficiency.

Indeed, the fact that such an organisation has been brought into existence and is now functioning effectively within a short period of time, with relatively small inconvenience to policyholders and to persons seeking life insurance protection, is a tribute to the ingenuity and the resourcefulness of those who planned out this major operation.

The credit for this successful reorganisation of the life insurance industry is due to Shri H M Patel our first Chairman (of the Life Insurance Corporation), whose untiring zeal was matched only by the loyal support that he received from all my associates.

New Business Encouraging

You will have observed that so far as the level of new business is concerned the statistical figures of our growing business themselves answer any criticism of our work.

Regarding the alleged inadequacies and inefficiency of our policy servicing offices, it has not been equally easy to provide a statistical measurement of their efficiency. However, certain broad facts may be stated to provide a right perspective. Our policy servicing offices continue to follow the same procedure that had been followed hitherto by the respective private companies. If any changes are made, those are merely to further simplify their existing procedures. Again, these offices are staffed with persons who have been discharging similar functions in the past, frequently in respect of the same types of insurance policies that they had been handling before. Therefore there is no **prima facie** reason why, in the matter of efficient servicing of existing policies, our personnel in those offices should not maintain the same standards that prevailed in the private companies.

If the number of complaints in respect of indifferent work that are received in the Central Office is any criterion, this number is relatively very small, as compared to the aggregate number of servicing transactions that are carried out in these offices in respect of some 50 lakhs of outstanding policies; and, of course, those who are satisfied with our service hardly care to write to us. Furthermore, the declining number of these complaints, the rare and occasional praise that we do receive for prompt service as well as the reports received from various sources lead me to believe that even in this respect there has been a gradual improvement and that the improvement continues.

That is not to say that I do not accept the need for better and greater service in regard to settlement of claims, issue of premium receipts, grant of loans and payment of agent's remuneration. On my part, I consider that much of this criticism proceeds from a very legitimate expectation that, as a public institution, our performance should be not only as good as that of the private companies, but it should be actually better than the best of those companies.

"Express Service"

As an illustration of the procedural improvements, let me refer to the recent instructions that we have sent to our Divisional Offices for the introductions in those offices of an expeditious way of dealing with new insurance proposals, known as "Express Service". This procedure has been tried with considerable success by some Divisional Offices in the Southern Zone, and all the other Divisional Offices have now been asked to adopt it without delay. This procedure applies to all proposals for life insurance below a certain amount which are received complete in all respects along with the payment of first premium and where medical examiner's report and other particulars indicate that the proposal requires no reference to any other office and can be accepted at standard rates. Such proposals would be dealt with expressly in the Divisional Offices and policies would be issued against these proposals within a period of not more than three working days. Some of the Divisions, in fact, might do better than this and issue risk note on the date of the receipt of the proposal and the policy on the next working day.

Business Expectation

The level of new business that we reach in 1957 is only a starting point for further expansion. As I have stated the main objective of the nationalisation of the life insurance industry is to bring these insurance facilities within the easy reach of large sectors of the population. It is our aim to expand our business as rapidly as possible and amongst all sectors of the population and to offer insurance facilities to all those who stand in need of the insurance protection. We have a vast field open before us and it has been estimated by some persons that, even under present conditions and without taking into account the rising incomes brought about by the progress of economic development, the life insurance business could expand to something like Rs 8,000 crores in terms of sums assured.

Keeping this aim and vast potential in view, it is now necessary that we should prepare ourselves for the orderly expansion of insurance facilities from 1958 onwards. The experience of the last twelve months provides a useful guide as to the nature and magnitude of the problems in this process of continued expansion. We may have to plan for opening more Branches and for employing more canvassers and organisers of the right kind. We have to impart sound training to these new personnel, as well as some of our existing personnel. We have to devise various measures and provide machinery for canvassing the large untapped potential amongst industrial employees, as well as amongst sectors of population in similar towns and prosperous villages.

Amongst the many changes that have come about in the life insurance industry, there is one kind of change that I should like to mention. More particularly after nationalisation, life insurance is now become both a business as well as public service. For success in this new venture, it is essential that all of us working in the cause of life insurance demonstrate this new spirit and strive in every way to achieve this high ideal of public service.

Directorate of Export Promotion

TO pursue specific measures of export promotion and assist businessmen in increasing exports a Directorate of Export Promotion has been created in the Ministry of Commerce and Industry. The Directorate will have a two-fold task. On the one hand it will be the executive agency for the policies and decisions formulated by the Foreign Trade Board set up to coordinate all work relating to the development of India's foreign trade, particularly promotion of exports. On the other, the Directorate will be an agency to which all exporters in the country could look to for guidance, information and assistance.

One of its important functions will be to help traders to take advantage of the incentives for export given by Government and of the facilities provided by various Government Departments for the purpose of export promotion. The measures so far adopted for export promotion include the setting up of nine Export Promotion Councils, removal of disincentives, assistance for supply of raw materials to exporting industries, quality control, rail movement facilities, export risk insurance, extensive publicity for Indian goods abroad, trade agreements with a number of countries for a more balanced trade, setting up of the State Trading Corporation ,etc.

Recent Monetary Policy in India

S N Sen

THE latest communique of the Reserve Bank of India has raised the hope that Government is at last moving towards the adoption of a policy of effective monetary restraint. From a policy of what the Reserve Bank Reports characterised as "controlled expansion", the Bank has now attempted to put some limit to the growth of bank advances by asking the banks to bring down the total of their loans and advances to about Rs 800 crores within the next few weeks. The Reserve Bank appears to be determined to enforce this directive, as it is reported to have informed the banks in advance that if they failed to comply with it their requests for accommodation during the next busy season may not be granted as readily as in the past. The adoption of this policy of quantitative restrictions has naturally evoked some comments. (See Sukumar Chakrabarti's paper on 'Selective Credit Control—And After' and the editorial 'Food and Finance Again' both in The Economic Weekly, issue of August 31, 1957.)

A large budget deficit, and an easy-going, somehow muddle-through monetary policy go ill together. That was exactly the combination which the Government had been following during the last 18 months. The Reserve Bank Reports have again and again referred to the adoption of the policy of Selective Credit Control. But as stated in 'Food and Finance Again', Selective Credit Control measures had not been seriously tried in this country. They were late in coming and were rather hastily withdrawn with what loked like evident relief. What the editorial omitted to add was that reliance on Selective Credit Control measures could not be very successful in the face of the rising demand for bank advances, unless these measure were backed by some form of quantitative limitations. The expectation that a check on the flow of bank credit in one or two directions might result in a lowering of the level of aggregate bank credit assumes that when banks find a particular channel blocked, they would not divert the flow to other directions.

The prevailing optimistic atmosphere generated by talk of development planning and deficit financing not only increases the fringe of borrowers but also warms the heart of even the most cold-blooded banker who becomes, as a result, more willing to listen to the requests of all such "worthy" parties for accommodation for all their "sound" propositions. Quite apart from the effects of such an atmosphere, the pressure on bankers resulting from higher costs due to the implementation of the various awards and the rise in deposit rates provides some incentive to them to expand the volume of advances, the most remunerative of all their earning assets. As for the directives, there are many ways of avoiding them, both on the part of the banks and their borrowers. Under the circumstances it would be Micawberian to assume that the recourse to selective credit control will do the trick in the absence of quantitative restraints.

It is a welcome sign that the Reserve Bank seems at last to have become alive to this important fact. The necessity for taking effective steps against the rising volume of bank advances has long been pointed out, and the writer may claim to be one of those who have played the role of Cassandra on this particular point. There is already so much evidence with regard to the disproportionate growth in bank advances during the last two busy seasons that it seems unnecessary to argue the point further. The growth in the volume of bank advances during the last two years has been much larger than can be justified on the basis of the increase in the national income of the country, or in the indices for industrial and agricultural production. If bank credit is now more industry-oriented, its growth should have some relation to the rise in industrial production, account being of course taken of the increases in prices. In March, 1951, the Indian economy was passing through a period of acute inflationary pressure, generated by the Korean War. The index number of wholesale prices touched a level that was not exceeded after that even by March, 1957. The communique of the Reserve Bank issued on the occasion of the raising of the Bank Rate in November, 1951 pointed particularly to the exceptional rise in the volume of bank advances in the busy season of 1950-51. But on the last Friday of March, 1951, the total volume of bank advances amounted to only Rs 546.87 crores. This should be compared with the figure of Rs 900.04 crores, which was the total amount of bank advances on the last Friday of March, 1957. In other words, the total volume of bank advances had grown by 64.5 per cent in six years in spite of the fact that the volume of bank advances in March, 1951, the base year, was definitely on the high side. From 1951 to March, 1957, the rise in the index of industrial production had been of the order of only 38 per cent. The general index number of prices is, however, lower by about 4 per cent. Again, the volume of bank advances should have some relation to the prices of industrial raw materials as these are usually granted to finance the holdings of these commodities. The index number of the prices of industrial raw materials was 608.9 in March, 1951, and was lower at 518.1 in March, 1957, i e, by 14.8 per cent.

The volume of bank advances has also some relation to imports as funds are borrowed to finance the import of goods. In 1951, the total value of imports was Rs 757.39 crores, while it had risen to Rs 808.33 crores in 1956, i e, by only 6.7 per cent. Actually, in 1951-52, the total value of imports was Rs 849.60 crores, i e, larger than that of 1956, and yet this was financed on the basis of an average bank credit of Rs 547 crores with a general price index that was higher than the average index of 1956. These figures included large imports on Government account for which bank credit is not usually necessary. A clearer picture would be obtained if imports on private account only were considered. In 1951-52 the value of imports on private

account was Rs 647.0 crores, while it was Rs 795.9 crores in 1956-57. So it seems that in 1956-57 bank finance had to take charge of Rs 149 crores worth of additional imports which came in 1956-57 over the level obtaining in 1951-52. But between March 1951 and 1957, the total volume of bank advances had risen by Rs 321.78 crores. Even if it is assumed that the whole of the increase in imports on private account and in industrial output is being financed through bank advances, (which is unlikely) its aggregate volume in March 1957 would be found to be disproportionately high, in view of the fact that the price indices of industrial raw materials and of manufactured goods were lower in 1956-57 as compared to the year 1951-52. Table 1 gives the necessary figures collected from the annual reports of the Reserve Bank of India.

With regard to the financing of imports on private account, reference may be made to a parallel situation in the past when an almost similar increase in such imports took place during the course of one year. Imports on private account which amounted to Rs 410.7 crores in 1950, rose to Rs 601.8 crores in 1951, i e, an increase of Rs 190 crores in one year. The general index number of prices increased in 1951 by more than 9 per cent over the level prevailing in 1950. The official general index of industrial output (base : 1946 =100) also rose from 105.2 in 1950 to 117.4 in 1951, i e, by more than 11 per cent. This increased in imports on private account, the rise in prices and increase in industrial production seemed to have been financed by an increase in the total volume of bank credit to the extent of less than Rs 92 crores. Between 1955-56 and 1956-57, the total volume of imports on private account increased by about Rs 180 crores; the index of industrial production rose by only 8 per cent. The general index number of prices was of course higher by 15 per cent. But the rise in the total volume of bank advances has been of the order of about Rs 150 crores as compared to Rs 92 crores in 1951. Even if we make suitable allowance for the increase in prices that has taken place in 1956-57 as compared to the year 1951, the rise in the total volume of bank advances in 1956-57 is definitely disproportionate, especially when one remembers that the rise in the index of industrial production in 1956-57 was less than 75 per cent of what occurred in 1951.

Moreover, as has already been pointed out, March 1951 had already witnessed a considerable inflationary expansion of bank credit. And the increase in the volume of bank credit during the last year appears to be disproportionate even in comparison to the events of such a year. There is no doubt that in the past few years some new industries have been established in the country, and to that extent industrial development in India may be said to have been diversified. But the extent of diversification has not been of such an order as to necessitate a large-scale increase in the volume of bank credit. The diversification of the economy argument was first put forward in the annual report of the Reserve Bank for the year 1955-56. Such a diversification of the economy in the direction of secondary and tertiary industries was stated to be one of the reasons for the existence of a rather heavy demand for bank advances even during the slack season. The published data on the advances of the scheduled banks do not enable one to decide this question one way or the other. It is true that these provide a very rough and rather wide classification

Table I—Credit and Indicators of Credit Needs

	1951-52	1955-56	1956-57
Bank Credit (average)	546.40	632.45	781.65
Imports on Private Account	647. 0	611. 7	795. 9
Index No. of Prices	434. 6	360. 4	414. 0
Index No. of Industrial Production	100 (1951)	122. 1 (1955)	133. 6 (1956)

Table II—Advances of Scheduled Banks to Industry

	Dec 51		Dec 54		Dec 55		Dec 56	
	amt	%	amt	%	amt	%	amt	%
Cotton Textiles	41.5	23.9	59.0	30.9	49.7	22.5	81.5	26.7
Jute Textiles	37.8	19.5	13.1	6.9	14.5	6.6	26.5	8.7
Other Textiles	12.3	6.3	13.4	7.0	15.4	7,0	21.0	6.9
Iron & Steel	5.1	2.7	5.8	3.6	7.1	3.2	7.7	2.5
Coal & other Minerals	3.7	1.9	4.7	2.5	6.8	3.1	7.9	2.7
Engineering	15.6	8.6	21.9	11.5	31.1	14.1	58.4	19.1
Sugar & Gur	7.1	8.8	13.4	7.0	25.3	11.5	32.5	10.6
Vegetable Oil Industries, Soap etc	9.9	5.1	9.0	4.7	11.3	5.1	10.6	3.5
Chemicals, Dyes etc	8.5	4.4	9.1	4.8	9.7	4.4	14.6	4.8
Cement	0.8	0.4	1.2	0.6	4.0	1.8	2.8	0.9
Public utilities	4.3	2.2	6.8	3.6	10.6	4.3	6.0	1.9
Others	32.8	16.9	33.7	17.7	35.4	16.0	36.2	11.8
Total	143.3	100.	190.9	100.0	221.0	100.0	305.5	100.0
Per cent of total advances	(33.5%)		(34.3%)		(34.3%)		(38.5%)	

of bank advances, which is not very helpful for the present purpose. But given this limitation, no evidence of such a diversification can be found from that data. This will be evident from Table II.

Considering that between December 1951 and December 1956 the amount of advances granted to industries has increased from Rs 194.3 crores to Rs 305.5 crores, i e, by more than 57 per cent, the pattern of distribution of the total among different groups of industries has been remarkably stable, with the exception of engineering, cotton and jute textiles. The increase in the amount of advances to the cotton textiles industry or a fall in that to the jute industry does not connote any diversification of bank advances or industries. The same remark applies in the case of the sugar industry where the ratio of advances has increased from 8.8 to 10.6 per cent. If there was considerable expansion of secondary industries not included in this classification, evidence for that would have been found in item No. 12 relating to other industries, where, however, the ratio of advances in 1955 (16.0 per cent) was slightly lower than that of December, 1951, and definitely lower (11.8 per cent in 1956). If it signifies anything it leads to the opposite conclusion that a greater proportion of the bank advances has been concentrated in 1955 and 1956 among the more important groups of industries. The only evidence of diversification is to be found in the case of the engineering industries, where the ratio of advances has risen steadily each year from 8.6 per cent in 1951 to 19.1 per cent in 1956. A large part of this increase is probably due to the need to finance the rising volume of imports of capital goods, Another part may have been due to the new engineering industries that have grown up in the country during the last few years. But the amounts, involved cannot be so large as to swamp the normal seasonal trend of bank advances in the absence of other causes. After all, the volume of bank advances to engineering industries formed only 7.4 per cent of the total bank advances even at their peak level in December, 1956.

Attention has been drawn to the fact that there seems to be an almost "secular uptrend' in regard to advances granted to Industry. The share of such advances in the total volume of bank advances has no doubt increased from 33.5 per cent in December, 1951 to an all-time high of 38.5 per cent in December, 1956. But to examine the whole trend in its proper perspective, Table III gives the data relating to the ratio of bank advances to industry as a percentage of total advances averaged for four quarters of the year.

Table III—Advances to Industry as Percentage of Total Advances

(Average of 4 Quarters)

1951	34.3
1952	36.2
1953	35.0
1954	34.1
1955	36.5
1956 (average of 3 quarters)	38.0

Thus it is quite clear that the average ratio of bank advances to industry to the total volume of advances was almost the same in 1952 and 1955, and it was only in 1956 that the average rose by 1.5 per cent over the level reached in 1955. So it is too early to talk of any secular trend. Actually the average ratio of advances to industry had also risen from 31.3 per cent in 1949 to 36.2 per cent in 1951, i e, by about 5 per cent in two years, and as between 1954 and 1956, the ratio has also risen by about 4 per cent. There is, therefore, a good deal of similarity between the state of affairs existing in 1951, a year of inflationary rise in prices and bank advances, and that in 1956, another year of inflationary rise in prices and bank advances.

Another evidence of the impact of the diversification of the economy on the volume of bank advances is supposed to be provided by the increase in advances to wholesalers in non-agricultural commodities. The fact that in 1956 such advances rose by Rs 42 crores as against an increase in advances to wholesalers in agricultural goods by only Rs 10 crores has been regarded as an evidence "reflecting the increasing diversification of our economy" (Reserve Bank of India Bulletin, May 1957, p 433). Table IV summarises the data relating to the ratios of advances to wholesalers in non-agricultural goods to the total volume of advances.

Table IV—Ratio of Advances to Wholesalers in Non-Agricultural Goods to Total Advances

(Average of 4 Quarters)

1949	16.5
1951	17.8
1953	15.4
1954	16.1
1955	17.6
1956	18.2

The 1956 ratio is an average of 3 quarters for which data have been published. This is certainly the highest ratio for all these years. But the ratio for 1951 is also very high, being only 2.2 per cent lower than that of 1956. Might it not be a fact that the rise is advances to wholesalers in non-agricultural goods, both in 1951 and 1956, was caused, partly by the rise in the prices of such commodities, and partly by the obvious desire of dealers to hold large stocks in anticipation of a further rise in prices? Industrial development in India is no doubt getting diversified. But there is as yet no satisfactory evidence that it is of such an order as to affect the amount and distribution of bank advances.

The Reserve Bank's action is therefore fully justified. If, as the March issue of the **R B Bulletin** admits, "business concerns are financing their increased activity by a greater recourse to banks against their holding of shares etc", and if "there has been a fuller utilisation of credit limits" granted against cotton textiles, it is time to cry a halt to this process. After all, we have already agreed to shoulder the very serious risks involved in a recourse to the printing press for financing the development expenditure of the Government. That means a good deal of tight-rope walking and it is certainly not the time for the private sector to adopt the same method of financing, which is what is involved in bank borrowing. To allow the Government to finance a considerable portion of its budgetary deficit by borrowing from the central bank and also the private sector to meet its needs by a draft on bank finance, aided by an extension of central bank finance, is like burning the candle at both ends. Both these sectors may be

doing these things for perfectly legitimate purposes. But the resulting aggregate pressure caused by the growth in bank finance may prove too much for even the proverbial camel's back.

Banks may grant these advances for what are very sound propositions from their point of view. But it may be necessary, and indeed obligatory, to restrain the growth in bank advances if (1) the proposals relate to a field or section where development has not been planned by the authorities charged with the duty of allocating scarce capital resources, and (2) the overall needs of the economy dictate a slower rate of growth in bank advances. The chief criticism regarding the Reserve Bank action is not that quantitative restrictions have been imposed, but that they have not been adopted earlier, at least at the beginning of the last busy season. It is certainly no criticism of the Reserve Bank action to say that such a blanket control "leaves no discretion to the banks in the assessment of credit requirements." Banks are perfectly free to lend to different customers after assessing their credit needs, subject to the condition that the total volume of their loans is brought down to the level of 90 per cent of that of the previous year.

One may of course question the effectiveness of a restrictive monetary policy under present conditions. It is no doubt true that a purely restrictive monetary policy cannot counteract the impact of such a huge budgetary deficit. But will it be possible to do so by a recourse to any other policy or a combination of policies in the absence of effective monetary restraints? There are well-known limitations to the successful operation of a monetary policy in an underdeveloped country like India, and indeed in all underdeveloped countries. Similar difficulties are also present in the case of fiscal policy and direct controls, the two other alternatives to monetary policy. Creation of a sufficiently large budgetary surplus to counteract the inflationary pressure is dependent on a substantial reduction in public expenditure and/or on the levy of additional taxation. Assuming that the investment expenditure in the public sector is not to be cut down, the possibility of securing a substantial reduction in the public expenditure through economy drives must be considered very remote. Hopes of raising large sums through additional taxation in the First Plan period have not been adequately fulfilled, when account is taken of both the Union and the State Governments. In fact, between 1951-52 and 1955-56, the proportion of tax revenue to the national income rose only from 7.5 per cent, to 7.9 per cent. The recent controversies centering round the T T K tax proposals show that it may not be an easy task to use fiscal policy to the necessary extent in the face of a rather hostile public opionion.

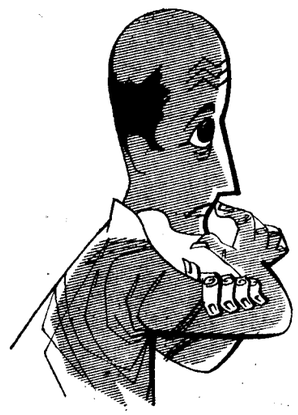
Fiscal policy will prove effective in choking off inflationary pressures only when it is politically possible to induce the legislators and the people to pay more taxes, and it is also administratively possible to collect the necessary amount of taxes. On both these grounds it seems that we have reached the limits upto which the fiscal machinery could be effectively utilised. Moreover, in view of the inability of the Government to prevent large-scale evasion of taxes, the desirability of putting additional tax burden on the more honest and law-abiding citizens and on the salaried classes may naturally be questioned. The levy of more and more taxes, which is involved in a fully effective fiscal policy, will distort the productive and the social structures of the community, unless the habit of evasion is strictly controlled. The more honest businessman will be unable to expand the scale of his business as he pays a large amount of money in taxes, while his more unscrupulous competitor (but not necessarily the more efficient) will forge ahead, simply because he is successful in evading the payment of taxes. The professional men gain at the expense of the salaried classes. The problem was not important so long as the tax rates were low. But given the prevalence of large-scale evasion of taxes and the inability of the Government to deal effectively with such a problem, these questions of equity assume some importance when the tax rates are raised to comparatively high levels in pursuit of a fiscal policy of inflation control.

There are also well-known limits to the successful implementation of the policy of direct control (such as rationing and price control etc.), —bribery and corruption, the emergence of black markets and the resulting demoralisation, distortion of the productive and distributive machinery and similar other evils. There is no doubt that under the present political and administrative setup of this country, —this is true of almost all underdeveloped countries,—no possible combination of fiscal policy and direct controls will prove effective in holding inflationary pressures in check, to say nothing of the inflationary pressure of the order we are contemplating. The worst of all combinations is a mixture of a hesitant monetary policy, a half-hearted fiscal policy, and an apology of a system of direct controls. In the fight for economic stability with development, a wise strategist will make full use of all the three branches of the armed forces: monetary, fiscal and direct controls. Monetary policy, like the land forces, still retains its high utility inspite of repeated predictions about the decline of its relative effectiveness. And, also like the land forces, it must be used at the right moment, and with the right strength, if it is to hold back the rising tide of inflation.

Moreover, the effectiveness of a restrictive monetary policy in bringing about a decline in investment in India under the present-day conditions is not so low as is generally assumed. The directive of the Reserve Bank aimed at fixing a ceiling to the total volume of bank advances has cut through a number of difficulties that dog the steps of a policy of quantitative credit control. There are two reasons why such a ceiling on bank advances would also result in a reduction in the total volume of investment in this country. The first is that businessmen have to depend on bank credit to finance their investment projects to a much larger extent than is the practice in countries with comparatively well-developed money and capital markets. So the availability of bank credit is an important factor in the launching of new investment projects. Secondly, in view of the underdeveloped nature of our money market, unsatisfied borrowers have comparatively few alternative sources of supply of finance to which they can turn. In fact, increasing dependence on bank finance is due to the absence of alternative sources of supply of capital. Hence if an effective limit is put to the rate of growth of bank credit, this would ordinarily be followed by a decline in the volume of private investment. Incidentally, one may go so far as to say that if these restrictions had been applied by the Reserve Bank early in 1956, the private sector's ability to import capital goods would have been reduced as a result of the non-availability of bank credit, and to that extent the present pressure on our balance of payments would have been lessened.

What is now necessary is to forge a link between the banking system and the Planning Commission via the Reserve Bank of India. Planning Commission should supply from time to time, list of priorities in the industrial field, showing particularly those industries whose development has been included as part of the overall Plan, and also those industries whose development is not to be pushed during the present Plan period. It should also give some idea to the banks regarding the phasing of the development of these industries in different years of the Plan. The office of the Controller of Capital Issues should also make available the list of concerns whose applications for the issue of shares have been rejected by the Controller. There should also be greater co-ordination than is now apparent between the work of the Ministry of Commerce in the import trade control section, the Planning Commission, the Reserve Bank and the banking system. This co-ordination will ensure a better use of the limited banking resources which would be allowed to be created in pursuance of a restrictive monetary policy. Only a careful combination of all these forces will enable this country to pass through the present inflationary situation with the minimum number of wounds and scars.

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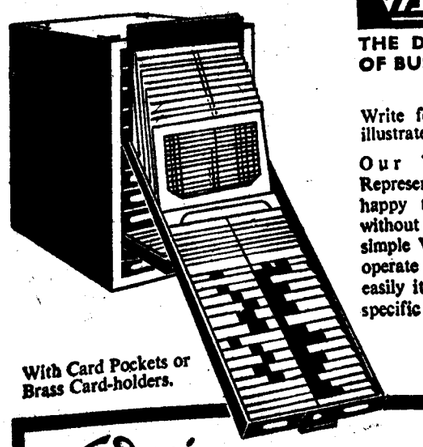


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The Shipbuilding Industry in Yugoslavia

Rapid Expansion in the Post-war Period

THE expansion and development of the shipbuilding industry in Yugoslavia since the Second World War is a romantic story of planned and organised effort over more than a decade. The best evidence of the successful development of the industry is the fact Yugoslavia has entered the world market as an exporter of ships. This must be considered a remarkable fact, for at the end of the War Yugoslav shipbuilding industry stood in ruins. At the time of liberation, the various shipyards in the country were in a state of damage ranging from 30 to 80 per cent of the equipment. In fact, during the period immediately after the War, Yugoslavia had to import ships for her merchant marine, particularly in the form of ocean-going vessels. Even before the War, Yugoslavia had been an importer of ships rather than an exporter, which makes the rehabilitation and expansion of the industry during the subsequent period, at a rate comparable with that of Japan, all the more remarkable.

Long Tradition

There was, no doubt, a long tradition of shipbuilding in this maritime country. The beginnings of shipbuilding date back to the distant past. The various peoples of Yugoslavia, particularly the Croats, built ships even before some of the maritime nations of today learned to sail the seas. The coasts of the Adriatic were the centres of this shipbuilding development in that remote past.

The early development of shipbuilding in this area was due to the geographical and other natural factors as well as to economic, social and political conditions. The Adriatic coast is not only fringed with numerous islands, and has many gulfs, bays and other coastal indentations favouring the formation of safe harbours, but had an abundance of forests, rich both in suitable timber and resins utilised in shipbuilding. The fact that maritime trade was considerably developed in this area also contributed to the development of Yugoslav shipbuilding industry during this period.

The industry went through many vicissitudes during the subsequent period, which it is unnecessary to recount. It is, however, important to note that the difficulties that arose out of the transition from wooden to steel ships almost overwhelmed the industry, and this explains the poorly developed nature of shipbuilding at the commencement of the Second World War. Even this industry, backward as it was, suffered heavily during the War as has been pointed out above. That is what makes the subsequent development of the industry so interesting.

The rapid expansion of this industry during the post-war period was due to the huge programme of investment, which has been implemented since the liberation. The programme is a continuous one and even now the country proposes to invest a considerable amount of additional capital in it. The result of this continuous investment has given the country a first class and well-developed industry of which it can well be proud.

Capacity Expanded

Along the Adriatic Coast, Yugoslavia has at present a total of 34 shipyards producing boats of all types—steel and wooden ships, floating cranes, etc. About ten of these are medium or large size shipyards. On a one-shift basis these shipyards had, about two years ago, an annual capacity of slightly over 66,000 gross registered tons of new merchant ships but with minor expansion and some additional equipment their capacities have been increased to the present level of 150,000 gross registered tons. Further addition to capacity is being planned.

The efficiency of Yugoslav shipyards and the quality of their products have already been recognised by all those who have placed orders with them. All types of ships and watercraft are manufactured to the specifications of the Jugoregistar, Lloyd's Register and Bureau Veritas. Designing of vessels is also carried on by the shipyards in special departments, to which considerable attention has been devoted during recent years. The facilities possessed by the designing departments of the separate shipyards are supplemented by those provided by the central designing centre at Rijeka.

Latest Models

Ships of the latest models up to 210 metres in length are constructed in Yugoslavia. For example, the shipyard at Rijeka, one of the oldest and largest—it has five shipways and 800 metres of equipped quays—produces oceangoing and all other kinds of steel ships and water craft. It can build ships 210 metres long and up to 18,000 D W T, as well as tankers of up to 25,000 D W T. The shipyard operates on the pre-fabricated section system with sections weighing up to 40 tons each. The shipyard has lately gone in for production of marine diesel engines, under the "Sulzer" licence, of 510 MM cylinder diameter and over.

Wooden ships for use on inland waterways are also constructed at a number of the smaller shipyards all of which are located on the Danube and Sava. Yugoslavia today is also building tramp ships up to 150 metres in length. The latest advances in technique and technology have been adopted. This has been made possible by the establishment of the shipbuilding Institute of Zagreb, which is one of the most modern institutes of its kind and which carries out all modern scientific research work in this sphere.

Wide Interest

In spite of the special efforts made for the expansion of Yugoslav shipping industry, it was not until the middle of 1954 that the first contracts calling for the delivery of large ocean going vessels to foreign companies could be obtained. The first order was placed by a Swiss firm which was convinced that the delivery terms and prices as well as the quality of the ships built at Yugoslav shipyards were better than could be obtained elsewhere. The first contract was for the construction of two tramp ships of 10,550 D W T each. The first ship was delivered in January 1956. Since 1954 a number of countries have taken interest in Yugoslav ships. Danish, American, Mexican, Brazilian and other firms are negotiating contracts and some countries in Asia and Africa have placed large orders with Yugoslavia.

Large Contracts

The position as it stands today justifies the optimism with which the investment decisions were made. According to the latest available information, Yugoslav shipyards now have contracts for the construction of 116 ships of various types and sizes, with a total tonnage of 865,000 to be completed by 1962. Of these, 64 are to be built for foreign shipowners. The total tonnage of these ships are estimated to be about 500,000 tons valued at $ 180 mn. The shipbuilding industry in Yugoslavia is thus fast developing into a colossal giant.

These large orders will no doubt give a big boost to this industry, of which Yugoslavs are justly proud, and help develop those industries ancillary to shipbuilding as well as reduce imports of some of the equipments now imported. Already, under licenses of well known continental firms, the "Jugoturbine" factory at Karlovac and the "Uljanik" shipyards in Pula are supplying the main motive power machines for large trans-oceanic ships. Yugoslav iron and steel works have likewise licensed their production of ship profiles and sheets, while a group of domestic electrical enterprises are preparing the projecting and production of complete electrical installations for ships.

Yugoslav shipyards are thus now working to full capacity. India has also placed some orders for ships with Yugoslavia, viz., a cargo vessel of 12,540 D W T costing a little more than £1 mn, two patrol boats costing some £75,000 each. It is understood that the accumulated orders which Yugoslavia has already accepted do not permit that country to accept additional orders at present.

In view of the large orders on hand, the country is proceeding with programmes for bringing new capacity into being. Investment in the modernization and expansion of Yugoslav shipyards is proceeding apace. The economies and improvements in efficiency that will result will be beneficial to the industry as well as its customers.

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Legacy of Sterling Link

Thursday, Morning

THE burden of our financial past is still with us. Any major event in London has strong local repercussions, often regardless of indigenous justification. The first reaction to raising of Bank Rate in Britain from 5 to 7 per cent was that the Reserve Bank might follow suit. Stock as well as commodity markets took some time to realise that Reserve Bank has had a monetary policy of its own for some months now and no longer behaved as a camp follower of the Old Lady, though the value of its sterling balances is bound to be affected by policy changes n London. Before this realisation could percolate into the minds of operators, however, panicky conditions were witnessed at Dalal Street, and also at Kalbadevi. Tata Steel slided down from around Rs 161 to Rs 157 and was prevented from going down any furher only on account of support lent by the Life Insurance Corporation. 3 per cent Conversion paper turned suddenly weak at Rs 71.25 though short dated issues remained steady.

Since the British Bank Rate has been raised expressly for the purpose of holding sterling at its present par value, and rumours of rupee devaluation have not entirely died away as yet, it is interesting to compare the exchange reserves of the two currencies. The gold and dollar reserves of the Bank of England at $ 2,140 mn towards the end of August were roughly equivalent to six months' imports at the rate maintained during April—July 1957. Gold and foreign balances of the Reserve Bank amounted to Rs 497 crores at the end of August; this figure is only slightly higher than the value of imports during January-June 1957 and is also, therefore, roughly equal to six months' imports. Considering that Britain is banker to the entire sterling area and foreign trade is of much greater significance for her, and that our imports have started declining already, the rupee can hardly be described as any weaker than sterling. There is, therefore, even less justification for devaluing the rupee than there might have been for devaluing sterling. Nor is there any justification for raising Bank Rate in India. Externally, it will not help us at all—how far and how long it will help Britain itself is rather doubtful. Internally, other measures of monetary discipline like the present credit squeeze may be said, for the moment, to have relatively greater chances of success, and possess the additional merit of not depressing equities.

But while there is no doubt that the Reserve Bank's credit squeeze order is having the desired effect, its policy during the approaching busy season is still a question mark. If it is true that banks are recalling loans from clients, to bring down the level of total advances to Rs 800 crores before the busy season, on the tacit assurance that 'harmonious relations' would be restored within a couple of months, then the Reserve Bank would have to take care to prevent any excessive rise in bank credit during the busy season. What matters in this connection is not the credit ratio, the so-called safe level of which is largely a matter of traditional prejudice, but the magnitude of credit expansion. Since this is not to be regulated by a change in Bank Rate, the Reserve Bank would be well advised to express, at an early date, its intentions on the permissible limit of bank credit expansion during the ensuing busy season.

State Bank Investments

Banking returns for the week ending September 13 indicate that investments in gilt-edgeds have gone up by Rs 10 crores and that almost the entire expansion is accounted for by the State Bank. Over the last 12 months while the gilt-edged portfolio of scheduled banks as a whole has expanded by only Rs 4.5 crores that of the State Bank has expanded by Rs 38 crores from Rs 96 crores to Rs 134 crores. Statistical evidence confirms, therefore, that the Life Insurance Corporation and the State Bank are Nurses by Appointment for equities and gilt-edgeds, respectively. The ratio of State Bank's gilt-edged holdings to total deposits now stands at 36 per cent against 29 per cent for all banks, while the respective credit ratios are 46 per cent and 65 per cent. It is not surprising, therefore, that credit contraction at the State Bank over the last few weeks has been nominal.

Total bank credit has declined further during the week by nearly Rs 5 crores to Rs 843 crores. Call and short loans have expanded by Rs 6 crores, in spite of a small reduction at the State Bank, and the inter-bank call rate has gone down to around 3 per cent generally. Cash has declined by Rs 3 crores, the responsibility lying with the State Bank, where it contracted by more than Rs 6 crores. Deposits, on the other hand, have expanded by Rs 12 crores, of which the State Bank's share is Rs 3 crores.

Foreign Balances Depreciate

During the week ended September 22, total foreign balances of the Reserve Bank have declined by Rs 14 crores, Rs 9 crores under foreign securities and Rs 5 crores under balances held abroad, against only Rs 3.5 crores during the previous week. A portion of this decline is attributable to depreciation in gilt-edgeds before as well as after the raising of the Bank Rate in London. It is still too early to estimate the extent to which the raising of Bank Rate on September 19 affected the value of our sterling balances during the week. The external drain is, therefore, not easily comparable with that of the preceding week.

Among interesting developments revealed in Reserve Bank returns is the decline of Rs 27 crores in Investments held in the Banking Department and the rise of Rs 9 crores under 'Other Assets'. The rise in Other Assets is probably a book adjustment to balance an estimated Rs 9 crore depreciation of foreign securities.

Bankers' deposits have declined by Rs 7 crores and advances to them have gone up by Rs 9 crores, of which loans against usance bills account for Rs 6 crores. The decline of Rs 4 crores in Central Government deposits is more than balanced by an increase of Rs 5 crores in deposits of State Governments. Notes in circulation have gone down by Rs 7 crores and the decline of Rs 9 crores under foreign securities has been made good by an equivalent rise under rupee securities.

Around Calcutta Markets

Fears and Hopes

Wednesday, Evening

IN retrospect, the sharp impact of the steep rise in the British Bank Rate on equities in this country would seem to be strange. It would seem stranger still when compared with the reaction in this country's organised money market. That might be an indication of the existing vulnerability of stock markets in this country. Alternatively, it is arguable that the unduly heavy initial impact of the higher Bank Rate represents as well as reflects stock markets' sensitiveness to monetary developments. Though the behaviour of equities during late dealings on Thursday last was not abnormal, the persistent weakness even on the following day was strange indeed.

This raises the question of support to equities by the Life Insurance Corporation. On Friday last, L I C entered the market to lend active support to some market leaders. This support had a sustaining effect on the market. There would be wide endorsement of the technique adopted by L I C. Stock markets now have the assurance that L I C support would be available as a shock-absorber in all future crises. Equities have gradually steadied-up since, although L I C support seems to have been discontinued.

Two Techniques

New Delhi would be justified in taking credit for anticipating monetary developments in Britain. New Delhi has not followed London in raising Bank Rate. But the incidental aspects of the monetary policies in both countries have much in common. In Britain, along with the rise in Bank Rate, a ceiling has been fixed on the level of bank advances. In India, the Reserve Bank had already issued a directive to banks to curtail their overall advances by ten per cent by the end of next month.

Despite the similarity, the differences in the monetary policies of the two countries deserve to be noted. Maintenance of the value of the currency is the avowed aim of both countries. To achieve this end, Bank Rate has been raised in Britain. New Delhi hopes to attain the same objective by making bank credits scarcer, but not necessarily costlier. Whether the latter policy can succeed, remains to be seen. There has already been a slight hardening tendency in money rates in this country. But the experiment is worth a fair trial.

Wider Issues

On wider issues involved, there is scope for differences of opinion. Evidently, London is convinced that sterling is not under-valued. It is equally evident that neither Washington nor Bonn believes that the dollar or the mark is overvalued. No doubt, the steep rise in Bank Rate would succeed in discouraging "bear" activity in sterling. But whether the higher Bank Rate will cure the deeper disease remains doubtful. There are many who feel that, for years to come, the dollar "gap" will plague the world off and on. If this diagnosis is correct the London prescription is not likely to lead to a permanent cure of the disease.

Two extraneous influences seem to have multiplied Britain's economic troubles. Suez and Britain's determination to emerge as an atomic Power have accentuated her monetary difficulties. But the remedy adopted may not succeed. If the falling trend in world commodity prices persists, sterling may again come under pressure. If the threatened recession in America occurs, sterling will inevitably be subjected to heavy fire.

Plan Slashed

Not only in Britain or India, in almost every country, investments are in excess of savings. To equate investment to savings, is the aim of Britain and all other countries. That is how inflation is sought to be avoided. But the remedy may prove worse than the disease. In Britain, the higher Bank Rate is supposed to be a prelude to substantial cuts in investments by both the public and the private sectors. This will involve therapeutic doses of unemployment. Whether equilibrium at the lower level is worth the sacrifice and trouble involved, is an open question.

For reasons which are entirely different, India is confronted with the same problem. Under the Second Plan, investments are running ahead of savings. Hence, it is argued, inflation. To check inflation, investment, it is suggested, should be equated to available resources. That is why the Plan has been slashed. Even the implementation of the "hard core" of the Plan depends on the availability of adequate foreign resources. Though it is not yet widely appreciated, New Delhi, too, has decided to achieve an equilibrium on a lower level of economic activity. That may please the Pundits. But the stock markets' initial reaction to the steep rise in the British Bank Rate visibly indicates how equities will behave when investments are curtailed.

Foreign Credits

Sometime must elapse before the effects of curtailed investments are felt by the economy, and hence, by stock markets. Presumably, the adverse initial impact of the higher British Bank Rate on equities in this country reflects fears about the availability of foreign credits for financing the Second Plan. Such fears would seem to be exaggerated. There was never much hope of monetary aid by the British Government to this country. Nor were hopes of an Indian loan in the London money market ever bright. But it has to be admitted that, with the rise in Bank Rate, hopes of imports of capital goods from Britain on the basis of deferred payments must recede.

Even so, undue pessimism on this score does not seem justified. It was mainly from West Germany that such inports on a deferred payments basis were expected. And the decrease in the West German Bank Rate should raise such hopes. West Germany's balance-of-payments position enables that country to lend such credits. If anything, the lower Bank Rate should cheapen the cost of such credits by West German industrialists and exporters. Latest reports about aid by America on a Government-to-Government level are also not discouraging. Further, T T K seems hopeful about private American capital investment in this country.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1473.36	1480.31	1483.59	1417.71
2. Rupee Coin	134.60	133.11	132.20	116.80
3. Deposits				
a) Central Government's	49.05	52.86	65.30	67.43
b) Banks'	97.88	104.60	80.85	52.55
c) Other Governments'	11.28	6.16	5.88	23.95
d) Others'	111.28	109.95	108.26	13.80
4. Foreign Securities	336.55	345.61	360.52	596.74
5. Balances held abroad	23.38	28.23	24.92	26.40
6. Rupee Securities	925.93	916.87	901.97	693.72
7. Investments	196.71	223.14	210.42	42.37
8. Loans and advances to Governments	44.21	44.50	58.81	2.84
9. Other loans and advances	73.02	63.74	75.67	90.69
Scheduled Banks				
1. Demand liabilities (net)	717.58	714.55	702.55	639.14
2. Time Liabilities	612.46	601.66	579.10	460.57
3. Cash on hand	37.52	37.81	39.37	37.28
4. Borrowings from Reserve Bank	28.80	30.51	54.04	26.30
of which against Usance Bills	26.78	28.85	45.62	26.78
5. Advances and Bills discounted	790.17	793.37	820.26	790.17
of which State Bank's	158.10	158.42	166.70	135.21
6. Invst. in Govt. Sec.	375.50	365.90	339.88	375.50
of which State Bank's	145.12	135.20	104.22	107.41
Cheque Clearance	154.65	157.97	56.77	141.0

† For Reserve Bank week ended 20-9-51. Scheduled Banks and Cheque Clearance week ended 13-9-57.

Bombay Money Rates

	13-9-57	6-9-57	16-8-57	14-8-57
Call Money	2 11/16-4 1/4	3 1/2-4 1/2	3 1/2-4 9/16	3 7/16-3 11/16
From banks	3 1/2-4 9/16	3 3/4-4 9/16	3 3/4-4 7/16	3 3/4-4 7/16
From public	2 1/2-4 9/16	2 1/2-4 7/16	2 1/2-4 11/16	2 1/2-4 7/16
Three Months	2-4 9/16	2-4 7/16	2-4 7/16	2-4 7/16
Six Months				

Bombay Bullion

In Rupees and nP

	29-9-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107.31	107.69	107.50	103.75
Forward	107.65	107.78	107.40	103.69
Silver (per 100 tolas)				
Spot	184.37	182.44	181.37	174.81
Forward	184.62	188.19	181.37	174.81

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 7-9-57	31-8-57	10-8-57	8-9-56
Food Articles	109.9	110.5	112.5	103.9
Cereals	104	105	107	99
Pulses	84	85	88	81
Fruits & Veg.	128	131	142	125
Milk and Ghee	110	108	108	101
Edible Oils	128	128	133	125
Fish, Eggs & Meat	104	102	103	99
Sugar & Gur	110	110	111	99
Others	132	136	136	126
Liquor and Tobacco	92.7	92.7	92.0	182.4
Fuel, Power Light & Lubricants	114.7	114.6	114.6	106.3
Industrial Raw Materials	115.2	118.3	121.7	117.0
Fibres	114	120	123	114
Oilseeds	121	122	128	124
Minerals	110	109	109	103
Others	107	107	108	109
Manufactures	108.5	108.5	108.8	108.9
Intermediate Products	106.9	107.5	108.6	111.1
Finished Products	108.7	108.6	108.8	108.5
Textiles	108	108	109	112
Cotton	117	117	117	123
Jute	98	97	98	96
Woollen	103	103	103	97
Silk & Rayon	88	88	85	89
Metal Products	141	141	141	131
Chemicals	98	98	98	94
Oilcakes	111	113	113	107
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	110.1	110.9	112.5	107.0

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages of Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads*
1955	3,184	2,742	3,608
1956	3,287	2,913	2,766
1955: 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	3,608
1956: Jan	3,196	2,789	3,588
Feb	3,358	2,691	3,813
March	3,362	2,235	3,911
April	3,223	2,865	3,815
May	3,316	2,871	3,836
June	3,194	2,877	3,727
July	3,165	3,165	3,379
Aug	3,308	3,176	3,018
Sept	3,123	2,819	2,881
Oct	3,177	2,940	2,662
Nov	3,324	3,026	2,565
Dec	3,678	3,038	2,766
1957: Jan	3,628	3,138	2,780
Feb	3,508	2,841	3,029
March	3,652	3,251	3,000
April	3,731	3,158	3,087
May	3,792	3,187	3,246
June	3,330	2,915	..

* At or about the end of each period.
.. not available.
Source: Directorate of Industrial Statistics, Calcutta.

INDUSTRIAL PRODUCTION

		1957			1956			Monthly Average		
		June	May	Apr	Mar	Feb	Jan	1956	1955	1954
I Consumer Goods:										
1) Cotton textiles	mn yds	419.6	453.0	464.4	453.1	435.1	483.7	442.3	424.5	416.5
2) Woollen and worsted fabrics	,,	1.2	1.2	1.1	1.1	1.0	1.2	1.4	1.2	1.1
3) Matches	000 cases	—	45.8	56.4	45.5	45.1	50.7	49.1	51.3	44.1
4) Soap	000 tons	—	8.9	9.7	9.4	9.2	10.5	9.1	8.2	7.3
5) Electric lamps	mn	—	2.8	2.9	2.9	2.3	2.4	2.1	1.6	1.6
6) Hurricane lanterns	000	—	335.5	362.2	524.2	372.8	418.3	431.6	457.3	415.6
7) Razor blades	mn	25.2	35.9	39.1	32.0	34.0	42.3	22.1	14.5	10.9
8) Sewing machines	000	12.1	14.5	15.2	14.6	13.1	13.8	10.9	8.4	6.7
9) Vegetable oil products	000 tons	25.7	26.8	25.4	27.9	25.0	28.6	24.9	21.3	21.7
10) Electric Fans	000	36.4	45.3	46.7	43.8	38.4	36.4	28.2	23.5	19.9
11) Radio Receivers	000	15.1	14.6	20.1	14.7	13.6	13.7	12.6	6.8	4.7
II Raw Materials or Intermediate Goods										
1) Cement	000 tons	393.0	448.4	456.4	491.6	427.7	459.0	410.7	373.9	366.1
2) Coal	mn tons	3.3	3.8	3.7	3.7	3.5	3.6	3.3	3.2	3.1
3) Jute manufactures	000 tons	80.1	87.3	86.8	84.7	80.2	88.8	91.1	85.6	77.3
4) Cotton yarn	mn lbs	137.0	150.0	153.7	150.5	143.2	156.4	139.3	135.9	130.1
5) Paper & paper board	000 tons	16.8	17.3	16.9	17.3	16.0	17.5	16.1	15.4	12.9
6) Asbestos cement sheets	,,	11.2	12.4	12.5	13.2	12.6	13.8	10.0	8.7	6.6
7) Chemicals:										
i) Sulphuric acid	000 tons	—	15.8	13.0	15.5	13.8	13.0	13.8	13.8	12.6
ii) Caustic soda	,,	—	3.3	3.6	3.8	3.3	3.9	3.3	2.9	2.4
iii) Soda Ash	,,	7.8	7.3	7.5	8.5	6.6	9.1	7.0	6.4	4.0
iv) Chlorine liquid	tons	1,270	1,257	1,246	1,426	1,343	1,446	1,256	965	815
v) Power Alcohol	000 gals	—	910.7	973.8	976.1	915.7	847.4	855.9	869.4	667.3
vi) Rectified Spirit	,,	—	259.3	442.2	496.1	447.6	427.6	350.8	429.7	385.9
vii) Denatured Spirit	,,	—	307.1	321.2	269.5	251.0	339.5	281.9	249.1	236.3
8) Paints & Varnishes	tons	—	3,562	3,444	3,295	3,026	3,449	3,467	3,253	3,068
9) Rubber Products										
i) Footwear	lakh pairs	24.2	25.0	30.9	28.6	27.9	35.8	30.1	29.1	26.0
ii) Tyres										
a) automobile	000	77.5	84.7	92.8	82.3	82.0	87.6	78.2	73.5	69.4
b) cycle	,,	590.1	615.5	668.3	565.2	586.4	654.1	526.7	479.0	435.5
iii) Tubes										
a) automobile	,,	81.2	84.7	84.8	82.0	77.5	91.2	76.5	65.5	62.4
b) cycle	,,	564.6	611.7	651.4	553.7	559.5	638.3	531.1	466.1	464.8
10) Non ferrous Metals:										
i) Copper (virgin)	tons	680.0	700.0	700.0	735.0	665.0	381.0	635.7	606.8	596.8
ii) Aluminium	,,	—	646.9	627.7	670.9	592.3	646.7	541.7	602.1	407.2
iii) Lead (virgin)	,,	280.5	181.7	276.2	235.5	243.5	177.2	208.1	186.2	149.0
iv) Antimony	,,	56.0	20.0	23.0	33.0	43.0	40.0	49.1	42.0	44.9
11) Iron & Steel:										
i) Pig iron	000 tons	—	145.1	145.8	158.3	145.4	159.4	150.6	146.4	149.4
ii) Steel ingots & castings	,,	129.0	136.4	145.1	149.8	135.4	152.4	144.8	142.0	140.4
iii) Semifinished steel	,,	—	118.4	121.1	130.7	118.5	135.2	123.7	121.4	121.0
iv) Finished steel	,,	97.0	110.8	111.7	116.9	103.7	126.4	109.7	105.0	103.6
III Capital Goods										
1) Diesel engines	nos	—	1,334	1,363	1,119	1,007	1,039	998	852	721
2) Power driven pumps	000	5.1	4.9	5.1	5.2	4.5	4.8	3.9	2.9	2.4
3) Machine tools	000 Rs.	—	2,422.0	1,268.3	1,679.9	1,666.4	1,732.1	839.7	620.0	416.9
4) Twist drills	000	—	213.3	31.2	81.2	141.6	174.5	129.1	64.9	44.9
5) Calico looms	nos	—	259	255	239	268	290	239	228	157
6) Ring frames	,,	—	115	124	118	124	123	93	72	30
7) Carding engines	nos	—	48	63	92	79	68	61	50	36
8) Grinding wheels	000 lbs	303.6	305.9	292.3	293.0	261.3	311.3	207.6	119.9	94.5
9) Arc welding electrodes	lakh ft	—	—	201.9	180.4	153.3	76.1	156.3	100.8	72.5
10) Dry cells	lakhs	133.0	122.7	143.0	141.6	150.5	166.5	151.2	134.2	123.9
11) Storage batteries	000	24.5	25.9	26.6	27.6	26.3	28.3	26.2	19.6	15.7
12) Electric motors	000 HP	—	38.8	38.6	36.0	33.2	35.1	29.9	21.0	15.6
13) Power transformers	000 KVA	—	93.1	97.7	111.7	93.6	91.8	75.9	47.1	33.3
14) Insulated cables	lakh yds	—	76.3	89.7	83.9	78.5	85.9	88.0	71.8	52.3
IV Transport Equipment										
1) Automobiles (total)	nos	2,317	2,299	2,664	3,136	3,161	3,025	2,678	1,924	1,205
of which:										
i) Cars	,,	792	871	998	970	1,144	1,134	1,082	791	—
ii) Jeeps	,,	256	195	461	577	533	141	345	278	—
iii) Trucks & Buses:					337	189	373	366	406	—
a) Petrol	,,	116	366	278	1,227	1,252	1,353	828	385	—
b) Diesel	,,	1,102	807	842	64.0	65.2	61.8	55.3	40.9	31.0
2) Bicycles	000	—	68.7	63.1						

Source : Directorate of Industrial Statistics.

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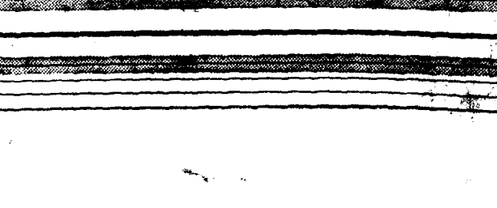
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The Tightening Screw

EVEN though the Plan has been cut down by about 12 per cent the hazards which it continues to face are of no mean proportions. Even in its watered down form the Plan is estimated to involve a balance of payments deficit of a far higher order than was estimated when the Plan was drawn up. The latest official estimate puts the likely order of this deficit over the entire Plan period at Rs 1,600 crores, which is in excess of the original Plan estimate by Rs 500 crores. Further, it is not only in the estimation of the overall deficit that the original calculations of our planners went wrong but even the phasing of this deficit over time has also come to be very different from the course it was originally expected to follow.

According to the Plan, the year 1958-59 was expected to have the largest deficit in our balance of payments. The deficit was to be of the order of Rs 347 crores. But in the very first year of the Plan, i e, 1956-57, the deficit (after excluding official donations) very nearly approached the figure set for the 'hump' year. As for the current year, the figures in respect of the months gone by have given cause for much concern because the pace at which the deficit has been piling up during these months, were it allowed to continue, it would easily have exceeded Rs 450 crores by the end of the year. Apart from the fact that a deficit of this magnitude would deplete our reserves to a point at which they may be far from adequate, it also raised a suspicion that even the latest calculation of the order of our foreign exchange requirements might have to be revised upward very soon.

Assuming that of the external assistance promised so far for the entire Plan period about Rs 150 crores could be drawn upon in 1957-58, the balance of the deficit would have naturally involved a drawing down of the sterling balances which stood at Rs 529 crores in April, 1957. In fact, this is what has actually taken place in the past six months. The sterling balances have been drawn down by Rs 168 crores during this period. If the process were to be allowed to continue, the balances at the close of 1957-58 would have been around Rs 200 crores. Now, the exchange reserve of this order, even when one takes account of the gold held by the Reserve Bank, cannot be regarded as adequate either in terms of the foreign exchange requirements of the Plan over the rest of its period or in the context of the existing climate of opinion abroad as regards the strength of the rupee.

Viewed in the above context the latest instalment of cuts in imports, however drastic it may have been in its impact on some of the items of import, was simply unavoidable. The rapid pace at which the drain had started taking place, if allowed to go unrestrained, would even have reflected adversely on our resolution to go it alone with the Plan if no further external assistance were forthcoming. It would not be inappropriate to say here that those who are critical of the Prime Minister and others who have lately been affirming the Government's, and the country's for that matter, resolve to execute the Plan, with or without foreign aid, overlook that the type of assistance sought by this country being one without any political strings attached to it can be attracted most by parties which are intrinsically solvent. Our determination to go it alone, if necessary, indicates our faith in the basically

solvent character of our economy and the latest cuts in imports are an evidence of what we are capable of doing to uphold the economy. Hence, the two are complementary in nature. The latter step, besides other changes, provides sufficient evidence of the determination of the Indian authorities to maintain the external value of the rupee—an assurance which has got to be there in order to attract private investment from abroad.

The question that still remains to be answered is: how far would the restraints on imports now introduced go in restoring some sort of balance in our balance of payments keeping in view the order of foreign exchange needs of the Plan over the remaining years? If one goes by the official estimate of the likely order of saving to result from the new restraints, the deficit in the balance of payments on current account in 1957-58 may now be around Rs 350 crores instead of Rs 450 crores. Assuming further that these restrictions would be continued beyond March 1958, the order of saving might gradually become larger than in the current six months as the licenses brought forward from the pre-restriction period expired. On this basis the deficit on current account in the remaining three years of the Plan may be in the region of Rs 850—900 crores. To offset this deficit there should be available about Rs 300 crores of the external assistance already promised and about Rs 100 crores from the sterling balances, leaving an uncovered gap of Rs 450—500 crores. This is lower than the figure of Rs 700 crores given to us last month by Shri Nanda, the Planning Minister, while indicating the foreign exchange gap for the remaining part of the Plan.

The gap in resources will no doubt be narrowed provided the import policy just announced is adhered to throughout the remaining Plan-period. But what remains of the gap after taking credit for the saving on this score is of no small dimension. The dimension of the gap, however, will not now be so large as to frighten away the would-be creditors of India. In this respect the new import policy should strengthen the hand of the Finance Minister who is now in the thick of the Second round of his talks in the USA in impressing the American business circles with the seriousness with which this country intends to pursue her development programmes. On his return journey via London, the Finance Minister will now be able to convince the British Chancellor of India's sincere efforts to check the recent drain on the sterling reserves and thereby help in strengthening the sterling although the recent rise in the British Bank Rate would be doing exactly the opposite to the Indian Rupee.

One thing, however, is clear: it would be wrong to imagine that import policy will admit of any relaxation in the next few years. The hardships that are likely to ensue as a consequence of the latest cuts are likely to be, in some cases, especially genuine and widespread. And it is not so certain if, apart from a vaguely worded warning to importers against a rise in the prices of the articles whose import has been banned or reduced, the Government has prepared itself to meet the situation. Take the case of razor blades. Now that their import has been completely banned, what are the steps being taken to ensure that the indigenous supply is adequate to meet the total demand for blades in the country? Here is an opportunity for the local manufacturers to establish themselves and the Government can do a lot in promoting such expansion and not only for manufacture of razor blades but also such items as watches, fountain pens, crockery, glassware etc.

France at the Crossroads

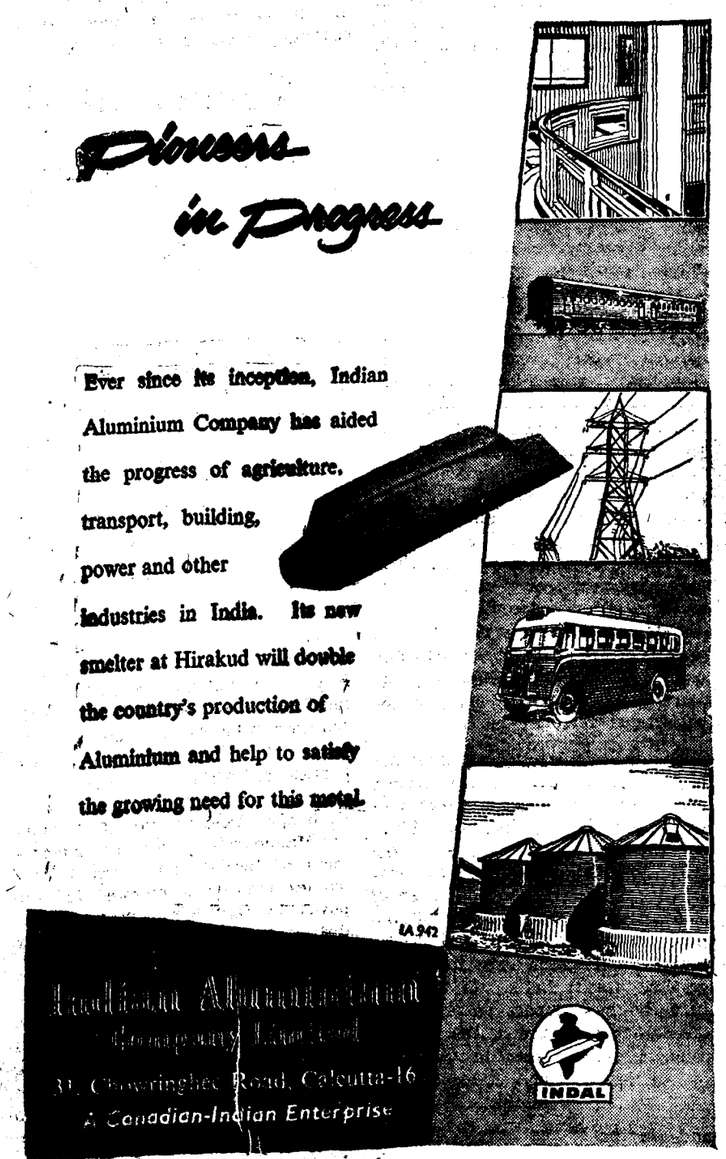
SINCE the war, France has been governed by coalition governments. In post-war France, the fall of a coalition government, it has been remarked, is engineered so that Paris can change its policy on crucial issues without loss of face. There are instances in support of this trend in recent French politics. For some years after the War, Socialists combined with all shades of right-wing parties to keep Communists and Gaullists out of power. With the attainment of this objective, the initiative to form coalition cabinets was wrested by right-wing parties to the discomfiture of Socialists. But these parties have shown flexibility in yielding ground to parties of the Left as and when occasions demanded it. This political trend continued until M Mendes-France's open challenge to parties of the Right. M Mendes-France was not unsuccessful. Since his first bid for power, the French coalition cabinets have been composed of Leftist and near-Leftist parties, although he himself has been a victim of the successful challenge. Does the fall of M Bourges-Maunoury's coalition government of Leftist and near-Leftist parties indicate a renewed bid for power by right-wing parties? Or, does it presage a second bid for power by M Mendes-France?

Some time must elapse before the future political trend becomes clear. At the moment, the situation remains field. It has remained so since the emergence of the Algerian crisis. In retrospect, it would seem that right-wing parties have benefited from M Mollet's mistakes. There is the other side of the coin. M Mollet and his Socialists seem to take pride in outmanoeuvring the right-wing parties. These latter parties have prefected a tactic of stooping to conquer. On more than one occasion, these parties have tolerated the emergence of a Leftist politician or a party only to jettison him or it after the solution of the crisis. This explains M Mendes-France's earlier rise and fall. M Mendes-France could not remain in power as both Socialists and right-wing parties became suspicious of his growing popularity. It was at this stage that the Socialists emerged, for the first time in postwar France, as the Party in power. Some are inclined to think that M Mollet lost a glorious opportunity for his Party by his hostile attitude to the Algerian problem. M Mollet might retort that he did not want to fall into the trap laid for him by right-wing parties. M Mollet is, perhaps, too committed on the Algerian issue to plead this argument in his defence. But he, the leader of the Socialist Party, can claim to have emerged as the Cabinet-maker in France. He and his Party are now in a position to make and unmake governments except those formed exclusively by right-wing parties.

At this juncture, it is interesting to speculate about the conflicting pulls which have ousted M Bourges-Maunoury from power. Both M Mendes-France and M Jacques Soustelle, General de Gaulle's former lieutenant, seem to be contending

for power. M Mendes-France has already had an opportunity of pulling France out of the dilemma in Indo-China. He enhanced his prestige by his deals with Tunisia and Morocco. Had M Mollet made him the Foreign Minister, M Mendes-France might have solved the Algerian problem amicably. As M Mendes-France was not given an opportunity to settle the Algerian issue, and since M Mollet the Socialist leader, failed to evolve a Leftist solution to the Algerian problem, some political thinkers and parties have flirted with the idea of offering General De Gaulle, who is reputed to be in favour of political reforms in Algeria, a chance to solve the Algerian crisis. Right-wing parties may have ulterior motives in conniving at the re-emergence of the General as the saviour of France in her hour of need. Not only Algeria, but the internal economic situation is nearing a climax. Poujadists and extreme right-wing elements will welcome such a political manouevre. Moderate right-wing parties may willingly connive at such tactics in the sure knowledge that Socialists and Communists may be relied on to thwart General de Gaulle's alleged inclinations to undermine the Constitution.

Even those right-wing parties and politicians who are suspicious of General de Gaulle's contempt for political parties and parliamentary institutions may welcome the emergence of M Soustelle, the leader of the former Gaullists who parted company with the General to form a separate Party, as the active politician who led the coalition of right-wing opponents of M Bourges-Maunoury's coalition government. In M Soustelle, these parties will have a right-wing leader who can be encouraged to enforce a firm policy in Algeria. M Bourges-Maunoury has not fallen only because of right-wing parties' opposition to the mild concessions included, at the instance of the Socialists, in the Algerian Reforms Bill. He has been a victim alike of right-wing resentment against the Bill as of the farmers' hostility to his Finance Minister's orthodox financial and agricultural policies. Poujadists, the Party of small traders, have combined with right-wing elements in their opposition to the policy of fixation of food prices and to the Social Affairs Minister's proposal for security of employment. Algeria has been exploited to revive a combined bid for power by right-wing parties. This is both a challenge and an opportunity to M Mollet and his Socialists. Their bias against Communists is not difficult to appreciate. But they need not necessarily have to enter into an alliance with Communists to halt the renewed bid for power by right-wing parties. Statesmanship demands that they lend determined support to M Mendes-France to overcome the challenge from right-wing parties. It is more than time for M Mollet to revise his intransigent policy to Algeria. With such a change in the Algerian policy, M Mendes-France may again be willing to cooperate with the Socialists in forming a coalition government. Even if M Mollet is unwilling to concede the realities of the situation in Algeria, he and the Socialists would be wiser in accepting the leadership of M Mendes-France in forming a coalition government so as to overcome the new joint bid for power by right-wing parties.



Weekly Notes

New Deal for the Nagas

MISTAKES have been made in the past. But New Delhi's recent policy to the Nagas has not lacked tact and diplomacy. That the Government will accept the formula evolved at the Kohima Convention was a foregone conclusion, even as the Kohima plan was aided and encouraged by Pandit Nehru's earlier gestures to the Nagas. It was, indeed, the Prime Minister's earlier outline of the future status of the Nagas that made it possible for the Kohima Convention to be held. Pandit Nehru reiterated to Dr Ao's delegation that the demand for an independent Nagaland could not be conceded, but that the aspirations of the Nagas for some form of social, cultural and political autonomy would not be denied. As a result of talks between the Prime Minister and Dr Ao's delegation, it was agreed that Naga Hills and the Tuensang district should be integrated into a single unit to be administered by the Governor of Assam on behalf of the President, under the Ministry of External Affairs.

New Delhi's anxious desire to reach an amicable settlement of the Naga problem was emphatically reflected in the Government's declared policy of granting an amnesty "in respect of all offences committed against the State in the past". This was an imaginative gesture. Along with the formal acceptance of a special regime for the Nagas, this liberal gesture should help the responsible leaders of the Nagas in their efforts to persuade the people to abandon terrorist tactics. This offer of amnesty provides Phizo and his intimate associates with an opportunity to save their faces. But Phizo remains adamant, although there are reports that he is not unwilling to consider the proposal for a separate Naga administrative unit, but only as a preliminary step to a future free, sovereign Nagaland.

Recent developments encourage the hope that an amicable settlement of the Naga problem is nearer sight. But the trend of political developments in Assam and the neighbouring areas raises some crucial issues. Concessions now made to the Nagas have provoked fresh political demands by other hill tribes. New Delhi's acceptance of the Naga demand for a separate administrative unit under the Central Government has encouraged similar claims by some other hill tribes. This political trend is, perhaps, inevitable, and some of its implications may have to be conceded later. As Naga Hills join Manipur and Tripura as separate Centrally-administered units, some other hill tribes adjoining Assam will, naturally, demand similar treatment. That will involve further loss of territory to Assam. Not only the Nagas, but the other hill tribes in this region resent Assam's domination, even as Assam is hostile to the Bengali influence within the State. Assam has not been diplomatic in its attitude to the neighbouring hill tribes and areas. That State cannot escape blame for its past mistakes. But New Delhi will have to be tactful in dealing with Assam's problems.

Community "Development"

An esteemed correspondent writes:

THE magnificent four objectives stated by the Planning Commission for the National Extension Service, as part of the implementation of Community development, begin with "transform the outlook of the people", and end with an adjuration and a belief that cooperatives and popular bodies will explore the resources and discover self-reliance in the people of the villages. Clearly, this kind of thing cannot be taught. It is certainly a process of education to bring about the transformation which is required; but the practice of community-action, in particular, has to be communicated in ways which one could scarcely call "teaching".

Now village people have unquestionably begun to discover the resources available to them for development. This much achievement surely stands to the credit of the Ministry of Community Development. But the resources which they have discovered seem to me to be less in the villages and the human spirit that can be rekindled there, and more outside the villages. The prime resource which perceptive village folk have discovered for themselves is the resources of Government. Betwen you and me, that's us, the taxpayers.

The possibility of using **pairvi** as a means of getting financial or other aid from individual officials and politicians is, of course an art which is well established in rural India. The Urdu word suggests a period when this graceful art flourished, perhaps at its most luxuriant. The **nayak** could always be tapped if one was ingenious enough. It was never so easy to get concessions out of the **sahukar**. But today **pairvi** is, by and large, a means of getting individual benefits from Government people. True, the individuals may sometimes be factional groups; but then, again it is pressure-politics for individuals—or wheedling politics, which come to the same result. Certainly **pairvi** is not a method open to rational use by communities as such.

One of the more startling discoveries made by a lot of humbler villagers since 1952 is in a new form of outside resource which is available to the community, and not to individuals or factions within the village-community. This is another triumph of the N E S and C D. But how far are such tricks as being good boys and putting on a **shramdan** performance to get, say, a school built—how far are such parlour-tricks building or rebuilding a community spirit which shall be self-creative, as the Planning Commission's objective of transformation requires? Bad manners though it may be to answer one's own rhetorical question, I shall reply from my experience of late night and early morning sessions with quite humble villagers, after a **shramdan** has just been performed, for supposedly community benefit.

Government as Milch Cow

THE correspondent then explains: These so-called community efforts, my friends point out, will indirectly benefit the more prosperous persons in the village. The lowly will—and in fact do—remain as suppressed, economically and socially, as ever. No self-perpetuating experience has occurred when the new school has been obtained through "the people's effort". No seed is sown to germinate as the healthy plant of community-action.

"No", say my village friends, "but we have found other ways in which we are surprisingly effective as a community". They go on to tell how they find that the longing to spend the taxpayer's money (only they don't know it is that) becomes an itch round about January or February each year. Villagers have discerned this annual itch, which afflicts officials responsible for development, and they have learnt to milk the Government cow at those times. The surest way of getting that old beast to give quantities of milk is to put in a community show. So my village friends tell me with giggles that they "arrange" this.

There are a number of villages-by-courtesy in the environs of Delhi —some are up to 25 miles away— which have got this technique of milking Government to perfection. It is no longer **pairvi**. No individual official is being importuned; the Government machine is properly handled by my ingenious village friends. Some of the more advanced practitioners of the new village-craft are fortunate enough to be in showplaces for the visiting dignitories of the United and other Nations who are shot out from Delhi to see "our constructive rural programme". The lucky villages fairly coin money—and on a broad enough scale for it to be justifiably termed Community . . . well not perhaps development, but certainly aggrandisement or enrichment.

—AGNI

More Power for Bombay Suburbs

WHATEVER may have been the justification for the Reserve Bank's not raising the Bank Rate in February this year even though it raised the rate of interest on loans against Government securities to 4 per cent, this has prevented the electricity supply undertakings in the country from taking advantage of the higher rate in the calculation of the Standard Rate of return allowed to them. It is true that the official Bank Rate was raised subsequently to 4 per cent, but this was only after 1st April 1957, the Bank Rate on which date is the relevant one for this purpose. The linking of the Standard Rate with the Bank Rate has been introduced only this year, through the amendment of The Electricity Supply Act that has come into force from 1st April and it must be naturally galling to the industry that, due to a mere technicality, they have not been able to take full advantage of it in the very first year.

The electricity supply industry does, nevertheless, gain from the amendment by ½ per cent even during the current year, since it provides for a 2 per cent differential over the Bank Rate instead of the fixed rate of 5 per cent as the Standard Rate. While pointing out the effects of the Reserve Bank's policy on the industry, therefore, and referring to the hope of the industry that the differential itself would have been slightly higher, Mr P D C R Clark welcomed the new amendment in his address to the Annual General Meeting of the Bombay Suburban Electric Supply Limited last week.

The electric supply industry has been feeling for some time that it has been subjected to step-motherly treatment from the authorities. Mr Clark's speech struck a new note. While referring to some of the difficulties, legislative and otherwise, that continue to face the industry, Mr Clark expressed his gratification that the electric supply industry's case had received recognition from the Government on many points.

A feature of the speech was the reference to the withdrawal of the surcharge of 12½ per cent on energy used for lights, fans and domestic purposes and the reduction of ¾ anna per unit on energy used for lights which had been effected by the Company in August last year. That these changes were effected in the context of continually increasing operating costs is a tribute to the efficiency with which the Company's operations are conducted.

The changes are probably also a reflection of the fact that the expansion programme of the Company is nearing completion and it is thus in a position to make available an increasing volume of power for which the demand must be developed. It has also to be noted that because of the development of the Bombay Suburban area, the population of the area having multiplied tenfold in recent years, the Company has been able to obtain the advantages of increasing utilisation of its equipment, which is always a significant factor in the determination of costs in this industry. As the Company's operations cover a wide area, with a number of separate suburbs dispersed over it, they are particularly likely to gain from an expansion of population. As this trend continues, the Company is likely to obtain further economies which will probably be beneficial to the Company as well as its customers.

Rehabilitating Beggars

THE problem of beggary received considerable attention at a conference in Bombay last week, in which several organisations participated. While any radical solution of this complex problem must necessarily await a major transformation of our economy, with an adequate expansion of employment opportunities and a marked growth of welfare services, particularly in respect of the disabled and aged, it is possible, even as things are, to take more vigorous mitigatory measures than have been attempted so far. The negative step of shooing beggars off the streets or public places is ineffective inasmuch as they either return soon after in ingenious ways or transfer themselves to safer spots perhaps to cause greater nuisance to the public. Thus the question cannot be just brushed aside or driven out of sight: it has to be faced squarely and tackled in a positive way. And there is no single solution to it. That there is better appreciation of these aspects now, as evidenced by the discussions at the conference on beggary, is an encouraging indication.

Even though one might hesitate to go into all the ramifications of the issue, one cannot ignore the two broad divisions in which it presents itself, with the aged, sickly or the disabled who have no hope but in beggary on one side and the able-bodied and young on the other who through want of employment, lack of training for a trade, sheer laziness, machination of exploiting elders or surrender to false values of life, have taken to beggary as a fairly easy means of livelihood. While the former group has to be protected and given shelter, the latter must be handled firmly and helped only to help itself by providing facilities for training and, if possible, also initial assistance for starting a trade or securing employment.

It is not that institutions for these purposes have not already been started; but then seeing no great depletion in the ranks of beggars, one wonders whether the existing homes and work places are enough to handle the problem. It is true

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that, apart from continual local recruitment, there is a ceaseless influx of beggars from other States, which Bombay's Finance Minister, Dr Jivraj Mehta, speaking at the conference, rightly bemoaned. But whether they come from neighbouring States or emerge locally, the distinction in their origin makes little difference to the problem that faces this State unless that little detail could be of use in persuading other States to bear a fair share of the expenses involved in rehabilitating beggars hailing from their territories. For the rest, it would seem as though Bombay has to pay the price for being a progressive territory and the first refuge of the helpless, which, if a point of pride to the State, is also a source of considerable trouble and anxiety.

Research in Industry

RESEARCH has become an indispensable part of modern industry, whether the quest for new knowledge be aimed at improving the quality and cheapening the price of products so as to render them more acceptable to consumers or, alternatively, at studying the reactions and needs of the latter so as to give them what they seek. But what form and direction such research takes, how it is organised and what benefit it confers ultimately on the industry concerned and the world of consumers as a whole are questions which the lay man, though himself possibly benefitting from the research as a consumer, knows little about. Yet, an insight into this sphere would be fascinating to him even as a matter of curiosity; and if he happens to be actually partaking of the advantage accruing from such research, his interest would naturally be far greater.

'Research in Unilever', the subject of a speech delivered by Lord Heyworth, Chairman of Unilever Limited, at the annual general meeting in London, and now printed in book form, has that double appeal, interesting in itself and interesting also because of the fact that Unilever products touch daily life at many points. The speech gives a clear idea of the why and how of research in the industries associated with the Company, where it is conducted in what way it helps the enterprise, conferring benefits at the same time on the consuming public and also how 'constant contact with our research colleagues stimulates us in the quest for new ideas, keeps us lively and helps to save us from the deadly sin of complacency'. It is a simple candid narrative; yet its total effect is not only to give a fairly comprehensive picture of research in Unilever, but also to impart to the reader a little of the zest for new knowledge and constant experimentation which obviously moves the enterprise.

World Bank Team on Ports

THE arrival of a World Bank Team to study India's port development plans this week gives a special touch of topicality to the plea for a comprehensive study of port problems on the West Coast made in these columns last week. The Team, which is led by Mr Posthumo, Chief Engineer of the Port of Rotterdam Authority, is expected to study the development programme for the ports of Bombay, Calcutta, Madras and Visakhapatnam for which the assistance of the World Bank has been requested.

This programme, including a dry dock project at Visakhapatnam, is estimated to cost Rs 80 crores, of which about half will be in terms of foreign exchange. It is to cover this external cost that India has asked for a loan and the Bank has given a generally favourable response. Mr Eugene Black, the President of the World Bank, had pointed out in his letter to Shri T T Krishnamachari last November, that the Bank is particularly anxious to assist India in the development of her transport facilities, including ports.

The World Bank Team will no doubt study the technical and economic aspects of the particular projects which have been submitted to the World Bank for approval, but it will hardly be in a position to examine in what directions future development of ports should proceed. The need, stressed last week, for an overall survey of the entire problem therefore, remains urgent. Incidentally, a slight error crept in the note on Kandla. At one point, Port Okha was mentioned when the reference was obviously to Port Kandla, which was the port referred to throughout the note.

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A Calcutta Diary

The Unhonouring and "The Undefeated"

THE Bengali never tires of telling you, and himself, that Tagore, the only Asian Nobel Laureate in literature, was a Bengali, and that in 1911 it was a Bengali team, Mohun Bagan, which won the I F A Shield. To these two achievements has now been added the Golden Lion of St Mark won by the Bengali film, **The Undefeated** at Venice. **Aparajita** to call the film by its original name, is undoubtedly a very fine film, although it is an entirely tenable view that Satyajit Roy's earlier work, **Pather Panchali**, was a more inspired and hence more sincere work of art. Nor is it necessary to belittle the Nobel Prize and the I F A Shield, although there may be a certain lack of discernment in lumping the three together, as is being done. The only point of this piece is to enquire how Bengalis take their achievements, and how they honour the honoured.

The question is currently being discussed, and an incident of many years ago is being recalled—with some, only some, justification. Tagore had got the Nobel Prize, and then the Bangiya Sahitya Parishad decided to give him a reception. The Poet declined to come down to Calcutta. So the mountain, the Parishad, had to go to the Poet. The address was read, by Ramendra Sundar Trivedi himself—one of the greatest Bengalis and a great admirer of Tagore. The latter was pleased, he said, but thought it fit to add, on such an occasion, that he could not help feeling a trifle sad that his countrymen honoured him thus only after he had obtained international recognition. The Bengalis, he said with not very polite unequivocation, never knew the genius in their midst until the outside world had honoured it. It is being repeated now that Bengal had not honoured Satyajit Roy before Venice had done so.

* * *

For all their deficiencies, which have been increasing with the passage of the years, this particular accusation against the Bengalis may be only partially true. To be sure Tagore had his detractors in Bengal; some of the criticism against him was petty and malicious, made by small men. But it was not true that Bengal had failed to recognise his genius. Measuring it adequately was, and is, impossible. Honour him, love him, the Bengalis did, and long before Yeats ever heard of him. Bankim Chandra Chatterji, the dictator of the literary scene in his time, spotted him as a man of genius when Tagore was a mere boy. The younger generation raved about him, started wearing long hair after him, spoke like him and wrote like him. There grew a sect of Tagorites. What escaped Tagore when the Bangiya Sahitya Parishad had gone to honour him was that the literary body was celebrating international recognition of the object of their love and admiration. One does not always follow the other, and it is difficult to see what was wrong with rejoicing over the receipt of the Nobel Prize by a Bengali.

Nor is it true that Satyajit Roy was not appreciated in Bengal until Venice discovered him. His **Pather Panchali** was nationally honoured, acclaimed by all critics, and the public paid lakhs to see it. **Aparajita** was not so honoured, and its commercial success was limited too. What's wrong with that? Surely a film is a thing on which there can be honest differences of opinion. With due respect to the judges of the Venice Festival, this writer too had found **Aparajita** a shade less moving than the earlier work. Again, the endless round of receptions Satyajit Roy is now going through does not mean that the Bengalis are making amends for past negligence. What is being made an occasion for rejoicing is that a young Bengali director has won international recognition and put India on the film map of the world.

* * *

Is there a suggestion of an inferiority complex implicit in this looking up to world opinion for the assessment of our own talent? Complexes are not simplexes, and hasty attribution of them to individuals and peoples should not be encouraged. And then, it is not the Bengali alone who is pleased when something he has done impresses the the world outside. Even after **Around the World in Eighty Days** had made millions of dollars in the United States, it was entered in international film festivals and its producer was disappointed when it did not get a certificate. Iceland may or may not have appreciated Laxness before he got his Nobel Prize; there can be little doubt that the event pleased Iceland.

How does Bengal treat its talent? Again, not very differently from the others. Satyajit Roy is now making two more films, has got a fifth (a Tagore story) on schedule, and is approached with more offers from producers than he can accept—this despite the commercial failure of **Aparajita**. This is not a record of which Bengal need be ashamed.

* * *

Indeed, a case can be made out that Bengal's preoccupation with culture is a trifle excessive. Music, literature, theatre and films take so much of the Bengali's time that it was a writer who was recently moved to cry, "Culture will be the Bengali's undoing." The statement is not merely rhetorical. Popular indifference to the arts is not a complaint that can be sustained against the Bengali. He pays for a lot of junk, undoubtedly—as most people do. But a good thing, a work of art rarely goes unrecognised in Bengal.

So eager, in fact, is your Bengali to appreciate the arts that not infrequently he forgets standards and assesses the second-rate and the medicore as works of genius. Criticism is not at fault because it does not recognise talent but because talent is not distinguished from genius. The kind of literary criticism Bankim Chatterji and his contemporaries used to write is just not written today, and book reviews and film reviews have fallen very low. There has been a sad debasement of the language of criticism, and if the superlatives used for **Pather Panchali** did not make the impression they should have done it was largely because inflation had corroded the value of literary praise in Bengal. Newcomers in the arts are sometimes praised today in terms that might have made Tagore blush. A revival of critical standards in the arts may yet be the first need in Bengal.

October 2. —**Flibbertigibbet**

The Story of Oil—1



As old as time

As industries go, the world's petroleum industry is quite new. Yet even the youngest deposits of crude oil originate from long before the dawn of Man. Scientists say our oldest reserves are more than 50,000,000 years old.

In prehistoric times much of what we now know as dry land was covered by warm seas. Giant trees and jungle plants and countless millions of tiny marine creatures flourished on the edges of the swampy, shallow waters. Their remains, when they died, fell to the bottom of the sea and were buried in layers of sediment.

As age upon age went by the original sea floors were folded or broken by tremendous movements of the earth's crust. Mountain ranges were pushed up. Parts of the earth cracked and slipped down to become valleys and basins. Tidal waves invaded the land to form new seas. Old seabeds emerged as new continents.

These conditions — massive sedimentary deposits, decaying organic matter and gigantic earth movements — produced the crude oil we know today. The locations of the old sea beds are now fairly well known. They occur in almost every region of the world.

Parts of the continent of India have these marine sedimentary rocks beneath them. The waves of ancient seas once rolled over Assam, and here, close to the growing Himalayan and Naga ranges, the oil-pools of Digboi and Nahorkatiya began forming many millions of years ago.



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B.O.C

From the London End

Reactions to Higher Bank Rate

ALMOST every intelligent observer of the economic situation has seriously questioned the wisdom of the Government's action to increase the Bank rate to 7 per cent. In a letter to the Times, Mr Nicholas Kaldor viewed the Bank rate increase as designed to bring about a measure of unemployment and "no doubt given a sufficiently large volume of unemployment, the working classes of Britain could be forced to accept a lower standard of living". "But", says Kaldor "they will do so at a tremendous cost in social strife and discontent—an unnecessary cost which the Government could avoid if they followed a policy of expansion rather than contraction". Earlier Sir Donald Macdougal claimed again in the columns of the Times that a policy of high interest rates at a time when contractionist tendencies were visible in the United States and when the non-dollar countries were losing gold was suicidal for Britain. It would lead to further falls in commodity prices and sharply reduce the incomes of the overseas sterling area and since this can force the overseas sterling area to cut down on their imports, unemployment on a fairly large scale in Britain is likely to ensue. It would however appear that the Conservative Government has used the foreign exchange crisis to make a desperate attack on wage levels in the country and as Mr Thorneycroft, the Chancellor of the Exchequer, has said, "the dear money policy will be carried out whatever other painful consequences may follow".

The "plot" as one newspaper called it to create unemployment was well described by the Economist. It claims that the "main problem" being the persistent wage claim, it can no longer be tackled by exhortation to the unions. The other way to solve the problem is to make money so scarce that it becomes difficult for employers to grant wage increases and to make unemployment less rare so it becomes more difficult for trade unions to demand them. This more sophisticated explanation for the dear money policy stands somewhat in strict contrast to the strivings of the popular newssheets of the Conservative Party and of big business. The public are being bombarded with variants of the slogan "the £ in danger", dished up from every conceivable angle. The myth is being assidiously fostered that because the £ is in danger, patriotism demands of the British people unity against this menace and that wage increases should not be asked for while the country is in trouble.

Interest Payments

With the Bank rate now 7 per cent, the whole pattern of interest rates is now taking shape. The new rates at which the local councils or municipalities will be able to borrow from the Government's Public Works Loan Board has been increased to an average of 6¾ per cent. The Treasury, in announcing the new rates. stresses that these changes are designed to keep the P W L B's lending rates in line with the rates at which local authorities could borrow in the capital market.

The discount market has been able to push up its tender rate for Treasury bills to the high level of £ 6 12s thereby presenting the prospect of even heavier Government outlays in interest payments on the national debt. It is estimated that these increases may well be in the region of £ 250 million. More crucial to the foreign exchange situation is the increase in interest payments to non-British residents who maintain their sterling balances in short-term interest-bearing investments. This increase is estimated to amount to £ 60 million.

Investment Abroad

The impact of the new pattern of interest rates on Britain's role as an international investor is likely to be serious. It is difficult to visualise the capacity of recipients of British capital to pay service charges on new investment funds of the order following the Bank rate increase. Equally significant is the incentive created for private British capital to remain in the UK where interest rates are high. And this must be all the more unfortunate since the new independent states of Ghana and Malaya are seeking a larger inflow of private capital. Now, as the current issue of the Treasury Bulletin for Industry stresses, these territories will look for private funds outside the sterling area; Germany, Italy and Japan have already shown their interest in technical and training missions. The Bulletin declares that "trade follows capital". If British firms invest more in these parts of the Commonwealth, British exports should also expand. Equally, if capital is to be brought from outside the sterling area, the competitive position of sterling firms is likely to be weakened.

In 1955 investments of this type by British firms amounted to some £ 42 million. About £ 25 million came from the firms' own resources including overseas profits; £ 17 million was raised from public issues on the London stock market. The amount for 1956 is not known but the amount borrowed on the market is £ 10 million higher than in the previous year. For 1957 the prospect is made particularly bleak. With the high earning power of money within the United Kingdom and the patent inability of the overseas Commonwealth countries to compete with Britain on matters of interest rates, a sharp reduction in Britains international investment activities is now likely.

Labour Party Today

The report of the National Executive Committee of the Labour Party issued in preparation for the 56th Annual Conference at Brighton records a total membership of over 6½ million at the end of 1956, about 50,000 more than at the end of 1955.

The Labour Party has grown considerably since it was born in 1900. Then, almost the total membership of under 376,000 had come from the trade unions. Then, too, there were no more than seven constituency parties. Today the Labour Party branches or constituency parties number 667, having a membership of about 900,000. The trade unions still represent the main power in the Labour Party.

At the end of 1956 the 88 trade unions providing the political levy on their members gave the Labour Party a membership from pure trade union affiliation of over 5½ million. Indeed, the impact of the trade union membership on the Labour Party is shown by the finances of

the party which are detailed in the Annual Report. In 1956 the constituency parties contributed under £ 13,000 as affiliation fees. The trade unions, on the other hand, contributed £ 140,000.

The British Labour Party has moved a long way since the time when it struggled to set up an organisation and to obtain the funds necessary for the pursuit of its political activities. Today, the Labour Party can boast of investments valued at £ 400,000 as well as real estate and other valuable assets. It is possible for the Party to keep permanently at hand a fund of over £ 225,000 to contest general elections. Purely from the financial point of view the Labour Party today is a machine of considerable standing and resources. It is possible for the Party to provide its staff with various superannuation and pensionable facilities—a range of facilities which no political worker in the labour movement would have been able to contemplate in the years prior to 1945.

F A O Year book

FOR statistics of world agricultural production, the Yearbook of Food and Agriculture (Part 1) has been a very useful reference book for a decade now. Published by F A O, the Yearbook has succeeded each year in making improvements in presentation and data which have continuously increased its utility. The latest in the series (1956), which has been just published, is no exception.

Apart from bringing the usual tables up to date, the present volume gives for the first time official data for recent years on China. It also contains new tables on China. It also contains new tables on cows, beehives and honey, and on silk. The present volume has also added for the first time a section on Index Numbers of Agricultural Production; this includes two new tables giving total and per capita food and agricultural production for the world and by regions.

Since these tables are in the nature of an innovation, it is interesting to note how they have been constructed. Agricultural production has been defined for the purpose of the index numbers to include grain, starchy roots, sugar, pulses, oil crops, nuts, fruits, vegetables, wine, livestock and livestock products, fibres, rubber, beverage crops and tobacco. Crops and milk used as feed have been deducted and so has seed except for Africa. In constructing the index numbers, uniform world weights based on prewar 1934-38 price relationships have been applied to the production figures, though there are some exceptions as far as the base period is concerned.

As usual, all written matter in the report is in three languages: English, French and Spanish.



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Book Review

Plural Malaysia

Western Enterprise in Indonesia and Malaya by G C Allen and Audrey G Donnithorne. London. George Allen & Unwin. 1957. Pp 321. Price 25s.

ECONOMIC penetration into countries which now carry the label of 'underdeveloped' may be said to date, by and large, from early in the 19th century previous to which European enterprise was generally more interested in establishing trade contacts than in gearing local economies to the needs of world commerce. To distinguish it from a state of mere trade contact, economic penetration may be defined as the percolation, forced or otherwise, of the milieu created by the Industrial Revolution, through the trade and economic structure of underdeveloped societies. The purpose of penetrating these societies has varied, inter alia, with their size, resources, possible contribution in filling gaps in the metropolitan economic structure—and strategic considerations. The technique of penetration has varied against the background of these factors, together with the industrial traditions and cultural levels of natives and the climates and resources of each country. Where natives were either primitive or unwilling to work for the Commerce of the World, foreign races, generally Chinese and Indians in Asia and Africa, were brought in and/or encouraged to assist in the process of penetrating a country.

Policy and Outlook

The policy and outlook of the metropolitan power which effected penetration has also had a significant influence in determining its techniques. France, Belgium and Japan, when confronted by lack or inadequacy of native resilience proceeded to do the job either directly under state auspices or through concessionaires without generally permitting the intervention of labour and/or capital from 'outside' sources. As a result of this exclusive paternalism, they avoided the creation of multi-racial societies, except in French Indo-China, but simultaneously smothered the chances of native adaptation. Britain had enough confidence in her political and economic strength to render a closed door policy superfluous. She used traders and labourers from China and India to help her entrepreneurs penetrate societies in the Indian Ocean, Pacific and Caribbean regions.

Unlike the three powers mentioned above, though France was a limited exception, Britain's economy required not merely sources of raw material but also markets for export in these societies. Consequently, British colonial policy was relatively more liberal and more 'welfare-oriented' to natives. Moreover, since she had already found an outlet for her excess population in North America and Australasia, she was, unlike others, not particularly eager to settle her nationals in these societies (thereby avoiding the problem of French colons in Algeria and Japanese in Korea). The Dutch in Indonesia followed an intermediate policy of encouraging large scale settlement of their nationals as owners or managers of all kinds of enterprises, did not object to miscegenation, and of Chinese as traders, together with forcing natives at least in the initial stages, to grow export crops. Since Holland looked upon her colonies primarily as sources of imports than as markets for exports, she made little or no attempt to develop a native taste for industrial goods, which would have had to be imported from other metropolitan powers.

Racial Plurality

The different purposes and techniques of penetration naturally influenced the subsequent development of underdeveloped countries. Indonesia and Malaya belong to that group of the underdeveloped world, consisting of south east Asia, south eastern Europe, north west and south Africa (excluding Uganda), Middle America (excluding Mexico) and the whole of Oceania, in which third races, domiciled or specially imported, have been used to carry the impulse of penetration into the interior because of the absence of adequate native response to contact with the new industrial system. This policy created racially plural societies and economic systems where the occupational structure has been largely influenced by racial considerations (if race is interpreted in its widest possible connotation).

In so far as this group of societies possessed resources which could be exploited only by modern methods, technical considerations and native incapacity rendered production under direct metropolitan control necessary. The latest study of Allen and Donnithorne which deals with Western enterprise in Indonesia and Malaya is immensely useful, within its limitations, in further differentiating metropolitan policy and techniques of Western penetration in two leading members of this group of societies. The study marks the completion of the authors' original project which included a comparative history of Western enterprise in China and Japan (reviewed in The Economic Weekly, April 3, 1954). Analysis of colonial development is generally a tricky business for those who are or have been on either side of the water. The non-alignment of the authors' comments is, therefore, all the more creditworthy.

Unlike China and Japan, where Western entrepreneurial activities remained at best peripheral, Indonesia and Malaya offered the invaluable aid of colonial government for effecting deep penetration. One of the principal themes of the study, therefore, is the contrast presented by Indonesia and Malaya in the extent to which the state chose to exercise entrepreneurial functions. Another is the analysis of intricate inter-racial economic relationships. Woven through both these is the interesting role of individual firms, the activities of which are described with Prof. Allen's usual skill and incomparable capacity for depicting the growth of trees into a wood. It is only fair to state, however, that the earlier portion of the authors' study of Indonesia goes scarcely farther than Furnivall, and actually does not even go that far, presumably to avoid the danger of arriving at unpleasant conclusions.

Culture System

Early in the 17th century the Dutch East India Company became "intent upon increasing its trade and revenue by all measures that its officials could conceive". Control of the seas in a region dotted with islands made all the difference in helping resolve internecine feuds to the Company's satisfaction. "For example, the Sultan of Mataram in return for Dutch support against his rival the Sultan of Bantam, agreed to pay the Company a tribute in rice

and to ban the growing of coffee by his subjects so as to eliminate competition with the Company's own coffee interests". Where nationals of other countries were allowed to trade, their goods were subject to discriminatory duties. Enforcement of these agreements naturally augmented Dutch political power. Officials were appointed to ensure regular payment of tribute in the form of coffee, indigo, pepper, cloves and other commodities. This laid the foundation of what, after Raffles' brief occupation, was to be called the Culture System. Under this system, native cultivators, instead of paying a proportion of their crops to Government as rent, were required to set aside a fifth of their land for production of prescribed crops like coffee, sugar, tea, pepper and tobacco. This produce was purchased by Government at a low fixed price or acquired as taxes in kind. The produce was then shipped to Holland where it fetched a high profit.

The immense increase in production brought about by this system brought prosperity to Government, Western traders and Chinese intermediaries, who had in the meanwhile herded into trade and moneylending since they were deprived of the right to own land. The Javanese share in the gains of development was restricted to increase in population. After the abolition of slavery in 1860, however, cultivation of pepper, tea, cloves, indigo, cinnamon and tobacco on Government account was given up. This reform proved rather timely, for the Culture System was becoming somewhat expensive economically. Enlightened liberalism yielded convincing dividends within a short time, in the case of the above crops at any rate. During the 1870's followed several measures of economic freedom which opened the door to Dutch private enterprise, further Chinese intermediation—and native multiplication.

Ethical Policy

Towards the beginning of the 20th century, changes in the nature of international trade and the entry of British and French interests in Indonesia, together with greater Dutch dependence on London, led to a limited reversal of this laissez faire policy and the initiation of a welfare-oriented, so-called ethical policy. This involved encouragement of emigration to Sumatra, extension of State farms (inspired, inter alia, by international demand for new commodities like rubber, palm oil, coconuts, etc) and tin mines, better communications, and lastly, some concern for native welfare in the shape of schools, health services and inspection of labour conditions. As a result, payment of tribute to Holland gave way after 1900 to larger local expenditure and grants-in-aid from the home country.

By the time the Great Depression intervened, the nature of the economy had been considerably altered by consolidation of Western firms, entry of international oil and rubber interests as well as by considerable commercialisation of native agriculture. In 1929, 41 per cent of rubber, 96 per cent of kapok, 45 per cent of tobacco, 75 per cent of coffee and 22 per cent of tea were being produced by natives. Unfortunately, the authors do not show the other side of the medal. There is no mention, for instance, of the deterioration in nutritional levels of plantation workers nor of the growth of indebtedness among native farmers. Lack of adequate attention to this aspect of the problem of development leads the authors to deplore the diversion of land from export to food crops during the thirties (of which more later) as a "loss of the advantages of international division of labour".

Malaya

In Malaya, the Flag followed the Chinese tin miners, but for whom the British might have been content with Singapore. Civil wars, piracy, Chinese secret societies—and perhaps the growing French influence around the Gulf of Siam—led to active British intervention on the mainland in the 1870's. Initial economic development of Malaya was almost entirely attributable to the Chinese who took up cultivation of spices, sugar, coffee and, later, rubber, "To the Malaya of the nineteenth century the British had given ordered Government. The Chinese had contributed entrepreneurship. In the twentieth century, Western enterprise ceased to be confined, as hitherto, to international trading activities and it took the lead in the production of the rapidly rising exports, tin and rubber".

The Chinese could not take easily to new capitalistic methods of production and hence Europeans got into the lead. At the beginning of the rubber boom brought on by the automobile revolution, the Malay population was too sparse to provide enough recruits for plantations and since the Chinese were not inclined to take up unskilled work, indentured Tamil labour was brought to complete the multi-racial society. By 1930, small-holders produced over one-third of total rubber output, a ratio which remains constant to this day, unlike Indonesia where it has been on the increase.

Pre-Depression Government Policy

Government policy in Malaya and Indonesia differed somewhat radically on account of differences in local resources and their accessibility, and in the relative economic position of Britain and Holland. After the comparative decline of the Malacca spice trade, and before the rise of rubber, Malaya had little to offer apart from tin which was being mined and sold satisfactorily by the Chinese. Malayan jungles were rather uninviting and in any case India, Burma and Ceylon were much more profitable colonies. Malaya was useful to Britain more as a junction or strategic colony than as a source of raw material. Indonesia, on the other hand, was practically a whole-time preoccupation of Holland which had no other rich colony to bestow its care on (the south African colonies hardly yielded comparable returns and in any case assumed importance much later). The whole of Java and the Sumatran coast could be penetrated and made to yield rich returns without much hardship. Moreover, Holland depended to a very large extent upon Indonesian produce for her prosperous entrepot trade, and since she did not have capital and labour resources comparable to those of the British Empire she could not afford to wait for private enterprise to do the needful.

Viewed against this background, differences in Government policy in the pre-Depression period, commented upon by the authors, can be easily understood. The Culture System and its accompanying mercantilism were perhaps necessary if Holland had to remain an international power and the former was facilitated by the fact that Indonesia had enough population and resources to make it possible. The British in Malaya were differently placed: the colony had neither enough men nor enough resources to make a Culture System feasible while mercantilism was ruled out by the free port of Singapore. In comparing Dutch paternalism in

Indonesia with British semi-laissez faire in Malaya, therefore, the authors appear to be less than just to the over-all perspective which helped mould the respective policies.

Effects of Depression and War

The Dutch Empire, being much smaller and less diversified than the British, was more severely affected by the Depression and the restrictive trade practices that followed it. It could have no Ottawa-like arrangement and Indonesia, therefore, suffered a pronounced slump in its exports of rubber, sugar, tea, cinchona and kapok. Land was diverted back to food crops and labour returned to Java from the Outer Provinces. Import restrictions on non-Dutch products led to the setting up of several small and medium scale industries which, naturally enough, did not compete with imports from Holland. Most trade regulations were directed against the 7,000 Japanese who had come in as employees of large firms to help in the task of developing Indonesia; according to the authors, they "did not come as individuals in search of fresh opportunities, as the Chinese had done" and, therefore, perhaps deserved what they got. The only industries to expand during this period were bauxite, nickel and petroleum. In spite of these measures, terms of trade deteriorated considerably, partly due to cessation of capital imports.

The Second World War increased the demand for rubber and tin but limited the export of tobacco, coffee and copra. Export duties on the former group were utilised by Government to support prices of the latter. Large sterling balances were built up before Pearl Harbour brought disruption in its wake. Scorched earth policy involved the destruction of oil installations and large plants. Transport equipment and the few industries that remained were damaged or suffered through under-maintenance. Acreage under rubber and sugar diminished considerably, but Chinese initiative succeeded in expanding small scale industry.

Malaya was one of the chief sufferers of the Depression but waded through by getting rid of excess Indians and Chinese and by loyally minimising Japanese competition with British goods. Though her trade was halved in the thirties compared to the late twenties, its size was still remarkable for a country of five million persons. Both in 1929 and 1937, its value exceeded that of China (including Manchuria) and was more than half that of Japan. During the War, much capital equipment was destroyed or overworked by the Japanese. The tin industry and the railways suffered severely; dredgers were destroyed and the smelters of Singapore and Penang heavily damaged. Land was diverted from export to food crops. But after the War, Malaya's economy was rehabilitated with the utmost expedition, at least by comparison with what occurred in Indonesia, by heavy investment financed from War reparation.

Business Organisation

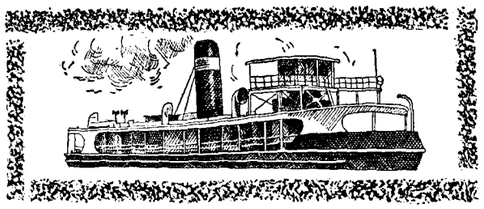
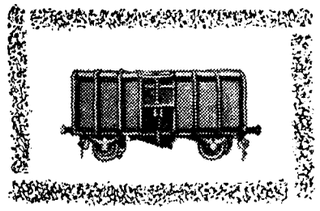
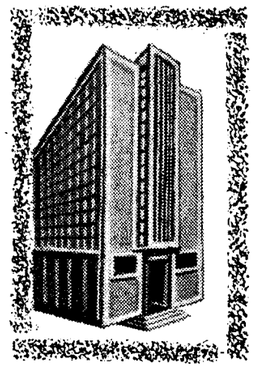
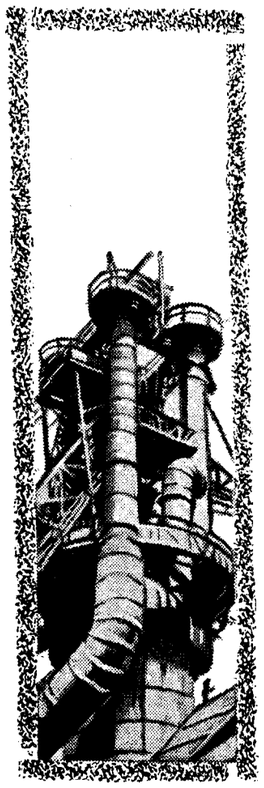
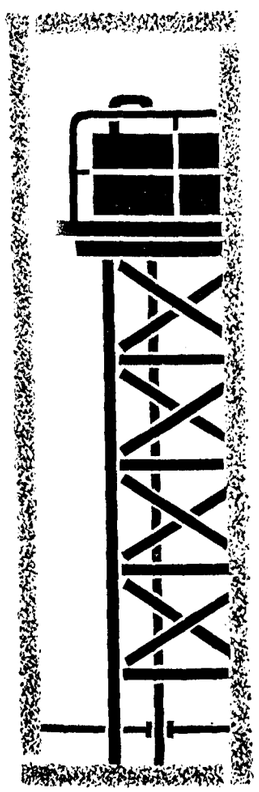
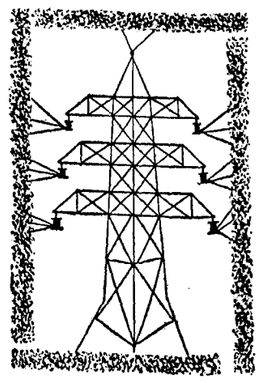
Unlike China and Japan where mercantile activities remained the core of Western enterprise, despite an outgrowth of industry and finance, Indonesia and Malaya, particularly the former, experienced more varied forms of business organisation. The sources of Western initiative, too, were more diverse than in China and Japan. The reasons are not far to seek. Laws and institutions could be refashioned and economic relations regulated at will in colonies. Compared to traders, planters and mine-owners could, thus, penetrate deeper into the economy and provide entrepreneurship rather than mere expertise. Further, economic initiative could be shared equitably between public authorities and private persons, and Government, particularly in Indonesia, could play a leading role in fostering and controlling commerce and industry. While in Malaya, Government restricted itself by and large to investment in public overheads, Indonesia under the Dutch almost emulated Japan in State-guided development.

No private Western concern has held so dominant a position in Malaya as that occupied by Jardine Matheson and the Hong Kong Bank in China, for the simple reason that exploitation of Malayan resources was open to all, including Chinese entrepreneurial activity. Moreover, since the development of Malaya is rather recent, Western firms have not had time enough to consolidate. The most prominent type of Western enterprise in Malaya is the managing agency firm, the origin of which is broadly similar to its Indian counterpart. The oldest house in Malaya is Guthrie, dating from 1821, which expanded its business to some extent in cooperation with Chinese immigrants. In 1952, it employed 200 Europeans and 42,000 Asians and controlled 200,000 acres of rubber, oil palms, tea and coffee. Another firm, Harrisons and Crosfield, illustrates the house with interests spread out all over the entire Archipelago. Founded as wholesale dealers in 1844 at Liverpool, they were agents in 1956 for upwards of 225,000 acres of rubber in Malaya and 155,000 acres in Indonesia; they also acted as secretaries to a number of tin-mining companies and had interests in a rubber factory and an engineering works. Two-fifths of Malaya's tin is produced by Chinese miners, who are outside the managing agency system. Post-war industrial development is mostly attributable to the entry of great international firms such as Metal Box, Ford, Bata, Unilever and Associated Portland, but Chinese have contributed most of the local initiative. The share of Chinese in Western firms is now increasing for they do not seem to be deterred by what Western investors consider a somewhat risky situation.

Foreign Control

The structure of European economic activities in Indonesia has been far more complex on account of its longer history, regional diversity and active Government intervention. At various times, the Dutch Government in Indonesia owned and operated not only public utilities but also agricultural estates, mines, trading and financial companies and manufacturing concerns. Many firms combined State ownership with private management. The Republic has succeeded, therefore, to a large number and variety of enterprises to which have been added others nationalised for the sake of wresting economic control from foreign heads. A considerable portion of the economy is still, however, controlled by foreigners in spite of many discriminatory measures against non-Indonesians. The giant survivors of the olden days, such as the integrated combines of Nederlandse Handel Maatschappij (Factorij), the Rotterdam Trading Society, Borneo-Sumatra and George Wehry still predominate but since the War, they have been prudently spreading their risks outside Indonesia. Corresponding to Malayan managing agencies, there are the administratie kantoors which usually have a financial stake in the concerns they manage; they are found

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chiefly in Java. Some of the biggest specialised estates, particularly those in Sumatra, are independently organised. In the oil industry, British and US concerns hold a substantial interest.

The most distinguishing feature of Western enterprise in Malaya and Indonesia has been that, in the latter, it has flourished at all levels from top finance and management to proprietorship of small factories and shops. While the British in Malaya always regarded themselves as expatriates, duly returning home on leave and retirement, the Dutch identified themselves much more closely with Indonesia and many of them settled down permanently there, often in the company of local wives. A further difference in business organisation is seen in the form of Chinese intermediation. While the Chinese in Malaya had practically a free hand outside high finance, and some of them adapted their busines methods to become allies of or partners in Western enterprises, the activities of those in Indonesia were restricted by Dutch participation in medium and small industry and wholesale trade. Their role in Indonesia has, therefore, been confined almost wholly to intermediation between Western enterprises and Indonesians, and to petty trade and moneylending. Post-independence discrimination in favour of 'protected' Indonesian firms has naturally affected Western as well as Chinese business, but the latter has generally displayed its eagerness to stay put by hiring a legal facade of Indonesian control.

Retrospect . . .

In the opinion of the authors, Western achievement in these two colonies can be measured by the striking transformation of Malaya from a savage and empty land to a country with the highest per capita income in East Asia, and in the improvement of the Indonesian standard of life. There can be hardly any objection to what they say about Malaya, but the only two measures of native economic progress they can find in Indonesia are: "They (the population) had access to imported textiles and other products of Western factories. The food supply had increased faster than the population, and its quality had improved, as the change from tapioca and other low-priced foods to rice demonstrates". Unfortunately, the study does not give any comparative figures of rice output, though there are numerous references to a change of staple diet (e g, pp 87, 219, 249). The difficulty of obtaining statistics of native subsistence output can be easily appreciated but since increase of food supply is taken as one of the two indicators of native economic progress, some degree of quantification of this claim would surely not have been out of place. An export surplus from Java in 1936 (p 35), the magnitude of which is not mentioned, might well have been due to distress sales. Moreover, a higher level of rice supply does not necessarily imply a higher level of nutrition: it might have been achieved by diminution of other sources of nutrition —which is quite probably due to commercialisation of agriculture— and it might have been very unequally distributed! In any event, after repeatedly stressing that acreage was diverted from commercial to food crops during War days, the authors acknowledge that (in 1954) "the output of rice which is consumed entirely at home, is about the same as before the War" (p 147).

What has the West countributed to the progress of Indonesia and Malaya? The authors enumerate ordered government, monetization and monetary stability (though both these, they admit, were marred by the failure to defend the colonies against the Depression and the Japanese onslaught during Second World War), scientific progress and technical information, new crops, capital and skill (in 1930 estimated Western investment in Indonesia was $ 2 billion and in Malaya $ 560 mn), and new forms of business organisation. These are indeed significant gains. But in 1940, nearly three hundred and twenty five years after the establishment of Dutch supremacy over Indonesia, only 240 Indonesian students had graduated from high schools and only 37 from colleges; out of over 3,000 higher civil servants, only 221 were Indonesians and most of the middle ranks were held by Eurasians. Before the Second World War, few Indonesians had bank accounts and no Indonesian bank of any importance then existed.

. . . and Prospect

With a background of this nature, to which has been added transfer of power on the battlefield rather than on the stock exchange as in Malaya, it is hardly surprising that Western and Chinese enterprise view the future of Indonesia with unmitigated despondency. While the authors concede that "present-day critics of Indonesia may be confounded as were those of mid-nineteenth-century Japan," they perceive no comparable nucleus of business experience, organisational skill and societal order. The atmosphere in which power was transferred to the Republic was hardly conducive to subsequent harmony, and the country still groans under the burden of its recent history. Centrifugal politics certainly do not encourage economic consolidation.

Malaya, on the other hand, is better placed. Though the authors completed their study before the formal transfer of power, and had no illusions about Western enterprises facing new hazards, they appear confident that Western-Chinese cooperation would carry on and expand smoothly, provided the political problems of a plural society, exposed to Communist subversion, can be solved satisfactorily.

With such a divergent past in recent years, what is the future of foreign investment in Malaysia? Indonesia has ceased to be attractive and the foreign interests that still continue there are merely trying to avoid complete loss of investment. Till her political picture clears, she is hardly likely to produce native entrepreneurs, let apart attract foreign investors. In Malaya, too, the situation is uncertain; foreign capital sits on the fence and is shortening its commitments by gradually selling out to the Chinese. Though there is neither panic nor despair, there is not much of new Western investment, either. The political fragmentation of a great trading area has coincided doubly with the Asian rejection of European economic leadership and the decline in the capacity of former donors to supply it. In Malaysia, as perhaps nowhere else in the world, economic progress calls for political sagacity of a high order.

— *R K Hazari*

No Change in Export Duty On Tea

The Government of India have issued a notification fixing the price of tea, for the purpose of determining the export duty at Rs 3.48 per pound as against Rs 2.74 per pound, in force from September 1, 1957. There is no change in the existing rate of duty of Naye Paise 38 per pound.

The Bombay Municipal Strike

A Study in Political Unionism

S D Punekar

THE recent strike by Bombay Municipal employees has served to throw light on some of the characteristics of Indian labour and on the strength and the weakness of our trade union movement. Though the actual strike lasted only for a short period, the unrest behind it has not yet subsided and there is a danger that it might flare up again. It is, therefore, necessary to trace the history of the unrest, and find out its real causes.

Genesis of the Strike

The strike was sponsored by the Municipal Mazdur Union, which is under the leadership of Socialists (Lohia Group). This Union, though the latest in the field, claimed a membership of more than half the organisable force and hence to be the representative of municipal workers. Strangely enough, this Union was not recognised by the Samyukta Maharastra Samiti (the majority party in the Corporation) and consequently by the Municipal officials, though comparatively minor unions of municipal employees had been recognised. On June 24, 1957, the Union staged a gigantic demonstration and under the direct threat of strike wrested from the Samiti leaders assurances regarding recognition to the Union, increase in wages and merger of half of the dearness allowance into basic wage. It was agreed that these decisions should be implemented within six weeks.

Though the Union thus secured de facto recognition from the ruling party in the Corporation, one of its office-bearers, a cook in the Arthur Road Hospital, was suspended from duty from 4th August "for collecting the subscription for unrecognised Union"; the privilege of collecting Union dues on Municipal premises is granted only to recognised unions. After appealing to the Samiti leaders for "reinstatement" of the suspended cook, the Union commenced a strike on September 13 at the Arthur Road Hospital, extended it to other municipal hospitals on 15th and made it a general strike of municipal workers on 17th. The immediate demand for reinstatement of the cook was subsequently widened to a demand for settlement of all outstanding grievances of municipal workers.

The strike on the whole was a success, as it was backed by a majority of municipal workers. The usual pattern of initial obstinacy by both parties, threats, intimidation, stone-throwing, demonstrations, meetings, negotiations, prolonged discussions and agreement at the zero hour followed, as had happened on June 24, and the Samiti leaders finally conceded the following demands of the Union:

(i) To secure cancellation of the suspension order on the cook;

(ii) To start implementing the agreement of June 24, regarding wage increase and merger of half of dearness allowance with basic pay, with effect from October 1957, and to complete the process as speedily as possible.

(iii) To give the Union de facto recognition and the right to collect Union dues on the same terms as other unions.

(iv) Not to victimise any worker for taking part in the strike.

The Union in return agreed that it would not resort to any lightning strikes in future and would settle disputes by negotiation. The Union's demand for payment of wages for the strike period was rejected.

Points of Dispute

It is clear that the divergence between the Samiti and the Union was of a minor nature and in fact the agreement declares: "It is agreed that at present there is no dispute on any demands as such in as much as the agreement of June 24, 1957 concedes the main demands. The question of delay in implementing the agreement has become a matter of difference." The Samiti gave the assurance that it stood by the June 24 agreement and that "there was no desire on the part of anyone to resile from its implementation."

Before the agreement, however, both the parties accused each other of ulterior motives. For example, the Union charged the Samiti of commiting a breach of agreement by delaying its implementation and accused two P S P leaders of planning to break the strike and the Union. On the other hand, the Samiti leaders attributed the delay to complicated rules and procedure, accused the Union of paralysing the civic life of the city by work stoppage without notice in essential services and urged other trade unions to impress on workers the need to desist from strike.

Causes of Dispute

The causes of the dispute can be broadly divided into three broad groups:

(i) immediate causes;

(ii) short-term causes; and

(iii) long-term causes.

There was only one immediate cause, viz., the demand for reinstatement of the suspended cook. The Samiti, which included a number of veteran trade unionists, conceded that the suspension amounted to victimisation, mainly because the charge of suspension (collection of membership dues for an "unrecognised" union) was morally defective when the Union had secured de facto recognition. Unfortunately the Samiti did not accept this trade union right in time and allowed the flare-up to take place. It was the suspension which touched off the strike of hospital workers and the failure of negotiations to redress this individual grievance resulted ultimately in the collective action of a general strike of all municipal workers. The main reason for the Samiti's failure to settle the issue quickly arose from the fact that the power of reinstatement rests with the Municipal Commissioner and not with the majority party in the Corporation.

The short-term causes were embodied in the demands put forth and provisionally conceded on June 24, viz, recognition of the Union, wage increase and merger of half dearness allowance into basic wage. The agreement of September 20 concedes these demands and contains an assurance about their implementation in the near future.

Long-term Causes

Consideration of the immediate and short-term causes could terminate the strike before any serious harm was done. Strike, however, is only an outward manifestation of seething labour unrest, the causes of which are generally deep, disguised and long-term. Unless these causes are eliminated, strikes may recur and the same process will have to be gone through again. It is, therefore, necessary that we should not be content merely with the cure but also attempt prevention of the malady itself. Any palliative measures like the agreements of June 24, and September 20, are provisional in nature and should be followed by exploration of the inherent causes of labour unrest and their permanent solution.

The Municipal strike has revealed the following main defects:

(a) inability of the majority party in the Corporation to control the Corporation officials;

(b) the political exploitation of trade unions;

(c) flagrant violation of legislation and of moral values; and

(d) workers' attachment to strikes.

A curious fact that emerged out of this strike was the concentration of administrative powers in the Municipal Commissioner, who could easily ignore the elected representatives of the people. Though the Samiti leaders agreed to recognise the Union on June 24, the Medical Superintendent of the Arthur Road Hospital did not hesitate to suspend a worker on August 3, for "collecting subscription for unrecognised Union". The Samiti was practically helpless on the plea that the administrative power of reinstatement was with the Commissioner. Another recent example of this strange constitutional position is the declaration of the BEST General Manager regarding the building of a tube railway in Bombay, in spite of the Corporation's decision against it.

These key-posts in the Corporation are filled by civilians nominated by the State Government, at present represented by the Congress. The civilians, though technically under the Corporation, owe allegiance to the State Government. Sooner or later, and better sooner than later, the Samiti leaders will have to fight this unconstitutional constitution and compel the civilian officials to bow down to democracy or surrender themselves to bureaucracy and plead their helplessness against even the legitimate demands of trade unions.

The usual defects of political exploitation of our trade unions were seen in this dispute, namely, the dominance of outsiders in trade union matters, the rivalry and multiplicity of unions, absence of legitimate trade union functions and methods and incitement to strikes and violence. The Socialist leaders of the Mazdoor Union have been accused of trying to compensate for their political frustration through this strike; the party controlling this Union could not win a single seat either in the Bombay State Assembly or the Bombay Municipal Corporation and hence it attempted to regain this loss of popularity by waging a strike.

The strike was illegal in the sense that it was waged without any notice in an essential service. The provisions of the Industrial Relations Act were completely ignored and the maximum to which the Samiti could make the Union agree was that in future it would not resort to lightning strikes. Though the cause of the strike might have been just, the methods followed by the Union certainly deserve censure both from the legal and moral viewpoints; the strike caused extreme inconvenience to the sick and suffering and endangered the public health.

Lastly, this strike clearly brought out the fact that workers still love to go on strike, particularly with monetary demands. The success of a strike in India is not a barometer of the popularity of a union, because workers often go on strike in the absence of any call from the union or sometimes even in spite of the union's "no-strike" directive. Loyalty to the union is almost invariably subservient to the urge to strike.

Conclusion

In the interests of Indian labour and sound trade unionism, adequate attention should be paid to the removal of long-term causes of labour unrest, which have been mentioned above for the municipal workers. If this is not done, this unrest will come to the surface off and on in the form of strikes, violent attacks on supervisory staff, sabotage, go-slow tactics, loitering on duty, absenteeism, labour turnover and general reluctance to work.

Notice

National Carbon Company (India) Ltd.

NOTICE is hereby given that an Interim Dividend for 1957 of 75nP per share equivalent to 7½% without deduction of income tax paid by the Company was declared by the Board of Directors of the Company on 25th September, 1957, payable on or after 18th November, 1957, to those shareholders on the Register of Members of the Company on 10th October, 1957, or their Mandatees.

The Share Transfer Register of the Company will be closed from 11th October, 1957, to 26th October, 1957, both days inclusive. Transfers to be deposited with the Company should be correctly executed and stamped, share certificates attached and accompanied by Power of Attorney where necessary if not already registered with the Company.

All Transfer documents must be deposited at the Company's Registered Office at 18A Brabourne Road, Calcutta-1, or at the Company's Share Transfer Department at FARADAY HOUSE, P-17 Mission Row on or before the close of business at 4-15 p.m. on 10th October, 1957.

BY ORDER OF THE BOARD

G. BOWLAND
Secretary

25th September, 1957
18A Brabourne Road
Calcutta-1



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ACP. 4362 (Rev.)

From the Chair

The Imperial Tobacco Company of India Ltd

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-Sixth Annual General Meeting of the Company held on the 26th September, 1957:—

Ladies and Gentlemen:

I have much pleasure in welcoming you to this the Forty-Sixth Annual General Meeting of the Company.

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 Secretary will now read the Auditors' Report.

Mr. A. H. Davies, who had served this Company for over 30 years—9 of them as a Director—retired from the service of the Company early this year. We wish him health and happiness in a well-earned retirement.

The accounts in your possession show somewhat less satisfactory trading results than did those of the previous year, but I believe that you will regard the final results now disclosed as acceptable in the light of present-day circumstances, bearing in mind the increased rates of Company taxation operative during the year under review and the rising costs which I foreshadowed in my speech last year.

The accounts also differ in their form of presentation, to accord with the requirements of the Companies Act, 1956.

During the course of my speech, I shall make some further comment on both the trading results and the form of the accounts additional to that given in the Report of the Directors.

Turning first of all to the Liabilities side of the Balance Sheet, you will have noted that Fixed Asset and Stock Replacement Reserve now stands at Rs. 3½ crores, Rs. 34½ lakhs of the increase over last year representing, as explained in the Report of the Directors, that element in past Depreciation Provisions included to cover the higher replacement cost of fixed assets and the further accretion of Rs. 30½ lakhs having been transferred out of the profits for the year under review.

You will also notice that the small balance standing to the credit of Other Revenue Reserves has been transferred to General Reserve, which latter now stands at close on Rs. 4 crores 64 lakhs.

Security Deposits from Dealers and Contractors (Cash) show a reduction of some Rs. 34 lakhs. This, together with the reduction of some Rs. 29½ lakhs in Sundry Debtors (Secured), reflects the Company's policy of refunding cash deposits and withdrawing credit which was previously given against the security of those deposits.

On the Assets side, under Current Assets an increase of some Rs. 82 lakhs against Manufactured Goods is shown, which is the result of your Company's policy of holding increased supplies of goods available at or near points of sale, especially where the points of sale are at a distance from the point of manufacture.

Fixed Assets show a substantial increase of some Rs. 80 lakhs indicating, as the schedule on pages 16 and 17 shows, an increased investment of the Company's resources in assets pertaining to production and distribution.

Cash and Bank Balances are lower by some Rs. 55 lakhs, partly accountable for by increased expenditure on fixed assets.

From the Profit and Loss Account you will note that the value of sales shows an increase of nearly 6% on the 1956 figure, but because of a tendency among consumers to turn to our lower priced cigarettes that increase in value does not match the increase in volume of sales.

However, increased costs and expenses, particularly in respect of indigenous raw materials, customs and excise duties, salaries, wages and manufacturing, freight and selling expenses generally, have more than outweighed that increase in sales value, with a consequential reduction in the balance of profit and loss available for transfer to the Appropriation Account.

The increase in volume of sales is, of course, an encouraging sign, but you will have observed that the ever-increasing burden of direct Company taxation, now inclusive of Wealth Tax, requires almost Rs. 16½ lakhs more in the year under review than in the previous year, and has had its serious effect on the net profits remaining available for appropriation and distribution to the shareholders.

I would like to enlarge briefly on Note 5 of the Report of the Directors. The Companies Act, 1956 requires the use in published accounts of heads of accounts which are not in all cases appropriate to your Company's type of business in that their use does not provide all the data required by those responsible for day to day management.

In order to be able to provide you with comparative figures for the year to 31st March, 1956 under the new heads of account required by law for the year now under review, it has been necessary to make certain re-allocations which, as you will have noted, are in some cases described as approximate.

In common with all industry in this country, our own industry is closely concerned with the effects on the national economy of the Second Five-Year Plan. An improved standard of living for all the people in this country is obviously greatly to be desired and is an aim which should be of ultimate benefit to our trade through the increased consumption of our products. For some time to come, however, it is fairly obvious that we cannot expect the impact of the execution of the Plan to be immediately beneficial to our business.

A matter of immediate concern to your Company is the ever-increasing shortage of foreign exchange. This makes it very difficult to continue to keep abreast of modern developments in the various types of machinery which we use, and even to maintain that machinery in good working order. Furthermore, we may have to abandon, or

at least to shelve, a plan for the establishment of a new factory, intended to enable your Company to meet the growing demand for cigarettes which we anticipate will, in a few years' time, be greater than our existing productive capacity will be able to supply. Factories are not built in a day, and there may be a serious shortfall in supply in the visible future if the exchange position does not improve within a year or two.

We have also to pay regard to the risk of further inflation, the effects of which, as I have already indicated, have made your Directors consider it advisable to transfer some Rs. 30½ lakhs from last year's profits to Fixed Asset and Stock Replacement Reserve in an attempt to maintain the real value of the capital employed in the business.

The execution of the Plan has also brought in its train increased taxation, both direct taxation on companies and, in the case of our industry, increased rates of customs duty on imported unmanufactured tobacco and of tobacco excise duty on unmanufactured tobacco other than flue-cured. Many of the other raw materials used by your Company, such as paper and board, have increased in price following increases in the duties applicable to them; consequential increases in rates of cigarette excise duties chargeable have further affected the cost of our finished products.

All such factors combine to make it more and more difficult, despite the increasing volume of sales, to maintain profits at a reasonable level and it will be obvious to you that the increased volume of sales could be put in jeopardy if any general increase in the price of your Company's products had to be put into effect.

Until, then, we can begin to see in greater measure practical results beneficial to the country's economy emerging from this present Five-Year Plan, I must tell you that your Board view with some concern the increasing pressure of higher costs of production and the effect of heavy taxes on our business.

In my speech last year I criticised the sales taxes levied by States on tobacco products both as being an undue imposition on an already heavily taxed product and on the ground that the rates varied widely from State to State. If our industry cannot be exempted from sales taxes at least we may welcome the proposal that these taxes should be centralised. It is earnestly to be hoped however that a result of this reorganisation will not be the imposition of a still heavier burden on the consumer of cigarettes. I have mentioned already that a period of growing volume of sales has seen the consumer turning increasingly to less expensive brands, and in this mood he is particularly apt, in the event of price increases, to turn away from cigarettes to goods less heavily taxed. I need not enlarge upon the implications for your Company and for the national revenue of any such development.

During the year under review this industry together with a number of other industries was brought within the scope of the Industries (Development & Regulation) Act of 1951. This Act gives the Government extensive powers to intervene in a company's affairs, but it may be assumed that these powers will not be invoked as long as a business is properly and efficiently conducted in all its aspects.

We have noted with satisfaction and cordially welcome Government's suggestion that a period of freedom from upward changes in taxation should lie ahead, thus enabling industry to avoid the dangers of misdirected effort and waste, which benefit none but which are a natural concomitant of uncertainty as to the future taxation picture. Given a measure of stability in taxation matters over the next few years, I firmly believe that with the co-operation of all our Company's employees in striving for increased productivity, the long-term prosperity of your Company remains assured and that long-term prosperity is not only of benefit to you as shareholders, but to all who may in any way be connected with the Company and its activities.

During the first five months of the current trading year, despite a setback following the Budget in May, sales volume continues to show a satisfactory trend, and in consequence your Directors feel justified in declaring an Interim Dividend of 2%, free of income tax, in respect of the year to 31st March, 1958. However, the various factors which I have mentioned continue to bear adversely on the profitableness of your Company's activities, and I would ask you not to take the declaration of this Interim Dividend as a firm indication that the final results for the year will justify a total distribution at the same level as for the year ended 31st March, 1957.

I now beg formally to move the adoption of the Report and Accounts for the year ended 31st March, 1957, including the payment on the 28th September next of a Final Dividend of 3%, 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.

Note.—This is not a report of the proceedings of the Annual General Meeting.



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 ninth Annual General Meeting of the Shareholders of the Industrial Finance Corporation of India held on September 27, 1957:—

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, 1957. 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.

It is my painful duty to refer to the sudden demise, in March 1957, of Shri Syamnandan Sahaya, our esteemed colleague on the Board of Directors of the Corporation. Shri Syamnandan Sahaya served the Corporation in this capacity as the elected representative of Co-operative Banks from November 1953 till the time of his death. His indefatigable energy and his judgment in financial and business matters were of immense value in the deliberations of the Board, and I am sure you will join me in expressing our deep sense of sorrow at his passing away and conveying our sympathies to the bereaved family.

Higher Income

Shareholders will observe from the Accounts and the Report that the working of the Corporation for the year ended the 30th June, 1957 was even more satisfactory than that for the previous year. Our gross profit rose from Rs. 32.68 lakhs in 55-56 to Rs. 43.06 lakhs in the year under report, and whereas there was no profit left for paying dividend last year, we have a net profit of Rs. 11,25,000|- this year, which just enables us to pay in full the amount of the guaranteed dividend on our paid-up capital, without having recourse to any subvention from Government. This, you will observe, is after providing a sum aggregating Rs. 31.81 lakhs for estimated tax liability, doubtful debts and other contingencies. It may perhaps be of interest if I recall in this connection that, during the past nine years that the Corporation has been functioning, we have had to ask Government for a subvention every year, except once viz. in 1953.

Steep Rise in Investments

The total amount of our loans and advances which stood at Rs. 14.24 crores last year has also shown a marked increase; it now stands at Rs. 21.90 crores. With this steep increase in our investments, I believe we should be in a position, hereafter, to stand on our own legs without calling upon Government for help to meet the guaranteed dividend on our share capital.

In the matter of disbursement of loans also we have forged ahead in the year under report. Our disbursements during this year totalled Rs. 9.78 crores, as against the corresponding total of Rs. 2.20 crores in 55-56, Rs. 1.64 crores in 54-55, and Rs. 2.82 crores in 53-54. This very satisfactory result, it must be said, was achieved in spite of the fact that, due to the closure of the Suez Canal route and also the country's tight foreign exchange position, delivery of capital goods from abroad was subjected to considerable delays, and there was, therefore, corresponding delay in the drawal of the loan amounts sanctioned. Among the important factors which helped us to speed up disbursements to this extent may be mentioned (a) the completion of the administrative reforms that were initiated in 1955-56 to which I had made reference in my last year's speech, particularly the quickening in the pace of completion of the necessary formalities in the head office and branch offices of the Corporation (b) the extension of the system of having our own Law Officers to the two remaining regions viz. Bombay and North India (Madras and Calcutta having already been covered last year) and (c) further liberalisation of the procedure for granting interim loans pending completion of legal formalities.

Loan Applications

There was a fall in the total volume of loan applications received from Rs. 27.70 crores for 1955-56 to Rs. 21.36 crores this year. It is to be noted, however, that this reduced figure of Rs. 21.36 crores represents a considerable advance on the total for 1954-55 viz. Rs. 11.27 crores, and Rs. 9.01 crores for 1953-54. There was a corresponding fall in the volume of loans sanctioned, which came down from Rs. 15.13 crores for 55-56 to Rs. 11.91 crores in the year under report, though both these figures compare very favourably with the corresponding figures viz. Rs. 7.34 crores and Rs. 5.27 crores for 54-55 and 53-54 respectively.

I surmise that one of the main factors which contributed to the diminution in the volume of applications this year was the difficulty experienced by Industrial concerns and entrepreneurs in the matter of securing adequate amount of foreign exchange for importing the necessary capital goods. The rise in prices of foreign machinery was also possibly another important factor which contributed to the contraction in the volume of loan applications.

Very Satisfactory Recoveries

You will notice from the figures given in the Annual Report that recoveries of interest and instalments of principal during the year were on the whole, very satisfactory. We have refrained from exacting our pound of flesh in the case of those defaulters who, we considered, after detailed examination of their financial affairs, deserved liberal and sympathetic treatment at our hands.

Our relations with the public and particularly with the various Chambers of Commerce and Industry, to which we had paid considerable attention in the previous year, as I said in my last year's speech, continued to be as close and friendly in the year under report, and I take this opportunity of thanking the representatives of the various Chambers for the valuable suggestions and assistance which we received from them as a result of the free and frank discussions we had with them on various problems of mutual interest.

Advisory Committees

In my speech las year I had mentioned that our advisory Committees were 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. These Committees have now been reconstituted accordingly. As mentioned in the Annual Report, a fifth Advisory Committee for miscellaneous industries like Electricals, Paper, Cement, Glass, Aluminium, Non-ferrous metals, etc. was also constituted in the course of the year. The advice and guidance received from these Advisory Committees have been of immense help to the Board of Directors in dealing with the loan applications.

A noteworthy step that we took, as an experimental measure, in the year under report was to nominate non-officials to the Boards of Directors of a limited number of companies to whom we had granted loans. Hitherto we had been confining such nominations to the officials of the Corporation. We decided, on the basis of the results of the experimental measure introduced last year, to expand the scope of the scheme, and, in the current year, we propose to nominate serveral more non-officials. A measure of this kind is fast becoming unavoidable as, with the rapidly growing number of loanee concerns on our books, we have arrived at the stage where already it is becoming extremely difficult for our own officials to function as our representatives on the Boards of Directors of all, or even a majority of, these concerns, in addition to carying on their normal duties, the volume of which has also grown considerably of late.

Doubtful Debts

Before I turn to other matters of general interest I should like to invite your attention to one item in the accounts presented to you. Our Auditors have remarked that it would be desirable to increase the provision made for doubtful debts (viz. Rs. 22.25 lakhs) by another Rs. 5 lakhs. As matters stand at present, and based on our present anticipations, which are cautious and conservative, we are in a position to assure you that the provision available in our account viz. Rs. 15.25 lakhs should prove quite adequate for covering our doubtful debts. In fact, if the negotiations for the reconstruction of certain of the Companies concerned and the sale or lease of their assets which are now in progress, bear fruit—as we hope they will—we should be left with a surplus in the provision that has already been made in this regard.

Statewise Distribution of Loans

The figures given in Appendix I 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 1956, there has been a marked increase at the close of our financial year in June 1957, in the total of 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. 1.29 crores up to the end of 1956 to Rs. 2.61 crores at the end of 1957;

(ii) **Kerala**—from Rs. 3.19 crores up to the end of 1956 to Rs. 4.28 crores at the end of 1957;

(iii) **Punjab**—from Rs. 2.01 crores up to the end of 1956 to Rs. 2.66 crores at the end of 1957; and

(iv) **Uttar Pradesh**—from Rs. 2.96 crores up to the end of 1956 to Rs. 3.86 crores at the end of 1957.

In this connection I am glad to inform you that as part of a drive for increasing the volume of assistance rendered to industries in the relatively weaker States, and with a view to informing the Governments of these States regarding the functions and scope of activities of the I. F. C. I made it a point to hold personal discussions with the Chief Ministers of these States, and, in some cases, also with the Ministers in charge of Industries. They all evinced keen interest in the matter of accelerating the pace of industrial development in their States, and I was left with the impression that we may look forward with confidence to an increasing measure of participation by the I.F.C. in the financial assistance rendered to industrial enterprises sponsored by, or with the support of these State Governments, subject of course to our financial resources in the future permitting the expansion of our activities in this particular direction.

Industrywise Distribution

Turning to the general pattern of industrial units which were sanctioned loans during the year under report, Sugar came first with a total of Rs. 4.63 crores. Chemicals and Textiles followed with Rs. 2.51 crores and Rs. 1.85 crores respectively. This same pattern held good in the previous year also.

Co-operative Societies continued, in an increasing measure, to seek our assistance, and at the end of the year under report the total amount sanctioned to this class of concerns came to Rs. 10.73 crores as against the corresponding figure of Rs 6.89 crores at the end of the previous year. All the 22 Co-operative Societies, distributed over six States, to whom we have sanctioned loans so far are engaged in the manufacture of sugar. The total cost of their Schemes comes to roughly Rs. 25.66 crores out of which Rs. 10.73 crores, as already stated come from the I.F.C. as loan, and the balance Rs. 14.93 crores is accounted for to the tune of Rs. 4.23 crores by subscriptions raised from members, Rs 4.16 crores by cash credits from Banks for working capital, Rs. 2.80 crores by subscription from the State Governments concerned, and the balance by deferred payments and other sources.

Loanee Concerns

A fairly large number of our loanee concerns continued to earn during the year profits high enough to enable them to distribute dividends in excess of the usual 6%, with our prior concurrence. We continued to give such concurrence in all cases where the financial position of the concern, after careful examination by us, struck us as satisfactory. It has been our policy to be fairly liberal in this matter, consistent with the security of our loans, and the well-being of the concern.

In this connection I should like to invite your attention to the fact that only a small fraction of the total amount of loans sanctioned by us is accounted for by loans sanctioned to concerns which, at the time of such sanction, had already been declaring relatively high rates of dividend. In the large majority of cases our loanee concerns fall in the category of either those which, at the time of the sanction of their loans by us, were not declaring any dividend at all, or those which, though declaring a dividend at that time, were not declaring dividend at relatively high rates. It is also worthy of note that in the majority of the concerns that had been sanctioned loans by us and which have been paying relatively high rates of

dividend we have made it a condition for the grant of our loans that they should raise fresh capital of a considerable amount in each case from the capital market. In a few of these cases the amounts that they have been asked to raise from other sources have exceeded the loans sanctioned by us, or nearly equalled them.

Interest Rates

Conditions in the money market during the year under report were more tight than in the previous year, and we were obliged to raise the rate of interest on our loans by ½%, viz. from 6% to 6½%, with effect from the 23rd April 1957. It is not unlikely that we may have to pay higher rates of interest than we do now on our borrowings in the course of the current year; this will naturally affect our lending rates too.

Additional Funds

In my speech last year I had invited your attention to the fact that our ways and means position was engaging our anxious attention. With a view to ensuring that we have the necessary funds to enable us to fulfil the important role assigned to us in the Second Five-Year Plan we explored all possible avenues for raising additional funds in consultation with the Government of India. You will be glad to know that in spite of the very difficult conditions that have prevailed for some time in the money market we have been able, thanks to the good offices of the Government, to make arrangements for augmenting our resources to the tune of an additional sum of Rs. 15 crores, which will enable us to disburse, if we are called upon to do so, loans up to a total of as much as Rs. 20 crores in the course of 1957-58 alone. Our thanks are due to the Central Finance Minister and his Ministry for making this possible.

Amending I. F. C. Act

Another important development in this connection that you will be glad to hear about is that Government have also approved of our proposal to amend the I.F.C. Act so as to enable us to borrow sums aggregating ten times our paid-up capital and reserve fund instead of five times that is allowed by the Act at present. A Bill, incorporating, inter alia, the above-mentioned amendment has already been introduced in Parliament.

So much for the bright side of the picture. There is, however, the inevitable cloud attaching to the silvery future that I have just outlined to you. Loan applications from various industrial concerns which we have not been able to consider so far have already swollen to an unprecedented volume, and they still continue to come in. To meet this huge demand we have to try and raise further additional funds again almost immediately. Conditions in the money market which were, as I said, difficult enough last year have yet shown no signs of appreciable improvement, and it is not, therefore, unlikely that we should be faced this year with the prospect of having to hold over consideration of the bulk of the pending applications until such time as conditions change for the better. We are, however, at the moment, engaged in consultations with Government with a view to finding some solution to this problem. Government have been extremely helpful to us in this matter already, and, in spite of the heavy odds, I would not rule out the possibility of some amount being found for us this year.

Deferred Payments Guarantee

A new field of activity which we are likely to enter this year is the guaranteeing of deferred payments by the importers of capital goods who are able to obtain this concession from the foreign manufacturers. As you are aware, our foreign exchange position has compelled Government to impose severe restrictions on the import of all foreign goods—capital and others—and importers of machinery are now obliged to secure terms of deferred payments before import licences are granted to them by Government. Some of the foreign exporters have asked that the deferred payment arrangements should be guaranteed by an institution like ours. Government decided, in consultation with your Directors, that we should be enabled to do this in appropriate cases, and they have introduced a Bill in Parliament which seeks to so amend the I.F.C. Act as to vest in us the power to do so. This Bill, it is hoped, will come up for consideration in the November Session of Parliament, and as soon as it is passed we shall formulate the procedure we will follow in regard to this new activity of ours.

Before I close, it is my very pleasant duty to convey my hearty thanks to my colleagues on the Board of Directors, as well as to the members of the various Advisory Committees and the non-officials who have served as our representatives on the Boards of Directors of loanee concerns for their co-operation and wise counsels. I have also great pleasure in conveying my thanks as well as that of the Board to the General Manager and the entire staff of the Corporation for another year of loyal and devoted work on their part.

Sugar Exports

According to the Food and Agriculture Bulletin (issue of September) published by the Food Ministry, over 1,71,200 tons of sugar have already been sold for export. This figure includes 82,350 tons for West Asian countries, 37,000 tons for Far East countries including Malaya, 20,250 tons for Burma and Ceylon and 1,000 tons for the United Kingdom. The Food and Agriculture Bulletin, however, does not mention the period to which these figures relate but they may be presumed to cover the period ending August 31, 1957.



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Kashmir's Second Five Year Plan

An Appraisal

'Posha'

THE Second Five Year Plan of the State of Jammu and Kashmir involves an outlay of Rs 51.27 crores. Projects estimated at Rs 35 crores have already been approved by the Planning Commission subject to a 5 per cent cut. Since the State Government has not yet taken any final decision regarding this reduction (see budget speech of the State Finance Minister, 1956) and projects costing Rs 16 crores are under the consideration of the Planning Commission, the figures released relate to the original size of the Plan, viz, Rs 51.27 crores. The Plan is an improvement over the first Plan in being more bold and broad-based; it also covers new fields of economic and social development. The size of the Second Plan is four times that of the First. Unlike the First Plan, it makes a more equitable allocation of funds between the different regions of the State. "This", it is claimed, "has been made possible in a large measure due to the willing cooperation of the people in all walks of life in the primary task of framing up of proposals in various fields of development. Suggestions which have been duly taken note of in the draft Plan, have been received from several non-official agencies, representatives of trade and industry, Panchayats and Village Committees".

Regional Allocation

A statement indicating the regional distribution under the Second Five Year Plan over the various sectors of the State's economy is given in the accompanying Table. Out of a total amount of Rs 51.27 crores Rs 23.44 crores or 45.72 per cent have been allocated to Jammu Province. Kashmir Province including Ladakh gets Rs 19.59 crores or 38.21 per cent of the total. Besides, 8.84 per cent and 7.23 per cent of the total amount have been set aside to be disbursed on schemes of common interest and unallocated schemes, respectively. While the broad lines of distribution in various heads are the same in both the provinces, there is greater emphasis on irrigation, water supply and development of backward areas in Jammu province, and on industrial development and tourism in Kashmir Province.

This is quite in keeping with the immediate needs of development in the two provinces, which to a large extent form two small economic regions showing differences with regard to resources, whether employed and employable, the stage of economic development and the size, nature and composition of external trade. Of the schemes of common interest, those for industrial development account for a little less than one-third of the total. In the case of unallocated schemes, 26.97 per cent is to be spent on housing and another 23.46 per cent on industrial development.

Emphasis on Agriculture

It will be observed also that the broad pattern of allocation under different heads in the State's Second Plan is the same as in the First Plan which is not the case for the country as a whole. In terms of broad objectives, the main emphasis in the Second Plan is on rapid industrialisation particularly the development of basic and heavy industries and on large expansion of employment opportunities. In Jammu and Kashmir however, agriculture including community development with irrigation and power accounts for more than half of the total Plan expenditure.

There are, of course, valid reasons for this. Firstly the State itself has a limited internal market for products of large-scale industries. Heavy industries will have to depend upon a market outside the State. Meagre and costly transport destroys whatever locational advantages in heavy industry the State may possess. The immediate task of planning in this State is, as in other hilly States like Assam and Himachal Pradesh, to establish a cheap and efficient net work of transport.

Secondly, the First Plan did not succeed in increasing local food production to the extent necessary to make the State self-sufficient in food. Even at present the State has an annual deficit of 43 lakh maunds of foodgrains. It is being widely felt that because of the huge sums now spent by way of food-subsidies, developmental work in other sectors of the economy is retarded. Hence the emphasis on self-sufficiency in food as an immediate objective of planning.

Thirdly, Kashmir is essentially the home of cottage and small-scale industries. The very fact that about one-seventh of the total population is connected with these industries bears an eloquent testimony to their importance in the economy of the State. The development of these industries, which require less capital allocation (per unit of production) but create greater opportunities for employment, forms the core of the industrial programme of the State during the next five years.

It is surprising to find, however, that the allocation under road development in the Second Plan is 10 per cent less than that in the First Plan. The existing position in regard to roads is not such as would justify a slowing down of the rate of their development. This is likely to slow down the rate at which different parts of the State are being opened up for tourist traffic—a source of considerable employment and income in this State. It is just possible that lack of adequate development in this sector may retard and check progress in other sectors, especially in cottage and small scale industries, which depend largely on tourist demand.

Industrial Policy

In a mixed economy, the private sector has necessarily to play an important role. But Kashmir's Plan does not indicate what role is to be assigned to this sector. A clearly demarcated field for this sector would be in the interest of the State's economic progress. A proper formulation of the State Government's policy in this regard is urgently necessary, particularly if the inflow of capital from outside the State is to be encouraged.

Reorganisation of the State's cottage and small scale industries on a healthier basis with a view to increasing their area of operation and total production, also need the immediate attention of the State

Government. The present superstructure of financier-cum-dealer has got to be replaced by a more enlightened agency which provides both ready finance and good technical advice as regards techniques of production and nature of market. Not that this system should be abolished immediately but gradual action leading to its ultimate replacement should be commenced at this stage. Even this slow process can start, however, only as part of a properly conceived policy.

Scope for Large-Scale Industries

It cannot be denied that cottage and small scale industries are destined to play a very important role in the State's economic development. But at the same time we should not lose sight of such large-scale industries for which there is scope for development. For instance, the State is rich in forest resources and a number of industries for manufacture of products like paper, matches, and building material could be developed in the State. Before Independence, forest products comprised the biggest item of export from the State. With the breakdown of the river transport system as a result of the partition, these exports declined considerably. This situation has to be met by going in for progressive processing of forest wealth internally before they are sent out of the State. Value has to be added to its products, so that they can bear additional transport costs and compete in the Indian market. Similarly, the gardens of the Kashmir valley provide ample scope for industries based on the preservation and processing of garden products on a large scale as is generally done in the Mediterranean fruit-producing countries. There is scope also for the manufacture within the State of woollen textiles on a large scale and for the manufacture of drugs and chemicals. In both cases the State is richly endowed with raw materials and setting up of large manufacturing units should prove economic propositions. As stated earlier, progress on this front is contingent upon the proper development of roads and road transport in the State so that the products of these industries can be transported to their markets promptly and at minimum cost.

Achievements

Unfortunately, it has not been indicated by the planners what results they hope to achieve in terms of the national income of the State and in terms of employment opportunities. This criticism applies perhaps to the Plans of all the States. However, it may be noted that the Plan allocation of Rs 51 crores to this State, which has a population of 29 lakhs, implies a far greater per capita allocation than for the country as a whole. It may perhaps be permissible to assume that the benefits accruing to the State will not be less than the targets set for the entire country. It is not too much to hope, therefore, that the employment position will ease soon and the seasonal, temporary and even permanent exodus of labour, both educated and otherwise, which started seventy years ago and has gained momentum decade after decade thereafter, will come to a stop by the end of the Plan period.

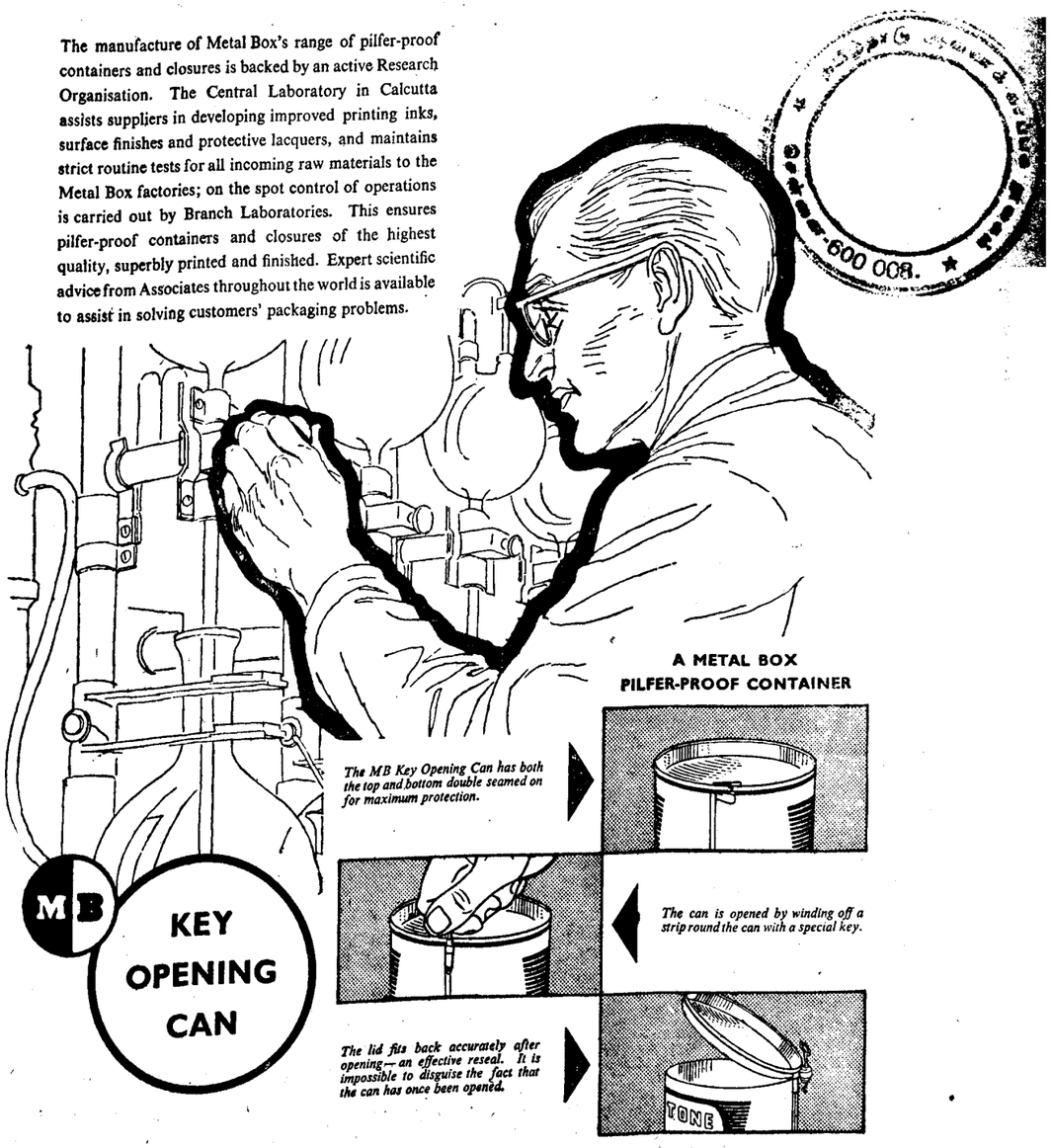
Table Showing Allocations under Kashmir's Second Five Year Plan
(Rs lakhs)

	Jammu Province		Kashmir Province including Ladakh		Schemes of Common Interest		Unallocated Schemes		Total
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount
Agriculture & Community Dev	2,18.30 (9.31)	41.77	249.26 (12.72)	47.69	55.09 (12.16)	10.54	—	—	522.65 (10.19)
Irrigation, Power and Flood protection	1443.16 (61.57)	60.94	855.98 (43.69)	36.15	34.18 (7.55)	1.44	34.77 (9.38)	1.47	2368.09 (46.19)
Roads	233.64 (9.97)	38.94	252.74 (12.90)	42.12	76.89 (16.97)	12.82	36.73 (9.90)	6.12	600.00 (11.70)
Industrial Development	76.38 (3.26)	17.80	126.44 (8.45)	29.46	139.58 (30.77)	32.47	87.00 (23.46)	20.27	429.20 (8.37)
Education	94.89 (4.05)	31.63	139.81 (7.14)	46.60	65.30 (14.42)	21.77	—	—	300.00 (5.85)
Health	99.63 (4.25)	33.21	148.74 (7.59)	49.58	51.63 (11.40)	17.21	—	—	300.00 (5.55)
Housing	—	—	—	—	—	—	100.00 (26.97)	100.00	100.00 (1.95)
Other Social Services	—	—	—	—	—	—	57.00 (15.37)	100.00	57.00 (1.11)
Miscellaneous	178.00 (7.59)	39.55	186.22 (9.51)	41.38	30.50 (6.73)	6.77	55.34 (14.92)	12.30	450.06 (8.79)
Total	2344.00	45.72	19,59.19	38.21	452.97	8.84	370.84	7.23	31,27.00

Note: Figures in brackets represent the percentage share of the item in the column total.

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Around Bombay Markets

Listless Trading

Thursday, Morning

TRADING at Dalal Street became utterly dull during the week owing to absence of incentives. The somewhat optimistic hopes that had been built up, over the previous fortnight, around the possibilities of getting substantial U S aid seemed to have been at least partially dissipated, for Washington still appeared to be more reticent than obliging. Bombay Burmah declined on reports of proposed profit sharing in Madras plantations, while Hindustan Lever and Tata Oil shed their recent gains on account of rising groundnut prices. Great Eastern Shipping which has been markedly firm earlier, on expectation of a bonus issue, eased off at the end, after the Company's Board decided against the move for the present. Wimco was practically the only major scrip to be conspicuously firm throughout, on reports of satisfactory sales and partial overcoming of competition from cottage units. 3 per cent Conversion Paper declined further to Rs 71.00 sellers, but other gilt-edgeds remained more or less steady.

Foreign Assets Depreciate Again

Foreign securities held in the Issue Department of the Reserve Bank have declined further by Rs 10 crores to Rs 326.62 crores during the week ended September 27, but 'Balances held abroad' in the Banking Department have risen by Rs 2.5 crores. It is difficult to state how much of this decline of Rs 7.5 crores is in fact attributable to the depreciation in British gilt-edgeds consequent on the raising of Bank Rate. If the real external drain during the week has continued at the rate more or less of the preceding three weeks or so, then, not more than one-half of this decline of Rs 7.5 crores could perhaps be described as payments deficit on current account. The total damage to the Reserve Bank's sterling investments caused by the raising of Bank Rate may, therefore, be estimated at between Rs 10 and 15 crores.

The decline in the foreign assets of the Issue Department has been made good by an equivalent rise under Rupee securities. Investments in the Banking Department have gone up by Rs 4.5 crores. There is practically no overall change in Government deposits, while ways and means advances have declined by Rs 2 crores. Banker's deposits have gone up by Rs 2 crores and loans against usance bills are lower by an equivalent amount. Notes in circulation have declined slightly by Rs 2 crores.

During the week ended September 20, scheduled bank advances have gone down further to Rs 835.62 crores, a decline of Rs 7 crores compared to the previous week, bringing down the credit ratio to 63.86 per cent. The State Bank has made no contribution to this contraction. Investments have gone up by Rs 10.5 crores, of which the State Bank accounts for Rs 7 crores. Over the past two weeks the State Bank's gilt-edged portfolio has expanded by Rs 17 crores, while that of scheduled banks as a whole has expanded by Rs 20 crores. Total cash reserves have declined by Rs 6 crores, the State Bank accounting for as much as Rs 5 crores. The State Bank is obviously reducing its excessive cash balances which even now give it a cash ratio of about 13 per cent as against the overall secheduled banks' ratio of 9.92 per cent. Net deposit liabilities during the week have gone up by Rs 4 crores; the State Bank is responsible for the whole of this increase.

Cotton

Cautious Buying

KALBADEVI has turned bullish on deriving inspiration from reports of a somewhat smaller total crop, movement delays in Khandesh, Berar and Broach, and hopes of early announcement of an export quota for Bengals. With a buoyancy reminiscent of more glorious days, Moglai March was lifted within a few days from Rs 664 to Rs 686, Teji option being applied towards the close of the week for 10,000 bales. Throughout this rise, however, operators have been anxious to book profits at every significant bulge, for the statistical position of the crop and Government export policy are still rather indefinite.

Sewri has turned active with daily turnover averaging well above 2,000 bales. Domestic cottons are being eagerly canvassed while import quotas for East African and American cotton are being allowed to expire. So far only 40 per cent of these quotas have been utilised. One of the reasons is that mills are interested more in Egyptians and in longer Uganda staples than have been permitted so far. Another explanation, of which there is ample statistical confirmation, is that since the share of coarse cloth in total production has been increasing of late, mill demand for foreign cotton has declined correspondingly. In any event, no mill desires to increase its financial commitments unduly by importing medium and long staples, cloth produced from which may have to remain in stock for a long time under present market conditions before it can be sold.

Oilseeds

Groundnut Turns Buoyant

THE statistical position of groundnut has been affected adversely by reported absence of rains in Gujarat, Saurashtra and Kutch over the past fortnight. Saurashtra is said to be largely responsible for the downward revision in the crop estimate from 25-26 lakh tons to 22-23 lakh tons. The duty concession announced to encourage export of Vanaspati products also acted as a stimulant, though a minor one. In consequence, Groundnut February rose over the last fortnight from around Rs 147 to nearly Rs 156, before profit-taking brought it down to Rs 154.

All other oilseeds have risen in sympathy with groundnut. Castor rose over the week by nearly Rs 5. The September contract of castor was squared on Monday the 30th at Rs 174 with a penalty of Rs 5 on sellers.

Bullion

Gold Smuggling Increases

GOLD smuggling has obviously revived to such an extent over the past one month that budla rates in gold have now turned in favour of bears. Spot as well as forward gold has lost over a rupee.

Around Calcutta Markets

Foreign Exchange and the Plan

Wednesday, Evening

AS the Calcutta Stock Exchange closed on Friday last for the Puja holidays, the technical vulnerability of Lyons Range became evident. In normal circumstances, such a long holiday should have prompted some "bear" covering. In consequence, equities might have been expected to stage a technical rally. No such development was witnessed on Friday last. On the contrary, equities eased further on, what looked like, tired "bull" liquidation. Because of the continuous fall in the last few weeks, such a behaviour of equities was all the more intriguing. Its technical implications should not be ignored.

It would seem, in retrospect, that the continuous fall in equities has been due to persistent liquidation by holders. There have been occasional "bear" sales. But the "short" position in the market has never been substantial in recent weeks. Even those who sold "short" immediately as the rise in the British Bank Rate came to be known must have covered their sales long before Lyons Range closed for the Puja holidays. LIC's timely support must have frightened "bears" to take cover promptly. In the absence of any active "short" interest, there was no covering demand as the market closed for the holidays. Instead, weak "bulls" liquidated. So, equities eased further.

Inflation

Subsequent behaviour of Dalal Street confirms the prevailing gloomy outlook about equities. Gradually, the realisation is dawning that a curtailed Plan would slow down the tempo of industrial activity. There is something in this argument, but it should not be over-emphasised. At the moment, there is growing apprehension that TTK's mission for foreign loans and aid may not be very successful. Neither President Eisenhower nor the President of the World Bank sounded helpful during the deliberations of the annual meetings of of the Brettonwoods twins. And, with the substantial fresh British draft on IMF, some time must elapse before India can make similar demands on the Monetary Fund.

Stock markets succeeded in absorbing the shocks from the budget. But as, some weeks ago, it became evident that credits would become scarcer, investors jumped to the conclusion that that would cause a slowing down of the Plan. Still, there were hopes that the "hard core" of the Plan would be implemented. TTK's mission abroad is mainly aimed at ensuring the "hard core" of the Plan. But, as latest developments indicate, there are growing doubts in Lyons Range whether TTK's mission will be successful.

That is why equities have developed fresh weakness at the time of this writing. Investors' pessimism is not without basis. It is true that Pandit Nehru has already anticipated President Eisenhower in the latter's reminder that economic development is "a homespun product". But there have been hopes that Washington will respond to New Delhi's request for a substantial dollar loan. President Eisenhower is not unsympathetic. He is aware that a helping hand in the shape of financial and technical assistance can help underdeveloped countries to solve their special economic problems and troubles. But the American Congress remains unconvinced.

There are many reasons why Washington does not like the look of New Delhi. But the reluctance of the Congress to sanction loans to countries like India which do not align themselves with America is well-known. That may or may not explain President Eisenhower's emphasis on private international investment. Admittedly, the Brettonwoods twins were created to foster the resumed flow of private foreign investment. These organisations are not entirely to blame for their failure to achieve the aim. Neither the political nor the economic climate is congenial. Recent experience indicates that foreign lending will continue to be on a Government-to-Government level.

There is more than one reason why private international investment is not likely to resume its accustomed nineteenth-century volume. For one thing, few countries have any surplus to invest abroad. In America and West Germany, the only two surplus countries, there is ample domestic scope for private investment. TTK seems hopeful that New Delhi's recent gestures will attract foreign private capital to this country. That remains to be seen. Meanwhile, it is doubtful whether even private foreign investment can be of help to India at this juncture. Will private foreign capital be willing to invest in the public sector or in those sections of the private sector which are within the Plan? Else, private foreign (or domestic) investment at present may multiply India's economic problems, and may further endanger the Plan.

Import Credits

Not private foreign investment, but arrangements for deferred payments for imports of capital goods are what India needs urgently. With the recent increase in Bank Rate, such aid by Britain is likely to be insufficient. There is scope for such assistance from America. Hopes linger that such help in substantial amounts will be available from West Germany. These avenues for securing foreign exchange are now being explored by India's Finance Minister. There will be hope that his talks with American exporters and credit agencies will bear fruit, though indications are not very bright.

Even so, it is clear beyond the shadow of a doubt that even the "hard core" of the Plan will be endangered without the loan sought by New Delhi from Washington. Prospects for such a loan on a Government-to-Government level seem unencouraging. It is not quite clear whether Washington is sympathetic about India's request. But it is no longer a secret that, even with Washington's sympathy, such a loan in the needed volume may not be endorsed by the American Congress in its present mood and temper. It would be idle to speculate on this issue. Much depends on the outcome of TTK's mission. And the present quiet trend in equities reflects investors' awareness as to how much depends on the availability of an adequate dollar loan from America.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1471.11	1473.36	1470.63	1409.23
2. Rupee Coin	135.20	134.60	133.58	120.07
3. Deposits				
a) Central Government's	52.19	49.05	54.35	71.3
b) Banks'	100.01	97.33	102.80	52.64
c) Other Governments'	7.53	11.28	8.19	19.05
d) Others'	109.97	111.28	108.58	12.46
4. Foreign Securities	326.62	336.55	360.52	586.74
5. Balances held abroad	25.90	23.38	19.34	28.33
6. Rupee Securities	935.87	925.93	901.97	703.72
7. Investments	201.27	196.71	215.39	32.34
8. Loans and advances to Governments	41.79	44.21	37.28	2.8
9. Other loans and advances	78.38	73.02	74.86	86.81
Scheduled Banks				
1. Demand liabilities (net)	718.55	717.58	711.38	631.89
2. Time Liabilities	616.24	612.46	580.94	461.05
3. Cash on hand	36.64	37.52	38.94	35.98
4. Borrowings from Reserve Bank	36.98	28.30	41.99	67.66
of which against Usance Bills	33.00	26.78	37.04	40.65
5. Advances and Bills discounted	784.85	790.17	806.31	706.01
of which State Bank's	157.72	158.10	162.20	131.67
6. Invst. in Govt. Sec.	386.04	375.50	370.52	373.48
of which State Bank's	151.86	145.12	134.92	107.47
Cheque Clearance	152.06	154.65	144.55	155.02

†For Reserve Bank week ended 27-9-57. Scheduled Banks and Cheque Clearance week ended 20-9-57.

Bombay Money Rates

	20-9-57	13-9-57	23-8-57	21-8-57
Call Money				
From banks	2½–4 7/16	2 11/16–4½	3½–3 11/16	3 15/16–4 6/16
From public	3½–4 9/16	3½–4 9/16	4–4 7/16	3½–4 6/16
Three Months	2½–4 7/16	2½–4 9/16	2½–4 11/16	2½–4 6/16
Six Months	2–4 7/16	2–4 9/16	2–4 7/16	2–4 5/16

Bombay Bullion	8-10-57	In Rupees and nP Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	106.75	107.31	107.50	103.00
Forward	107.12	107.65	107.40	103.19
Silver (per 100 tolas)				
Spot	184.87	184.37	181.37	173.75
Forward	185.12	184.62	181.37	174.12

JUTE STATISTICS

	July	June	May	July '56 to June '57
Production ('000 tons)				
Hessian	35.6	32.3	35.6	428.3
Sacking	45.0	42.3	45.0	526.8
Others	5.3	5.5	6.7	70.1
TOTAL	85.9	80.1	87.3	1,025.2
Total production in the Corresponding months of:				
1956	94.1	98.9	101.7	1,095.0
1955	84.1	85.7	81.7	994.8
Stocks at the end of the month ('000 tons)				
Hessian	38.3	42.4	40.4	—
Sacking	63.3	64.8	58.0	—
Others	6.6	8.8	11.0	—
TOTAL	108.2	115.9	109.4	—
Stocks at the end of the Corresponding months of:				
1956	137.9	127.0	119.7	—
1955	81.5	87.6	94.7	—
Despatches:† ('000 tons)				
Hessian	39.1	30.2	30.5	424.5
Sacking	46.8	35.7	46.2	547.0
Others	6.8	7.3	6.0	60.4
TOTAL	92.7	73.2	82.7	1,031.9
Total despatches in the Corresponding months of:				
1956	84.2	90.7	89.0	1,047.2
1955	91.6	84.0	89.6	988.4
Raw jute consumption: (lakh bales of 400 lbs each)				
1957	5.03	4.61	5.12	60.15
1956	5.25	5.54	5.89	68.40
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	54	57	48	503
In corresponding periods of:				
1956	44	37	21	1,191
1955	190	126	95	1,178
Indian	286	322	442	5,856
In corresponding periods of:				
1956	363	378	385	5,190
1955	284	309	179	5,198

† Despatches include exports and sales for internal consumption.

Source: Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 7-9-57	31-8-57	10-8-57	3-9-56
Food Articles	109.9	110.5	112.5	103.9
Cereals	104	105	107	99
Pulses	84	85	88	81
Fruits & Veg.	128	131	142	125
Milk and Ghee	110	108	108	101
Edible Oils	128	128	138	125
Fish, Eggs & Meat	104	102	103	99
Sugar & Gur	110	110	111	99
Others	132	136	136	125
Finished Products	92.7	92.7	92.0	182.4
Liquor and Tobacco	114.7	114.6	114.6	106.3
Fuel, Power Light & Lubricants	115.2	118.3	121.7	117.0
Industrial Raw Materials	114	120	123	114
Fibres	121	122	128	124
Oilseeds	110	109	109	105
Minerals	107	107	108	109
Others	108.5	108.5	108.8	108.9
Manufactures	106.9	107.5	108.6	111.1
Intermediate Products	108.7	108.6	108.8	108.5
Textiles	108	108	109	112
Cotton	117	117	117	123
Jute	98	97	98	96
Woollen	103	103	103	97
Silk & Rayon	83	83	85	89
Metal Products	141	141	141	131
Chemicals	98	98	98	94
Oilcakes	111	113	113	107
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	110.1	110.9	112.5	107.0

FOREIGN TRADE OF INDIA

(Rs lakhs)

Year/Month	(incl re-exports) Imports	Exports	+ or — Balance*
1952-53	669,95	577,37	—92,58
1953-54	572,01	530,62	—41,39
1954-55	656,32	593,57	—62,75
1955-56	704,91	609,41	—95,50
1956 :			
Jan	60,69	46,93	—13,76
Feb	71,19	51,99	—19,21
Mar	70,97	65,62	— 5,34
April	59,86	39,69	—20,17
May	67,70	45,06	—22,65
June	64,17	46,81	—17,35
July	59,40	42,21	—17,19
Aug	66,55	50,04	—16,51
Sept	84,19	50,05	—34,14
Oct	70,89	53,49	—17,40
Nov	69,95	56,07	—13,88
Dec	69,28	56,25	—13,03
1957 :			
Jan	78,76	55,28	—23,49
Feb	71,32	54,55	—16,77
Mar	79,51	51,01	—28,50
April	90,35	47,85	—42,52
May	85,41	52,80	—32,64
June	85,60	48,29	—37,32

* Adjusted upto December

Source D C I S

WORKING CLASS COST OF LIVING INDEX

(Monthly Average or Calendar Months)

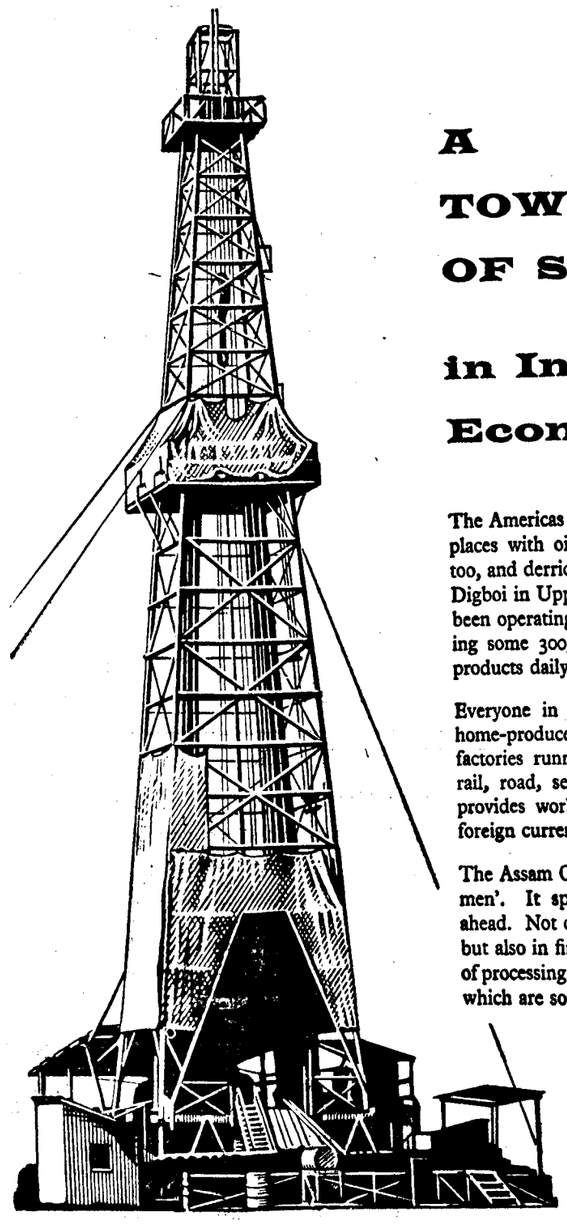
	Bombay 1934 = 100	Madras 1936 = 100	Calcutta 1939 = 100	Kanpur 1939 = 100	Delhi 1949 = 100	Ahmedabad 1949 = 100	Kharagpur 1949 = 100	Ludhiana 1949 = 100	Cuttack 1949 = 100	Jharia 1949 = 100
1952	337	330	351	441	373	104	97	92	109	110
1953	363	351	349	453	366	111	101	90	107	104
1954	359	341	327	408	360	98	93	90	100	82
1955	338	321	321	371	339	87	92	84	99	77
1956	352	358	347	424	377	97	102	92	106	87
1955: July	340	316	325	371	336	90	96	82	101	77
Aug	341	318	329	375	348	92	95	83	103	78
Sept	333	322	327	373	347	90	94	84	106	79
Oct	331	323	334	385	347	91	95	85	100	80
Nov	330	327	339	392	354	92	96	88	100	79
Dec	332	334	329	393	365	93	96	90	99	77
1956: Jan	334	334	319	404	363	92	93	90	98	77
Feb	337	333	315	394	358	90	93	89	97	78
Mar	350	340	325	398	362	93	96	90	99	80
Apr	358	354	338	409	365	96	101	92	105	86
May	357	356	342	408	365	95	102	91	110	87
June	358	365	350	419	368	97	104	92	112	86
July	354	369	365	436	375	98	105	93	114	89
Aug	361	372	368	445	382	102	106	94	116	91
Sept	352	368	366	445	386	103	107	92	112	92
Oct	358	362	364	448	399	105	107	93	103	92
Nov	356	369	361	438	403	105	107	96	104	93
Dec	355	370	356	436	378	98	105	93	114	89
1957: Jan	355	372	354	438	389	102	104	96	103	89
Feb	357	369	350	433	392	102	104	96	105	93
Mar	356	367	362	427	392	102	104	95	108	90
Apr	356	369	365	441	396	103	107	98	105	91
May	362	369	362	445	392	104	108	96	109	96
June	371	373	373	459	395	104	110	97	115	98
July	374	375	373		396	..	..	..	..	..

.. = not available

Source: Central Statistical Organisation.

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Moscow's Peace Offer

GAMBLERS and speculators may be unproductive members of society, but neither their capacity for intelligent anticipation nor their sense of realism has ever been in doubt. Wall Street might have been cynical, but it was not unrealistic in boosting war equities on the assumption that the launching of an earth satellite by Russia would speed-up defence outlay by America and her Western allies. In its behaviour, Wall Street seems to have correctly anticipated Washington's reaction to Moscow's scientific achievement. M Khrushchev's offer to ensure international control of all new scientific developments, including the earth satellite and all pilotless missiles, so as to avoid "the dangers of even more horrible weapons that science was bringing to the horizon" on condition of an understanding between USA and USSR on peaceful co-existence has been promptly turned down on the plea that America is opposed to any bilateral agreement with Russia. Washington's rejection of Moscow's gesture is sought to be justified on the ground that any such bilateral agreement would be contrary to the principles of the Charter.

There is something in the argument, but it can be emphasised. It is an undeniable fact that there can be no world peace without a prior understanding between the two Giants. More than once, similar offers by Russia have been rejected by America on the same grounds. America's concern for the prestige and authority of the United Nations is commendable. But a closer analysis of the world situation makes it clear that reasons for the repeated rejection of Russia's appeal for an agreement on peaceful co-existence lie elsewhere. America and her Western allies may not be unwilling to reach an understanding with Russia. But they have insisted over and over again that the Soviet Union will have to accept their terms and conditions for an agreement on world peace. It is the Western Powers' obstinate refusal to agree to disagree that perpetuates "cold war" and the resultant world tension.

Such an uncompromising attitude on so vital an issue as world peace can hardly ever have any logic behind it. It ceases to have the least justification after repeated peace offers by Russia. Ever since the "cold war", the Western Powers have seemed arrogant. It was these powers which pursued a policy of building positions of strength. Such a policy was defended on the ground that only thus could Russia be forced to negotiate on world peace. There was a time when the Western Powers attained a favourable world balance of power. But that superior strength was never exploited to conclude an agreement on world peace. It was more than once issued as a threat. Experience has shown that the Great Deterrent has only provoked the Soviet Union to manufacture bigger and better armaments. In the devastating and dangerous race for missiles and nuclear weapons, the balance has now tilted decisively in favour of Russia. Yet, and this is a reflection of Moscow's good intentions, her military, technological and scientific superiority has not, unlike the Western Powers, debased the Soviet Union into issuing threats of "massive retaliation". In their hour of supreme triumph, the leaders of the Kremlin have shown statesmanship in making a peaceful gesture to America and her allies. If there had been some distressing signs of Russian arrogance after her experiments with ICBM, the successful launching of the artificial earth satellite seems to have had a sobering

effect on the men of the Kremlin. Realisation that the rocket is "a pitiless weapon" has evoked an assurance from M Khrushchev that "we don't want to abuse our superiority". In this statesmanlike gesture, the world has an encouraging proof of Moscow's sincerity.

America and her allies would be wise in accepting the changing realities of the world situation. Moscow has shown imagination in not issuing boastful threats about Russia's undisputed technological and scientific supremacy. But some of those countries or powers whom America has been wooing have not missed the implications of the changed balance of power. There are many reasons why Japan is now eagerly searching for friends in Asia. But there are growing signs of a shift in Japan's foreign policy. Japan's alliance with America was mainly a marriage of convenience. But the Russian ICBM and the earth satellite seem to have cooled Japan's ardour for America. Only recently, the Japanese Premier had occasion to remark that there was need for "a re-adjustment" of Japan's relations with America. No less significant is the sudden and swift change in west Asia's political climate. While America hastened a debate in the United Nations on the Syrian situation, the discussion disclosed a decisive shift in west Asia's attitude to the Eisenhower Doctrine. Washington must have been—indeed was—intrigued by both Saudi Arabia's and Iraq's support to Syria. Arab solidarity will be welcomed on wider grounds. No doubt, Israel is a constant reminder to Arab States to patch-up their quarrels. But it is a permissible inference that recent Russian military and scientific achievements may have induced Syria's unsympathetic neighbours, who had only recently shown a preference for the Eisenhower Doctrine, to concede the socio-political basis for that which is resented and exploited by Washington as Communist subversive tactics.

Almost without exception, all small powers will welcome an agreement between the rival camps on peaceful co-existence. It is now more than time for the Big Powers to make another sublime effort to reach an understanding on the summit level. It might be argued that the Geneva Summit Conference reached such an agreement, and yet, subsequent events have shown that world peace is no nearer sight. An agreement on peaceful co-existence will elude the world as long as both sides are unwilling to make concessions. There will be need for adjustments by Russia on some of the crucial world issues in dispute. There is an equally urgent need for the Western Powers to accept the full implications of competitive co-existence. Experience suggests that an understanding on peaceful co-existence is not likely to be reached without an agreement on world disarmament. That being so, M Khrushchev's proposal for a high-level disarmament meeting is to be doubly welcomed. Along with the joint Indo-Japanese initiative for banning nuclear tests, small powers, including India and Japan will enthusiastically endorse M Khrushchev's proposal for summit talks on disarmament. And the common man in all parts of the world will hope that the proposed disarmament talks will succeed so that he can enjoy plenty in peace.

Appraising the First Phase

THE last four weeks or so witnessed a campaign for wooing American economic assistance, public as well as private, on a scale never known before. Now that the Finance Minister has rounded off his talks with a thirty minute interview with President Eisenhower and the Birla Mission is on its way home, the first phase of the campaign can properly be said to have concluded, and it seems appropriate to assess the achievements of this phase. No campaign is ever a complete success or a complete failure. Success or failure is usually partial but there is a wide range of variation between the various levels of success or failure. In fact, reviewed in this light, the words 'success' and 'failure' can be employed to indicate the same phase of an achievement. The purpose of this appraisal is not to arrive, therefore at a verdict completely one way or other but to find out the extent to which the objectives aimed at by the campaign are nearer reach than they were before the campaign started.

This campaign for U S economic assistance was launched at two levels. The one at Government level was handled primarily by the Finance Minister himself, although some amount of initial spadework must have been put in by the Indian Ambassador in Washington, just as he has now been asked to follow up the negotiations where the Finance Minister has left them. The other, at the level of private enterprise, was entrusted to the Mission of Indian industrialists led by Shri G D Birla. These two wings of the campaign should have been complementary in more than one way. True, that the assistance obtained either through private channels or through Government sources will ultimately help in the easing of our foreign exchange difficulties and in the furtherance of the Plan objectives. (Of course, this implies an assumption that assistance from either of the channels is for purposes provided for in the Plan, and this, it must be granted, is not necessarily a valid assumption.) However, the division of the campaign between the two wings was ingenious and should have proved tactically advantageous, for in a country like the U S A, where the degree of influence exercised by private business on the Government's external economic policies and by the Government on private investments abroad is very substantial, the good work done by one wing should have created a better climate for the other wing and vice versa.

In the context of India's immediate difficulties, the main task of the industrialists' mission was to help to create a climate favourable for the funds needed in the public sector; for it is in the public sector that there persists the danger of a shortfall in achievement even though the targets have lately been scaled down. As for the private sector, foreign exchange for nearly two-thirds of the total investment envisaged in the Plan as re-calculated in terms of higher costs is stated to have already been released. And what remains to be provided for in the private sector is a small proportion of the total order of requirements. Of the estimated uncovered deficit of Rs 700 crores for the remaining Plan period the private sector's Plan projects should account for not more than Rs 150 crores. Even this does not give a correct idea of the extent to which the present foreign

exchange shortage infringes on the private sector. If one takes account of the outstanding import licenses for machinery and equipment, it appears that the Government is already committed to financing whatever remains to be done in the private sector; in fact, the suspicion is that the Government has committed itself to an amount higher than is warranted by the investment targets set in the Plan. Therefore, to the extent it is not possible to cover the aforesaid deficit, the public sector's programme must inevitably suffer.

How far has the present campaign for American assistance cleared the horizon for our Plan? The horizon has been rather overcast for some time in the past and primarily because of the rapid pace at which our foreign reserves have been falling. The Finance Minister is reported to have indicated in his talks with his American counterparts that U S assistance of the order of Rs 300 crores ($ 600 millions) is the minimum needed towards bridging the total gap of Rs 700 crores. No firm or even semi-firm undertaking has been given to him by the U S authorities. The tangible consequence so far of the Finance Minister's talks has been the appointment of a special committee of senior officials which will examine India's economic development plans and recommend the extent of U S aid. The setting up of this committee, it must be conceded, does go to show that the Finance Minister has been able to impress American official circles with the urgency of India's needs. But whether the impression left behind by him has gone deep enough to impel these circles to press the Congress for the substantial amount asked for by India is anyone's guess.

If one goes by the generally held view about the present attitude of the Congress, these officials entrusted with the examination of India's needs will have to face heavy weather in the Congress in case they decide in favour of India. As for assistance which would not require Congress approval, the scope is stated to be limited, whether it is in the form of a line of credit by the Export-Import Bank, an allocation from the recently created economic development fund of $250 million or a further loan of agricultural surplus products under what is usually referred to as P L 480. Aid of the last type is useful only to the extent to which India is to import the commodities comprising the disposable agricultural surplus in America. In any case, assistance that is possible without having recourse to Congress could not possibly go beyond Rs 75 crores ($150 million). It may actually be much less. If anything approaching the amount asked for by the Finance Minister is to be given to India, the U S Congress cannot be bypassed. Recent reports have not spoken encouragingly of the attitude of Congress to allocations abroad, especially to India. It would therefore be over-optimistic to pitch our hopes on the special committee set up to look into India's case even though it is favourably disposed to her demands.

But one thing cannot be overlooked and that seems to augur well for India. Inspite of reports of an adverse reception to the recent Indo-American Convertibility Agreement, Indian industrialists have been able to interest U S business circles in some of their projects. Semi-firm commitments are reported to have been secured from leading business houses. These include the $30 million loan negotiated successfully by Shri J R D Tata. One need not therefore be unduly pessimistic about the prospects of official U S assistance and it may in course of time become feasible to ask the Congress itself for a substantial sum. Until then, India's helmsmen cannot afford to ignore offers of smaller amounts, be they from France, Japan or any other country. Nor can the Finance Minister afford to be at all lax in his forthcoming negotiations with the West-German authorities.

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Weekly Notes

Bevan and Bevanism

ONE clear fact emerges from the deliberations of the recent Labour Party Conference at Brighton. It will fight the next general elections as a strong, united Party. That is not the only reason for evolving a compromise policy. It is evident that the Labour Party's compromises on some of the major political issues are aimed at seducing the uncommitted section of the voters to vote for it in the next general elections. Whether the Party's new policies on nationalisation and the hydrogen bomb will achieve this aim, is doubtful. But its positive plans for pensions and rents are likely to make it more popular with the voters. This is not denied. But there seems to be some disillusionment that, in the interest of the Party, Mr Bevan has ceased to be a Bevanite. From voting results, it is evident that, on both the controversial issues, the rank and file hold pronounced views. Even so, to accuse Mr Bevan of insincerity is to confuse issues. Mr Bevan has lent his weight and authority against any unilateral ban on nuclear weapons or their testing. But he made it clear that, if voted to power, the Labour Government would take the initiative in banning both. Emotionalism in Politics is not necessarily a virtue. And it would be uncharitable to be harsh on Mr Bevan for his sense of political realism.

This year's Labour Party Conference has been a turning point in the history of the Party not because of Mr Bevan's stand on the issue of the hydrogen bomb, but because of the shift in the Party's policy on nationalisation. Mr Herbert Morrison may have been in strange company with Miss Jennie Lee in their joint opposition to the Party's new policy of purchasing shares of key firms as a substitute to its old plans for nationalisation. But those who are familiar with the sad experience of the nationalisation programme of the Attlee Government will appreciate the shift in policy. It would be wrong to assume that the British Labour Party has abandoned its bias against Capitalism. It remains committed to public ownership. But has changed its tactics to suit the changing conditions and circumstances. Its new policy is based on the basic assumption that nationalisation cannot, by itself, abolish class rule. With the divorce of ownership from management, nationalisation cannot end class rule. Even in the Soviet Union, a new privileged class has emerged in the shape of managers and technicians. Mr Gaitskell claims that his Party's new policy to public ownership is aimed at checking the status and power of this new priviledged class. Even those who endorse the basic implications of the new policy will wonder how the British Labour party expects to achieve the objective as its changed tactics involves merely part ownership of key firms, but not effective control, through voting rights, over management of such partly acquired concerns. On this fundamental issue, both the British Labour Party and Congress in India find it convenient to be vague, though the latter can legitimately claim to have anticipated the former's changed strategy in their common fight against Capitalism.

India and Japan

IT would be hasty to expect any basic change in Japan's foreign policy or any Indo-Japanese alliance as a result of Pandit Nehru's visit to Japan. But certain developing events indicate a possible shift in Japan's foreign policy which may have some intriguing effects on her relations with Asian neighbours. Tokyo's foreign policy is based on co-operation with the Western Powers, and particularly with the United States. But it has always been evident that Japan is eager to develop friendly relations with newly-independent Asian countries. Her policy of alignment with Western Powers is an obstacle to her active participation with Bandung countries. But Mr Kishi's recent appraisal that Asian-African powers exercise "great weight in the comity of nations" is an indication of Japan's eager desire to collaborate with her Asian neighbours. Tokyo has been wooing Asian countries since the Bandung Conference, but without much success. She remains suspect among her Asian neighbours.

Intrigued by the cold reception at Bandung, Tokyo has been eagerly exploring possibilities to allay suspicions against her. She has not abandoned her policy of alliance with America and the Western Powers. But she relies on two issues, in which Asian countries are jointly interested, for a rapprochement with her Asian neighbours. They endorse enthusiastically Japan's appeal for banning nuclear tests. Japan's vocal stand on this issue is easily understandable. In her clamant demand for banning nuclear tests, she has the active support of all peace-loving Asian nations. Reports so far available of talks between the Prime Ministers of India and Japan indicate a joint Indo-Japanese move on the issue of banning nuclear tests. Whether or not sponsored jointly by India and Japan, the latter's insistent demand for a ban on nuclear tests will be actively supported by the Asian-African group in the United Nations.

Japan hopes that unity among her and Asian-African countries on this vital issue will gradually lead to a closer political collaboration between her and her Asian neighbours. Japan is aware of Asian democratic countries' suspicions about her internal political set-up, as also of some aspects of her foreign policy. It is not without significance that, despite the possibility of a closer collaboration between India and Japan on the issue of banning nuclear tests, Pandit Nehru has been rather frank in his lack of response to the Japanese-sponsored plan for an Asian Development Fund. Not only India, but many other Asian countries are hostile to any such proposal which may involve Japanese leadership in Asian economic development. Any such plan sponsored by Japan is a painful reminder to Asian countries of her pre-war policy of economic aggression in the garb of the Asian Co-prosperity Sphere. Japan's Asian neighbours admire her technical and economic achievements. They are not unwilling to develop economic relations with Japan or to receive help from her in men and money in furthering their plans for economic improvement. But they have no intention to be included in the Japanese economic orbit or sphere of influence. There will have to be a fundamental change in Japan's foreign policy before any close and active political co-operation between her and her Asian neighbours can be possible. There are some indications of a shift in emphasis in Japan's future foreign policy. Even so, Japan, like Germany, is likely to remain suspect among her neighbours.

Baby Moon

RUSSIA'S historic achievement in launching the first man-made satellite into outer space has been acknowledged abundantly by scientists throughout the world as a clear indication of her supremacy in science and technology. Along with ICBM, it demonstrates the undisputed lead of Soviet scientists in missile development. While the Russian claim to have made scientific history is widely conceded, there is renewed apprehension of the evil potentialities of scientific progress. Splitting the atom was a tremendous scientific feat. But its monstrous progeny, the Atom Bomb, is a constant reminder of man's ingenuity to exploit science for evil purposes. Even as the common man hails the Russian scientific achievement, he is stupified by the grim potentialities of earth statellites. Will Russia exploit her scientific supremacy to gain control over the earth? Will the Russian experiment lead to a projection of the "cold war" into outer space? These terrific possibilities are implicit in Washington's mixed reaction to Moscow's successful experiment with an earth satellite.

Professor Antolin Blagonravov has been at pains to dispel such fears. His explanation, that Russia did not inform the world about the launching of the earth satellite as the one now revolving round the earth was merely an experimental venture, has served to allay suspicious. Russia proposes to launch a second artificial earth satellite for the International Geophysical Year. America's plans for an earth satellite for IGY are well under way. Russia has expressed her willingness to co-operate with all countries by exchanging information on related scientific issues. At Barcelona, world's scientists are now discussing the problems of cosmic rays, the exact shape of the earth and similar other problems. In the IGY, scientists will welcome the knowledge gained by the first successful attempt made by man toward the conquest of space.

Food and Irrigation Rates

FOOD output declined slightly during 1955-56, though it seems to have increased by about five per cent during 1956-57. This increase in food output appears to be inadequate in relation to the rising demand for food as a result of growing money incomes. Hence, food has become a bottleneck, responsible largely for internal inflationary pressures and also to a certain extent, for the large drain on our foreign exchange resources.

In this context, it is rather disquieting to find that only about 40 per cent of the increase in our irrigation potential is being made use of for expanding agricultural output. From the reports of close observers, it appears that peasants do not find it profitable to use irrigation facilities because of onerous irrigation rates. If this be true, it is necessary for the government to study this aspect of the question closely, for it is hardly desirable for it to be so obsessed with revenue considerations. The concern of the government in inducing the farmers to use irrigation facilities must be rather with the indirect favourable effect of increased food output on its development schemes.

There is much to be said, therefore, in favour of the view that it would be better to charge very low rates to the farmers for the use of irrigation facilities at least for some years in order to induce farmers to change their habits and get used to the new irrigation facilities. This would probably have a very favourable effect on food output. An increase in the irrigation rates may be thought of only after the farmers have realised the benefits of irrigation in the form of increased output and incomes. Till then, irrigation expenditure may be considered as social overhead expenditure, the raison d'etre of which is to break the food bottleneck.

University Medium

ADDRESSING the seventh convocation of the Gujerat University last week, Shri K. M. Munshi, former Governor of Uttar Pradesh, drew attention to the danger involved in introducing regional languages as media of instruction in universities. He said that such a move would create parochial tendencies, destroy the integrity of the country and take it back to mediaeval isolationism. Shri Munshi is not given to mincing words; but such emphatic terms as he used are perhaps not necessary to most thinking people to realise the disadvantages of using regional languages for higher studies. The cultural unity of India, preserved for ages through Sanskrit lore, came to be highlighted and even revivified through the use of single language for higher education. That the language happened to be English is an accident which, however, does not detract from the significance of the experiment or its lesson.

Without questioning the importance of lower levels of education, be it primary or secondary, where the regional language may be used and is, in fact, being used with considerable advantage, it can be pointed out that university education stands on a different footing. Education at that level takes on more than a regional character, and its benefits would be nothing if not shared on more than a regional basis. It is at that level that education develops a creative quality, and it is from there that leadership in various fields, scientific, cultural, administrative and even political, is normally derived.

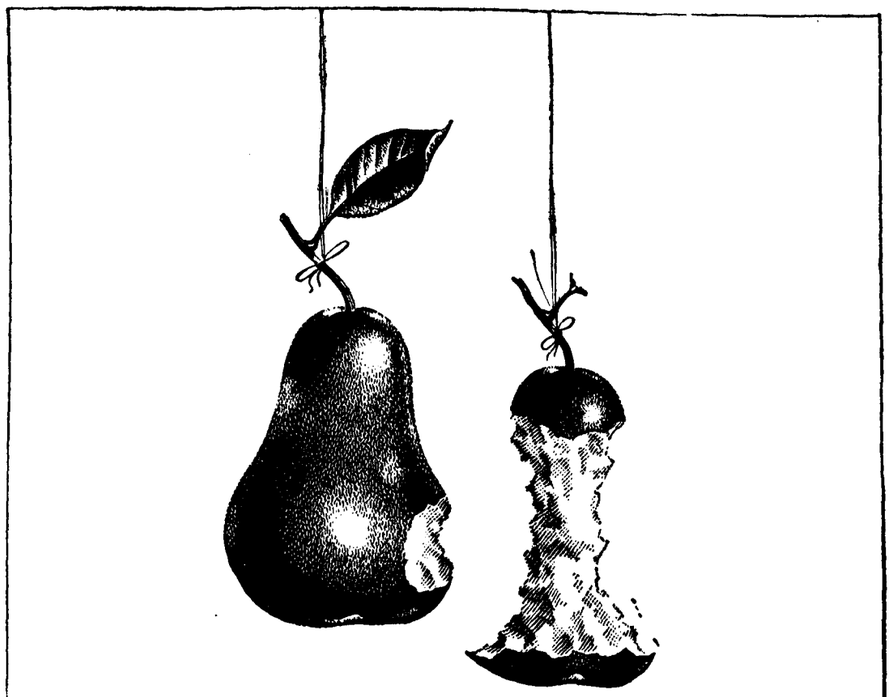
The men who have gained the creative urge or quality of leadership through higher studies must have a single medium for the exchange of knowledge, experience, thought or the result of research so that they may be generally beneficial. And that medium can best be only the language in which they have mastered their subjects and not any language into which they might try to translate their experience or ideas. So, if different universities are to have different media of instruction, the interchange of thought and experience at the higher level would be halting and defective, if not altogether impossible. The result would be that the present linguistic suspicions and rivalries, apart from getting ossified, might also encourage the emergence of water-tight compartments of life and culture, isolated from one another and possibly at perpetual loggerheads too.

That higher education would benefit vastly from having a single medium for the whole country and for all the universities in it is fairly indisputable. The problem, if any, can be only with regard to the choice of the medium. Here too, happily, the choice is limited to English and Hindi; and considering

the requirements of vocabulary, words with delicate shades of meaning and technical or professional terminology for University education, the choice between a highly-developed and widely-spoken language like English on the one hand and a language like Hindi which is still to be evolved for wider and also specialised use should not prove difficult.

Territorial sentiments or prejudices can have no place in the realm of knowledge. In the ultimate analysis, where the true objective is to promote knowledge and thought as such and not any ulterior considerations, it is not the name, sound or past association of a language that should matter so much as its effectiveness as a vehicle of learning or communication. It must be conceded that English, with all its faults, fulfils that condition satisfactorily as things are; and at least until Hindi gets enriched enough to replace it, there would be no particular point in rejecting the use of a handy instrument out of an irrational dislike for its name or past association.

If our national pride has been able to swallow the electric train, aeroplane, telegraph, telephone or hundreds of other innovations derived from the West on the ground of utility, comfort or convenience, there should be no serious difficulty in making a convenience of a linguistic instrument like English. The question is whether we want progress as such or progress through a particular instrument or vehicle of our fancy, no matter how inadequate or defective it may be



Appearances...and a pair of pears

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Glass with Care?

AT the ninth annual meeting of the Industrial Finance Corporation held in Delhi on 27th September, the safety curtain came down on the sad story of the Sodepur Glass Works Limited. It was in 1953-54 that the emergency curtain was dropped with the decision of the Corporation to take over the management of the company under section 28 of the Industrial Finance Corporation Act 1948. Apart from whatever went on or goes on behind the scenes, some interest will still attach to the operations of the Company, now re-incarnated as the Indo-Asahi Glass Co Ltd and managed by "a reputed firm of glass manufacturers of Tokyo who have agreed to set up an Indian Company to run the factory". For, although the Japanese firm has agreed to buy the works for Rs 62 lakhs, the payment is to be made in 17 instalments; it has also been given a loan of Rs 7 lakhs by the Corporation.

Sodepur Glass Works were sanctioned a loan of Rs 60 lakhs by the Corporation in 1948-49, the first year of its operation. A further loan of Rs 20 lakhs was sanctioned for the year 1950-51. It was at this stage that the 'difficulties' of the Works regarding repayment should have been obvious and the calibre of the management and their capacity for planning and execution gauged. But the Directorate of the Corporation seem to have been reluctant "to extort their pound of flesh" by way of legitimate interest on the loans. In fact, a further loan of Rs 39 lakhs was sanctioned during 1951-52; this proved only another case of good money chasing after bad.

An enquiry committee—appointed by Government at the request of the Corporation—went into the work of the Corporation. Government examined its report and appear to have reserved judgment or direction in the case of Sodepur Glass Works Ltd. at that time. The opinion was subsequently expressed in a Finance Ministry Resolution in June, 1955 and it would be difficult to imagine that this view was not conveyed to the Corporation even in 1953. The Resolution, among other things, said, "In the opinion of Government, though the primary responsibility for this failure must rest with the Company, the Corporation, having become involved in the fortunes of the undertaking by the grant of the loan and in default by the Company must also bear responsibility for such failure. Corporation should have made a correct appraisement of the Company's needs before sanctioning the loan."

Early in 1954, Lala Shri Ram resigned from the Chairmanship of the Board of the Corporation. According to the Annual Report, "the Central Government regretfully accepted his resignation and asked the Corporation to convey to him their appreciation for making his valuable knowledge and experience available to the Corporation in its early years". It is, however, consoling to know that the Corporation's loss was Sindri's gain.

In June, 1954 the amount due from the Sodepur Glass Works was over Rs 1 crore—over Rs 70 lakhs on account of loans on mortgage deeds and interest thereon and nearly Rs 33 lakhs spent after the Corporation took over the management of the Company. It was easy to understand the decision of the Corporation "to dispose it of at the earliest". This has now been accomplished. The I F C has written off a sum of Rs 50 lakhs due from the previous loanees on the Sodepur Glass Works for it has not found it easy "chasing" the guarantors to see if any portion could be recovered. Whether this is reluctance or inability or kindheartedness one cannot say, but it is symptomatic that the auditors of the Corporation have remarked that the provision for doubtful debts, Rs 22.5 lakhs, should be increased by another Rs 5 lakhs.

I F C Loans and Advances
(Rs crores)

	Nine years ending June 30, 1957	1956-57	1955-56	1954-55	1953-54
Loan applications	109	21.36	27.70	11.27	9.01
Loans santioned	55	11.91	15.13	7.34	5.27
Loans disbursed	26	9.78	2.20	1.64	2.82

Now On Its Own Feet

SODEPUR was only an incident in the life of the Industrial Finance Corporation. While the lessons of that incident must not be forgotten, it would not be fair not to look at the more positive side of the picture. Under the direction of Shri K R K Menon, the Corporation has come, in the ninth year of its working, to stand on its own feet. The hopes that were expressed by Shri Menon in his speech at the last annual general meeting of the Corporation have been largely fulfilled; the Corporation's net profit of Rs 11.25 lakhs has sufficed to pay the guaranteed dividend of 2.25 per cent without any subvention from Government, a feat which had been accomplished only once before—in 1953.

The Corporation has sanctioned so far loans for an aggregate of Rs 55 crores and has disbursed about Rs 26 crores. Its lending policy has helped to some extent in correcting the regional disparity in industrialisation, substantial loans having been sanctioned to units in Andhra, Punjab, Kerala and U P. It has also made a special attempt to assist the cooperative sugar factories, which have an aggregate of Rs 10.73 crores or 66 per cent of the total loans sanctioned to the sugar industry so far. The Corporation is also preparing to embark on a new type of activity, the guaranteeing of deferred payments by importers of capital goods, for which legislative sanction is likely to be accorded at an early date.

The total amount borrowed by the Corporation has gone up to Rs 6.36 crores, including full utilisation of the statutory overdraft facility of Rs 3 crores from the Reserve Bank. Legislation to permit an increase of the maximum amount that it can borrow has been agreed to by the Government of India, which has also arranged to augment the Corporation's resources by Rs 15 crores to enable it to discharge its functions satisfactorily. The Corporation now appears to be on an even keel and therefore better prepared to meet any difficulties that may lie ahead.

From UN Headquarters

Three Voices

THREE voices were heard here during the general debate which opens every session of the General Assembly and they were the voices of the three most powerful nations in the world today. First to speak was John Foster Dulles. He was followed by Andrei Gromyko. Then spoke Selywyn Llyod for United Kingdom. Between the three, they laid the groundwork for the Twelfth Session of the General Assembly, but even before they had spoken, it was common knowledge that Disarmament, more than any other subject, would dominate the discussions. In this, the prophets have proved to be right.

At various times in the ten-year history of the United Nations, the nations of the world have been seized with other no less momentary problems. In 1948 Europe was the scene of the greatest tensions and the discussions in the General Assembly reflected them. Between 1950 and 1952, it was Korea and in 1954 it was Indo-China. The 1957 Session of the General Assembly is confronted with the ticklish problem of disarmament and — to a lesser extent—of West Asia.

The three Foreign Ministers who addressed the General Assembly had no illusions as to the nature of the natural conflicts between them. But to many it seemed that for the first time, the Soviet Union spoke from a position of strength. Mr Gromyko's speech was pitched in a low key. Gone were the wordy fulminations against the West, the bitter attacks, the acid phrases. In their stead, the General Assembly heard words of hope couched in the language of felicity. Mr Gromyko did not spare the West, but he seemed to operate on a higher level of statesmanship. There were references to Bandoeng, to the Five Principles and the "commendable example of the application of the Principle of Peaceful Co-existence in the relations which have developed between the Soviet Union and countries like India, Indonesia, Afghanistan, Egypt, Syria....and a number of other countries".

Those who listened to Mr Gromyko had expected something along these lines. But they were nevertheless pleasantly surprised by the positive tone adopted by the Soviet Foreign Minister. The reference to Bandoeng might have been a concession to Asian-African sentiments, but in those circles it was certainly well-received. What seemed obvious, however, was that the Soviet Union was feeling more secure internally and externally. The perfection of the intercontinental ballistic missile must have gone a long way in completing the transformation of the Russians from the bitter denouncers of the West to the quiet and dignified proposers of disarmament formulae.

Mr Dulles' performance was in marked contrast to that of the Soviet Foreign Minister. Speaking first—he did not have the benefit of listening to his antagonist—he devoted his entire speech to two topics that were undoubtedly on his mind, Disarmament and West Asia. Mr Dulles had no time for Asia or Africa; he was not concerned with Bandoeng, with airy reflections on "Peaceful Co-existence"; he sounded bitter, angry, wanting to better the Soviet Union, but not knowing how. In short, he seemed to speak with a deep sense of insecurity.

Diplomats noted that Mr Dulles did not sound convincing, though he undoubtedly made a heroic effort to do so. There was some exercise in bravado, some whistling in the dark, but it was obvious to those who heard the U S Secretary of State that he was fighting for time.

Mr Dulles at least made an earnest attempt to don a mask of injured innocence. Not so Mr Llyod, whose performance was marked with a bitterness that was once associated with the late Mr Vyshinsky. If increased bitterness is a sign of national insecurity, then the United Kingdom gave signs of it in a large measure. Mr Dulles made no reference in his statement to the unification of Germany, but Mr Llyod did, indicating clearly the extent to which the United Kingdom depended on a Unified Germany to "hold" the Soviet Union.

The truth of the matter is that the "Cold War", instead of thawing, is getting the worse. Mr Gromyko, who ought to know, described the international situation as "altogether abnormal and alarming" and the atmosphere between the two armed military groupings as being marked "by deep mutual mistrust". The statements made by the Foreign Ministers of the "big three" reflected it.

What is causing distress in the Western camp is the failure of their prognostications about the downfall of the Soviet Union. When Mr Khruschev came to power, hopes were being expressed in Washington that a new struggle between the Kremlin leaders would, temporarily at least, cause a setback to Communist leadership. This failed to materialise. Nothing would have caused more wholesome glee in the Western camp than the trials of Molotov and Shepilov to be followed by death sentences. This did not come to pass either. The Soviet Union, apparently, had grown strong enough to sustain the shock of top members of the Soviet hierarchy being deposed. This strength was simultaneously reflected in sensational technological advances as was evident in the perfection of the intercontinental ballistic missile. The Soviet Union, through its representatives abroad, could afford to sound lenient. Not so members of the Western Club.

It is this grim picture of two military blocs, suspicious of each other, engaging in diplomatic double talk that is presented at the United Nations. The disarmament proposals as put forward by the Soviet Union are alluring to the small powers. But they sound like the death-knell to the Western Powers, who feel that if the Soviet proposals are accepted in good faith, it will leave the Soviet Union with sufficient striking power over land and air that could, in effect, paralyse Western Europe and leave large portions of West Asia defenceless.

Basic to the issue, it is just as well to remember, is the fact that barring Germany, no European power is capable of withstanding Soviet pressures. Mr Gromyko had no comments to make on German unification; significantly, the United Kingdom State Secretary, Mr Lloyd, had. The Soviet Government, Mr Lloyd said, should agree that the German people should be allowed freely to choose their own Government, by means of free All-German elections, and it should recognise the right of a freely elected All-German Government freely to choose its own domestic and foreign policies.

"If the Soviet Government were to accept all those propositions", Mr Lloyd continued "the main obstacles to establishing Europen security would be removed. If, as a result of this self-determination of their future by the people of Germany, the Soviet Union felt any anxiety, the countries of the West are prepared to enter by treaty into binding assurances to secure the Soviet Union against any threat of German attack".

In saying that, Mr Lloyd said exactly what is in the mind of the Soviet Government, which has bitter memories of World War II. Assurances are all very fine, a Soviet source said here in an informal discussion about the future of Europe, but what guarantees were there that they would not be torn to pieces once feet? The phenomenal industry of the Germans that has resulted in the present strength of the deutcshmark is already causing concern in East European circles. These circles have reason to be apprehensive of the growing strength of Germany. Indeed the Polish Foreign Minister, in his statement, made it fairly clear that German Militarism was something that his country could not look forward to with any degree of equanimity. The Western Powers, it would seem have other than purely altruistic reasons for seeing a United Germany take its place among the comity of nations. The Soviet Union, it would seem, has reasons not necessarily vicious, to see the continuation of a Divided Germany. Germany, in that sense, symbolises the deep distrust of one military bloc for the other. The Western Powers do not trust the Soviet Union; this is reciprocated by the Communist Bloc and not all the sweet words from the Soviet Union, nor all the bitterness of the Western Powers can apparently improve matters.

Mr Gromyko, with the directness and transparency that is often characteristic of the Russians, said this in so many words. "Confidence and once more confidence." He said in his policy speech, "Ending ot war propaganda, normal economic ties between countries without which confidence is inconceivable — this is more essential now than ever before".

And then he added: "They (the Western Powers) are looking for the kind of disarmament agreement which would be advantageous to them and detrimental to the security of others. This method of negotiations in advance dooms these talks to failure".

If confidence—or lack of it —is the key to world peace, then to many it appears futile to hope that any progress in that direction is possible at this stage. If the speeches of Messers Gromyko, Dulles and Lloyd provide any indication, confidence between them is just the element which is lacking. Co-existence today merely means that the Three Big Powers do not know of anything better. They co-exist since they cannot destroy each other or are unwilling to do so. Co-existence is a simple matter of reality. The atomic bombs and the nuclear weapons that both parties have in plenty have seen to it that it is not otherwise.

The situation admittedly looks anything but cheerful, but old-timers, who have watched the international scene since the League of Nations days, keep asking for new blood in the counsels of the Disarmament Commission —and its Subcommittee. The election of Japan to the Security Council undoubtedly will make this possible to some extent, but there is no agreement again, among the Big Powers, to have both the disarmament bodies expanded. The United States is against such a proposal; so is the United Kingdom. Once again, the Soviet Union is the only one to support such an idea. "In the opinion of the Soviet Government" said Mr Gromyko, "the participation of new States in the disarmament negotiations through the extension of the composition of the Commission and its Sub-committee can have only positive results." He added: "It would allow a more objective and comprehensive approach to the urgent problems of banning atomic and hydrogen weapons and reducing armed forces and conventional armaments".

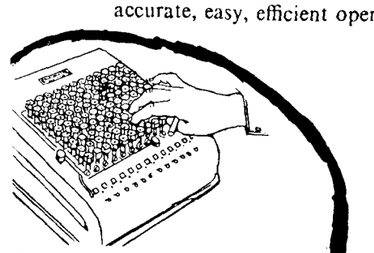
But who, among the Western Powers, wants such a thing to happen, when each considers itself still weak? A diplomat, who is a distinguished member of his community and represents a "neutral" country, summed it up in the following words. "The Western powers," he said, "are today strong, but not strong enough, in Europe. They do not trust the Soviet Union. They want to dictate terms and not be dictated to. In the circumstances, they will continue to hedge for time, until they have perfected their inter-continental ballistic missiles, until they are sure Western Germany has again become militarily strong and when they feel that Soviet expansionism can be halted on the one hand by Germany and on the other by Japan. Then and then only will the West care to listen. Then it might be the Soviet Union's chance to baulk....."

He had reason to suspect Japan as an accomplice of the West. Japan's election to the Security Council was not warranted by a "Gentleman's Agreement" that the Big Powers had arrived at between themselves in 1946 at a conference in London. According to that Agreement, the seat which was contested by Japan, ought, in all honesty, to have gone to an East European country. Japan might have been forgiven for aspiring to power, but the cynical manner in which the Western Powers supported Japan in the elections constitutes a sorry commentary on the manner in which elections at the United Nations are "sold". Japan's representative at the United Nations, Mr Matsudaira blandly suggested at a press conference that the answer to the dilemma of the "Gentleman's Agreement" was the expansion of the membership of the Security council—something which is anathema to the Soviet Union without the ousting of the present representative of Nationalist China and his substitution by the real representative of mainland China.

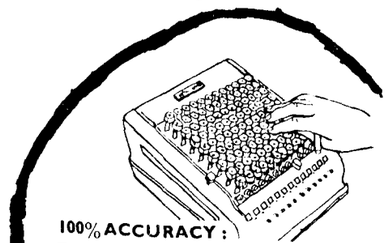
All of which makes the situation "curioser and curioser", as Alice might have said, at the United Nations Wonderland. The United Nations was built on hope. And the most hopeful thing that can be said about it today is that it keeps nations from mischief by bringing their representatives face to face with each other. There is still hope for the world as long as this is possible.

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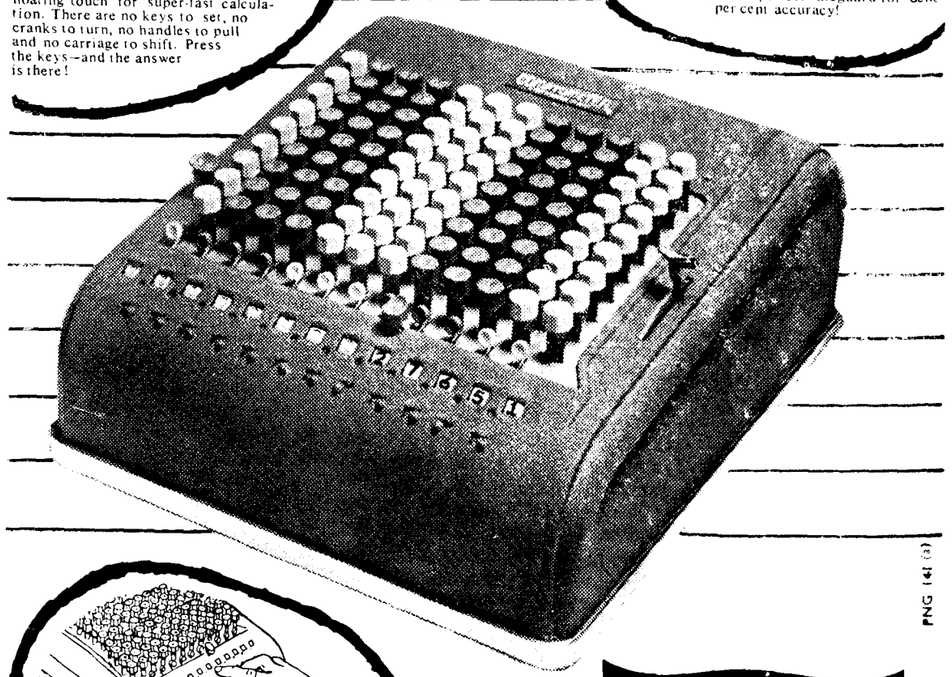
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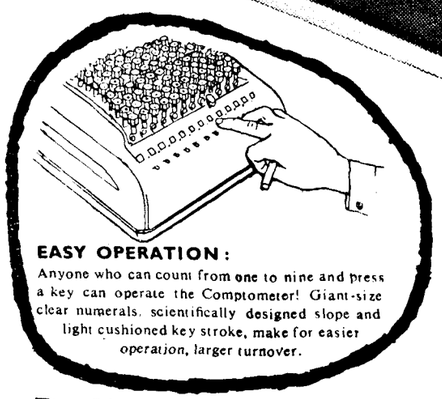


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Book Reviews

Population Control and Social Change

Some Aspects of the Population Problem of India by Gyan Chand, Patna University. 1957. Pp 167. Price Rs 8.

P Y Chinchankar

THIS book contains the Bannailli Readership Lectures (University of Patna) delivered by Dr Gyan Chand in March 1954. The main thesis, developed and analysed in these six lectures, centres round the need to secure social change as a pre-requisite to successful population planning. Such a change "needs an understanding of and a large measure of agreement in regard to the social purpose of the changes in question. This aspect of the matter has hardly received any attention in this country but is nevertheless of basic importance." The optimum population theory is not helpful in formulating a population policy for India. The author is of the view that even if population growth is slackened, problems of poverty and hunger cannot be substantially mitigated within the existing economic and social system. "These evils can be remedied by changing the economy and not by checking the growth of population".

In considering the population problem of India, what is of vital significance is not the rate at which the population tends to grow but the absolute increase in numbers of the population. The other features which make the growth of population a real problem are uneven geographical distribution and high degree of immobility within the country, as reflected by population trends of Rajasthan, Orissa and Travancore-Cochin. Such uneven spread and immobility may be explained by the absence of social drive, lack of new economic opportunities, excessive dependence on agriculture and the undeveloped nature of industry. In view of these particular aspects of the population problem, regional approach to population planning becomes necessary. In this context the redistribution of population from villages to towns seems to offer some solution.

Death Rate

A realistic economic policy will, however, have to be based upon the assumption that India's population will continue to expand since the prevailing high-death-rate might decline by the development of health services which may increase the survival rate and thus accelerate population growth. Although the available data on the death-rate shows a declining tendency, the actual death-rate after making due allowance for deficiencies in reporting agencies, appears to be high. The author estimates that every ten years population equal to the present population of Rajasthan is being lost to this Country owing to our excessive death-rates". To prevent this colossal waste, immediate steps are necessary which make "the death-rate more a function of the entire economy and its limitations and not merely a matter of the development of health services". At the same time in devising these measures adequate attention should be given to the existing regional differences in birth—and death—rates, as illustrated by the different trends of South India and Central India.

Planned Parenthood

The author then proceeds to discuss in the fourth lecture the practical utility of contraception vis-a-vis other methods of birth control. He advocates planned parenthood as a means of population planning but urges that its greater significance lies in its ability "to master reproductive capacity and make it subservient to personal and general will." Judging the value of contraceptives by applying the tests of effectiveness, harmlessness and cheapness the author comes to the conclusion that the existing contraceptives fall short of satisfying these basic requirements and therefore, pleads for further research in this field. The implications of family planning are indeed of profound significance. Such planning 'in a society which is changing fast and is on the eve of great change, becomes a creative art of the highest importance in which the community and the individuals both play a crucial role.'

The author then considers the economic prospects from the standpoint of population policy, and in this context discusses in brief the various aspects of the Second Five Year Plan. In the context of growing population pressure and abysmal poverty, the author holds that future plans should be both bold and imaginative and for their smooth implementation recommends an overall reform in the administrative apparatus along with the tremendous organisational efforts required to build up socialist economy. Regarding the employment potential of the Plan, the author opines that the Plan "would just provide for mostly the increase in the working population in the next five years and hardly affect the existing amount of large unemployment in the country". The author considers that the economic development visualised in the Plan is likely to lead to social transformation, as a result of which population planning would become "a part of social planning in general and thereby acquire great breadth of meaning and wide social appeal".

Population Policy . . .

In the concluding lecture, which deals with population policy, the author emphasises the need for social change as a must for successful population planning. The author argues cogently that any economic policy which brings changes in the entire social structure might be acceptable as a sound population policy, and from this point of view suggests increase in the rate of national output and a fair distribution of wealth. He further states that the population programme should broadly consist of such measures as the expansion of health, maternity and child welfare centres, the internal redistribution of population through industrialisation and town-planning, planned international emigration, formulation of a positive eugenic policy to counter-check the evil of inbreeding caused by caste-system, and a programme of specific and regional demographic studies.

These, in brief, are the considered views of Dr Gyan Chand as expounded in his lectures. He rightly

stresses inapplicability of the optimum population theory in relation to Indian population trends, which has tended to blur clear thinking on the population problem. Considering the absolute increase in population, and the rate at which the population tends to increase, the existing programme may, at best serve as a palliative rather than a solution. A new approach to the population problem becomes inevitable, if population growth is not to dissipate the gains made by economic development under the Plans. Dr Gyan Chand provides this new approach, which rests on three axioms: first, the prevailing poverty and hunger cannot be substantially mitigated within the existing economic and social systems; second, public economic policy, for some time to come, will have to be based on the assumption of the continuing expansion of population; and third, birth-rate and death-rate will have to be made an essential function of the economy and not merely of health or social services.

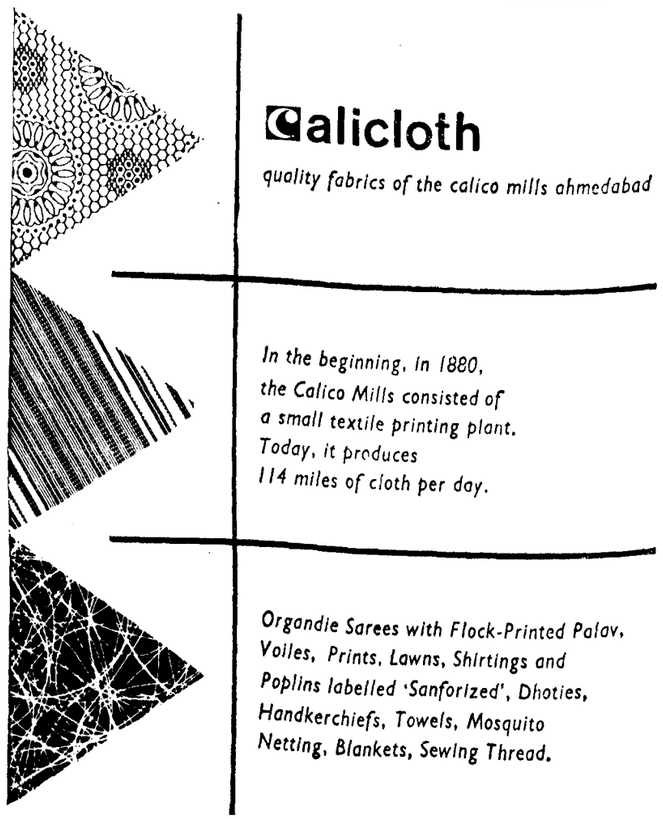
. . . and Economic Policy

The validity of these axioms cannot be refuted or denied. The existing economic and social system, which has remained more or less stagnant and has indeed, deteriorated in certain directions under the impact of alien rule, cannot be expected to serve the needs of a new, and changing society. The second axiom follows from the first, while the third axiom, although unrelated to the first, in fact, provides the basis for determining the content and nature of the economic policy.

The change in the social and economic systems is, thus, at the core of what the author visualises as rational population policy. This elevates the population problem, altogether to a new plane where it becomes an integral part of overall social and economic planning and policy. This approach, however, presupposes that the population trends will respond to changes resulting from social and economic progress. But the process of change in backward societies is slow and gradual. A contemplated shift in population may also become a gradual process. Economic and social policy will have to be so orientated as to conform to and facilitate this gradual process of shift. It, therefore, becomes necessary to plan such measures which might help to attain or to accelerate the process of shifting. The long-term social and economic policy which the author visualises, therefore, requires to be supplemented by a population programme based on available expedients.

The method of family regulation which the author recommends as a means of curbing population growth merits encouragement because the function of restraint to population growth is the primary responsibility of the individuals constituting the society. Although the success of such a method depends largely on the response of individuals, it remains to be seen whether the factors which have restrained the excessive growth of population in the West, will work similarly and as effectively in India. The existing social and ethnical differences and the hold of caste and religious influences may present certain formidable difficulties to the practice of family regulation even amid overall economic progress and development. Perhaps the possible alternative in such circumstances will be legalised abortions the effectiveness of which in checking the birth-rate has recently been demonstrated by Japan.

The programme of population planning which the author considers in the first three and the last lectures requires careful consideration by the planning authorities of this country. The programmes incorporated in the First and Second Plan, assessed in relation to the magnitude of the population problem, appear utterly inadequate and vague in approach; hardly any attempt has been made to study the problem from the regional point of view. Although planning is now under way over the last six years, measures contemplated for population planning are piecemeal and uncoordinated and cannot meet the basic requirements of the situation. The plea for a rational social and population policy put forth by the author comes at a time when the economy is already in the grip of a crisis. As such the lectures serve a most useful purpose.



Swadeshi or Bideshi?

Rural Development (Report on a Foreign Tour March-June 1956) by D G Karve, Reserve Bank of India. August 1957. Pp 75. Price Re 1/-.

Evelyn Wood

THERE has never been any doubt about the nationalist fervour of Professor D G Karve. As the head of the Programme Evaluation Organisation in its first years of service to the Planning Commission, and in his contribution to the Village and Small Scale Industries Committee's Report for the Second Five Year Plan, his fervour for the Indian way has always been intensely apparent. It is therefore serious when one finds that a man who is a scholar and a passionate nationalist begins to turn away from some of our cherished convictions about rural development.

Professor Karve's latest Report does not make it quite clear on whose behalf his foreign mission was undertaken. The publisher's imprint mentions a Mr J C Ryan, Chief Officer of the Agricultural Credit Department in the Reserve Bank. This gentleman is believed to be keen on experimenting with Supervised Credit, a promising system of rural finance which was rather summarily dismissed in the Reserve Bank's monumental Rural Credit Survey of 1954. Supervised Credit is a technique for making non-creditworthy farmers into creditworthy ones—to cut across Professor Karve's three categories. It has worked some miracles in one of the States of Brazil.

But still it is not clear to whom the "we" of Professor Karve's references in his report applies. Is it the Planning Commission? Is it some association of Indian University scholars of economics? Is it the Reserve Bank, which sends the report for this review? As a matter of fact, the objects of Professor Karve's mission suggest that his old links with the Ford Foundation—which selected him as its nominee for the Evaluation of Community Projects in the Planning Commission —are still strong. The Professor starts off by saying that he went to arrange for a deputation of four or five foreign scholars to Indian Universities; but this object fades out after the first page or so, and we have pure Karve on the development structures of the countries which he visited.

This is all to the good, and might be called the Swadeshi aspect of the Report. The absence of any references to successful expertise in rural development of local growth is, of course, very proper in a Report on a Foreign Tour; yet the omission strikes this reviewer as peculiarly bideshi—from Professor Karve. After all, he must know that there are areas of rural development in which we are superior to other countries. These areas, small and regionally limited, even to personal skills, though they be, would surely warrant some comparison being made when the vastness of foreign experience is being explored, with a view towards lessons to be learnt for India?

American Bias?

The proportion of Professor Karve's time spent in North America is only slightly higher than the total spent in other countries round the Northern Hemisphere which he girdled. Nevertheless, one gets the impression that the impact of North American attitudes to rural development is overwhelmingly greater on our good professor. This reviewer would sympathise with, but deprecate Professor Karve's natural stresses in this antipodean sense. It is doubtful if the French, for example, would have let him get away with the idea that Extension education is an American invention. But, like Pilate, Professor Karve perhaps would not wait for such an answer.

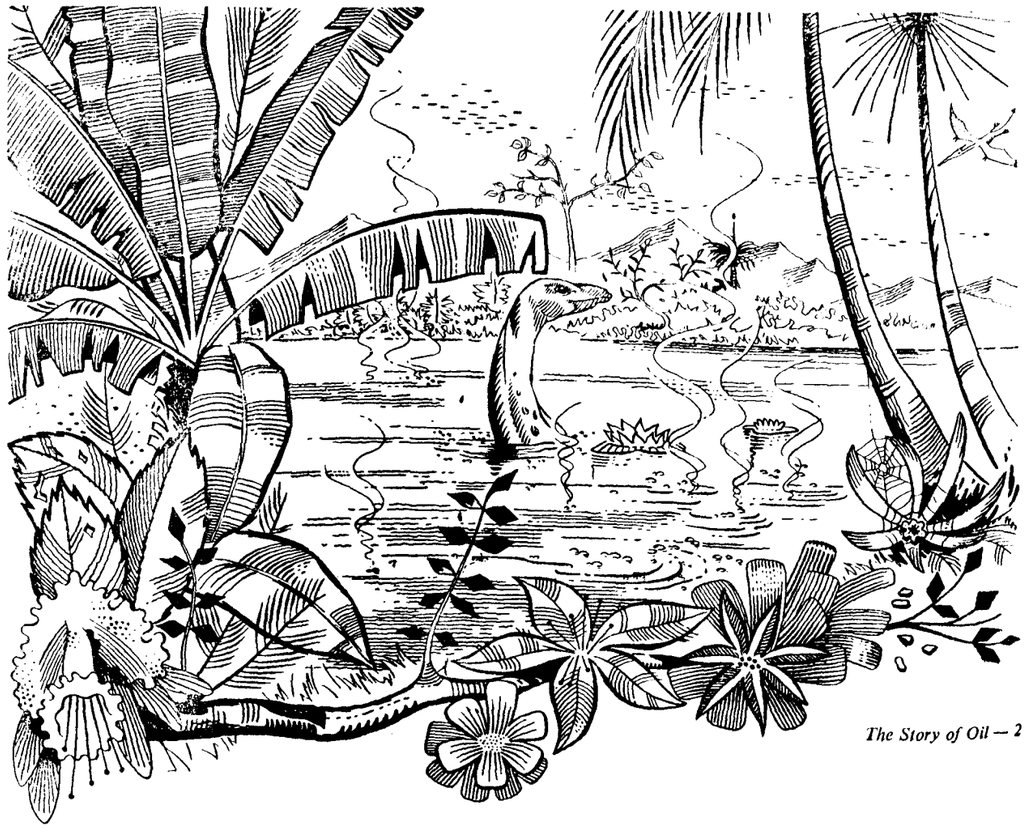
The fact is that Professor Karve is primarily an economist. The Americans tend to be dominated by economics, and their experiments in rural development are largely structured from that pseudo-science. Consequently, such research and such patterns of development have a professional appeal to the scholar Karve. This is a bias which should be borne in mind while studying the Report.

Unquestionably, Professor Karve's document is "required reading" for any person concerned with the development of rural cooperatives in India. It looks as if this socio-economic device has long been a passion with the professor. The present reviewer shares this passion, not, probably, to the same intensity; and he is therefore biassed in the same direction as the author. Professor Karve should have seen more of the flourishing and highly decentralized cooperatives in the South of France. These present a shape which would be far more assimilable to village India than any of the examples which he cites.

But the reviewer's unworn hat is flung into the air with loud cheers on one aspect of cooperativization to which Professor Karve returns again and again, in his Report. This is the aspect of Cooperatives as businesses. Over and over again, the point is made that sound commercial operations are even more necessary to a cooperative enterprise than they are to a comparable business run for inactive investors' profit. This reviewer has, however, grave doubts about cooperative business as a quick panacea for all the economic ills of rural India. It seems to him that generations of patient education will be needed to create sufficient village people who can be fully responsible cooperators. (Karve: End page 16, Top page 17.) There are certain patterns of social structure and culture which predispose peasants in India towards an economy of profit rather than an economy of mutual self-help. We may pray that the latter will prevail; but it would certainly be an unscientific error to throw out the former in anticipation of the rapid growth of a true "cooperative movement". Rochdales are not common phenomena in rural India; they were common enough in Britain when cooperatives were born there.

One of the simplest forms of cooperative society confines itself to marketing operations. Theory says that the producer should be able to sell his goods more efficiently without a middleman. This theory is restated by Professor Karve on page 8 of his Report. Well and good, but he takes account only of economic factors, which are as inadequate as all other kinds of abstraction. Let us reduce the thinking to symbols.

(1) Let C = the total marketing effort exerted by the coopera-



The Story of Oil — 2

A miracle of nature

Crude oil, or petroleum as it is often called, occurs in many parts of the world — chiefly in regions where sedimentary rocks once formed the bottoms of ancient seas.

No one is sure how oil originated. The most widely accepted theory is that it resulted from the decay and alteration of the remains of prehistoric animals and plants. This organic matter was washed from the land into the vast jungle of marine life under the seas. The deposits, mixed with mud and sand, formed layer upon layer on the bottom. As these became buried, Nature's mysterious chemistry got to work. It slowly transformed the organic matter into the compounds of hydrogen and carbon which we now know as oil, and at the same time the fine sediments which covered it were compressed into rock strata. The newly-formed oil oozed into the nearest layers of porous rocks, which held it as if in a sponge, and here it remained.

Throughout the millions of years that oil was being formed, many changes were taking place in the earth's crust. It rose and fell, was crushed and expanded. Lands were drowned, sea-beds became dry land. In some places cracks developed and the land slipped, forming 'faults'.

During these violent changes, some of the imprisoned oil escaped and was lost. In other places it was so near the surface that it seeped through and was discovered and used by man from the earliest times. But the bulk has remained trapped in its porous rocks beneath the surface of the earth.



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tive of producers in selling its goods.

Let M = the relative effort exerted by the middleman who is specialized to gather and market the same goods for the producers.

Then C is not equal to M

(2) Let Ct = the man-hours spent by the cooperative's personnel in the task of marketing the goods.

Let Mt = the man-hours spent by the middleman and his staff in the gathering, buying and similar marketing operations.

In each case, multiply the man-hours by a factor representing the value of the time spent to each of the two groups:

A. The producers, whose time is rated at less money, but who must frequently choose between irreplaceable timing of a production process (especially farmers), while the marketing task permits a freer selection of timing. The producers are professionals of production, but amateurs of marketing.

B. The middleman and his staff, whose time is costlier, but who can work at the job whenever they so choose. They are professionals of marketing (including gathering); but not even amateurs of production.

Then Ct.A. > Mt.B.

(3) Let Cm = the margin of nett earnings on the produce (cost of production plus assignments Ct.A, deducted from the sale proceeds) when marketing is performed by the cooperative.

Let Mm = the margin (nett profit, according to one definition) earned by the middleman by adding the purchase price of the produce to his man-hour costs of gathering and selling, and deducting this sum from the sale proceeds. A correct administrative overhead and investors' dividend is assumed to be incorporated in the costs of operation.

If, now, we are to suppose, as Professor Karve's theory implies, that:

Cm = Mm

it follows that the nett margin distributable among the cooperators must be calculated after providing for the compensation payable to those of their number who left their producing task to carry out the marketing, and also the wages of the servants paid by them to do part of the marketing job (if any).

This provision within the cooperative will consequently have to be at least equal to the nett profit of the middleman, as above described—otherwise the the cooperative will not in fact be doing "good business".

This reviewer would claim that only a consideration of all three of the foregoing equations will permit a test of the cooperative's preferability to the middlemen's marketing operation. Now that possible differences in theory between the fully professional economist Karve, and this wholly amateur reviewer have been stated, further comment will perhaps make better sense.

The shining examples of foreign cooperatives which Professor Karve holds up as mirrors to the would-be fathers of cooperation in India are extremely well chosen. One, bridging pages 14 and 15, should be flashed into the eyes of every member of such bodies as the All India Cooperative Union until they are forced to pay attention to its lessons.

On the other hand, the bideshi examples on page 17 of the Report might well have been matched by swadeshi successes, for example in sugar factories, the Anand Milk Union and its factory, and the numerous weaving cooperatives in India which have shown that we can, indeed, form these economic units successfully in our own peculiar way.

It is reassuring that Professor Karve comes down heavily on the aspect of cooperative education "in the real and far-reaching sense of the word" as the missing link between India's plans for cooperativization, and her performance. The last words of page 25—and indeed the whole closing paragraph—are emphatic on this point. This reviewer would regard far-reaching education as being just as necessary at the top, or Delhi-planning end of the cooperative system. It would seem to be necessary for the members of the Indian Delegation to China on Agrarian Cooperatives, if one is to judge by their recent Report.

Fields other than Cooperatives

Professor Karve's next chapter, on Planning and Decentralisation, should also be commended to the Delhi pandits, though its last sentence is more probably—and most appropriately—written to the address of the idealists in the All India Khadi and Village Industries Commission.

On Rural Finance, this reviewer would join issue with Professor Karve, who, it seems, takes too rigidly an economist's view of the situation for practical application in our villages. The descriptions of the systems of rural finance adopted in the United States are very clear, if brief. One wonders, however, what possibility there is of learning much from that particular network of cultures to which is adaptable India's rural situations. The southern French and Italian models would have been of more direct interest for India; but Professor Karve did not have time left to explore these very adequately.

In other respects, the sweep of the Professor's observations is too broad for precision within the time allotted. Nothing comes clear about the foreign examples of cooperative organization in the fields of Industry, Housing, Health, Education and Handicrafts development. There are odd "tips" which arise here or there, of course; enough to whet one's appetite for more. The last paragraph of the Rural Finance chapter on page 50 makes claims for the Second Five Year planning which require substantiation.

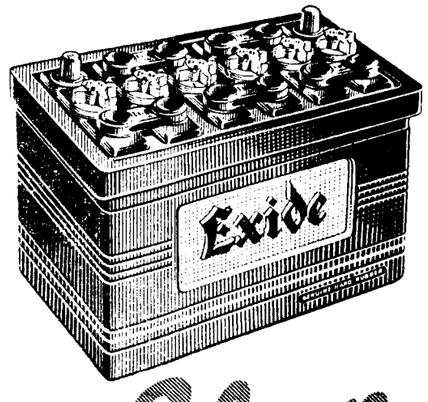
The chapters of the Report on Land Reform and Extension are quite superficial in comparison with the foregoing matter. This perhaps represents the emphasis natural to an economist author. But, since the title of the Report is "Rural Development", this reviewer, as a communication specialist, feels justified in complaining of a neglect of his own subject of bias. Professor Karve does not appreciate the facts of the problems which are involved in Extension Methods and Materials —which are the major form taken by Communication in rural development. Possibly he does not realise what can be economically achieved by properly designed communication, to achieve a startling pace of development, even with illiterate village folk. As a matter of fact several European countries would have had far more to show than the United States, by way of communication patterns in Extension which would work in rural India.

On the other hand, Professor Karve's mature knowledge shines

out in the chapter on Agricultural Economics. Here he seems to put his finger on the exact American approach to the subject which India would do well to follow, in preference to any European pattern. Doubtless this short chapter will have much influence on Professor Karve's co-disciples of this faculty. But the question still remains as to whether the Agricultural Economists of India will be permitted by the governments which largely control the pattern of their work, to evolve their own methods of study and application, as Professor Karve so wisely hints that they should.

This reviewer does not know why the Professor chose to enshrine the TVA as the last, very short chapter of his report. Possibly his reason was that liking for the sting in the tail which a good Report should have, if it is to act as a powerful stimulant to action. This reviewer is in full sympathy with this waspish strategy. The last paragraph winds up to a conclusion which should be adopted by the D V C, and the jungle of governmental and political interests which appear to control that Corporation. But will such a happy revolution in fact occur?

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The Soviet Concept of National Income

Hannan Ezekiel

THE national income of a country is a measure of the success attending the productive efforts of the community. The exact connotation that should be attached to this concept has been determined after considerable discussion in the countries of the West and this connotation has in recent years received the sanction of the United Nations.

For the purpose of economic analysis, however, no single concept of national income is found adequate. Various alternative gross and net income concepts are, therefore, used for different purposes and a distinction is also made between national and domestic concepts. This raises the question whether it is necessary to modify the national income concept in other ways also, in particular so as to make it more suitable for countries having a different type of economic system from countries of the West. There are many supporters of the view that income concepts must be functionally oriented and that a difference in function would justify the use of a different concept to the exclusion of those concepts in use in the West. In this paper*, it is proposed to examine the suggestion that appropriate modification of the concept of national income may be not merely justified but actually necessary in countries of the Soviet type, where the State dominates the economy and the purposes of the State and of economic activity may be somewhat different from those of the Western nations.

Tibor Barna has argued the case in favour of such a functional approach to the concept of national income with special reference to the Russian definition of income. (See Income and Wealth Series III). Though based on income as product, the Russian definition differs from the concept adopted by the United Nations and the non-Soviet countries by being tied to the production of physical commodities in accordance with Marxist ideas on the subject. One can trace this concept back to those ideas regarding services being unproductive labour, which were generally rejected long ago. Though developed at somewhat greater length by Marx, these ideas are ultimately based on the views of Ricardo and Smith.

The difference between the Anglo-American and the Soviet concepts, Barna points out, "lies in the fact that in the Soviet Union 'production' is more narrowly defined, being generally (but not completely) confined to the production of physical commodities, to the exclusion of the production of services." Barna admits, however, that many services, which should prima facie be excluded if there was strict adherence to the Marxist concept of income, are included in practice in the Soviet national income totals. Thus, restaurants of certain types are included since they distribute meals. Banking and financial institutions serving industry, as also government agencies engaged in industrial construction, are also included—the output of the latter being ascribed to the relevant branch of industry. Besides, even the definition of what constitutes a physical commodity "is not very strict and appears to depend upon the organisation of production rather than on its results". Thus machine laundries are included because they use capital equipment and because they utilise the principle of division of labour. Besides, the incomes of a large proportion of professional workers gets included in the value of the net output of industry because under the organisational framework of the Soviet economy, they are attached to industry.

Inconsistencies

The inconsistencies referred to above provide an indication of the practical difficulties involved in the application of the Marxist concept. What is the utility of a measure which includes the services of some doctors and not those of others? One might well ask whether it is or is not the aim of Soviet society to increase the production of these services. If Barna's argument that the Soviet concept includes only those items the maximum production of which is the aim of Soviet society, is valid, all these services should be either included or excluded. Their partial exclusion is clearly unjustified. Nor can this feature of the Soviet concept be put on a par with the exclusion of housewives' services in the currently accepted concepts, for in the latter it is the difficulty of measuring them which is the reason for exclusion.

The Soviet concept, apart from being inconsistent, however, also fails to satisfy the test of invariance to purely institutional changes. The inclusion or exclusion of certain services in the Russian national income totals depends entirely upon the prevalent institutional arrangements, i e, upon whether the services concerned are supplied within industry or independently.

The Purpose of Economic Activity

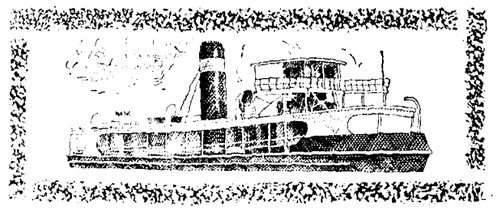
These are, however, matters of detail. The main question is different. Barna argues that the Soviet concept is justified because it includes only those items whose production it is the aim of Soviet society to maximise. Since the definition of the income concept does depend upon the end-purpose of economic activity, Barna's argument appears plausible at first sight. It may also appear to be specially relevant to India today.

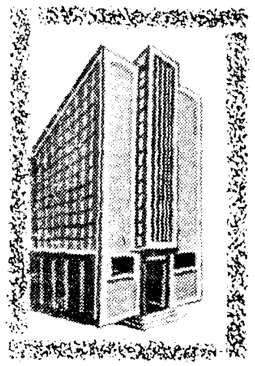
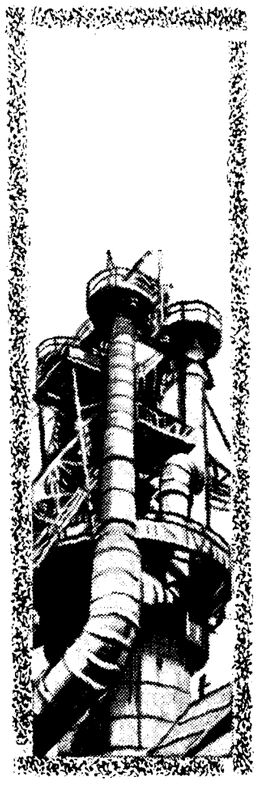
The end-purpose of economic activity is hardly to be identified, however, with a particular objective placed before itself by a particular society at any given moment. A society may wish to maximise the production of certain things; it may still devote a considerable volume of resources to the production of other things. A total which aims to measure the results achieved by the use of productive resources can hardly afford to exclude those other things. In fact, it is only by including them that a correct idea can be obtained of the success that has attended the efforts of that society to maximise the production of the specified things. Such an inclusive total will also make possible an assessment of the success of that society in achieving its general objectives.

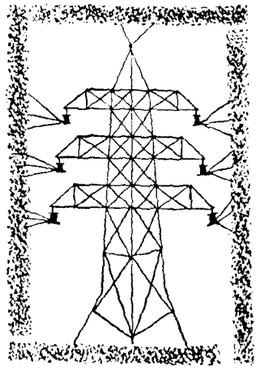
The problem can now be placed in its correct perspective. Is one justified in assuming that the aims of a particular society are different from the aims of society in general, except in so far as the former can be subsumed under the latter as special instances of a general case? The aim of society in general in relation to economic activity must

* This paper is based on a thesis on "Social Accounting and National Income Calculations" accepted for the Ph D degree of the University of Bombay.

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be accepted as the provision of goods to consumers, including goods flowing either to consumers or to capital stock for the ultimate benefit of future consumers. Once this is conceded, it may be accepted that a particular society may give more importance to one class of goods than another. In that case it would be desirable to obtain a breakdown of the total to show separately the volume of the specially-desired goods that are produced in that society in each year.

Barna argues that the concept of national income ought to include only those activities which are within the area of interest of policy makers and not activities outside that area. It may be permissible—in fact, it would certainly be desrable to have a partial total covering those activities only, but the wider total is essential too—to provide both a comparison with similar totals for other countries and a context in which the significance of the partial total can be assessed.

A Building Block Approach

Barna does not deny that the fact of the Soviet concept being different is likely to cause some difficulty in making international comparisons. He suggests, however, that "national income comparisons between European countries should be possible since the quantitative deviation between the different concepts adopted is not very large". It is difficult to accept this view. A recent reconstruction of the national income of the United States along Marxist lines attempted by a Russian writer (discussed in an article by A Nove in Economica, 1956) provides some indication of the wide differences between the concepts concerned. From the point of view of comparability at any rate, there are strong arguments in favour of conceptual uniformity.

Barna, however, subordinates the need for international comparability to the needs of policy makers. His argument is that since "the size of, and changes in, the national income are a guide for policy makers, the concept of national income ought to include activities which are within the area of interest of policy-makers and not activities outside that area." As has been indicated above, the needs of policy makers can be met by providing appropriate breakdowns of the national income totals. In the present case, for instance, it would not be difficult to devise a system under which a total relating only to the activities considered important by Soviet policy makers was prepared as a part of a wider total based on the usual concepts of income. In other words, the difficulty posed by Barna can be solved by giving appropriate breakdowns of national income figures calculated on the traditional lines. Any particular set of sectional figures could then be utilised for the actual determination of policy while at the same time, the relationship between the sectional figures and the usual totals would be available to all. The totals based on the usual concepts could then also be used for international and intertemporal comparisons.

In order to obtain such sectional totals and permit analysis of the results for different purposes, the national income totals could be built up in the form of a series of building blocks. The building blocks should be so devised that they can be readjusted to serve a number of different purposes. A suggestion to this effect is made by Richard Stone and Knut Hansen, who point out that, "there is an almost unending number of purposes for which national accounts information is used with the consequence that the concepts adopted should be framed with the object of providing useful building blocks which can be rearranged for different purposes." (**Income and Wealth Series III**).

In the case of fixed asset formation, for instance, these authors point out that the concept can be defined narrowly to include only new pieces of equipment and major alterations to existing equipment or widely to include requirements for maintenance and repair as well. The authors recommend that estimates for the latter items should be separately shown so that they may be included in or excluded from fixed asset formation in accordance with the requirements of the analyst concerned.

It can be shown that in under developed countries, it would be useful to show non-monetised and monetised output separately. Similarly, the distribution of consumption as between the factors of production engaged in the consumer goods industries and those engaged in the capital goods industries may be of some importance. The separation of the elements that go to make up domestic and national totals at various levels would help the analyst by permitting him to use the concept which was most suitable for the purpose in hand.

Social Accounting

The division of the economy into different sectors and the construction of the different tables for the economy in a series of steps already reflects, as a matter of fact, the building block principle applied in the way considered to be useful for most of the usual purposes for which national income statistics are used. The development of social accounting has in fact shifted the attention of economists from the national income totals to the relationships between the components which go to make it up. If so, the building block principle is implicit in the new approach. What is recommended here is merely an extension of this principle to provide for a far larger number of building blocks than have hitherto been made available. It is suggested that not merely will this permit much useful analysis along different lines, but it will provide a solution to the problems raised by those who would like to modify current concepts to meet what appear to them to be particular needs of analysis. In particular, such a method provides an answer to those who argue, like Barna, in favour of more restricted definitions of national income.

Protection to Titanium Dioxide

THE Government of India has accepted Tariff Commission's main recommendation that protection to the Titanium Dioxide industry should be continued for a period of four years i e, till December 31, 1961, at the existing rate of protective duty, namely, 35 per cent **ad valorem** (preferential) and 45 per cent **ad valorem** (standard).

The Ministry of Commerce and Industry announcing this decision added that Government has also taken note of certain ancillary recommendations made by the Commission for assistance to the industry and will take suitable steps to implement them as far as possible.

Sugar Production and Exports

THE production of indigenous sugar amounted to 20.21 lakh tons up to September 15, 1957, in the current season, as against 18.57 lakh tons in the corresponding period of last year. The total offtake, including quantities despatched for exports, was 18.64 lakh tons.

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Agricultural Innovations and Land Use

D S Chauhan

THE nature and character of innovations in any society are determined by the prevailing problems facing it. In all countries, at whatever level of economic development they are, there is a problem of economic growth. In under-developed countries, which are poor, a surplus in the primary sector is essential to make progress in the secondary and tertiary sectors possible. Hence an increase in the primary production is fundamental to the process of overall development. In our country at present the most important objective in planning for agricultural production is that of increasing output in all the fields of agricultural enterprise. There are, no doubt, differences of opinion regarding the extent of increase that should be aimed at over a specified period of time; that controversy is not discussed here. This paper* is intended to deal only with some broad features of innovations and their introduction in agriculture in order to increase production.

The production function is not a single process, nor is it a straight line path. Adjustment involves a group of interactive activities. Increase in farm production is the immediate result of induced production functions. Generally such functions attract the first attention of planners, but correctly understood they are ultimately determined by the strategic production functions, which are really fundamental. It should be remembered that economic development implies overall progress; it cannot be accomplished in isolated segments, leaving others depressed. It has been calculated that in a situation like that facing India today, to achieve a one per cent increase in agricultural production it is necessary to bring about a two to three per cent increase in the industrial sector. The degree of industrialization, therefore, is an indirect measure of progress in other fields; or in other words, expansion, of agricultural production is related to and is limited by industrialization in general.

The fundamental factors in growth are: population, resources, technology, social surroundings and enterprise. The first two are termed as generating forces and the remaining three as limitational ones. We have a rapidly increasing population and consequently a relative land scarcity. The former provides a highly generating force. Progress, therefore, is basically associated with the other group of factors, i e, with the degree of technology, social conditions of production, and the degree of adaptability.

Choice of Factor Combination

The choice of a precise combination of factors and the elasticity of substitution are both governed by a large number of mutually interactive economic and social forces surrounding the production structure. In stepping up agricultural production, therefore, the life of the farmer and all the problems connected with land have to be considered. Since social structure in agriculture is largely built around the ownership of land, problems connected with land as a factor in agricultural production are partly connected with organization and management and partly with legislation. Since all these problems are not exclusive, but are mutually related to each other, none of them can be ignored.

The speed and character of change are also important. World experience shows that mechanization is a necessary element in the farm production programme if expansion of output is to be achieved quickly. But there are some necessary conditions for the occurrence of mechanization, since mere technological improvements cannot fully explain the character of change nor the timings of the successive waves of mechanization. The adoption of machinery depends on the following pre-requisites: an adequate size of units of production to make the introduction of machinery economically advantageous; assured market and high prices for farm products; high wages, high prices of animals and high cost of maintaining animals; low price for machinery itself, and the strength of competitive bids of other industries for labour and capital.

Cooperative Farming

A large size of the unit of production can be created most easily through cooperative farming and joint farming, which is commonly known in villages as Sajha System. In the light of present conditions, the government must exercise some compulsion in order to achieve quick results. Purely voluntary measures will not succeed in bringing about the desired change. The case for cooperative farming is further strengthened by the fact that the terms of contract in an unregulated economy tend to be weighted in favour of owners of larger means. In a relatively stagnant economy of small producers, particularly while it is undergoing a transition from barter to money economy, the possession of means, specially capital, confers a strategic advantage. The balance is thus tilted against farmers in general. And even in schemes of rural development the well-to-do and the better placed farmers get the advantage, and the smaller ones continue to be handicapped. The small producers can get these advantages only through cooperation and liberal government help.

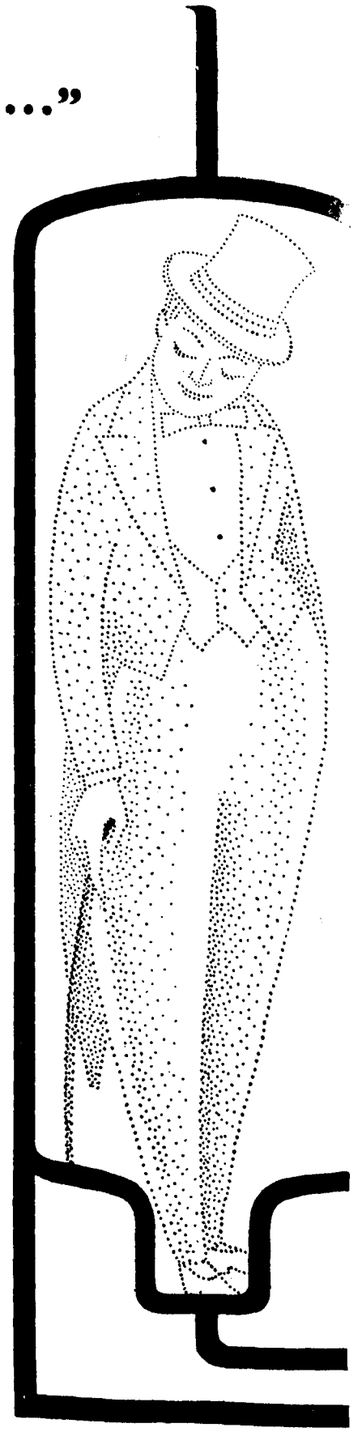
Mechanization will proceed if the elasticity of demand for capital and its elasticity of substitution are high. In such huge and thickly populated countries as India and China such conditions can be brought about only after considerable industrialisation; only then will the demand for agricultural production tend to increase, prices paid for them tend to be higher as a result of income effect, and agricultural labour tend to be costly. Mechanization, therefore, can be achieved only as a part of a general process of industrialization. The shift towards commercialisation will also be governed by the general process of industrialization. Therefore, the solution of most of the problems of agriculture lies outside the field of agriculture, i e, in industrialization.

* This paper includes two small paragraphs from a paper 'Land Use and Production Adjustments in Agriculture' published in **The Frontiers of Social Sciences** edited by Dr Baljit Singh. Some portions of the original article, which form the main body of the paper but were excluded from there, are presented here.

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and Adipocere looks ahead

(Pronounced 'adi-po-saire')



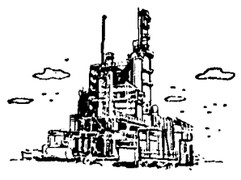
After successive stages of exploring, drilling and refining, I now take my final shape—guess what? I am transformed into various petroleum products (major products being gasoline, kerosene, fuel oils, lubricating oils and asphalt).

In other words, I am now refined and ready for the long haul. All that "crudeness" is no more. You won't recognise your old friend "Adipocere" about whom you first read in these columns.

They store me in the finished product 'tank farm'. Life here is serene...until the fast moving, action-happy marketing men come along.

Here they come in their sleek looking trucks and wagons with the Flying Red Horse painted all over. From now on I am forever on the move and help in the progress of everything that needs to move.

From here I go to market...



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In a discussion of innovations, a few other relevant factors need attention. The capacity of farmers and their incentive to increase farm production, give the initial impulse for an upward movement. The long-term objective of maintaining the resource balance so that the introduction of innovations may not impair permanently their productive capacity, has also to be kept in mind.

Is Indian Husbandry Backward?

It has become the common practice—students of agriculture are taught and administrators and even some research workers have made it a fashion—to decry the Indian farmer and his practices of husbandry. We are gradually becoming more enamoured of foreign ideas. Even suggestions regarding cropping systems and cultural practices are being borrowed from foreign countries. Let it be appreciated that 'traditional' does not necessarily mean 'unscientific'. Our cultural practices have been evolved out of thousands of years of experience under a particular physical environment. They suit remarkably the local soil and climatic conditions and have withstood the test of time.

A few examples of the soundness of our agricultural practices may be taken. Our crop mixtures which are so common (arhar, juar and urd or moong; mustard and wheat or barley; rapeseed and gram, etc) show a very nice land-use—the root system deriving moisture and plant food from different levels of the sub-soil—provide maximum output per unit of land under the existing circumstances, and spread out the work of human and cattle labour over a longer period, as these crops mature at different times. Farmers are often criticised for the subsistance character of their farming. But the proportion of cereals in the cropping programme has to be judged in a situation of land scarcity where economy in land is a significant determining factor. The abundance of cereal production, which is more land economising, is a method of maintaining a thick population in an agricultural country and a device for meeting the pressure on land. Rice lands, which have relatively less diversification of crops, maintain the thickest population not only in this country but all over the world. Again, four crops raised from the same field in one agricultural year by potato growers in Farrukhabad district of Uttar Pradesh presents one of the best examples of crop husbandry in the world. The typical Jat farmer of Meerut region is perhaps the most industrious, and does not seem to have an equal or parallel.

Wrong Emphasis

Inadequate appreciation of our own techniques is frequently responsible for laying emphasis on wrong things. This is specially true of foreign experts and our own men trained in foreign countries. There is ample evidence of this in the contemporary situation. At present the country seems to be much enamoured of what is called the Japanese method of rice cultivation. On studying minutely an Indian rice grower does not find anything new or peculiar except manurial intensity, though an arm chair agriculturist or a lab agronomist may. Perhaps some of the practicies of our Orissa and Kashmir rice growers may prove to be improvements even over this system. Again, one finds that our farmers knew and practised double cropping & crop rotation thousands of years before the modern scientific farmers of developed countries adopted these things. The greatest limiting factor in these cases at present is the water supply and not the ignorance of farmers. In some cases lack of appreciation of our own things and a quick substitution has led to costly mistakes. The decline of cotton cultivation in western U P essentially because of replacing the native seed and the purely temporary successes of many of the new varieties of sugarcane are outstanding examples of this attitude of not depending upon our own things, not appreciating them and trying the unknown without adequate research. The country has to become wiser through these experiences. This, however, should not be taken to mean that there is nothing wanting and that our agricultural husbandry practices are perfect. What is to be appreciated is that our cultural practices have matured under peculiar local conditions, and our farmers' experiences are quite rich. Improvements in these practices can, of course, be brought about.

The Farmer's Adaptability

The next question is that of farmers' acceptance. Farmers' adaptability has generally been discounted. Really advantageous changes are quite acceptable to the villager and the bottlenecks are financial, not psychological or social. The wide lag which exists at present between research and the performance of agriculture is essentially because agricultural extension had not found any important place so far in the programme of agricultural development. The results achieved in community project areas prove the willingness of the farmer to adopt improvements and his favourable response to a proper approach.

A study of the map showing the extent of the use of machinery in agriculture (in the Agricultural Atlas published by the Government of India) along with the population map of India, shows a high degree of positive correlation between the density of population and the intensity of the use of farm machinery, which also illustrates the readiness of farmers to accept innovations. The technique of farm production in our country is really, therefore, not as backward as it is popularly believed to be, particularly by the urban educated class, which is fed on and derives inspiration and ideas from foreign literature. The problem of enhancing agricultural production is not basically that of technique or of cultural practices but of facilities, both organizational and physical. The results of recently organized crop competitions establish this fact quite conclusively.

Determination of crop yields over the last four decades by the Ministry of Food and Agriculture proves that yields are stabilized at a low level. Again, a study of production variability shows a highly stable character of total output. To increase production at this level is really a very difficult task, and the crux of this task is to give the initial impulse for an upward movement. This is connected basically with the question of incentives.

Land Rights

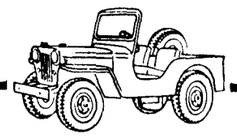
Generally it is believed that the rights in land have been the greatest check in this respect. This is not a very accurate impression, first, because farmers in the Ryotwari areas have not been better than those in the Zamindari areas, and secondly, economic history shows that before our population began to increase rapidly, the ques-

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THE UNIVERSAL

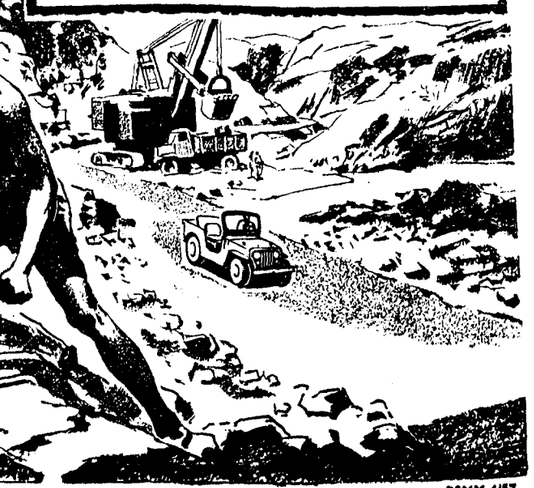
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PSMM-4/57

tion of rights in land was not so important. During the Muslim period, and even much later, attempts were made, and legislation was resorted to, to keep the land cultivated by farmers. They were sometimes forced to continue possession of land. Land hunger is only a recent phenomenon—particularly of the last 60 to 70 years—arising out of rapid expansion of population.

The existence of this attitude of farmers towards land and the fact that in spite of agriculture being the main occupation for thousands of years a prosperous agricultural community could not develop in the country, raise very interesting questions. History shows that throughout this long period Indian farmers experienced only two long periods of prosperity; occasional famines continued to eat into the other shorter spells of prosperity. High rents and taxes stripped farmers of a considerable part of their incomes during this period. The result was that the environment was not very favourable and agriculturists were not allowed to enjoy the fruits of their labour. This explains the lack of incentive and calls for a shift of emphasis from rights in land as at present to the more important question of rendering agriculture a safer enterprise.

Diminishing returns are of basic importance in agricultural production. This involves an important question of intensification in relation to diversification. Our agriculture is labour intensive; about 36 per cent of the total farm costs cover human labour and about 20 per cent, cattle labour. Holdings are tiny, and due to small scale operation cultivation is wasteful, and costs are high. But it has not been fully appreciated that even tiny holdings are undercultivated and they also suffer from occasional labour scarcity. The situation requires essentially the deepening and widening of capital and remodelling of farm organisation. There is a very wide scope for intensification; and diversification has to be sought mainly through dairying and horticulture.

Fluctuations in Farm Output

Agricultural production on the whole is highly stable, but there are vast ups and downs so far as individual farms or crops or localities are concerned. This is due to numerous agricultural hazards, safety and security against which is a primary necessity not only to stabilize production but also to provide a further incentive to farmers. Due to the risky nature of the agricultural occupation, cultivators develop a strange psychology of resigned fatalism and consequent conservatism. Therefore, they seek safety first and riches afterwards. The result is that they are not easily prepared to take risks, to try new ways and to adopt innovations.

This situation is popularly interpreted to mean that the human factor in farming is conservative and backward, and is the greatest drawback in agricultural development. The fault, however, lies with the rural environment. Under the circumstances in which our cultivators work, their present attitudes and modes of behaviour are very natural. It is, therefore, the social and economic environment around farmers and farms that demand prior treatment. Though this view is not generally accepted, the human element in Indian agriculture has really a remarkable power of adjustment; it will soon adapt itself to new surroundings. Some recent surveys show that the rural population is not slow to adjust itself to the new circumstances created by recent tenency, debt panchayat, and social reform legislation. In most cases inadequacy of finances forms the greatest limiting factor in innovations. Therefore, widening and deepening of capital are essential for the introduction of innovations for the expansion of production.

Indiscriminate Land Use

In attempting to bring about an alround increase, particularly under the present circumstances when both human and bovine population is pressing hard on the resources, land is gradually becoming more scarce, and the struggle for existence between man and beasts has reached a critical stage with man beginning to drive out cattle,* there is a serious danger of indiscriminate land-use. Under the stress of the immediate problem of shortage of agricultural production, which crystallise in the form of land hunger, the long-term view of balanced land-use is likely to be sacrificed. In other words, a more serious problem than the present one is likely to be created in the effort to meet immediate needs. The fear is by no means unfounded, since the history of mankind affords conclusive evidence, that in the struggle for a more satisfying way of life, man's handling of resources has been a failure. Most of the damage wrought by him in this connection, is permanent. The malpractices which have been responsible for it still continue, implying thereby that man has not yet become wise in matters of resource utilization.

In our country, the story of misuse is writ large in deforested areas, wasteful cultivation on hills, increasing floods, widening and deepening of gullies, increasing aridity, and declining faunal forms which are ultimately endangering the very basis of human life. During recent years, we witness wide-spread and indiscriminate deforestation in forest areas, and as a consequence of zamindari abolition, indiscriminate ploughing of village forests and pastures and cutting of trees for fuel. Recent surveys reveal that in many villages, pasture lands have almost disappeared, and lovely spots in the countryside are denuded, presenting now a barren and wasted appearance. Another misuse of land, particularly of fertile land, is found on rural urban fringes, where large numbers of enormous brick kilns spoil not only the ground on which they exist, but also a considerable proportion of the surrounding cultivated lands.

The most alarming features in the landuse pattern are presented by accelerated erosion, particularly in the Jamna-Chambal tract, and the growing aridity in the western portion of the Ganges Valley, popularly termed as the extension or invasion of the desert. This sounds a note of warning against any further misuse of land resources, and on the

* The study of human and cattle population and the food situation shows that there is a decrease in the total number of cattle, buffaloes, horses, ponies and sheep and goats, the superior type and an increase in pigs, poultry, and camels, whose maintenance is cheap and less competitive with that of man. A still more interesting fact is that the thickly populated parts which are deficit in food supply mostly coincide with parts of decreasing bovine population and the cattle population is increasing mostly in parts which are surplus in food supply.

positive side it calls for a highly imaginative policy of resource conservation. Let us be wise before the history of the Indus Valley Civilization begins to repeat itself.

Balanced Ecological Complex

It is worthwhile to appreciate that there are limits to man's encroachment on land for cultivation. Agriculture can prosper only as part of a balanced resource system. The unity, balance and harmony of the ecological complex must be understood and appreciated. Any particular genus of life is created, consolidated and maintained through subtle, complex and mainfold relationships between the human community on the one hand and the regional complex on the other. The history of civilizations shows that they survived and flourished so long as man worked in harmony with his environmental milieu. On the other hand, the price which man has paid for creating a disequilibrium in the resource system is rather heavy. The most eloquent testimony is furnished by the remains of the ancient civilizations of Egypt, Greece, Babylon, Rome, India, China and other culture areas of the world.

In the past, when population was small and land relatively in plenty, the solution to the problem of growing population was found through the exploitation of new areas. At the time, sociological speculations treated man in a deterministic fashion; his efforts were regarded as extraneous forces rather than phases of change in the ecological complex. Social progress was explained in terms of control over nature. But, now, new areas are not so numerous, nor are those which exist, freely available. The land-man relationship has changed; as a result, man has come to be considered as a part and parcel of those interwoven relationships by which the regional balance is maintained, refined, shifted or broken. It is recognized now that the pattern of life evolves as a complex whole; social progress is interpreted in terms of adaptations to the geographical milieu. Life can be sustained and progress can be maintained only so long as the ecological balance is maintained. The central idea in planning agricultural production, therefore, must be to reconcile the needs of an alround expansion of production with optimum land-use so as to maintain the balance and harmony of the ecological complex.

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Around Bombay Markets

Moderate Improvement

Thursday, Morning

SHARE values at Dalal Street have recorded a modest improvement on favourable reports from abroad about the prospects of credits from U S A, Britain, Japan and Yugoslavia. The 32 million dollar loan promised to TISCO by the I B R D and other financial institutions had been taken for granted for quite some time and, therefore, had practically no effect when it was announced. Apart from this news, technical factors favoured bear covering, particularly since there were no new factors to discourage the market. Towards the end of the week, nearly all scrips turned dull, and operators obviously chose not to commit themselves either way so long as no firm agreements regarding external aid were in sight.

The accompanying table shows the extent to which the capital market is now enervated, being weak even when compared to the days immediately following the Budget. Every index, apart from that for financial equities, is significantly lower; that of non-manufacturing equities, principally plantations, is substantially lower, than its post-Budget level. Relative to the year before, there is no doubt, of course, that the capital market has become quite anaemic.

The reasons for the recent downward plunge of equities are not confined to the credit squeeze and the raising of the Bank Rate in London. The plain fact at Dalal Street appears to be that speculation has become almost academic. Investors' interest is at a minimum. The opinion is unanimously held that what Dalal Street needs is a shot in the arm, but nobody seems to be clear what precisely the shot should be. The new taxation measures are by and large accepted now as an unpleasant nuisance which one has to live with. The credit squeeze can hardly be objected to if the price line is to be held. The quantum of external aid is something which after all is not within the control of the Government of India.

In short, it is implicitly recognised that, primarily, it is not the objective situation but the subjective situation that needs to be changed. The psychological damage done by irresponsible ministerial exuberance appears to have had a more adverse effect than the burden of heavy taxation. The market's requirement may, therefore, be summed up in the need for a therapeutic dose of confidence.

Renewed Pressure

The latest returns relating to the Reserve Bank and the scheduled banks indicate a renewal of monetary pressure on internal as well as external resources. During the week ended October 4, balances held abroad by the Reserve Bank declined by Rs 7 crores but foreign securities remained unchanged at Rs 326.62 crores. Bankers' deposits declined by Rs 6 crores while advances to them expanded by Rs 5 crores. Investments in the Banking Department rose steeply by Rs 14.5 crores and ways and means advances, too, went up by Rs 3 crores. Notes in circulation spurted upwards by Rs 16 crores at the expense of notes held in the Banking Department.

During the week ended September 27, the downward trend of scheduled bank credit appears to have been halted and the credit portfolio expanded by more than Rs 3 crores in spite of a contraction of Rs 1 crore at the State Bank. Total cash reserves declined by Rs 5 crores, though there was an increase of Rs 4 crores at the State Bank. In the absence of breakdowns, it is difficult to explain this rather sudden reversal of trend. It may either herald an early onset of the busy season or it may be due to higher advances against jute. Whatever the reasons, however, the problem of bringing down total bank credit to Rs 800 crores, as directed by the Reserve Bank, may now give cause for renewed anxiety.

One of the interesting developments in the money market which has not received the attention it deserves is the steady expansion, week by the week, in call and short loans, which stood at a record level of Rs 47.34 crores during the week ended September 27, against less than Rs 12 crores a year ago. Since most of these loans consist of inter-bank lending, the conclusion is justifiable that not merely do banks now lend relatively substantial amounts to one another but also that there is a pronounced difference between the liquidity position of various banks. It would be interesting to know how much of the expansion in inter-bank lending could be attributed to the exchange banks.

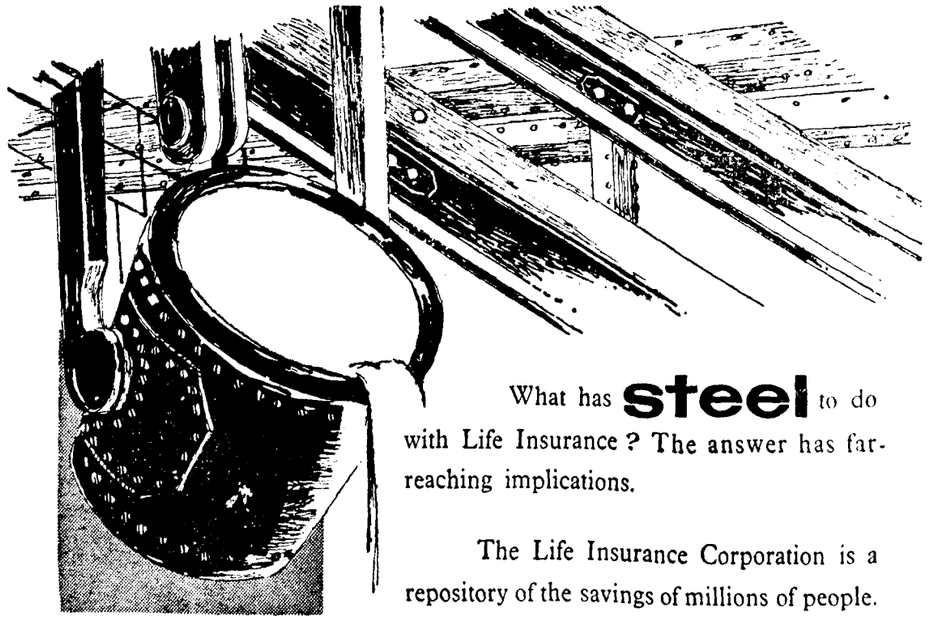
Cotton

Bullish Sentiment

THOUGH prices at Kalbadevi moved somewhat erratically during the week, bullish sentiment was predominant. Reports of continued lack of rain in Gujarat and Saurashtra and excessive rains in Punjab stimulated Teji options, and lifted Moglai March to nearly Rs 695 at the beginning of the week. The announcement of an export quota of 50,000 bales for Bengal Deshi came somewhat earlier than expected and helped intensify bullish sentiment still further. Subsequently, profit-taking by bulls and the directive from the Forward Markets Commission threatening to take severe action against option dealings brought down values. This decline

Index Numbers of Security Prices
(1949-50 = 100)

	Sept 28, 1957	May 25, 1957	Sept 29, 1956
Gilt-edgeds	89.0	89.6	90.6
Debentures	97.9	99.0	100.3
Preference	73.8	78.0	83.3
Equities:			
Public Utilities	101.7	104.9	113.9
Financial	92.3	90.1	94.7
Manufacturinfi	101.7	107.5	137.8
Non-manufacturing	112.6	125.7	159.4
Miscellaneous	73.2	80.9	104.7
Total	97.6	103.2	126.6



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however, proved short-lived and the price was pushed up again on support from Gujarat interests, and after an interregnum brought about by reports of cloudy weather in Gujarat and Saurashtra, climbed to Rs 700 on wednesday. Daily turnover during the week fluctuated between 8,000 and 15,000 bales. While mills lent some support to the market, most trading activity was on purely 'investment' account.

Government's import policy for the October-March season is now eagerly awaited. Interest at Sewri has broadened considerably, though most dealings are still under-laid with caution. Daily turnover has remained well above 2,000 bales during the week.

Oilseeds

Export Policy Announced

LED by groundnut, oilseed prices have tended to decline. The Government announcement that no export quotas would be granted during the current season for the export of ground nut and groundnut oil, together with the proposed import of cottonseed oil from the U S A, led to a weak bearish trend. Groundnut as well as Castor lost nearly Rs 2 over the week.

Bullion

Silver Depressed

BULLION prices at Sheikh Memon Street have shown a divergent trend. Gold has moved within a fairly narrow groove and any tendency towards easiness has been held at bay by comparatively smaller arrivals and seasonal expansion of demand. Silver, on the other hand, lost nearly Rs 2 over the week and closed easy on account of substantially higher arrival of Tibetan coins.

Final Estimate of Tobacco 1956-57

ACCORDING to the Directorate of Economics and Statistics, Ministry of Food and Agriculture, the all-India final estimate of tobacco, 1956-57, puts that year's area and production at 1,022,000 acres and 306,000 tons, as against the partially revised estimate of 1,013,000 acres and 295,000 tons for 1955-56.

This shows an increase of 9,000 acres or 0.9 per cent in area, and 11,000 tons or 3.7 per cent in production over 1955-56.

NOTICE

THE Twentyfourth Annual General Meeting of the Shareholders of Rohtas Industries Limited will be held at the Registered Office of the Company at Dalmianagar on Thursday, the 31st October, 1957 at 11-30 A.M. to transact the following business :—

1. To receive and adopt the Directors' Report and the Audited Accounts for the year ended 31st October, 1956.
2. To declare dividends.
3. To elect a Director in place of Shri B. N. Chaturvedi who retires by rotation but being eligible offers himself for re-election.
4. To appoint Auditors for the current year and to fix their remuneration. The retiring Auditors, Messrs. A. N. Gutgutia & Co., being eligible, offer themselves for re-appointment.

The Share Transfer Books of the Company will remain closed from 22nd October to 31st October, 1957, both days inclusive.

5. As Special Business :

To consider and if thought fit to pass with or without modification the following Resolution which will be proposed as Special Resolution :—

"Resolved that the Articles of Association of the Company be altered in the manner following:

(a) For Article 28 the following shall be substituted, namely :

"28. The Company shall have a first and paramount lien upon all the shares (other than fully paid up shares) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all moneys (whether presently payable or not) called or payable at a fixed time in respect of such shares and no equitable interest in any share shall be created except upon the footing and condition that this Article is to have full effect. And such lien shall extend to all dividends from time to time declared in respect of such shares. Unless otherwise agreed the registration of a transfer of shares shall operate as a waiver of the company's lien if any on such shares."

(b) For Article 29 the following shall be substituted, namely: "29. For the purpose of enforcing such lien the Board of Directors may sell the shares subject thereto in such manner as they think fit but no sale shall be made unless a sum in respect of which the lien exists is presently payable and until notice in writing of the intention to sell shall have been served on such member, his executors or administrators or his committee, curator bonis or other legal representatives as the case may be and default shall have been made by him or them in the payment of the sum payable as aforesaid for seven days after the date of such notice."

(c) For Article 30 the following shall be substituted namely: "30. The net proceeds of the sale shall be received by the Company and applied in or towards payment of such part of the amount in respect of which the lien exists as is presently payable and the residue if any shall be paid to such member, his executors or administrators or assigns or his committee, curator bonis or other legal representatives as the case may be."

By order of the Board,
For Sahu Jain Ltd.,
A. K. Jain
Managing Director,
Managing Agents.

Calcutta,
October 4, 1957.

N.B. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself. Such proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.

Explanatory Note:

The shares and debentures of the Company have been admitted on the official list of the Bombay Stock Exchange for cash dealings, and the alterations in the Articles of Association of the Company as proposed are desired to be made by them. The consent of the shareholders is therefore sought for the proposed special resolution. No particular interest is attached to the Directors and/or Managing Agents of the Company in the above resolution.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1487.47	1471.11	1485.86	1430.57
2. Rupee Coin	134.21	135.20	132.38	119.74
3. Deposits				
a) Central Government's	51.31	52.18	51.96	54.55
b) Banks'	91.15	100.00	104.24	50.38
c) Other Governments'	10.14	7.53	6.88	10.22
d) Others'	110.48	109.97	110.03	12.67
4. Foreign Securities	326.62	326.62	345.61	586.74
5. Balances held abroad	18.61	25.90	31.79	23.70
6. Rupee Securities	935.87	935.87	916.87	703.72
7. Investments	215.86	201.27	223.14	27.31
8. Loans and advances to Governments	44.77	41.79	41.11	3.74
9. Other loans and advances	78.65	73.38	65.05	89.79
Scheduled Banks				
1. Demand liabilities (net)	719.66	718.55	713.83	637.50
2. Time Liabilities	619.54	616.24	597.03	457.50
3. Cash on hand	36.74	36.64	38.92	35.46
4. Borrowings from Reserve Bank	37.20	36.98	40.27	63.24
of which against Usance Bills	30.86	33.00	35.23	36.37
5. Advances and Bills discounted	787.30	784.85	798.90	707.92
of which State Bank's	156.76	157.72	159.23	130.38
6. Invst. in Govt. Sec.	386.27	386.04	371.24	375.61
of which State Bank's	151.98	151.86	134.96	108.10
Cheque Clearance	87.35	152.06	132.97	127.74

† For Reserve Bank week ended 4-10-57. Scheduled Banks and Cheque Clearance week ended 27-9-57.

Bombay Money Rates

	27-9-57	20-9-57	30-8-57	28-6-57
Call Money				
From banks	2¼-4 7/16	2¼-4 7/16	3½-4¼	3½-4¾
From public	3¾-4 9/16	3¾-4 7/16	3¾-4 7/16	4-4 7/16
Three Months	2½-4 9/16	2½-4 7/16	2½-4 11/16	3-4 7/16
Six Months	2-4 7/16	2-4 7/16	2-4 7/16	2-4 7/16

Bombay Bullion

(In Rupees and nP)

	10-10-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	107.00	106.75	107.57	104.06
Forward	107.25	107.12	107.39	103.37
Silver (per 100 tolas)				
Spot	183.75	184.87	181.99	172.06
Forward	184.56	186.12	182.51	172.81

COTTON STATISTICS

MILL CONSUMPTION

(In '000 bales of 392 lbs each)

Description:	July 57	June 57	May 57	April 57	Mar 57	Sept '56 July '57—
Indian	392.6	360.6	401.0	410.0	400.6	4289.1
Foreign of which	50.0	48.4	45.1	44.6	46.4	521.8
American*	27.11	23.14	14.80	24.16	23.48	177.6
Egyptian	6.71	5.37	5.81	6.22	6.14	87.2
E. African	8.00	6.83	7.22	6. 39	9.75	157.2
Sudan†	6.27	5.27	5.33	5.50	6.45	78.2
TOTAL	442.6	409.0	446.9	454.6	447.0	4810.9
Consumption in corresponding periods a year ago:						
Indian	384.7	351.1	394.4	341.8	347.8	3995.8
Foreign	56.0	51.2	56.2	51.3	51.9	554.1
TOTAL	440.7	402.3	405.6	393.1	399.7	4549.9

* Includes United States and Mexican 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	1301.8	1432.9	1421.4	1329.9	1221.9
1955-56	1556.5	1705.6	1687.3	1512.7	1359.9
Foreign:					
1956-57	220.2	220.8	216.9	206.0	200.0
1955-56	228.0	223.8	219.3	213.3	211.5

COTTON IMPORTS

(in bales of 392 lbs each)

	From Sept 1, 1957 to Sept. 26, 1957		
Description	1957	1956	1955
Americans	5,980	2,474	—
Sudans	7,131	2,091	6,602
Egyptians	13,032	905	3,903
East Africans	6,538	21,557	6,125
Pakistans	—	—	—
Other varieties	—	765	1,420
Total	32,681	27,792	18,048

COTTON EXPORTS †

(In bales of 392 lbs each)

From Sept 1, 1957, to Sept 26, 1957

Destination	1957	1956	1955
U K	200	577	5,550
Continent	—	10	18,536
Hong Kong	—	—	9,028
China	—	2,700	34,451
Japan	925	5,787	25,965
U S A	—	47	756
Other Countries	—	160	1,195
TOTAL	1,125	9,281	95,476

†Excluding Zoda and yellow pickings.

Source: East India Cotton Association

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 21-9-57	14-9-57	24-8-57	22-9-56
Food Articles	**108.7**	**108.5**	**111.8**	**103.6**
Cereals	102	103	106	99
Pulses	83	84	86	81
Fruits & Veg.	121	118	152	119
Milk and Ghee	110	109	108	102
Edible Oils	129	128	129	124
Fish, Eggs & Meat	102	102	102	97
Sugar & Gur	111	110	110	98
Others	127	129	133	127
Liquor and Tobacco	**94.3**	**93.5**	**92.0**	**84.6**
	93	92	90	83
Fuel, Power Light & Lubricants	**114.6**	**114.5**	**114.7**	**106.2**
Industrial Raw Materials	**116.1**	**115.4**	**118.2**	**106.2**
Fibres	115	115	119	113
Oilseeds	122	120	123	123
Minerals	109	109	111	103
Others	107	107	108	110
Manufactures	**108.8**	**108.5**	**108.3**	**109.2**
Intermediate Products	**107.4**	**107.4**	**108.0**	**111.1**
Finished Products	**109.1**	**108.7**	**108.4**	**108.9**
Textiles	109	108	108	112
Cotton	117	117	117	122
Jute	100	99	96	99
Woollen	103	103	103	97
Silk & Rayon	83	83	83	89
Metal Products	141	141	141	131
Chemicals	99	98	98	93
Oilcakes	117	112	113	114
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**109.8**	**109.4**	**111.5**	**106.9**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages of Calendar Months)

('000 tons)

		Raisings	Despatches	Stock at Pit-heads*
1955		3,184	2,742	3,608
1956		3,287	2,913	2,766
	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	3,608
1956:	Jan	3,196	2,789	3,586
	Feb	3,358	2,691	3,813
	March	3,362	2,235	3,911
	April	3,223	2,865	3,815
	May	3,316	2,871	3,836
	June	3,194	2,877	3,727
	July	3,165	3,165	3,379
	Aug	3,308	3,176	3,018
	Sept	3,123	2,819	2,881
	Oct	3,177	2,940	2,662
	Nov	3,324	3,026	2,565
	Dec	3,678	3,038	2,766
1957:	Jan	3,628	3,138	2,780
	Feb	3,508	2,841	3,029
	March	3,652	3,251	3,000
	April	3,731	3,158	3,087
	May	3,792	3,187	3,246
	June	3,330	2,915	..

* At or about the end of each period.

.. not available.

Source: Directorate of Industrial Statistics, Calcutta.

WORLD BANK LOANS

(July 1, 1954—June 30, 1957)

(in mn US $)

Loans Classified by Purpose and Area	Africa	Asia	Australia	Europe	West Hemisphere	Total
Electric power	178	145	29	186	331	869
Transporation						
Railroads	117	80	26	3	127	353
Shipping	—	—	—	12	—	12
Ports & Inland Waterways	3	37	—	37	6	83
Roads	25	—	57	—	114	196
Airlines & Airports	—	6	44	7	—	57
Pipelines	—	14	—	—	—	14
Communications	2	—	—	—	22	24
Agriculture & Forestry:						
Mechanisation	—	—	88	2	25	115
Irrigation & Flood Control	—	31	6	57	21	115
Land Improvement	—	14	6	2	4	26
Processing & Storage	—	—	—	4	3	7
Livestock	—	1	—	—	2	3
Forestry	—	—	4	6	—	10
Industry:						
Iron & Steel	—	153	14	23	—	190
Pulp & Paper	—	4	1	45	20	70
Fertilizer & Chemicals	—	—	—	29	—	29
Other Industries	—	5	26	43	2	76
Mining	—	—	16	12	—	28
Development Banks	2	10	—	33	1	46
General Development	40	75	—	90	—	205
Total Development Loans	367	575	317	591	678	528
Reconstruction Loans	—	—	—	497	—	497
Grand Total	367	575	317	1,088	678	3,025

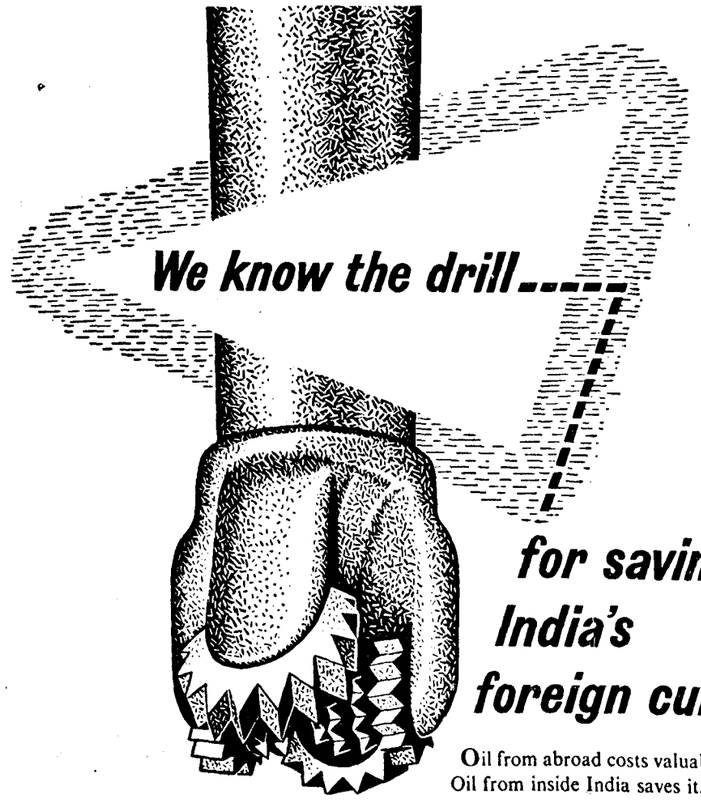
Source: Twelfth Annual Report (1956-57) Intenational Bank for Reconstruction and Development.

Countrywise classification of loans

	Disbursed	Undisbursed	Total	Loans not effective
Asia:				
India	87.2	81.2	168.4	29.8
Iran	21.0	49.0	70.0	—
Japan	46.0	21.0	67.0	—
Pakistan	40.8	24.7	65.5	—
Others	38.7	62.4	101.2	—
Africa:				
S. Africa	82.4	11.6	94.0	—
Australia:				
Australia	226.2	57.8	284.0	—
Europe:				
Austria	40.6	11.8	52.4	—
Belgium	74.9	—	74.9	4.8
Finland	37.2	14.8	52.1	—
France	235.1	—	235.1	—
Italy	71.1	75.5	146.6	9.1
Nether-land	64.9	10.0	74.9	—
Norway	50.8	22.2	73.0	—
Turkey	52.7	6.4	59.1	—
U K	53.8	65.0	118.8	—
Yugo-slavia	54.0	1.2	55.2	—
Others	43.3	—	43.3	—
Western Hemisphere:				
Brazil	151.1	4.0	155.1	—
Chile	25.1	20.1	45.3	—
Colom-bia	62.5	29.7	92.2	—
Mexico	115.1	7.7	122.7	—
Uru-guay	33.7	23.7	57.4	—
Others	74.2	53.0	127.0	—
Total	1790.0	655.7	2445.6	58.7

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Clouds over West Asia

TROUBLE in west Asia is taking a serious turn. The recent tension between Syria and Turkey, as an incidental sequel to the struggle for power between Russia and the Western Powers, is a reminder however that the "cold war" has returned to the point from where it started. It began with the enunciation of the Truman Doctrine. Mr Truman declared America's decision to safeguard Turkey's frontiers. That was even before NATO. Turkey has again emerged as a focal point in the "cold war". What is more intriguing is that the Syrian-Turkish tension has provoked the American State Department to emphasise the close relation, and sequence, between the Truman Doctrine and the Eisenhower Doctrine. Europe still continues to suffer from the "cold war". Germany remains divided. In his recent peace offer, Mr Khrushchev blames the Western Powers for the perpetuation of the German problem. But, it is clear from M Khrushchev's interview with the Chief Washington Correspondent of **New York Times** that the "cold war" has now shifted to west Asia.

In this interview with Mr James Reston, M Khrushchev has accused America of inciting Turkey against Syria. Moscow's warning to Turkey was coupled with a reminder to Washington that hostilities once begun would spread. Washington has reacted to Moscow's reported charges against America and threats to Turkey by warning Moscow that "despite distances, he (M Khrushchev) should be under no illusion that the United States, Turkey's friend and ally, takes lightly its obligations under the North Atlantic Treaty, or is not determined to carry out the national policy expressed in the joint Congressional resolution on the Middle East (Eisenhower Doctrine)". M Khrushchev was blunt in his accusation that Mr Dulles had instructed Mr Henderson to incite Turkey against Syria after the latter's manouevres to create hostility between Syria and her Arab neighbours had failed. These charges have been denied by the American State Department, though the inter-relation between the Truman Doctrine and the Eisenhower Doctrine has been duly stressed.

Despite denials by the American State Department, the massing of Turkish troops on the Syrian borders, Syria's official protest against such deployment of Turkish troops and the despatch of Egyptian forces and Army officers to Syria underline the tension that is developing in and around Syria. Swift-moving events would seem to lend, weight to suspicions about America's designs, if not to substantiate M Khrushchev's charges against Mr Dulles and his State Department. Though the Russian offer of large credits for Syria's economic development had an initial unfavourable effect on the latter's neighbours, the American air lift of guns to Jordan intended for use against alleged Communism in Syria had a boomerang effect on the Arab World. Supply of American war equipment to Jordan was sought to be justified on the ground that Syria's neighbours had expressed "deep concern" that Syria might fall a victim to International Communism. When Damascus let it be known that it would send diplomatic Notes to neighbouring Arab countries about their reported "concern" over Syria, they promptly denied ever expressing any such concern. And now even Damascus has fallen in line with the rest of the Arab States by warning Turkey against any aggression against Syria.

Washington made no secret of its bewilderment at the hostile statements made by the representatives of Saudi Arabia and Iraq in the United Nations against Western designs to interfere in the internal affairs of Syria, or of any other Arab State. Their forthright denials of any Communist subversion or infiltration in Syria and their combined vocal support to Arab solidarity and nationalism caused deep embarassment to Washington. It soon became evident that America's manoeuvres to isolate Egypt and Syria from the other Arab States had, after their initial success, received a major setback. Not only Egypt and Syria but other Arab States became less enthusiastic about the Eisenhower Doctrine. Washington made the blunder of supporting the Doctrine by the movement of the Sixth Fleet to Beirut in April last and by the dramatic and costly air lift to Jordan of war equipment. This show of military might may or may not have frightened some Arab States, but it has been successfully exploited by Cairo and Damascus as proof of America's "imperialist" designs. As America's diplomatic defeat became apparent, Washington seemed to turn to Ankara. Moscow has openly made such allegations. Despite denials by the American State Department, the fast growing tension in the relations between Turkey and Syria and the Arab States' reaction to the deployment of Turkish troops on the Syrian border reflect the Arab World's tacit endorsement of Russian charges.

Recent developments in west Asia have a lesson for America and the Western Powers. Washington's main mistake is to base its policy to west Asia on a crusade against Communism. Neither Egypt, nor Syria, nor any of the other Arab States is Communist, though Egypt and Syria look to Russia for military and economic help. Unlike America and the Western Powers, Russia exploits the developing sense of nationalism in Arab States. Some of them may or may not be pro-Russian, but all are fervently nationalist in their outlook. It is the difference in approach that makes the Arab World look to Russia for inspiration and friendship while they remain suspicious of the intentions of America and her Western allies. Besides, to the Arabs, Russia is the friend against Israel, while the Western Powers are regarded by Arab States as friends of Israel. It would be evident that the Western policy that should pay rich dividends is to let west Asia alone. Arab neutralism cannot be as harmful to the Western Powers as the latter's obstinate refusal to respect the sense of nationalism in west Asia. A policy of non-interference must necessarily start with an agreed ban on supply of arms to west Asia. Russia has more than once proposed such an agreement by both sides. Is it too much to hope that if nothing else, at least the undisputed Russian achievements in science and in technology will provoke a re-appraisal of the Western policy to West Asia?

The Wheels May Stop

IT is unfortunate that the trade union movement in this country has not developed on proper lines because of a number of reasons, the most important being the inability of the working classes to provide a leadership which sprang from their own ranks. This factor alone has been responsible for throwing the control of the trade unions in the hands of the politicians. And politicians have tended very often to use trade unions in pursuing their political objectives, with the result that trade unions have not always acted in the interests of the workers they claim to represent.

Since the rift (and this rift was due primarily to the political differences of the contending leaderships) took place in the National Federation of Indian Railwaymen and the Guruswamy group drifted away by forming a separate union of its own, it had been expected that some trial of strength between the two unions would take place. Naturally the challenge for a bout had to come from the group whose credentials were not yet properly recognised.

Although the National Council of Action of the All-India Railwaymen's Federation (this is how the Guruswamy group has lately christened itself) has ostensibly decided to serve a notice of strike in order to secure fulfilment of demands like neutralisation of the high cost of living, and revision of the basic scales of pay and payment of interim relief, it is an open secret that the basic cause of this decision to go on strike is different. Who does not know that already a Pay Commission is in session just with a view to considering the question of compensating Government employees (including Railwaymen and employees of the Post and Telegraph department) for the rise in the cost of living and also to recommending, if deemed necessary, the payment of interim relief? Whatever the Pay Commission awards by way of cost of living compensation, whether it is in the form of a separate additional allowance or in the form of a revision of basic scales of pay and also by way of interim relief, the railwaymen will benefit fully from them. The leadership of the All-India Railwaymen's Federation knows this as well as any one else. And if inspite of this, the A I R F decides to go on strike, the reason must necessarily be sought elsewhere than in the demands emphasised in public. No one will accept seriously the part of the A I R F statement that claims that this action of theirs is intended 'to safeguard the living standards of the working class obtained through years of struggle'.

As for the question of giving official recognition to the A I R F as a representative union of railwaymen one cannot but agree with the Railway Minister that it is in the interests of the railwaymen themselves to have only one union to represent them in all their negotiations with the authorities. By having two or even more unions, the railwaymen stand ultimately to lose because no one union can claim to speak with full authority and the other side on the bargaining counter gets a chance to play one union against the other. It was in recognition of the force of this argument that the two unions existing earlier had been dissolved and replaced by the N F I R. Frankly, it does not speak well of the group that got control of the N F I R that such conditions were not created as would keep the minority group or groups within the organization. The minority group, in this case, sets claim to a very substantial

following among the railwaymen. By forcing it out of the organisation, the ruling group in the N F I R has served only to reduce the representative character of the union.

The question that confronts the Government right now is not the academic one, i e whether there should be one or more than one union of railwaymen. The question is one of recognising the existing position wherein the railwaymen are split into two unions, each with substantial membership and therefore possessed with comfortable negative powers. While attempts must continue to be made to persuade the leaders of the two unions to come together and weld themselves into one organisation, it would be most unfortunate if only on the score of the Government's refusal to recognise the A I R F, the union is forced to resort to strike. Granting that such a strike will not affect the entire railway system but would affect only some of the regions, it cannot be denied that the threatened strike is likely to cause a considerable slowing down of the railway system and in some regions it might mean a virtual stoppage of the railways. This surely will have serious repercussions on the rest of our economy.

One thing is definite that the slowing down of the railways would affect adversely the execution of the Plan and also current industrial production. And such a possibility as this cannot be viewed with equanimity. It calls for, on the other hand, maximum possible effort to resolve the causes of the present conflict. However much the Government might dislike the existence of multiple unions and that too in perhaps the most important of the public utilities, the facts of the situation can be ignored only at the country's cost.

This should not be misunderstood as advice to the authorities to surrender to threats; for if inspite of all efforts made so far, it has not been possible to restore unity, it is only proper that the right of representation should not be accorded indefinitely to only one of the unions. To do so places the onus of compromise entirely on the union that is not recognised, whereas the one that basks in the sun of official recognition is encouraged to adopt an attitude of indifference to compromise. That certainly is not the way unity could be restored.

Muslim League's Come-Back

SEVEN days is not a very long period for finding out a Prime Minister. France has been without a Prime Minister for weeks on end. Right now a Prime Ministership is going a-begging in that country. It is not yet certain that M Pinay who has accepted the President's invitation to try to form a Cabinet will succeed in obtaining the Parliament's confidence vote. So what if it took General Mirza a week to pick on Mr Chundrigar to succeed Mr Suhrawardy?

Mr Chundrigar is not a stranger to India. He was a great favourite of Mr Jinnah and was therefore included in the Viceroy's Executive Council immediately before the partition as a Muslim League representative. After the formation of Pakistan, he has held a number of important posts, ministerial, gubernatorial as well as ambassadorial. But he never forsook his membership of Muslim League while so many other colleagues of his did. This steadfast loyalty of his has brought him to the fore of the party and now of the country. And in negotiating his way to the Prime Ministership, he has proved the better of others who are joining him in coalition. The Muslim League is numerically much weaker than the Republican Party, and still the latter has given in on all important points, whether it is Prime Ministership, the question of joint electorates or the dismemberment of West Pakistan.

As for foreign policy, there never was a dispute between the Muslim League and the Republican Party. Both the parties are committed to a policy of military alliances. The League started the policy and the Republicans have assiduously been following it. On Kashmir, the Muslim Leaguers will probably be more active than the Republicans. But they could not perhaps find a better man than Noon to keep the Kashmir campaign alive. Noon has all the fight in him and just does not bother about the means he adopts. Therefore, we in India should not expect any gesture of friendliness from the new Government of Pakistan. In fact it is quite likely that the present campaign of vilification of India and sabotage in Kashmir may be further intensified. The redeeming aspect of the new Government in Pakistan is that its leader has a reputation for balance and sobriety and he may not commit the blunders of Suhrawardy —the blunders which have alienated most of the Arab World from Pakistan. But there is no prospect of an easing of tension on Kashmir. Also, India has to be more watchful of the interests of the minorities in East Pakistan, because it is the Muslim League which has done its maximum in the past to make things hot for the minorities, and who knows that now with power again in their hands the Muslim League may not play the same game, if not with the direct purpose of driving the minority community out of Pakistan, with that of wresting power from the Awami League in East Pakistan? And they certainly are pastmasters in this game—a game they have been playing for decades on end.



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Weekly Notes

A Jubilee of Civil Aviation

THE youngest transport service in India is 25 years old this week. When on the morning of October 15, 1932, Shri J R D Tata, the first Indian to earn a Commercial 'A' Licence, flew a tiny de Havilland Puss Moth from Karachi to Bombay on the first lap of a journey to Madras, one could hardly have foreseen in the event the starting-point of the great roar of flight that fills our air today. Yet, Shri Tata had the vision to foresee it, and, what is more, the faith, courage and persistence to make his dream come true. The last quarter century has seen far-reaching developments in many a field of national life; but there has been nothing to outrival the progress in the field of civil air transport. From a curiosity and an object of suspicion and fear, the aeroplane has grown to be a part of the country's skyline and also of its pattern of life, almost as unreservedly accepted as the railway train and steamship. Indeed, life even in the remotest village would lose some of its meaning without the occasional flutter of a plane overhead.

If this change was not wrought overnight, neither was it achieved without considerable perplexity and strenuous endeavour in the face of seemingly insuperable difficulties. To begin with, no passengers could be carried as the choice was between a human cargo or mail. And then when bigger planes came on the scene, they could carry only a few; and the economics of transport were anything but satisfactory. But the pioneering spirits persisted in their endeavour until the War came to deal another blow to the progress of civil aviation. With the end of hostilities, however, the prospects brightened up considerably; and within a decade, the Tata Airlines, which had so long been a department of the House of Tatas, came into its own as Air India Limited. The planes multiplied in number and became more capacious, powerful and also comfortable, while the urge of the people to prefer air travel to other modes of transport grew in intensity. With this expansion of service in the country, the stage was appropriately set for the launching of Air-India International for adventure abroad. Even after the Government took over the country's airlines it wisely decided to have Shri Tata guide the destinies of the international wing. And there is no doubt that our airlines are doing extremely well. From the puny Puss Moth to the giant Super B-Constellation of today or the Boeing 707 to come may be a far cry; but the spirit of enterprise and pioneering zeal behind them are the same.

Japan and Asia

ONLY those who expected full and complete accord between India and Japan, as a result of Pandit Nehru's visit to the latter country, will be disappointed at the **communique** issued by the two Prime Ministers. There is no basic issue in dispute between the two countries. It was, therefore, not difficult for the Prime Ministers to reach accord on issues in general. More than the **communique**, Pandit Nehru's statements disclose Japan's eager desire to establish closer contacts with south-east Asian countries. Much has happened during and since the war to estrange relations between Japan and her Asian neighbours. Japan may be committed to alliance with America. That may explain why Japan does not recognise Peking, but has diplomatic relations with Taipeh. But ever since Bandung, it has been evident that, Japan has been consciously trying to win friends in Asia.

If Japan is eager to revive friendly contacts with Asian countries through common issues like banning of nuclear tests and weapons and disarmament, Tokyo hopes that these relations will become closer through increased economic collaboration. Though not as spectacular as of West Germany, Japan's economic recovery since the war has been phenomenal. Pandit Nehru is not alone among visitors to Japan to express appreciation of war-ravaged Japan's rapid economic recovery. That economic relations between Japan and other Asian countries can, and should expand to the mutual advantage of all the countries concerned, will not be denied. But Japan's wrong psychological approach to this problem has retarded progress in this direction. This is not the first time since the war that Japan has mooted the plan for an Asian Development Fund. Nor is it for the first time that some such offer by Japan has revived pre-war memories of Japan's Co-prosperity Sphere. Pandit Nehru has now advanced another argument against an Asian Development Fund. Some such plan will have to include countries all of which are not committed to **Panch Shila**. Some of these countries are members of military pacts and alliances. This political antipathy among the countries concerned is a bar to a common plan for economic development.

That does not mean that bilateral economic agreements cannot be concluded. Negotiations for such an agreement between India and Japan will continue. Disappointment has been expressed over the economic aspects of the joint **communique** issued by the Prime Ministers of India and Japan. A closer examination suggests that **Pandit Nehru's visit has not been unfruitful in this respect.** Mr Kishi's offer to establish technical training centres in India for the purpose of helping the development of medium and small scale industries in this country has been welcomed by Pandit Nehru. It is to be hoped that, as a result of further discussions at governmental levels, the proposal will soon be implemented. Equally encouraging is Mr Kishi's sympathetic attitude to the Second Plan. As a sequel to talks between the two Prime Ministers, it is expected that a plan for yen credits to finance the supply of capital goods from Japan in exchange for exports of Indian ore to that country will materialise. On both political and economic fronts, a good beginning has been made. Pandit Nehru's visit to Japan has not been unfruitful.

Fall in Rate of Decline

WITHDRAWALS from the foreign balance of the Reserve Bank of India during the first 18 months of the Second Five Year Plan, which are shown below, broadly indicate the rate at which foreign exchange has been spent so far.

The depletion of foreign exchange reserves since the very beginning of the Plan i e from April 1956 on-

Withdrawals from Foreign Balances
(Rs crores)

	1956	1957
Jan		—19.31
Feb		+ 8.27
Mar		+11.43
Apr	— 20.48	—21.92
May	—13.51	—41.35
June	— 30.62	— 1.73
July	— 22.09	—33.13
Aug	— 27.81	—40.35
Sept	— 16.55	—34.60
Oct	—32.82	*—10.32
Nov	— 45.72	
Dec	— 6.62	

* for two weeks only

wards has continued uninterrupted till now. Accretions during the months of February and March 1957 and the very small decline in June were the consequence of the transfer of the I M F credits to India of Rs 29 crores, 32 crores and 34 crores respectively during these months. Similarly, it may be noted that the withdrawal by Burma in August of the loan of Rs 10 crores granted to her by India exaggerated the loss of foreign exchange during the month. If allowance is made for the sharp drop of Rs 9 crores in the book value of sterling securities following the increase in the Bank Rate in the U K, comparatively speaking, the withdrawals from the foreign exchange reserves have been smaller in September and the trend in October also continues to be hopeful.

It is difficult to say how far this fall in the rate of decline in foreign exchange balances is the result of the austere policy of import trade control adopted in July last. First a sufficient time must elapse before a restrictive policy is reflected in the actual volume of imports and secondly, when restrictions on imports were clamped in July, it was reported that unutilised licences of the value of Rs 435 crores were still outstanding. In any case, five or six six weeks is too short a period to provide any worthwhile indication of a change in the trend which has prevailed over a year and a half. It may, however, be reasonable to assume that as the foreign trade policy for the six-monthly period ending March 1958, which has now been announced, reinforces the stringent policy which was in force during the last three months, the rate of withdrawals would not be as heavy as it has been in the first 18 months of the Plan.

Two T's

TOBACCO and taxes seem to go together. The Chairman of the Imperial Tobacco Company, Mr G H J Clarke, in his speech at its recent Annual General Meeting complained that the tobacco industry has been made to bear a heavy burden of taxation in recent years. He had particularly in mind the Central Excise Duty and the Sales Taxes levied by the States on tobacco and tobacco products. In his view the suggestion to centralise taxation of tobacco along with other articles of nation-wide consumption would be a welcome step. A step in that direction would be helpful to the tobacco industry because in so far as the manufacturers of tobacco products in India are concerned their competitive position being one of oligopoly, the few manufacturers who control the industry throughout the country would be in a better position to relate their business policies according to changes in taxation if there are not many governmental agencies in the country entitled to levy taxes on their products.

Another interesting point made by Mr Clarke is that although the volume of sales continues to increase the consumer is turning increasingly to less expensive brands. Although he does not say it, he does seem to fear that in case tobacco products come in for still further taxation the above trend might lead the consumers to turn away from cigarettes to bidis or even to hookah. This is a matter which even the tax authorities cannot afford to ignore because a switch over to bidis or hookah might make tax collection a hazardous job.

Whither Prices?

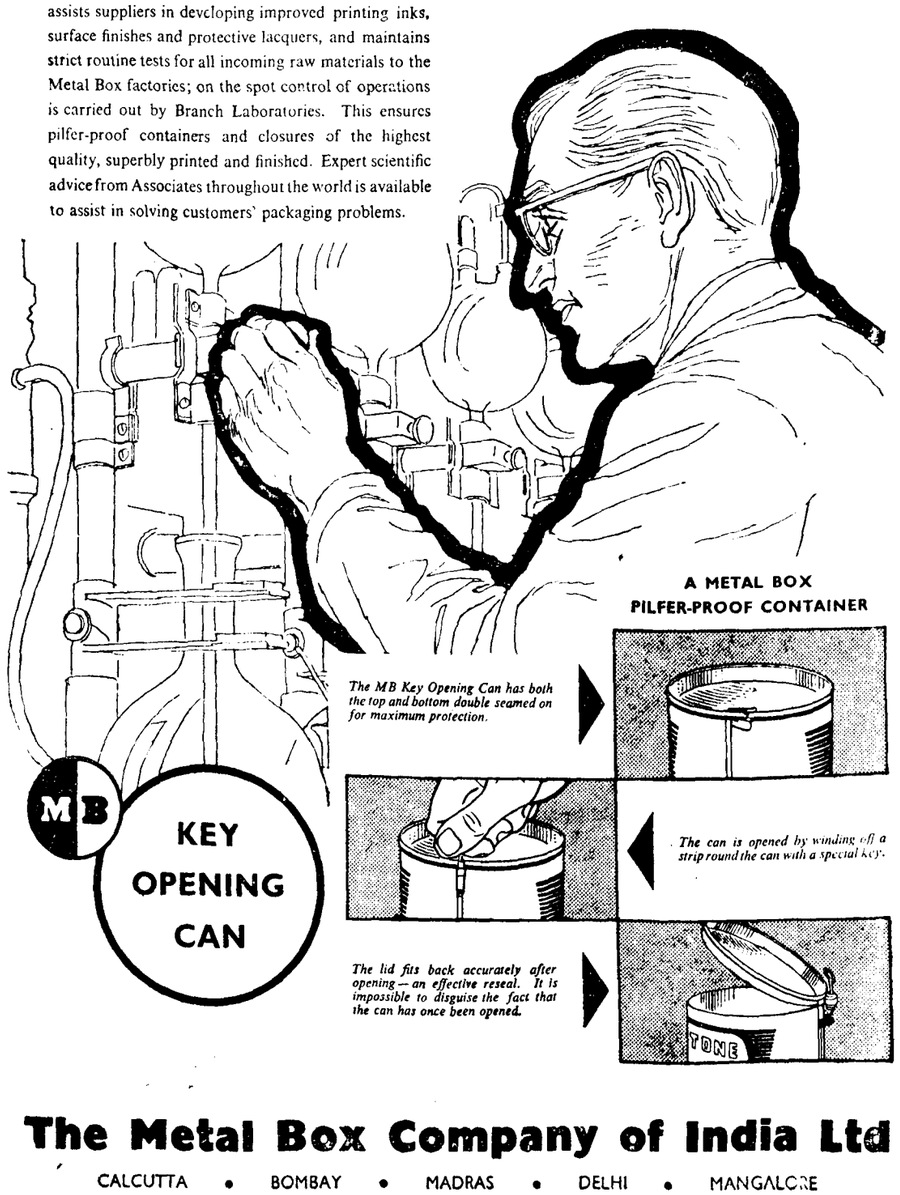
AFTER an almost continuous rise since November 1955, prices reached a peak in the first week of August but appear to have started receding since then. The all-India commodities wholesale price index (1952-53) which had arisen from 90.6 in October 1955 to 113.1 in the first week of August 1957, declined to 109.8 at the end of September 1957. Food and Industrial raw materials prices appear to mainly account for this recent downward trend in prices. The price index of food has dropped by nearly 5 points from 113.5 in the beginning of August to 108.7. The role played by the Reserve Bank's credit squeeze in this price decline cannot be fully estimated till the final breakdown of bank advances against various commodities becomes available. Without meaning to belittle the achievements of the credit squeeze (which seems to have worked quite effectively if one goes by the decline achieved in the total bank advances since June last—the decline has been of the order of Rs 90 crores), it may be stressed that a 'dip' in the food prices at this time of the year is rather to be expected. It will be recalled that last year also there was a fall of about 3 points in September as compared to August, but the upward trend again set in by November. Hence this fall of 5 points in the food prices affords no cause for jubilation. Whether this fall will continue or not depends to a large extent on the Government's ability to prevent undue accumulation of food stocks—a phenomenon which was particularly responsible for the rise in food prices during the past twelve months or so.

The prices of industrial raw materials also registered a decline in the last two months. The price index in their case has gone down from 122.3 in the first week of August to 116.1 in the last week of September. Both the higher production of cotton, jute and oilseeds and the credit squeeze seem to have brought about this price decline. The price of cotton yarn has also been falling presumably because of the accumulation of stocks with mills and greater competition from synthetic fibres. This fall is reflected in the downward trend in the price index of intermediate products. As against this trend, the price index of liquor and tobacco has gone up from 92.0 to 94.3 during the last two months. This is perhaps to be explained by rising taxation and import restrictions. The prices of finished articles have remained more or less stable, which means that the fall in raw material prices has yet to have its impact on the prices of manufactured commodities. But the prospect is one of decline. Whatever the fall in prices of domestic products however, the economy will have to contend from now onwards with the rise on the other hand, in prices of foreign goods which have come within the purview of recent import restrictions and also of those domestic goods which would face less foreign competition now than before.

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A Rangoon Diary

Twelve Hours Without a Visa!

VISCOUNTS—fast and comfortable—take you to Rangoon now from Calcutta in exactly two hours and thirty-five minutes, and let the Indian Airlines Corporation be thanked for it. This writer was among the ten journalists recently taken thither by the I A C, and the four days spent in Rangoon were rewarding in more ways than one. The change was welcome, especially the holiday from reading and writing. Both, however, are habit-forming, and one could not help making mental notes all the time of things casually noticed or overheard, from which the occupational disease of journalists that of drawing tremendous conclusions from trifles, follows but automatically. The representative character of apparently isolated instances is often undervalued, and the uselessness of first impressions as often exaggerated. Nor are hotel lobbies always less newspacked than parliamentary lobbies.

There at the Strand Hotel we were stranded, or so we felt in the last twelve hours of our stay. For some reason the Burmese Consulate in Calcutta never told us, our visas were valid only for four days—although in our applications we had made it clear that we would prefer it to be for a fortnight. We were in fact going to stay for four days, and at midnight on Wednesday we were all without our passports, which, in any case, had only visas that had lapsed. You would think it is a relatively simple thing to obtain an extension for a day. Not in Rangoon. On Monday everybody was preparing for the Festival of Lights on Tuesday. Tuesday, it was a holiday. And on Wednesday they were just not working. The poor I A C manager had to go from the Foreign Office to the Immigration Control, and from there to some other control, and meanwhile we had to get ourselves photographed afresh in triplicate, and it was not until a few minutes before our take-off that we got our visas extended. And we were important people.

The question could not help presenting itself: what happens to people with fewer friends in court? Controls, form-filling, permits, licences—all these are recognised instruments of bureaucratic tyranny in the West. We are not strangers to them in India either. But it is to places like Burma or Afghanistan that you must go to realise the absurdity of the State taking over larger and ever-increasing areas of the life of the citizen and the community. The chief objection to it all is that, in these parts of the world, it just does not work. Inefficient bureaucracies and illiterate citizenry between them produce an endless series of injustices, and so the declared object of introducing controls and permits is defeated. We have not less injustice, but more. Our not having a visa for a few hours was perhaps a small point, but it is an index of the way the government machinery may be functioning. "Not functioning" might be nearer point.

Permits, licences and such like things are not so many bits of paper. Please remember, they are things—rights, favours—given or denied; and there is money to be made by granting, not granting, or just delaying licences. The time has come to ask—and not in Burma alone—whether the import of western procedures in the running of our lives has not been something of a disaster. It is to be doubted whether they work in the West either: Crichel Downs happen in the United Kingdom, and M Khrushchev has been demolishing not a few bureaucracies in the U S S R. Here, where the administrations are inadequate and the citizenry unlettered, form filling may well mean empty pockets for many and fuller ones for a few. Applied to food rationing, empty stomachs are not to be ruled out. There has recently been talk in India of judicial reform, encouraged by the Prime Minister himself. When is somebody going to start talking of the much more urgent problem of executive reform? Stephen Zeig was morbid when, on a sudden, he found himself without a passport after **Anschluss.** Our position was not half as serious although, half in jest, a colleague remarked that, given a choice, he would rather spend a night in an Indian jail than in a Burmese. We met Indians and Pakistanis who have been waiting for two to three years for their papers from the immigration office. We met nobody with the slightest respect for the efficiency of the Government; questions on bureaucratic or Ministerial integrity were evaded with meaningful smiles.

There was a pretty blonde, who spent much time in the hotel lobby in many interesting dresses in the company of many friends, thus relieving much boredom. One saw a smaller proportion of Burmese in this hotel in Rangoon than one sees of Indians in a Calcutta hotel. Could it be a clue to the extent of foreign influence in Burma? Zims here whizz past Chevs and Skodas and Mercedes, and that too gives you ideas. You cannot help overhearing rumours that such and such a newspaper is subsidised by such and such a foreign power. Barbed wires around Ministerial residences were a grim reminder of the sad assassination (to use a **Time**-ism) without which Burma's history might well have been different. There are not many policemen to be seen on the streets. The total impression is unclear in its outlines, but full of misgivings. One is told that the insurrection is almost under control. Governments, however, are not overpowered by such dangers alone. Inanition and administrative breakdowns bring down governments oftener; and as one saw the first pervasive in a large area of Burmese life one could not dismiss the second as an impossibility.

"Not by the Police Alone" was the title of a recent piece by this writer. It is possible that the army alone cannot solve all of Burma's problems. It is even possible that the insurrectionists are not the most potent forces the Government of Burma must contend with to stabilise itself.

Let me be frank about it all. I am no expert on Burma. On the other hand, there cannot be many experts on Burma; and the Burmese Government may be unwise to depend only on the opinions of experts. The casual visitor is unimpressed by trishawmen offering the tourist two hundred kyats for a hundred Indian rupees, however happy he may be at the bargain.

Complaints of injustice, or official indifference (the distinction is apt to seem academic to the victim of either) are heard disconcertingly frequently. They could not all be isolated instances; their very multiplicity militated against such a charitable deduction.

It is not at all suggested that the Government of Burma is on the verge of a collapse in the next few weeks or months. Governments can carry on for a long long time after they have ceased to govern —or to do much good while retaining themselves in power (often a full-time occupation). What is intended here is a warning to ourselves that all our friendly States are not as stable as politeness has hitherto led us to pretend—sometimes even to believe. Burma should not misunderstand this kind of criticism, to which some seemed unduly sensitive, from friendly critics.

October 14. —**Flibbertigibbet**

The green colour code

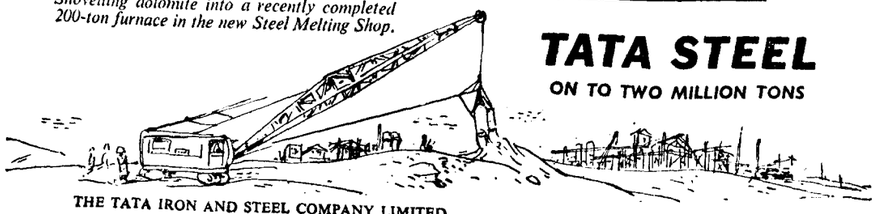
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Letter from Paris

France and her Colonies

IN several previous letters the term "Imperialist" has been freely used to characterise the French economy. The use has not been made without hesitation. For words lose much of their value by being associated with disreputable ideas. Thus the word 'Peace' has become unpalatable to many since it got mixed with Pablo Picasso's famous dove, and the word "Glamour" lamented an English author, has been forever lost to the users of the English language since its monopolisation by Glamour Girls. Similarly, the word "Imperialism" because of its association with Communist and Neutralist propaganda has become taboo in all decent economic and political circles. Yet in Marxist thinking the term does stand for something very concrete namely a particular stage through which most of the advanced capitalist countries have passed or are still passing. Non-Marxist writers, as a result of their basic repugnance for any attempt at mixing up of politics and economics, have in supreme contempt never even thought of refuting the Marxist contention either theoretically or empirically. They have just ignored the whole thing with the same indifference with which they ruled out the possibility of unemployment until the days of Keynes. It is perhaps a pity that it ever became a part of Neo-Marxism; for the idea originated with such non-Marxists as Hobson, and unassociated with Marxism, it might have led to fruitful research work by those who have treated it as if it did not exist and it cannot be pretended that Marxists themselves have done very much in that respect either since Lenin.

In order that the reader might be expected to treat the term "Imperialist" occuring in these letters as a scientific one it is, under the circumstances, necessary to give some empirical evidence on this point about the French economy. This will be done in the present letter with ample statistics in as far as the manifestations of Imperialism in external economic relations, is concerned. The manifestation consists in the dependence of the economy in question on colonies or zones of influence which serve as (i) sources of chief raw-materials; (ii) markets for manufactured products; and (iii) fields for export of capital. Statistics are provided in order that the arguments might be accepted as objective. It has however been said that statistics are something by which just anything can be proved. This is perhaps true. However, the statistics that will be provided here are all collected from a book called **"Les Chances Economiques de la Communate Franco-Africaine"** or **"The Economic Chances of the Franco-African Community"**, written by no other a person than the Director of Planning and Economic Affairs of the Ministry of Overseas Territories, M Pierre Moussa. He can surely be trusted not to constitute a mouthpiece of anti French or anti Imperialist propaganda! The subtitle of the book is: France's presence in overseas territories, how much does it cost and how much does it bring in? It is an excellent piece of work amply documented with meaningful statistics; and what makes it all the more pleasant reading is the frank and straight forward attitude towards empire of the honest upholder of capitalism which distinguishes itself from the shamefaced apoligia of the leftist reformist. For the book is meant to persuade and convince about the gains France derives from her possessions those in France who would like her to sever all connections with them either because they think they cost the metropole too much or because they feel guilty of her having colonies. All the arguments and all the figures quoted below are entirely taken from the book.

The Old Equilibrium

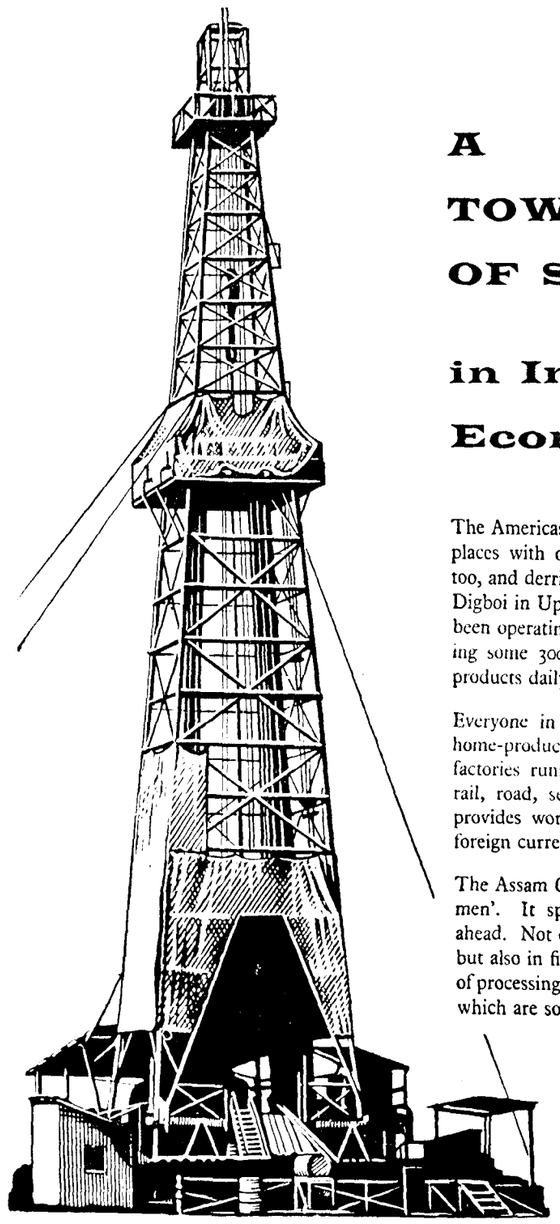
The book describes as the "Old Equilibrium" the one that has been maintained between the metropole and the colonies until today in which the colonies supplied raw materials and food products to the metropole and received in return manufactured products. At present on the average, the metropole spends about £365 million every year on her imports from the colonies which constitutes 26 per cent of its total imports and 64 per cent of the total exports of the colonies. Out of this £365 millions about £300 millions constitute food products and raw materials. The colonies buy from the metropole about £465 millions worth of goods, which constitute 31 per cent of the total exports of the metropole and 68 per cent of the imports of the colonies. Of this only about £20 millions represent non manufactured products.

The next question investigated is the nature of economic integration. It distinguishes between integration carried out under private and under public auspices. Integration under private auspices is again considered to be of two sorts: ascending integration and descending integration. Integration of the first type is the amalgamation of the interests represented by the exploiters of the raw materials in the colonies (most often French settlers) and the interests represented by the manufacturers using those raw materials in the metropole. The second type of integration is the one between the manufacturers in the metropole and the distributing traders in the colonies. It is found that both the types of integration are as yet not very strongly developed though there is at present a clear tendency towards development in this direction.

As to the integration under public auspices, it is effected mainly through tariff barriers and import restrictions. There is complete customs union between France and most of her overseas territories. For some of the territories however there are some special arrangements. As to import restrictions, a large number of products which could be produced in France and in her colonies are put under import prohibition or of heavy restrictions. These restrictions have however had to be partly removed since France's entry into O E E C. This has been of disadvantage to the colonies. While some reciprocal concessions have been granted to them, nothing has as yet been done to seriously affect French interests.

As Reciprocal Markets for Sellers

The metropole and the colonies are considered to constitute for each other assured markets. As to the colonies it is admitted that some of their products, like Nickel, could be sold at higher prices outside France. It is however contended that for most of the other products it would be difficult to find other ready markets. (This statement need not be treated with suspicion. As a matter



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of fact this might be one of the factors lying behind the edifying spectacle of a Tory Government in Britain distributing political freedom to countries like Ghana and Malaya. The technique used might have been to complete so orientating the indigenous economy as to make it completely dependent on the metropole for markets, and then accord it political independence).

As to the advantages France derives, a large number are mentioned. About a third of France's industrial export goes to the colonies. The amount of dependence on the colonies is however very much more important for particular industries than this overall proportion would indicate. For many of the products of the textile industry, of the food industry and of the metallurgy industry the proportion exported to colonies to total volume exported exceeds 60 to 70 and even 80 per cent. About 21 per cent of the outputs of the French sugar industry, about 14 per cent of the output of the textile industries and 34 per cent of agricultural machinery produced in France are exported to the colonies. In total, it is calculated that 6.6 per cent of the total industrial production of France and 1.8 per cent of her agricultural products get their markets in the colonies. Further, about a fifth if not a fourth of the output of the Public Works industries, 46 per cent of that of the Merchant Navy and 57 per cent of the Civil Airways is effected in relation to the colonies. It is estimated that 500,000 people in France (representing 1 family in 28) derive their incomes directly from France's trade relations with her colonies. It is pointed out that while this employment is only direct, there is naturally a very much larger volume of employment linked with this by means of a multiplier whose value is unknown.

As Reciprocal Markets for Buyers

The metropole and the colonies are also supposed to offer each other products under advantageous conditions. It is calculated that France, whose deficit in the Balance of Payments with regard to the Dollar and the Sterling zones have been on the average between 450 and 550 million dollars between the years 1951 and 1955, generally, saves for being able to negotiate with her colonies in France annually about 250 million dollars; further, it is pointed out that the actual saving has been very much more because of special circumstances in the recent years, and that it would also be very much more generally in the future because of the developments envisaged in some of the colonies.

As to the colonies it is pointed out that it would not be easy for them either to obtain their necessary imports from other countries than France. At present the colonies suffer a deficit in their commercial relations with the Dollar zone though they enjoy a slight surplus with respect to the Sterling zone. It is however, conceded that the colonies will with the completion of certain development projects be in a position to fill up their dollar gap. But even if the colonies manage to sell some more of their products than at present in hard currency areas, it is maintained that will not be able to dispose of all their present exports to France to these areas.

Gains and Losses due to Protection

Calculations are made with regard to the gains and losses suffered by the metropole and the colonies respectively as a result of the fact that they are obliged to sell and buy from each other products at prices differing from world prices. It is found that the metropole pays higher than world prices for chiefly the following colonial products: wine, sugar, groundnuts, and some fruit and vegetables. (It is not mentioned either here or in connection with metropolitan investment in the colonies in what measure the indigenous population and in what measure the settlers benefit from these arrangements. The wine imported in France comes entirely from Algeria, and there it is known that the cultivation of wine is almost all monopolised by the settlers). Inversely, the colonies pay higher prices chiefly for the manufactured products of France, but also for her exports of sugar, wine and flour. It is calculated that in all and on the average the metropole has to pay her colonies £60,000 millions excess per year and receives in return £80,000 millions excess through the mechanism of the artificial prices. So that its net annual gain is £20,000 millions. It is also pointed out that the charge, though negligible when compared with the national product of the metropole is far from being so when put against the total of the national products of the colonies.

Metropolitan Investment in the Colonies

It is shown that metropolitan investment in the colonies amounted to about £170 millions in 1955 and to £150 millions in 1954, and that they constituted roughly a fifth of the total investments under Public Account of the Central Budgets of the respective years. These investments are not all embodied in fixed capital, for the figures include such items as war damages and oil prospecting. A big part of what is called Investment consists of what is really long term credit. As to the investment under private account, no precise figures are available; it is however estimated that in all, private and public together, metropolitan investment in the colonies equals on the average about £250 millions which happens to be about 8 per cent of the average total metropolitan investment. These investments are regarded as aids France brings to the Underdeveloped World; calculations are made to show that expressed as percentage of the metropolitan Gross National Product, this is a higher amount than the aids given to the Under-developed countries by either Great Britain or the U. S. A.

The metropole has to undergo certain expenditures to maintain the empire. For 1955 it came to £173 millions, of which £33 millions was under civil and £140 millions on military accounts. This amount was about 9 per cent of the total metropolitan budget.

Concluding Remarks

Apart from giving the facts which have been summarised above, the book goes on to deal with questions which, while interesting, are too detailed for our purpose. It discusses first the conflicts and contradictions which have lately been developing between metropolitan and colonial interests and between the advantages and the disadvantages to France of having the empire. It is admitted that one of the means of resolving the first type of contradiction is to "find back the old equilibrium, the static equilibrium that of the Colonial Pact": fighting as best as possible the colonies industralisation, minimising metropolitan expenditure etc. (There is thus not the slightest attempt to call a spade by any other name!) It is however suggested that in the changed world situation, the old method would not be very efficient. The interests of the metropole would be best served by

"Hermes", concerned with export credit guarantees, reduced its maximum insurance cover from 90 to 80 per cent, while the West German Import Credit Bank followed this lead by reducing the amount of credit it would give on any one export order from 80 to 60 per cent of the total.

Limited Impact

The actual impact of these measures was, however, of limited significance. The change in the degree of liberalisation on dollar trade is in fact less than the official figures suggest. Further, the liberalisation measures cover only private imports and at the beginning of 1957, over one-quarter of West German imports from the dollar area were under state trading. With regard to import duties, West German agriculture continues to enjoy a high level of protection, and heavy fiscal duties continue on imported beverages.

The West German authorities have been pursuing a persistent deflationary policy within the country. This was the experience in 1956 when the money supply increased less than the national product, having gone up by 7.4 per cent compared to a rise of 9.9 per cent in the gross national product. The official discount rate remains high at 4½ per cent even after the half per cent reductions in September and January last. Bank credit to the private sector has been expanding at a much slower rate than in previous years and various efforts have been made for reducing the volume of bank credit. On May 1, 1957 the minimum reserve ratio was increased by 1 per cent while the ratio of cash reserves of commercial banks to foreign deposits was raised to an all-time high of 20 per cent. The general pattern of interest rates has been maintained at a high level by pursuing a policy of lowering the prices of fixed interest securities—largely by open market operations.

Tight Money Policy

All this has had the effect of engendering a high level of national savings, currently 21.4 per cent of the net national product, compared to 13.2 per cent in 1950, and 20 per cent in 1953. Private consumption has been effectively restricted by Government measures. Taxation of personal incomes in West Germany is considerably less progressive than that in the United Kingdom. The proportion of income paid out in taxes cannot rise above 55 per cent of an individual's income, whereas in the United Kingdom it is not much below 90 per cent. Moreover, West Germany relies heavily on indirect taxes, and in particular turnover taxes which are regressive. Finally, the vigorous policy of the Bank Deutsche Lander has tended to limit the volume of personal consumption. In view of all these, prices in West Germany have risen less than in Britain. The retail price index in West Germany registered a rise of 10 per cent between 1953-56, compared to 16 per cent in the United Kingdom.

The impact of the foregoing policies and their effect on prices has necessarily resulted in an undervaluation of the external purchasing power of the Deutshe mark, compared to sterling and other European currencies. West German prices, lower in relationship to international prices, have tended to make German exports cheaper at existing exchange rates and to reduce the volume of imports. Further, the tight monetary policy pursued, coupled with the high rate of savings within the country, has enabled Germany to devote a greater proportion of its resources to export and significantly for the export of capital goods on long-term credit.

Competitive Price Advantage

The exchange parity for the West German currency was fixed during the 1948 currency reform at DM 3.33=$1, and adjusted to DM 4.20 =$1, during September 1949 devaluations. In 1949 the West German economy had hardly solved the problems of postwar reconstruction. Inflation was rampant and the shortage of all goods, coupled with an intractable refugee problem, had placed West Germany among the most serious of Europe's trade debtors. The exchange parities then agreed to for Europe as a whole had to take into account the state of the German economy at that time. The original under-valuation bias of the Deutsche mark has been maintained unchanged, in spite of a whole decade of substantial economic progress, achieved largely by a purposeful policy of increasing productivity, restricting consumption, and devoting a large surplus from total production towards productive investments and exports. At the same time the inflow of American capital, without the burdens of immediate rearmament expenditure, placed West Germany at a decided advantage compared to other West European countries.

The persistence of a substantial export surplus for West Germany, and more recently, of exchange rates which give that country a certain competitive price advantage, have had a greater impact on the rest of Western Europe than on any other trading region in the world. This is primarily because of the orientation of West German exports to the markets of the industrial countries of Northern and Western Europe.

Accumulation of Gold

As Table I shows, the West German trade surplus with the rest of Europe has been increasing at a rapid rate, while in its trade with the sterling area, the deficit has been reduced by more than half between 1955-56. In spite of a growing deficit with the dollar area, the overall trade balance of West Germany has been rapidly rising and by 1956, the surplus reached the record value of DM 2,900 million. Since her trade with Europe is governed by the European Payments Union mechanism, and in view of the increasing tendency, under West German pressure, for E P U compensation to be settled in higher proportions of gold, her regular trade surpluses must necessarily mean that West Germany's accumulation of gold must come from the coffers of other West European countries, particularly countries like France, Italy and the United Kingdom. The surplus on the balance of trade provides only a partial explanation of the large E P U payments to West Germany in the past two years. In this period there has also been a considerable inflow of flight and other short-term capital from the rest of Western Europe, and since these capital flows form part of the E P U compensation payments, this movement of funds has, in turn, increased the volume of the gold inflow to West Germany. It is this feature of the trade and payment developments in Western Europe in the past two years that lies behind the Anglo-French protest that the West German gold and convertible asset accumulations have been achieved at the cost of a corresponding decline or stagnation in the gold and convertible assets of France and the United Kingdom. In the period July 1950 to March 1957 (that is, since the E P U was formed), West Germany achieved a surplus of $3,153 million in its accounts with the E P U. This surplus was settled partly in gold and partly in credit and other bilateral arrangements. The comparative position of West Germany, Britain and France in the E P U compensation arrangements are shown in Table II.

Revaluation of DM?

This then forms part of the essential background to the present instability in the European exchanges. It is to be noted that the position of advantage occupied by West Germany in relation to other countries cannot be wholly understood in terms of the undervalued purchasing power of the Deutsche mark. A part of the explanation for the strenght of the West German currency lies in the internal policies of the West German authorities. These policies have however, created difficulties with the rest of Europe, and this among other factors, contributed to the devaluation of the French franc. Are there any possibilities for a re-adjustment of the Deutsche-mark? This consideration centainly governs the approach of Britain and France to the solution of the present European exchange problems. Press comment in the latter countries persist in directing attention to the possibilities of an upward valuation of the Deutsche mark after the West German General Elections and the Annual meeting of the International Monetary Fund, both of which are due to take place in September this year.

The likelihood of the Anglo-French hope materialising, however, appears to be remote. The Government of Dr Adenauer has come to realise that the destiny of West Germany today lies in her ever increasing economic strength, even if this means no material improvement in the standard of living of the West German people. A viable and strong West Germany could provide, in German eyes, the ultimate means for achieving a domination of the projected European Common Market and Customs Union, and the official German view on the foreign exchange question has been deliberately left vague.* Indeed a close analysis of West German policy* towards exchange questions appears to suggest the following aims:

(a) That the distortion of exchange rates does not arise from the current value of the Deutsche mark. It is rather a consequence of the weakness of other European currencies. Thus the solution lies in the adjustment of the exchange values of other European currencies, like sterling and the French franc. The West German Minister of Economic Affairs has in fact declared that "under-valued currencies could only be discussed alongside with over-valued currencies."

(b) The European Payments Union should be wound up since it has come to put a brake on the convertibility of European currencies. This attitude appears to arise from the German realisation that without the E P U, the Deutsche mark might occupy on the European scale a status not very different to what the dollar occupies on a world scale.

Long Term Prospects

These policy aims have a long-term implication, but even in the immediate situation, the West Germans do not appear to want a solution which would stop the pressure on sterling. Britain had hoped that an acceleration of the repayment by West Germany of past debts, amounting to £900 million, might swing the exchange rate in favour of non-German currencies. In fact the West German authorities are delaying their repayments and whatever payments they have made, have been made piecemeal on the declared grounds that the "foreign exchange market should not be unduly disturbed by a large transfer of funds."

The pressure on sterling has been heavy since the French devaluation measures. German firms having regard to the present state of exchange uncertainty find it more profitable to borrow at between 5–6 per cent in London and other non-German centres, rather than at 8–9 per cent from German banks. The European exchange market and the vast number of arbitrage dealers in currencies have come to regard recent developments as implying the not very remote possibility of an adjustment in the value of sterling, and this is the most plausible interpretation of the pressures which have been exerted by the exchange market on sterling prior to and after the partial devaluation of th Frnch franc.

* There was an official denial this week that the Deutsche mark may be revalued—Ed.

Table I—Balance of Trade of West Germany by Trading Areas
(Millions of D-marks)

	1953	1954	1955	1956	Change from 1955 to 1956
Continental W Europe	3,140	4,060	3,600	5,350	+1,750
Sterling Area	— 330	— 380	— 370	— 110	+ 260
Dollar Area	— 620	— 960	—2,140	—2,710	— 570
Other Countries	330	— 20	150	370	+ 220
	2,520	2.700	1.240	2.900	+1 660

Table II—E P U: Cumulative Positions of Certain Member Countries
(July 1950 to March 1957)
(US $ millions)

	W Germany	U K	France
Credit received by the E P U (+) or given by the E P U (—)	+ 788	—333	— 289
Gold actually paid by E P U (+) or received by E P U (—)	+1,957	—535	—1,035
Other Go'd and Bilateral Settlements	+ 408	—466	+ 167
Total Surplus or Deficit	+3,153	—1.334	—1.157

out any apparent Government or parliamentary opposition. The effect of the liquidity quotas fixed early in 1952 was to freeze the supply of ready cash in the banks and thus prevent the financing of fresh loans, which in the then excessive level of outlays could easily have resulted in price increases and a fall in exchange reserves. This system was as stated above kept in force for 3 years. And then in the early months of 1955, the liquidity quotas were tightened and the Bank Rate raised from 2¾ to 3¾ per cent. Measures taken later in the same year towards a more direct limitation of bank credit took the form of fixing a credit ceiling for every bank, except in so far as banks provided credit for building purposes and for loans to the State via the Treasury bill and bond market. These exceptions to the credit ceiling were largely in the nature of a compromise it would appear that the Riksbank wanted to avoid a head-on collision with the Government on questions of social policy (the construction of houses is a cardinal feature of this policy) and state expenditure. In the Spring of 1956 the Riksbank reduced the commercial banks' lending activities further by calling for a reduction of the credit ceiling to a level of 5 per cent below that ruling on the 31st July 1955 and in November 1956 the Riksbank made a token increase in Bank Rate of ¼ per cent.

In spite of these measures the volume of bank credits continued apace particularly in the two excepted sectors. Between July 1955 and July 1957 the commercial banks' holdings of government securities rose by over Kr. 1000m. and that of building credits by some Kr. 600m. Other credits, on the other hand, fell by as much as Kr. 400m. thus indicating that the credit squeeze was being effective in the other direction. But apart from this, the credit policy of the Riksbank was being neutralized by other developments. Industrial companies began by-passing banks and raised loans from each other and a "grey" market for loanable funds was established. In the event the policy of the credit ceiling was seriously questioned and opposition to it grew increasingly stronger.

In July this year the Riksbank found itself facing three crucial problems; (i) to replace the credit ceiling by some more suitable form of control; (ii) to strengthen monetary policy measures as a means of counteracting the reduced effect of fiscal policy; and (iii) to guarantee the future financing of the building programme of the Government as endorsed by Parliament. The latter programme was in any event being stifled by the state of the capital market. The level of interest rates was not high enough to attract sufficient capital in the market and the mortgage institutions were being placed in increasing difficulties. Professor Erik Lindahl, Sweden's leading authority on monetary policy, strongly advocated a rise in interest rates to enable the mortgage institutions to float bond loans on the capital market. And this undoubtedly was the decisive factor which, in a sense, forced the Riksbank to raise the Bank Rate by 1 per cent in 1955 and allow the interest rate on bonds to increase by ½ per cent.

Despite these accommodating adjustments, the policy of the Riksbank has been heavily criticized. Some members of the Cabinet have been severely critical of the Bank for not informing the Government in advance and may others have expressed doubts as to whether the economic situation justifies so sharp a rise in interest rates. A deep and thorough review of the whole question of using interest rates as an instrument of economic policy is under way. On one thing however all Sweden appears agreed: monetary policy cannot bear the whole burden and must be supported by a suitable fiscal policy.

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Book Reviews

The Case for Capital Taxes

Capital Taxation in a Developing Economy (India) by I S Gulati. Orient Longmans. Pp 204. Price Rs 12/8

D T Lakdawala

FACED with an almost insatiable demand for an increase in their activities and expenditure, modern Governments tend to be always hard pressed and in constant search of more revenue. In many countries income taxation seems to be exploited to the full. Commodity taxation, though fairly heavy, can be still substantially increased but because of its regressive nature, public opinion would insist that it be resorted to only in the final instance. Under these circumstances, capital taxation, being a relatively unexplored source not offensive to our sense of equity, has much to commend itself. Economists have discussed capital as the basis of taxation hitherto in rather disparaging terms, and the few experiments that have been made with capital taxes (apart from death duties) have not been happy. The present book, therefore, which examines the case for capital taxation sympathetically, and comes to favourable conclusions both regarding its advisability and practicability, deserves our careful attention. The fact that this piece of research was done with special reference to India by Dr Gulati, who assisted Mr Nicholas Kaldor in the preparation of his "Indian Tax Reforms —Report of A Survey" adds greatly to the interest of the book to Indian readers.

Theory of Capital Taxation

The book is divided into three parts. The first part deals with the theory of capital taxation. According to Dr Gulati there are three different types of capital taxes: (i) A capital levy; (ii) An annual capital tax and (iii) Death duties. Though these bear the common nomenclature of capital taxes, that is only because capital worth is the basis for them. It does not connote that they are paid out of a common source—capital. The source of payment depends on whether the tax is recurrent or singular. Capital levy, being an entirely once-for-all tax, will be very largely met by a sale of assets. Death duties, since their timing is so uncertain from the view point of the individual, and fall only once during a lifetime, also tend to be paid out of capital. On the other hand, an annual capital tax will very probably be met out of income, since it has to be paid from year to year. Compared with an equivalent income tax, the annual capital tax affects efforts and investment less adversely. All efforts, whose fruits will be consumed in the course of the year, do not add to capital, and therefore will not attract the annual capital tax; they will, however, be liable to the general income-tax. Further, the more risky the enterprise, the greater the percentage return on the capital invested therein. The burden of a capital tax in terms of income will fall relatively heavily on safer enterprises and specially so on money and gold hoardings. An annual capital tax will, therefore, stimulate risktaking. On the other hand, since savings add to capital, an annual capital tax differentiates against savings more than an income-tax. On the whole, however, an annual capital tax appeals to the author as a welcome addition to the tax weapons at the disposal of the Government.

Capital Taxation & Indian Economic Development

Having established the case for an annual capital tax, Dr Gulati tries to apply it to the particular circumstances of Indian economic development. India is bent on rapid economic development. Much of the developmental effort must be in the public sector, but the wherewithals are difficult to find. The tax effort contemplated in the First Five Year Plan was much below that necessary for the successful implementation of the Plan. Capital taxation could have been a welcome addition to the tax effort. Even a capital levy under such conditions if collected in a fairly large number of instalments might not be unwelcome as it would give a shock to savings habits and stimulate them. An annual capital tax would have been very welcome, would not have raised any specially difficult problems, and brought a handsome revenue of Rs 52-57 crores if levied in the way and at rates suggested by the author.

Critique of Indian Estate Duty

The third part is devoted to a critical discussion of death duties in India. The major defects in the imposition of the Indian estate duties, viz. their high exemption level, low rates, special rules for valuation of agricultural land, their different incidence with different types of inheritance and succession laws, and the consequences of exempting most of the gifts are vividly brought out.

Valuation Problems

Dr. Gulati has done a competent piece of useful research work. There are, however, a few important questions which need further consideration. Property taxation, especially landed property taxation, has been levied in many countries. Considerable experience has been accumulated in its administration. Does this experience lead one to the belief that it is possible to levy a general capital tax and value its worth for that purpose without making the tax too costly to administer and highly inequitable and objectionable? Dr Gulati would probably say yes. Whatever the unpleasant results of the past, they have been due, in his opinion, to absence of centralization of valuation machinery, the tax being local rather than a national impost. Once this defect is removed, the difficulties would be quite manageable and the cost worthwhile, since death duties, an annual capital tax and local property tax would coexist and demand more or less the same technique of valuation. There is, however, a great difference in the types of valuation problems that the three diffierent taxes give rise to and the degree of precision that is essential for them. Death duties are levied once in a generation, and they are levied at a particular psychological moment. Delay in the valuation and final settlement of the tax or a relatively high margin of error may not matter much. Local property tax is levied only on a specific type of tangible property, is in the nature of the benefit tax, and is often acknowledgedly based on valuation revised once in a decade or even less frequently. Further, in many places it is based

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on annual rental value, rather than property value. An annual capital tax, on the other hand, covers all types of property including business property which is the most difficult to evaluate. It is levied on the same person from year to year, thus demanding a greater standard of exactness. Compared to death duties, the number of assessees is much larger. It must be assessed fairly quickly, and not on historical costs. Probably Dr Gulati would not agree with the last proposition as he thinks the procedure of evaluating annual capital tax on market value would be fatal. That indeed goes to the heart of the matter. In a fluctuating property market, market value of property is too difficult to determine from year to year* especially when a preponderant part of the property is landed property and private businesses**. But any other process would be inequitable. Book valuation may reduce capital transactions in booms and increase them in depressions. Further in such cases apart from the list of property, which is also a need for efficient enforcement of the income-tax, the annual capital tax could furnish little useful information for the collection of death duties. Dr Gulati does not attach sufficient importance to this aspect of the problem.

Capital: Source of Payment

Since Dr Gulati thinks that an annual capital tax should be paid normally out of income a discussion of the pre-conditions needed for this would have been in order. There are two exceptions of sufficient general importance which he should have considered, viz periods of falling prices and the presence of a highly progressive income tax. If it is desired that an annual capital tax should be paid out of income, it is imperative that the tax should not exceed the income. In times of recession, this salutary principle may not be observed, as was the experience during the Great Depression. This may culminate in widespread distress sales greatly aggravating the fall in property values. It is obvious that if wealth taxes are to yield net revenue above that obtained from the present income tax, the combined weight of these two taxes must be greater than that of the existing progressive income tax. If already the rates of income tax in the higher ranges of income are very high, unless the wealth tax falls on very different people, the combined weight may be felt too oppressive to be borne out of income. The case is completely foolproof in a country like India, where the present income tax and the wealth tax rates are such that assuming any reasonable relation between property and income the taxes amount to more than cent per cent of income. To pay them from income becomes a sheer physical impossibility, however drastic the reduction in consumption that is made. It will have to be paid out of property. An annual tax which must be financed from capital sales not only does not serve the main purpose of taxation of reducing comsumption, but is highly detrimental to the habit of saving in general and fosters the habit of capital consumption, a dangerous habit in any country but specially so in countries which are yet to build up healthy traditions in this regard and where institutional saving is yet in an incipient stage.

Needs of a Developing Economy

The great difference between a developing economy and a mature one is that in the former there is a chronic deficit of savings in relation to investment, whereas in the latter it may be quite the reverse. The problem of increasing savings is one of the toughest problems of economic development. Dr Gulati agrees that a capital tax affects savings more advesely than an income tax, but does not realize its special inaptness in a country like India, nor does he discuss the possibility or ways of counteracting it, say, for instance, by a highly progressive expenditure tax.

Capital Taxation Vs Commodity Taxation

Why think only of comparing income and capital taxes, Why not also discuss equivalent commodity taxes? The last may be regressive, but once income and capital taxes have been made progressive and their exemption levels lowered as much as administrative considerations would allow, there is hardly any other alternative. Regressive taxes lose much of their character when they are paid to finance economic development with which will go economic betterment of the taxpayers, and out of additional incomes which economic development has made possible. Dr Gulati like Mr Kaldor has not devoted attention to this very powerful argument of the Taxation Enquiry Commission. The latest budget has brought out that however novel the taxes you introduce, the mainstay of developmental effort in this country is likely to be commodity tax measures for a long time.

Dr Gulati's book is written in a very lucid style and will prove a happy choice for students who would like to study the case for capital taxation.

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* "To provide for annual valuation of property will be suicidal to the new tax, and the earlier Government relents on it, the better". p. 202.

** "Indeed, if a large proportion of private property were not susceptible of easy appraisal through stock exchange a good deal of glamour in the scheme for taxation of capital would be lost. The task of general valuation by the State would perhaps be so prodigious and prove so irritating that any government would think many times before embarking upon it." p. 39



"One has no protecting power save prudence."

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The Rich and the Poor

International Economy — Problems and Prospects by Gunnar Myrdal, 1956. Harper and Bros, New York. Pp 318. Price $ 6.50 (Rs 32'50).

DR MYRDAL is repetitive, diffuse and unduly fond of quotations. He is also, however, a scholar of international distinction and a man who has a burning desire to see the lot of those countries less fortunate than his own Sweden, improved within his life time. Therefore, although it is not easy reading and one sometimes gets tired of seeing the same point made in so many ways in so many different places, his book is a must for everybody who makes policy, or wishes to understand how policy should be made, in the richer countries of the world. It is perhaps not equally good for the educated of the less developed countries who will only be embittered by being told that the world owes them a measure of assistance they are in practice not likely to get.

Dr Myrdal's fundamental point is quite a simple one. The world is becoming one. Therefore countries must look at each other as members of one body. They must accept towards each other obligations of the same kind that are accepted within the nation state by its citizens. Just as within the national community the duty of the rich to the poor is no longer confined to relieving their worst wants by a modicum of charity, so within the international community nations must regard aid as a primary need, to be given not for strategic purposes or in answer to some more or less ephemeral humanitarian impulse, but in recognition of the fact that it is dangerous to the world to continue in two parts, one rich and one poor. If the working of the world's economies is left to nature, the rich nations will get richer, but many of the poor ones will stay poor.

Everything, Dr Myrdal argues, is weighted in favour of the rich. They have the savings, they have the technical knowledge, they have class structures much less oriented towards conspicuous consumption, they have competent predictable governments, and in their international trade they are not dependent on any one or two commodities. The poor, by contrast, are always handicapped. Their governments are often not stable, their civil services are often corrupt, they face every sort of bottleneck of resources and knowledge, their savings have to be squeezed out of poverty instead of being laid aside out of superfluity, their terms of trade are often highly volatile, and wealth and power and display sometimes go together amongst their upper classes in a way no longer known in the industrialised countries. If they are left to themselves too many of them will merely stagnate. And from the stagnation will be born frustration and jealousy dangerous alike to the peace of the world and the continuance of freedom. Therefore the rich must help, not just the United States Dr Myrdal makes this point over and over again but all those who come in the upper brackets of the world's national incomes.

The assistance of the rich must come in many ways, through the gift of knowledge, through the gift of money, through large quantities of loan capital, through a stabilisation of commodity prices, even through a reluctance to use their full power of bargaining in trade negotiations. It is one of Dr Myrdal's favourite arguments that protection is wrong in the United States but right even in many apparently extreme cases in the underdeveloped countries. He believes that it is worth paying a high price in an underdeveloped country to get industry going because of the relief from unemployment every new enterprise offers, and because once a reasonable number of enterprises get started, there will be thrown in as a fortuitous benefit a very large number of external economies.

Much of Dr Myrdal's argument is today commonplace. It is indeed in a very considerable part Dr Myrdal's own efforts and writings that have made it commonplace. Nevertheless it is more commonplace in some places than in others. The underdeveloped all agree with him. The rich are still only half convinced.

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A Short Note on the Ambar Charkha

Amartya Kumar Sen

WHILE the Ambar Charkha as a technological possibility has been studied by many economists* and politicians, there does not seem to have been any attempt at applying the conventional criteria for technological choice to the problem. The object of this note is to do that exercise. I must make it clear that I am not supplying any new information on the subject and all my data are derived from **The Report of the Ambar Charkha Enquiry Committee** (1956), Ministry of Production, Government of India. All I wish to do is to present these data in a more manageable form so that they correspond to the conventional economic concepts. Our conclusion will emerge from the data as soon as they are presented in this form.

We have to find out the following values from the available data:

(a) the productivity of labour;

(b) the net value added per unit of output;

(c) the net surplus per unit of output

(d) the capital/output ratio, and

(e) the rate of surplus per unit of capital investment.

(a) Productivity of labour: There seems to be some scope for argument on the productivity of labour with the Ambar Charkha. 'The Ambar Charkha Programme' published by the All India Khadi and Village Industries Board, Bombay, assumed a productivity (per 8-hour working day) of 8 hanks of yarn. The Report of the Ambar Charkha Enquiry Committee, Ministry of Production, Government of India, 1956, contains the following information.

"The majority (six) view is that the Ambar Charkha can give a production of 6 hanks on the average, from cotton to reeling; one considers it would be 6 to 8; while the others consider that the figure of 6 could probably be somewhat improved upon by more practice and further experimenting. Of the minority (three), one member considers that the figure, on experience and data, so far obtained, should be between 5 and 6 hanks but that there may be great possibilities and room for improvement; one considers it should be 5; and the third that it should be between 4 and 5, but that the experience and data is inadequate. One member has no opinion to express". (p.1).

All this is very puzzling. On the whole, however, it appears that about 6 hanks will be the least objectionable assumption to make, which is also what the Enquiry Committee does when it comes to quantitative calculations.

(b) Net value added per unit of output: According to the Enquiry Committee Report, the costs of raw cotton, wastage and handling come to Re. 0-14-2, Re. 0-2-2 and Re 0-2-8 respectively per lb of yarn of 18 counts (p 40). So the total non-wage recurring cost is Rs 1-3-0 per lb. The market price of yarn (mill made) is Rs 1-9-6 per lb. (p 40). We can use this as the price of Ambar yarn also. This would be, if anything, an overestimate as "there is general agreement amongst the Committee that as compared with mill yarn, the productivity of Ambar yarn in weaving is less and may vary from 5 per cent to 25 per cent less than in the case of mill yarn" (p 2). So, in using the price of mill yarn as the price of Ambar yarn, we are overestimating its contribution. This should be borne in mind.

If costs of depreciation and maintenance are ignored, value added per lb of yarn is, according to the mentioned figures, six and a half annas. Since output per labourer per 8-hour day is 6 hanks (one-third lb) of yarn, value added per worker per day is 2 annas and 2 pies. An average worker is expected to work for 300 days and 2 workers can use an Ambar Charkha set simultaneously; hence gross value added per year is Rs 31-4-0. From this we have to subtract the cost of maintenance and depreciation.

The Committee thinks that an Ambar Charkha can be used for 10 years, so that, ignoring the interest rate, the annual depreciation will be 10 per cent of the cost of an Ambar Charkha (Rs 100), i e Rs 10. In addition to this, Rs 10 a year has to be spent to 'maintain' the Charkha during its lifetime, according to the Committee (pp 38-39). So the costs of maintenance and depreciation come to Rs 20 per year, to produce an annual output of 3,600 hanks with 2 workers working for 300 days in a year and producing 6 hanks per man per day. Hence the costs of maintenance and depreciation come to about 0.1 anna per hank. After this the Report says, "The Committee's view is that the amount is so insignificant that it need not be taken into consideration in calculating the built-up cost of yarn." (p 39). For our purpose, however, this cannot be neglected, since compared with the value added per hank it is by no means insignificant. Subtracting Rs 20 from Rs 81-4-0, we get Rs 61-4-0 as the net value added per Charkha per year. Net value added per worker per day is 1 anna and 8 pies.

(c) Net surplus per unit of output: Spinning wages per lb of yarn are estimated by the Committee to be Rs 1-11-0 at Re 0-1-6 per hank (piece rate). So wage cost per worker per day (6 hanks output) is 9 annas. This means that far from creating any surplus, the Ambar Charkha produces Re 0-7-4 deficit per worker per day. Even the recurring cost far exceeds the output flow from the Charkha and its contribution to domestic capital accumulation seems to be very definitely negative. Looking at the same thing from another angle, namely that of 'mopping up the surplus purchasing power' which is supposed to be one of the major roles of hand industries in India to-day, the situation is equally depressing. Even if we leave out the inflationary effects of the capital investment in Ambar Charkha it appears that the situation is quite inflationary, as the value of the recurring output at constant price is less than the extra recurring purchasing power it creates.

The rate of wage per worker per

*For two good discussions see K. A. Naqvi, "Economics of Ambar Charkha", **Economic Weekly**, July 14, 1956 and V. M. Dandekar, "Rationale of the Ambar Charkha", **Economic Weekly**, July 6, 1957.

8-hour day at which there is no such recurring deficit is obviously equal to the net value added per worker per 8-hour day, viz, 1 anna and 8 pies. I think no one would deny that it is an impossible wage even in a country as poor as India.

(d) **The capital-output ratio:** The net value added per Charkha per year, we have seen, is Rs 61-4-0. The cost of an Ambar Charkha is Rs 100. So the capital-output ratio is:-

$$c = \frac{100}{61.25} = 1.6$$

Putting it in another way, the output coefficient is:-

$$a = 0.61$$

The value of the output coefficient will be lower if we include the cost of housing. It is true that the worker may not need any extra building if he works in his dwelling house, but it will be idle to pretend that the resultant loss of dwelling space in the already overcrowded rural homes will have no social cost. There are also costs of training and organization.

(e) **The rate of surplus per unit of capital investment:** The volume of recurring deficit per Charkha per year is equal to the difference between the net value added per year (Rs 61-4-0) and the wage bill per year (Rs 337-8-0 at Re 0-9-0 per day for 300 days to 2 workers). Thus it is Rs 276-4-0. Dividing this by the cost of the Charkha (Rs 100), we find that the rate of surplus per year per unit of capital is **minus** 276 per cent, equating the capital cost to the value of the Charkha.

It is not necessary to compare this in detail with the factory techniques as the rate of investible surplus in factory spinning is known to be positive and quite high.

The Ambar Charkha programme must have inflationary effects and will affect capital accumulation adversely. Far from creating any flow of surplus, it produces a flow of output whose value is less than even the **recurring** costs. In order that the Ambar Charkha might have no recurring adverse effect on the national capital stock, the workers would have to be happy with less than two annas per 8-hour day. Even at the meagre wage of 9 annas per day the rate of investible surplus per unit of capital seems to be **minus** 276 per cent.

World Bank Loan for Pak I C I C

THE World Bank has approved a loan of $ 4.2 million to help finance the development of private industry in Pakistan. The loan will be made to the Pakistan Industrial Credit and Investment Corporation Limited, a corporation being formed by private Pakistani, British, American and Japanese investors. The Bank will enter into a formal loan agreement when the Corporation is established a few months hence.

The initial share capital of the Corporation will be 20 million rupees ($ 4.2 million). Arrangements have been made for the Pakistani investors to subscribe to 60 per cent of the shares, American and British investors to 15 per cent each, and Japanese investors to 10 per cent. The Government of Pakistan will make a 30-year interest-free advance of 30 million rupees to the Corporation; so that the capital resources initially available to the Corporation, from capital subscription, the Government advance and the Bank loan, will be 70 million rupees ($ 14.7 million).

The principal objectives of the Corporation will be to assist in the expansion or modernization of small and medium-sized industries and to help create new ones. To achieve these objectives, the Corporation will make loans and equity investments, and underwrite and distribute securities. It will also help private industries to obtain managerial, technical and administrative services and advice. As rapidly as is prudent, the Corporation will sell its loans and share holdings to other investors to recover its own capital for further investment.

It is expected that the initial Board of Directors of the Corporation will comprise 14 Directors: 10 prominent Pakistani industrialists, businessmen and bankers to represent the Pakistani shareholders, one director each to represent the British, American and Japanese investors, and one Government Director. The General Manager of the Corporation will be Esgo T. Kuiper of the Netherlands, who organized and was the first Managing Director of the Indonesian Industrial Bank. Headquarters of the Corporation will be in Karachi and branches will be established in Lahore and Dacca.

The authorized capital of the Corporation will be 150 million rupees ($ 31.5 million), divided into two million ordinary shares (common stock) and 13 million unclassified shares, all with a par value of 10 rupees ($ 2.10) each. Initially the Corporation will issue only the two million ordinary shares with an aggregate par value of 20 million rupees ($ 4.2 million) which will be offered for subscription at par. The Pakistani Steering Committee is arranging for the sale of 1,200,000 shares (12 million rupees) of capital in Pakistan: 800,000 shares through private placement and 400,000 by public offering. The British investors some of the Eastern Exchange Banks, a number of insurance companies, four industrial concerns and the Commonwealth Development Finance Company Limited intend to subscribe 30,000 shares (3 million rupees). American investors Bank of America, Henry J Kaiser Company, International Basic Economy Corporation, Transoceanic Development Corporation Limited, and others intend to subscribe 300,000 share (3 million rupees). The Japanese investing group, consisting of the 12 Japanese foreign exchange banks, intend to subscribe 200,000 shares (2 million rupees).

The Government's 30-year interest-free advance of 30 million rupees will be repayable in 15 equal instalments, beginning in the 16th year. This advance will be provided out of funds derived from the sale of commodities provided to Pakistan under United States Government aid.

The proceeds of the $ 4.2 million World Bank loan will be used to pay for imported materials, equipment and services required to carry out industrial projects financed by the Corporation. The loan will be for a term of about 15 years and interest will be determined at the time the loan documents are signed. The Government of Pakistan will guarantee the loan.

The Official Language of the Union

K C Sen

ON the attainment of independence, India was faced with the problem of having a language of the Union. This was no easy task in a country the Constitution of which has recognised the following 14 languages: Assamese, Bengali, Gujarati, Hindi, Kannada, Kashmiri, Malayalam, Marathi, Oriya, Punjabi, Sanskrit, Tamil, Telugu, and Urdu. Three things may be noticed about this list en **passant**: (a) Sanskrit, which, according to the 1951 census, is spoken by only 555 persons, is recognised as a living language of India, while (b) English, which was shown in the same census as the mother-tongue of 1,71,742 persons, has not been so recognised; and (c) Urdu has been recognised as a language distinct from Hindi.

The Constitutional Position

The Constituent Assembly which enacted the Constitution selected Hindi in Devanagari script as the official language of the Union. In a multi-lingual country like ours, all the 14 languages could not be the official-languages, like the three official languages of Switzerland or the two official languages of Canada and Belgium. The Constitution lays down that after 1965, English will not continue to be used for official purposes of the Union, with the proviso that English may be used only for such purposes as may be specified by Parliament. During the interim period Commissions are to be appointed at intervals of 5 years to make recommendations as to,

(a) the progressive use of the Hindi language for the official purposes of the Union;

(b) restrictions on the use of English for such purposes;

(c) the language to be used in the Supreme Court and in the High Courts, and for Acts, Bills, orders, rules, etc.;

(d) the form of numerals to be used for the purposes of the Union, and

(e) any other matter referred by the President as regards the official language of the Union and the language for communication between the Union and a State or between one State and another.

The Terms of Reference

On the June 7, 1955 the President appointed a Commission consisting of 20 persons, under the Chairmanship of the late Shri B G Kher, for the purposes (a) to (d) above, and as regards purpose (e), the following duty was cast on the Commission, "The preparation of a time-schedule according to which and the manner in which Hindi may gradually replace English as the official language of the Union and as a language for communication between the Union and State Governments and between one State Government and another". The Commission submitted its Report to the President in July 1956.

As to (b) the Commission has stated, at page 128 of the Report: "We do not see that anything is to be gained by imposing such formal restriction in respect of any of the official purposes of the Union at present and we have therefore no recommendations to make in this behalf". As to (e), the Commission has been unable to frame a time-schedule and has recommended that it should be framed by the Union Government instead (pages 129 & 130 of the Report).

Thus the Commission's Report would be expected to contain its recommendations as to (a) the progressive use of Hindi for the Union's official purposes, (b) the language to be used in the Supreme Court and the High Court, the Acts, rules, etc., and (c) the form of numerals to be used for the Union's purposes. As to the last, the Commission has recommended the use of the international form of Indian numerals, following clause 1 of Article 343 of the Constitution. Instead of confining its further recommendations to (a) and (b), it has allowed itself to go beyond its terms of reference, arriving at "'conclusions' on other aspects of the language question not strictly within the terms of reference but relatable to them".

Some Related Matters

These "conclusions", **inter alia**, relate to education, making the teaching of Hindi compulsory at certain stages in schools and colleges and the Public Service Commissions in the States. Education is a subject within the jurisdiction of the States. The Commission has come to the conclusion that ultimately the judgments, decrees and orders of the High Courts and the Supreme Courts will have to be in Hindi; that Hindi will have to be compulsorily taught in all the States, although for the purposes of a State the Government institutions and administration are expected to use the regional languages; and the Commission has devoted two Chapters (Chapters XIII & XIV) to the subject of Propagation and Development of Hindi and the regional languages and to Agencies for implementation of the National Language programme, apparently with reference to Article 351 of the Constitution which runs as follows,

"It shall be the duty of the Union to promote the spread of the Hindi language, to develop it so that it may serve as a medium of expression for all the elements of the composite culture of India and to secure its enrichment by assimilating without interfering with its genius, the forms, style and expressions used in Hindustani and in the other languages of India specified in the Eighth Schedule, and by drawing, whenever necessary or desirable, for its vocabulary primarily on Sanskrit and secondly on other languages".

Hindi, the Medium

Almost at the beginning of the Report, the Commission (p. 39) observes that Article 351 provides that the Hindi language "shall be so developed as to serve as the medium for all the elements of the composite culture of India".—Is it the unconscious bias of the Commission in favour of Hindi that is responsible for the substitution of the word "the" for the word "a" in the Article—a mistake repeated by Shri Maganbhai P Desai (p. 383), although he purports to quote the actual words of the Article? This confusion explains the frequent ministerial pronouncements (noticed on page 22, footnote) referring to Hindi as "the national language", an expression never used in the Constitution. The duties of the Commission had nothing to do with Article 351, which does

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not relate to the official language of the Union but to a language to be used by all people as a medium of expression. This distinction is noted particularly in the Note by Shri Maganbhai P Desai on the Report.

The Weakness of Hindi

The "two Hindis", so far as they are sponsored and "developed" by official or semi-official agencies, may not ultimately be very different from each other. It is important, however, to note that even now different varieties of the language are in use in different parts of the country. Dr Suniti Kumar Chatterji observes: "Three or four conflicting tendencies, each with strong supporters, are hampering its development, and most other Indian languages are free from this conflict of ideals". Hindi properly belongs to the peoples of Western Uttar Pradesh, Eastern Punjab and parts of Madhya Bharat, Madhya Pradesh and Rajasthan; others speaking languages like Braj-Bhasha, Awadhi, Bhojpuri, Rajasthani, Garhwali, etc., who first took to Urdu have now taken to Kharibolī Hindi, as taught in the schools in the towns, and have persuaded themselves that their home languages are dialects of Hindi. The influence of all these elements, some of whom have still a decided preference for Urdu, is producing a result which is characterised by Dr Chatterji, himself a Hindi Scholar, as "largely a linguistic chaos".

Dr Chatterji further remarks, "People who possess as their mother-tongues well-formed languages with a continuous literary history of over a thousand years and more, like Bengali, Assamese, Oriya, Marathi, Gujarati, Telugu, Tamil and Kannada, and even Punjabi and Maithili, feel very diffident about accepting this new creation, particularly when by direct and indirect means it is attempted to be forced upon them".

The Problem of Force

As to the "attempt to force", there is no doubt a real and substantial apprehension in the non-Hindi areas in the East and South. People of these areas will find a pro-Hindi bias in the Majority Report of the Commission, as is quite evident from the dissenting minutes of Dr Chatterji and Dr Subbarayan. The inclusion in the Report of matters outside the Commission's terms of reference suggests that the apprehension referred to is not altogether idle. Shri Maganbhai P Desai has observed, "I have felt that in their cumulative effect these so-called 'conclusions' (of the Commission) err in creating an impression that Hindi is sought to be used in places where it should better avoid conflict with the legitimate claim of regional or State languages. It is this avoidable conflict that would rather jeopardise India's unity by unwittingly provoking emotional malintegration among linguistic groups".

An illustration on this point is furnished by a bill which was introduced in the State Legislature of Bombay four years ago prescribing Hindi as the official language of the State for purposes (including legislative) higher than those at the taluka and district levels. It was argued in favour of this move that as the State was multilingual, Hindi ought to be the language for official purposes at the higher level. The bill had to be dropped on account of the popular opposition to it.

Article 345 of the Constitution allows the Legislature of a State to adopt any one or more of the languages in use in the State or **Hindi** as the language or language to be used for all or any of the official purposes of that State. In conformity with this provision is the provision in the Gujarat University Act for the use of Gujarati or Hindi in Devanagari script or both as the medium of instruction and examination in the University. But in a recently established University in Gujarat, the Vallabh Vidyapith, the Act constituting it provides that **Hindi only** shall be the medium of instruction and examination. Shri Mehta remarks, "Obviously this is bound to be felt as an imposition or domination of Hindi not only in the official but also in the educational and cultural fields".

Fears of Non-Hindi Peoples

Inspite of the professions of our well-meaning leaders, from the President downwards, that it is not intended to impose Hindi against the wishes of non-Hindi speaking parts of the country, an apprehension of "Hindi imperialism" breaks out every now and then in speeches and writings in such areas. This apprehension finds expression in the dissenting minutes of Dr Chatterji and Dr Subbarayan. Shri Mehta has said, "The O L C report, in this regard, has not only 'over-flown' the terms of reference, but also overstepped them and made suggestion and remarks, which, to say the least, will not help allay fears and apprehensions noted above in this note".

It would be the tendency of the Hindi-speaking peoples to regard their language as superior to the other languages of India and generally to advocate the imposition of Hindi in non-Hindi speaking areas. The largeness of the Hindi-speaking areas and population, the unique position of Hindi as the Union's language, the necessity for the State Governments to correspond with the Union and other States in Hindi, the compulsory teaching of Hindi in the educational institutions of all States (the suggestion that Hindi-speaking peoples should be compelled to learn another language being brushed aside by the Commission as an "imposition", p 191)—will not all this give rise to a feeling that Hindi is a language of primary. i e, national, importance, while the other languages are of secondary or regional importance only, participants in an unequal competition, and that thus Hindi is intended to become the national language, an expression often used by many of our leaders?

A Symbol of Disunity

Sir Ivor Jennings in his "Commonwealth in Asia" remarked, "If Hindi were the national language the Hindi-speaking peoples of the North would become as dominant a class as the English-speaking are now. English is at least neutral, a language which all can learn on equal terms. Hindi would give a preference to some and so would be anathema to others" (p 48). Mr Frank Anthony, in a recent speech (The Statesman. September 16, 1957) has gone so far as to observe, "So far from being a symbol of unity, the new Hindi has become increasingly a symbol of disunity, a symbol of new language imperialism and also a symbol of the oppression of the regional and minority languages. In the Punjab, the new Hindi has become identified not only with Hindi chauvinism but with religion".

Dr Subbarayan in his Minute observes: "From the Press and



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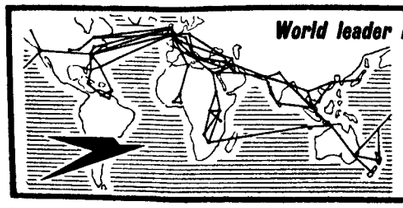
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platform an atmosphere has been created that Hindi is to be regarded as the pivot of Indian nationalism. .....Many good people, particularly in the Hindi areas, have now persuaded themselves to the belief that promoting the free and unfettered expansion of Hindi all over India is the bounden duty of all Indian citizens, no matter what language they may speak".

In this connection, one cannot help thinking of the recent emergence of violent disturbances in certain parts of the country following the publication of the States Reorganisation Commission's Report. This shows the pitch which the linguistic consciousness of different areas has attained, a consciousness which cannot be airily or contemptuously dismissed as "linguism". If Hindi is to attain a position of superiority over the other languages, would not a grievance or feeling of inferiority be engendered in the non-Hindi speaking areas as well as a resentment against the new "imperialism", so that the very unity of the country desired by the adoption of one official language would be endangered and even frustrated? The risk is undoubtedly present. It is, therefore, necessary to have a look at the fundamentals of the situation.

Gandhiji on Hindi

In propagating the idea of the adoption of Hindi as the lingua franca of India, Gandhiji had taken a prominent part. In 1909, in his 'Hind Swaraj', he said, "A universal language of India should be Hindi, with the option of writing it in Persian or Nagari characters. And, if we can do this, we can drive the English language out of the field in a short time. All this is necessary for us, slaves". In his presidential address at the Gujarat Educational Conference held in 1917, Gandhiji listed 5 tests or characteristics of a "national language" and said that "there was not another language capable of competing with Hindi in satisfying the five conditions". In 1924-25 Gandhiji got the Indian National Congress to accept Hindustani as its official language and to include Hindi Prachar work as an item of the nation's constructive programme.

In building up the Hindi movement, Gandhiji wanted to assure all people in the non-Hindi speaking areas that Hindi was not to compete with the great literary languages of India but that it was to supplement them by providing a common medium of communication. "Its function was to make them realize their organic relationship with India" (**Delhi Diary,** January 25, 1948, p 379). It is mainly Gandhiji's ideas that have been reflected in Articles 343, 345, 346 and 351 of the Constitution. The dominant ideas in those Articles are that by 1965 the use of English for the official purposes of the Union shall in the main be replaced by Hindi, which shall also be the ordinary language of communication between States and that it shall be the duty of the Union to promote the spread of Hindi, to develop and enrich it.

Opposition to Hindi

Voices are being raised against the pre-eminence thus given to Hindi. Recently Shri Rajgopalachari has opposed the adoption of Hindi as the Union's official language. A large body of Bengali authors wrote to the Statesman and the Hindu on August 29 last, "It is impossible to choose Hindi, or for that matter any other Indian language, as the official language of India without marking out those born to that language as a privileged community.....If from recent events one thing stands out more clearly than any other, it is that linguistic sentiments are cumbustible, not to be played with even by the most popular leader except at his own peril and the peril of the country".

They proposed that if it was still desired that Hindi should be given a special place in official communication, perhaps the only way to do this, without grave danger of national disunion, was to adopt Hindi side by side with English as an alternative official language of the land. A joint memorandum addressed to the Prime Minister by Congress members of Parliament from Andhra, Mysore, Madras and Kerala urged the postponement of the adoption of Hindi as the Union's official language till 1996. "Any precipitate step with regard to Hindi", they said, "is bound to aggravate fears and do a permanent injury to national unity". The Hindu, in an editorial on September 7, 1957 observed: "Sticking to the letters of one Constitutional provision would.....militate against the whole spirit of the Constitution itself ..... The emotional integration of the whole country is possible only if there is no suggestion of any kind of imposition by one language-group on another. Far from being strengthened, national unity would be imperilled by any precipitate switch-over to Hindi".

The Place of English

Thus the question has been raised whether the choice of Hindi, alone among the languages of India, as the official language of the Union has been wise. In the first place, has it been proper to exclude English from the Eighth Schedule? As already pointed out, English figures as the mother-tongue of 1,71,742 persons in the 1951 census—surely not an inconsiderable number when it is seen that Sanskrit, spoken by only 555 persons, figures as an Indian language in the same schedule. By this action the framers of the Constitution have undoubtedly shown their anti-English bias.

It was perhaps all right for Gandhiji to say in 1909 (Hind Swaraj, Chapter XVIII), "And, if we can do this (adopt Hindi as a 'universal language' for India), we can drive the English language out of the field in a short time. All this is necessary for us, slaves". As late as 1947 Gandhiji was saying (Harijan, 21-9-1947), "My plea is for banishing English as a cultural usurper as we successfully banished the political rule of the English usurper." The strong expressions "drive the English language out of the field" and "banish English" were no doubt necessitated by the strong emotions felt by India against her political master; it seems to me that something of the same strength of feeling accounts for the banishment of English from the Eighth Schedule, inspite of the testimony of the Census of 1951.

The predominance of English to the point of exclusion or denial of the just claims of the regional languages is no doubt a fact no longer to be tolerated. But the fact that it exercises an undue influence and even fascination over the minds of a large body of educated persons is no excuse for ignoring the legitimate claims of English as a firmly established national language of India, leaving

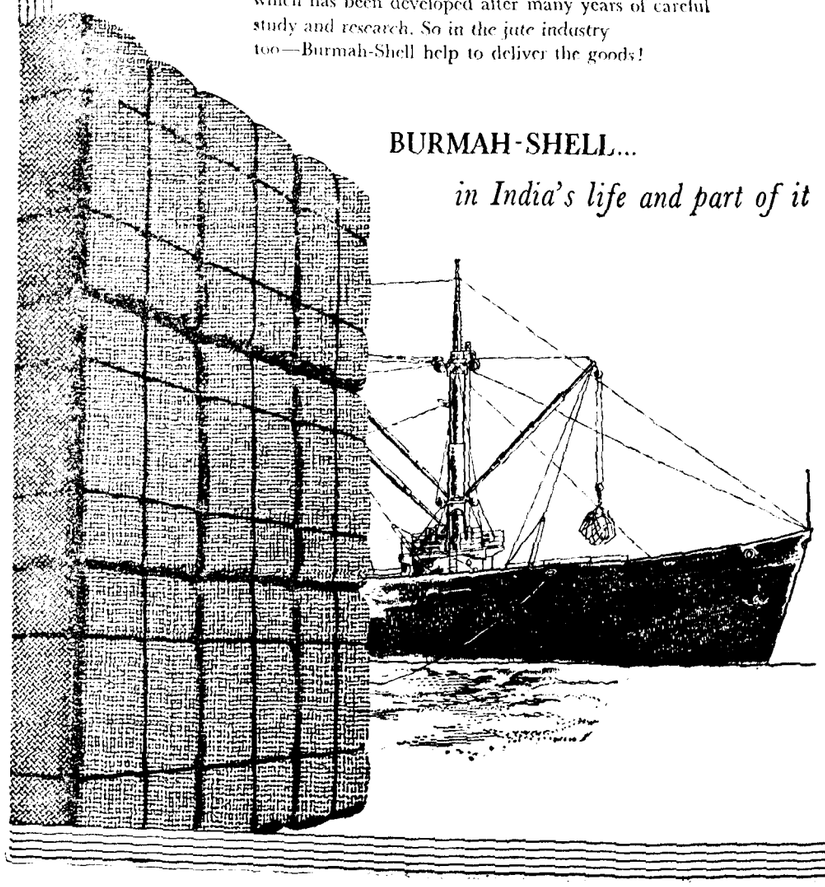
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out for the moment the question of its international and cultural importance. It seems necessary, therefore, that this wrong should be righted by including English among the languages mentioned in the Eighth Schedule.

Three Official Languages

If English can be included in the list of recognised languages a great and significant step will have been taken in the right direction. Thereafter the question will arise, why not have more than one official language of the Union,—Hindi, Urdu (representing the largest language groups) and English (representing the smallest language group—leaving out Sanskrit). This will be a symbolic recognition on the part of the Legislature of the equal worth of the largest and the smallest. Having recognised Urdu as a language distinct from Hindi—it is the language of quite a considerable population—it would be appropriate to recognise it as an official language. At one time it was far more important than Hindi and even now it is a more developed language.

We need have no inferiority complex about English any longer. It has moulded a large proportion, of our thoughts and ideals for over a century and has contributed and is contributing largely to our present-day culture. It will be impossible for us to purge ourselves of its influence at any time or that of the world of modern life and thought that has come to us through its doors, to abandon the existing culture-pattern of the world, its insights, its developments in diverse fields of thought and experience, its speculations, its outlook and horizons, even its doubts, hesitations and criticisms of life. Neither our country nor any other is today sufficient unto itself. If we are to guard ourselves against stagnation, regression and self-delusion we must not close our doors and windows to the world at large, but keep alive a perpetual intercourse with it. It would be best if we do this through the leading international language, English, "a language already current in India with a progressive rise in the number of English literates.' To throw away so great an advantage "would be an act of self-mutilation" to quote the letter of the Bengali authors referred to above. The Government of Madras, in formulating its language policy and making the mother-tongue and English compulsory and making Hindi an optional language in schools, points out, "English provides, and Hindi cannot provide, direct access to creative modern thought."

The Hindi envisaged in our Constitution as the official language of the Union is not yet fully developed; if it be a language different from the regional varities known as Hindi today, it may become too wooden and formal to evoke much enthusiasm among the non-Hindi speaking peoples of India. For such a language to arrogate to itself the supreme place among the languages may easily evoke feelings of opposition and repulsion in non-Hindi speaking areas. To prevent such a contingency, it is better that it should compete with a powerful language like English—one of our own languages—and have also the support and collaboration of Urdu. It will then be unable to rely only on its official pre-eminence, and will have to bestir itself to clothe itself with the life and personality of one of the current languages of the land.

It will gladden the hearts of our Muslim brothers, as well as other important elements of the population in Northern India, if Urdu is given its due place beside Hindi. This may lead to a greater approximation between the two languages, symbolic of the Hindu and Muslim elements in India. The effect of choosing English as one of the official languages of the Union will be similar as regards the Christian elements of the population.

There would also be no objection to having a fourth language, Sanskrit, for purely ceremonial and formal purposes of the Union. That would be symbolic of our link with the past of our hoary civilisation, our desire for continuity and our recognition of the ancient roots of our national existence.

The Madras Government's Attitude

It seems pertinent here to refer to the reply of the Government of Madras to the following two questions:

(1) Should not Hindi be given at least the same place as English, after the mother-tongue in particular?

(2) Should not Hindi be made a subject of compulsory study? (p. 83 of the Report).

The Government of Madras answered both the questions in the negative; and gave the following reasons.

"First—English must be the second language and Hindi the third language for the following reasons:

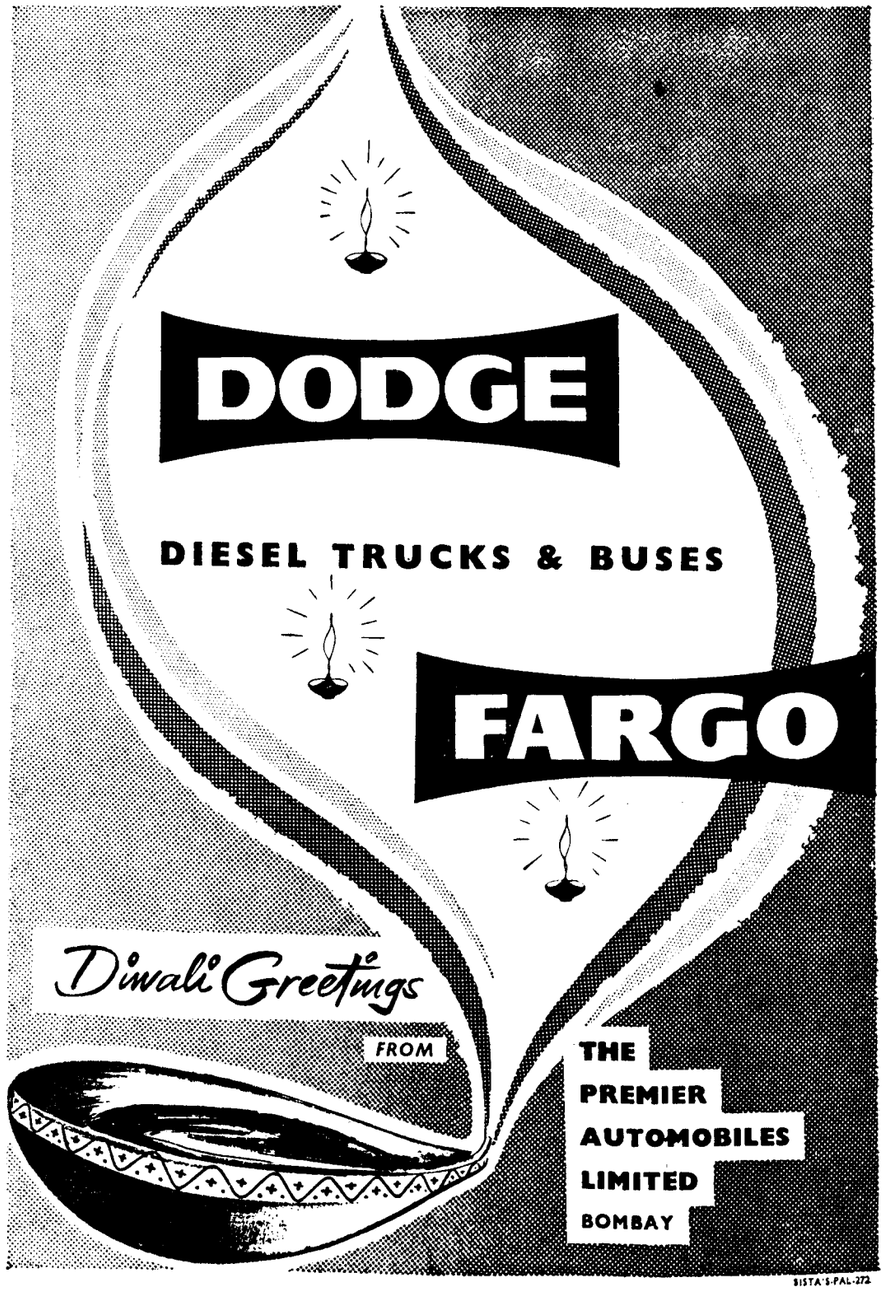
(a) English has to be and Hindi cannot be the medium of scientific and professional instruction in colleges; and

(b) English provides and Hindi cannot provide a direct access to creative modern thought. It is true that Hindi might be developed one day to perform these functions. But it is equally true that the mother-tongue would also be so developed—perhaps even earlier. In any case this consideration does not make a difference to the requirements of practical action between now and 1965.

"Secondly—Hindi cannot be made the subject of compulsory study in secondary schools of this State for the following reasons:

(a) The prescription of a language as a subject of compulsory study entails the consequence that failure to attain a minimum standard in that language will be attended by serious penalty, viz., loss of prospects of admission to colleges, and of admission to all those professions which are limited to college-educated persons. It would be an unreasonable strain on the nervous energy of young students to subject them to the anxieties of such a penalty in respect of three different languages.

(b) The object of the suggestion that Hindi should be prescribed as a subject of compulsory study can only be to secure that a large number of students would learn it more diligently than otherwise. This object will not only not be secured, it will be defeated by the course proposed. For, it will create the apprehension that Hindi is being 'imposed' and, thereby, arouse a feeling of hostility to Hindi. On the other hand, if Hindi continues to be recognised as the third language in all schools, and all practicable steps are taken to raise the efficiency of instruction in Hindi, consistently with its optional character, the knowledge of Hindi is bound to increase steadily in this State. If, as is to be expected, the



Government of India require that candidates should have passed an approved school examination in Hindi as the condition of employment under the Government of India, there can be little doubt that the students will voluntarily make good use of the facilities made available to them in all schools".

Hindi: An Optional Language

Although many States—Assam, Bombay, Coorg, Hyderabad, Saurashtra and Travancore-Cochin—have made Hindi a compulsory subject in the secondary stage in schools, Madras has made provision for the study of Hindi as an **optional** non-examination language in the curriculum of secondary schools. Inspite of this it is found that a very large proportion of the pupils **voluntarily** learn Hindi, as shown by the figures in the table below.

This table provides sufficient justification for the method followed in the State of Madras. This method is worthy of emulation by all the non-Hindi speaking States, although the number of pupils voluntarily learning Hindi may fall off a little if Hindi is merely made one of the Union's language. If Hindi is made a compulsory subject in the schools in non-Hindi speaking areas, the local language also having to be made compulsory, the study of English will undoubtedly languish and be relegated to a secondary position; the position of banishment, once desired by Gandhiji, will virtually be reached. Will that not jeopardise the cultural advantage we derive at present by learning English?

Let us remind ourselves that it was Gandhiji, again, who said, "I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any .... Mine is not a religion of the prison house." His objective of removing English from the pedestal on which it stands at present, will be sufficiently achieved by making two or three other languages official languages of the Union as well. It seems to be a fact that in those areas where English has virtually been discarded and replaced by Hindi in the educational institutions, there has been "a serious deterioration in standards" (Minute of Dissent by Dr Subbarayan, para 19).

In a speech made by Shri Jawaharlal Nehru at Sapru House on April 29, 1957, he said, "I do not see why we should be afraid of using English, provided we are clear about our objective, where we are going ..... We have to recognise the importance of English to us, for at least two reasons. One is that even now it does help in understanding each other, especially the people from the North and the South and other parts of India. We should keep this link. The other reason is that it provides a link between us in India and the outside world, and it is of utmost importance that we should maintain that link with the outside world and not try to cut off ourselves from it and isolate ourselves".

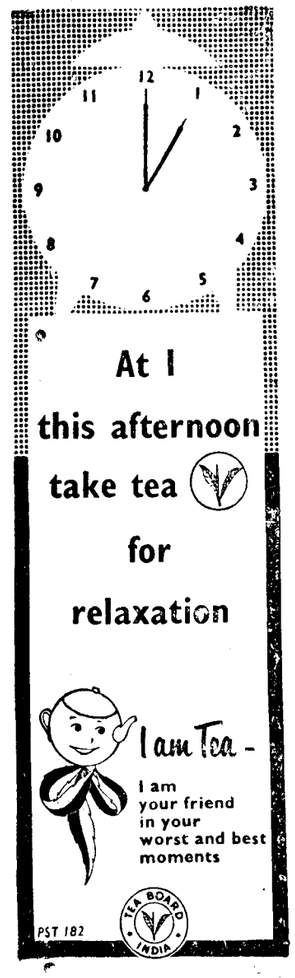
Future Policy

If Hindi, Urdu and English are recognised as the official languages of India, no apprehension would be raised in the mind of any citizen of India, the steady progress of Hindi in all parts of the country, unhampered by such apprehension, would be assured, continuity with our past in culture and education would be preserved, the super-eminence of English would disappear, and all problems of language would become free from questions involving compulsion and unimpeded by unnecessary impositions. The States would frame their own policies with regard to language in administration and education, but would no doubt encourage the voluntary study of Hindi, as the State of Madras is at present doing.

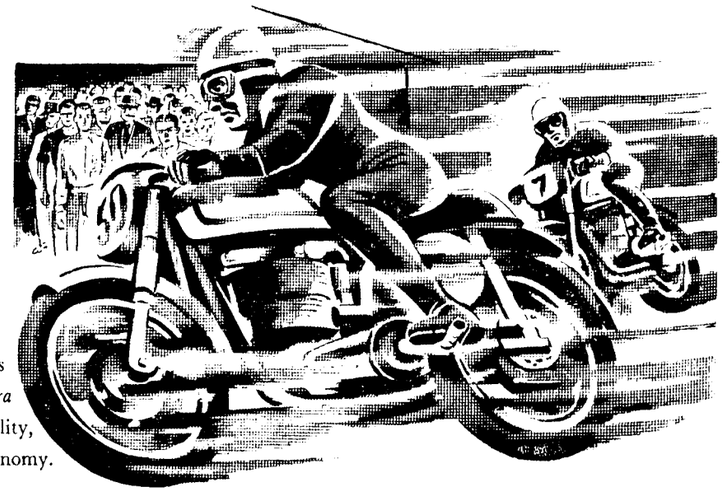
All enactments of Parliament, all orders, communications, notifications, etc., of the Central Government will be published in all the State languages, and the States will communicate with one another in one or more of the Union's official languages or in some other language mutually agreed upon. The Union Public Service Commission will conduct its examinations through the media of all the official languages of the Union, with option to each candidate to answer in any of them. The language of the High Courts and Supreme Court will continue to be in English till such time as the necessary preparations, in the way of evolving legal vocabulary, etc., have been completed in Hindi, when the stage would be reached for legislation in this respect, if legislation be felt necessary. But in any change in the language of the Courts the opinion of the Supreme Court, and of the High Court concerned as regards the lower courts, should be sought and ordinarily followed.

Pupils in Secondary Schools in Madras (Forms I-VI)

Year	Total Pupils	Pupils learning Hindi	Percentage
1952-53	725,806	570,800	78.6
1953-54	458,679	378,965	82.6
1954-55	468,409	374,137	79.9

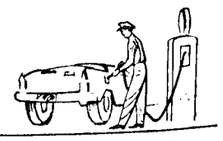


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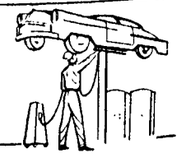
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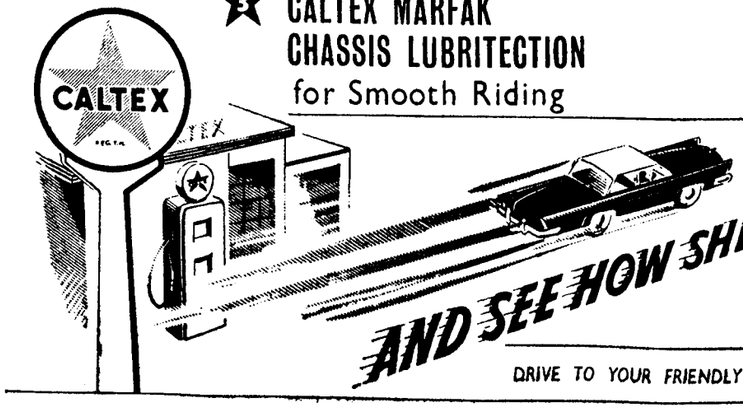
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Around Calcutta Markets

Thinner and Quieter

Wednesday Evening

THOUGH equities developed a steady trend as Lyons Range opened after the Puja Holidays, the improvement proved short-lived. During the current week, clearing shares have climbed down. In sympathy, cash scrips have turned quiet. There is not much of selling pressure. But there is hardly any fresh buying support. Trading is confined to professional activity. That is why, price fluctuations continue to be narrow, and the market remains thin.

Lack of trading activity is not a new phenomenon. It antedates the last budget, though it has been a major "bear" factor for markets since the last budget's increases in taxation. At the moment, the prolonged bank strike is causing a further shrinkage in stock market activity. In cash scrips, delivery remains suspended. Settlements in clearing shares have to be made in cash, as cheque clearance fecilities are not available. Trading activity is not likely to increase as long as the bank strike continues.

Lyons Range

Two factors helped the steadiness in equities as the market reopened after the Puja holidays. By the middle of last week, prospects of a dollar loan seemed bright. For two successive days before Lyons Range opened, Dalal Street had been moving up on this assumption. Last week's steadiness was mainly due to this factor. Latest reports from America indicate, however, that there is no reason for undue optimism. TTK's London talks also do not seem to be encouraging.

Another factor that helped equities to steady-up last week was the Governments' decision to recognise Lyons Range as the only market for futures trading in stocks and shares. As a sequel to this decision, Lyons Range has already introduced certain new arrangements. It is now open on Saturdays for an hour. Daily trading hours have been extended by 30 minutes to 2½ hours. Strange as it may seem, however the Government's decision has not yet led to any increase in business. But, as mentioned before, there are peculiar reasons why the volume of trading remains poor at the moment.

Dollar Loan

By all reliable reports, Washington seems not unsympathetic to India's dollar needs. That does not mean that Washington will seek special legislation, as required, for granting a loan to India. It is no secret that the American Congress is rather hostile about India's neutralist foreign policy. In the circumstances, it is highly unlikely that the Eisenhower Administration will risk any special legislation by Congress for a dollar loan to India. As granting of standby credits needs prior sanction by Congress, such credits may also not be available to this country.

New Delhi's only hope is that Washington will arrange substantial dollar credits through the Export-Import Bank. Such credits can be arranged at the initiative of the Administration, and without the prior consent of Congress. If, as reports suggest Washington has been sympathetic to TTK's appeal for dollar credits, it should not be difficult to arrange credits from the Export-Import Bank. But the trouble is that the Bank has just now granted substantial credits to Britain. That is likely to extend the Bank's resources. And India may have to wait some time before adequate credits by the Bank can be arranged.

Other Sources

Despite the recent Labour Party Conference's heroic gesture to undeveloped countries, there has never been much hope about British credits to India. Since the rise in the British Bank Rate, such hopes have receded further. In the main India will have to depend on deferred credits from Western Germany for imports of capital goods. In spite of recent unfavourable indications, there is reason for moderate optimism about help by Western Germany. Though stock market circles do not seem enthusiastic about foreign credits, undue pessimism, does not seem to be warranted.

Jute Shares

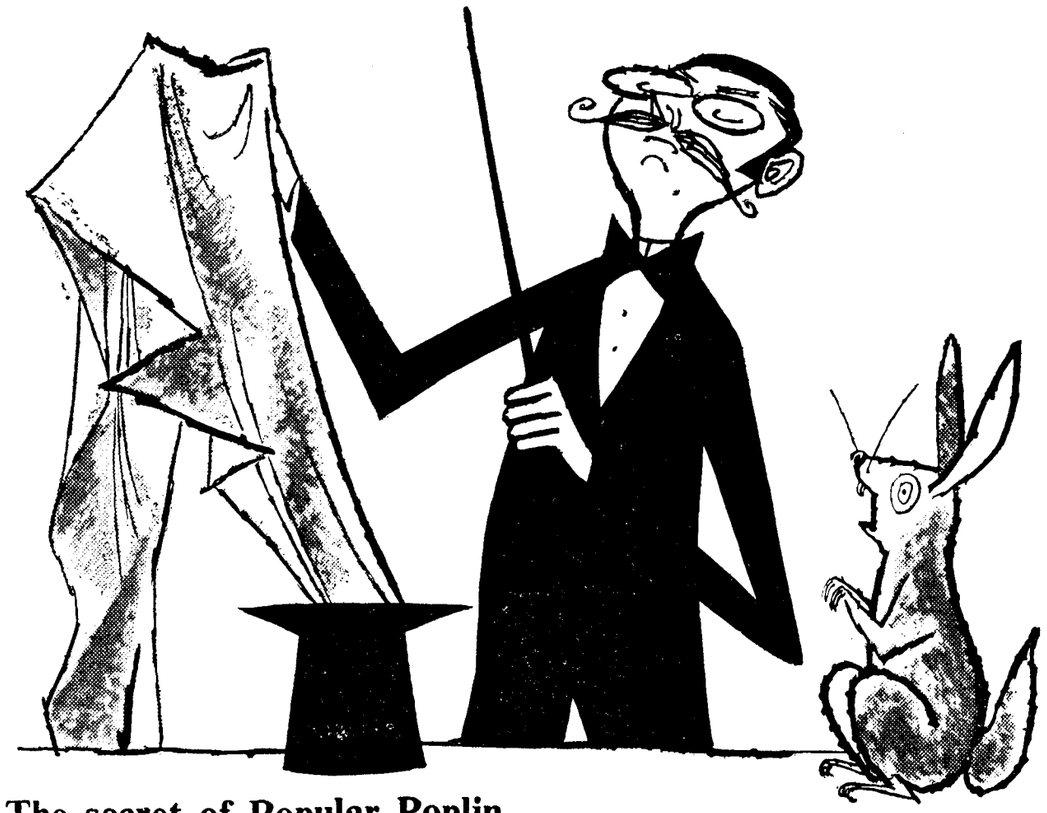
With this as the wide background, the behaviour of some groups of shares may be analysed. A couple of months ago, there was moderate optimism about Jute shares. These shares were steadying-up as it became known that, after a couple of years, simultaneous business had again become profitable. Jute goods were moving up, while raw jute remained stable. Improving spinner's margin was the basis behind the investors' revived interest in Jute shares. That optimism has died down. Some weeks ago, Jute shares became inactive. They are now dull and friendless.

According to current indications, there does not seem to be any prospect for a fall in raw jute prices. Arrivals of the new crop remain poor. For the second session in succession, raw jute prices have not sagged because of the weight of supplies in terminal markets. This is supposed to be due to the increase in the holding capacity of producers. Whatever be the reason, as raw jute prices move up along with the rise in jute goods, the basis behind the "bullish" trend in June shares falls through. That is what is reflected in the current behaviour of Jute shares.

Tea Exports

Tea shares may not be falling appreciably. But these shares were the least active in the last few weeks. Since the reopening of the market after the Puja holidays, Tea shares have developed an easier trend. In the absence of support, even occasional liquidation is having a "bearish" effect. This sudden pessimism about Tea shares is due to the disclosure that this season's exports have been poor. India is losing export markets to Ceylon. This fact from figures is frightening investors away from Tea shares.

It is only to be expected that Miscellaneous and Engineering shares should ease as speculative scrips climb down. That Engineering shares behave as Indian Iron and Texmaco do, is an established market convention. Even so, Engineering shares should resist any slump as efforts to boost exports of engineering goods succeed.

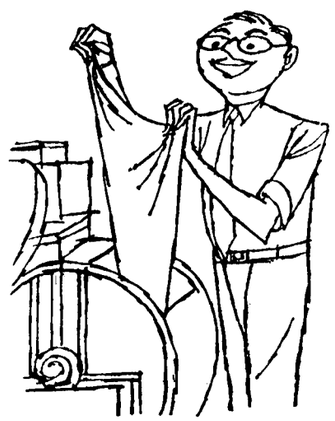


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ACP. 4363 (Rev.)

Around Bombay Markets

Busy Season Begins

Thursday, Morning

TECHNICAL factors aided by larger steel output in September and higher dividend from Tata Chemicals were largely responsible for the brisk recovery witnessed early during the week. When on Friday, the last day of the current settlement, the market found itself over-sold, hectic bear covering lifted values raising Tata Steel to Rs 164.75. Subsequently, though Banks continued to advance and Shipping remained firm, bull liquidation became clearly perceptible. Apart from a technical reaction against the strident advance experienced earlier, Dalal Street was adversely influenced by reports of discontent among textile workers on the issue of bonus for 1956, and persistent rumours of transfers of some mill managements which are finding the existing conditions of the cloth market rather tediously unpleasant.

Basically, price movements either way at Dalal Street are confined within a narrow groove, defined by the floors maintained by the Life Insurance Corporation and the ceilings dictated by the immediate economic outlook. Till some firm commitments on external assistance become known, Dalal Street will remain subdued.

Scheduled bank credit has shown a rise for the second consecutive week. During the week ending October 4, advances and bills have risen by about Rs 8.5 crores, of which the State Bank's share is Rs 5 crores, to Rs 847.37 crores, giving a credit ratio of 64.33 per cent. Net demand liabilities have gone down by Rs 3 crores but net time liabilities are higher by Rs 8 crores; of this net increase of Rs 5 crores, the State Bank is responsible for Rs 1 crore only. Borrowings from the Reserve Bank and the State Bank have gone up by Rs 5 crores and Rs 2 crores, respectively, while total cash balances are higher by more than Rs 11 crores. Obviously, scheduled banks are bracing themselves to meet the seasonal pressure of demand for funds.

Slack Season Contraction

Though the Reserve Bank directive on credit has apparently failed to bring advances down to Rs 800 crores, it has achieved its primary purpose of bringing down the credit ratio on the eve of the busy season —with the aid, no doubt, of the new import policy. Scheduled bank credit touched the bottom this year at Rs 835.62 crores during the week ended September 20, giving a credit ratio of 63.86 per cent, against Rs 751.47 crores and 69.52 per cent, respectively, a year before. Since the highest level of bank credit in 1956-57 was Rs 937 crores with a credit ratio of 76.81 per cent, during the week ending May 17, credit contraction during the slack season of 1957 may be estimated at Rs 101 crores. The accompanying Table indicates the contrasts presented by the slack seasons of 1955, 1956 and 1957. Even though banks are entering the approaching busy season with a higher level of advances than ever attained before, their liquidity position this year can be said to be intrinsically sound.

The means by which this 'soundness' has been achieved, however, vary considerably within the banking structure. The State Bank has had a disproportionate share in the expansion of cash reserves and gilt-edgeds, made possible largely by deposit of counterpart funds in respect of imports under P L 480. Scheduled banks other than the State Bank have, on the other hand, replenished their liquidity by shortening their credit commitments, attracting deposits and reducing their outstanding borrowings from the Reserve Bank and the State Bank, to a relatively greater extent. Instead of putting their excess cash balances into depreciating gilt-edgeds, they have preferred to expand their call and short loans, which earn practically the same interest and carry no risk of capital loss.

In short, the mere fact that the credit ratio now is higher than the figure of 60 per cent considered so sacrosanct by conservative bankers need not cause any great anxiety.

During the week ending October 11, 'Balances Held Abroad' by the Reserve Bank have gone up by Rs 2 crores, but Foreign securities have declined by Rs 5 crores, indicating a deficit of Rs 3 crores in the balance of payments. Government deposits are lower by about Rs 4.5 crores while ways and means advances have expanded by Rs 6.5 crores Bankers' deposits, too, have contracted by Rs 3.5 crores and loans to them by Rs 5 crores, of which advances against usance bills account for Rs 4 crores. Notes in circulation have risen from Rs 1,487 crores to Rs 1,493 crores at the expense of notes held in the Banking Department, and the decline of Foreign securities in the Issue Department has been made good by an equivalent rise under Rupee securities.

Strident Advance

OILSEED prices have moved up with a firm undertone throughout the week, inspired among other factors by greater overseas demand for linseed. The practical confirmation of lower crop estimates for groundnut added zest to speculation and, consequently, groundnut as well as castor gained nearly Rs 4 over the week.

Net Variations in Principal Assets and Liabilities of Scheduled Banks
Slack Season Changes

		1957*		1956		1955
1	Bank credit	— 101.11	(— 33.7)	+ 3.7	(— 7.8)	— 31.6
2	Total deposit liabilities	+ 97.74	(+ 46.1)	+ 24.5	(+ 1.5)	+ 58.8
3	Borrowings from R B I	— 53.18	(— 3.4)	+ 1.9	(— 1.0)	— 21.4
4	Borrowings from State Bank	— 5.77	(——)	+ 3.0	(——)	+ 0.5
5	Gilt-edged investments	+ 41.94	(+ 47.2)	+ 16.1	(+ 4.1)	+ 47.7
6	Cash reserves	+ 37.77	(+ 25.8)	+ 1.0	(+ 0.1)	+ 12.4
7	Call and short loans	+ 29.97	(— 0.1)	+ 5.5	(+ 0.5)	+ 8.8

* Change between weeks ending May 17 and September 20.
Figures within parentheses relate to the State Bank.

Source: Reserve Bank of India

Company Notes

Mukand Iron and Steel Forges Ahead

IT is always a matter of gratification to watch new industrial concerns forge ahead, more so if they are engaged in the manufacture of capital goods. Mukand Iron and Steel Works deserves to be commended on the pace at which it has advanced since its very start. Its output of steel castings and rollings has multiplied considerably during the decade that it has been in production. Between 1955-56 and 1956-57, its output of castings increased by over 30 per cent, and of rollings by over 25 per cent. The Company is also planning to expand its production capacity substantially and is awaiting Government sanction.

The Company has shown remarkable progress on the financial side as well. The declaration of a ten per cent dividend on Ordinary Shares and a 55.8 per cent dividend on deferred after paying off the entire arrears of dividend on Preference Shares speaks for itself. The net profit of the year 1956-57, after making provision for depreciation, taxation, and interest payable to Industrial Finance Corporation rose from Rs 10.54 lakhs in the previous year to Rs 16.72 lakhs, an improvement which presumably reflects the increase in output of both rolled steel and cast steel products achieved during the year. Of the year's profit the Company has allocated Rs 14 lakhs to the Rehabilitation and Development Reserve as against Rs 5 lakhs set aside last year. The proposed dividends for the year absorb only Rs 3.12 lakhs. The distribution on the above pattern shows the forward-looking policy followed by the Company's Board of Directors under the Chairmanship of Shri Kamalnayan Bajaj.

In pursuance of its progressive policy, the Mukand Iron and Steel Works Ltd have also entered into a technical aid agreement with the well-known British Steel Foundry, Messrs David Brown Industries Ltd of Penistone, Yorkshire. Under this agreement, the Company will be able to secure the required technical know-how on problems connected with the proposed expansion and also to arrange for the higher technical training of its Indian employees. Considering the progress already made by the Company and its expansion plans there can be little doubt that a bright future lies ahead of the Mukand Iron and Steel Works.

Compliment is due to the Company also for the beautiful and imaginatively illustrated brochure containing the Annual Report. Let us hope those entrusted with it do still better next year when the Company has further progress to report.

Hind Cycles

THE pioneer of bicycle manufacture in India has completed the seventeenth year of its existence by pushing up sales to Rs 228 lakhs during the 15 months ending March 31, 1957, from Rs 173 lakhs during the calendar year 1955. This has been achieved in face of competition from licensees of well known foreign brands, but net profit has declined from Rs 6.05 lakhs to Rs 4.24 lakhs even though the latter figure refers to a period of 15 months; the profit margin on sales has, consequently, declined from 6.4 to 3.7 per cent. These figures compare rather unfavourably with Sen-Releigh, which during the year ending September 30, 1956, earned a net profit after depreciation of Rs 14.36 lakhs on sales amounting to Rs 165 lakhs, giving a profit margin of 8.7 per cent (see EW Sept 7, 1957, p 1164).

Net earning (after tax), per ordinary share of Rs 100 has, therefore, contracted from more than Rs 20 to less than Rs 14 without making any allowance for the difference in number of months. Out of Rs 4.63 lakhs available for distribution this year, dividends absorb Rs 4.48 lakhs and the balance of Rs 15,000 is carried forward. No allocation has been made to reserves.

Gross block has risen, however, from Rs 86 lakhs to Rs 109 lakhs and net block from Rs 27 lakhs to Rs 42 lakhs. Current assets are higher at Rs 115 lakhs against Rs 88 lakhs on account of larger stock in trade, while current liabilities have risen to Rs 26 lakhs from Rs 23 lakhs. Capital and reserves have increased slightly from Rs 57 lakhs to Rs. 60 lakhs.

The authorised capital of the Company has been raised from Rs 75 lakhs to Rs 150 lakhs but in view of unfavourable conditions in the capital market, it has not been found advisable to make a new issue.

Edward Textiles

ACCOUNTS of Edward Textiles for the year ended December 31, 1956 reflect the effect of acquisition of a unit in Madras in May. The 48th Annual Report is, therefore, not easily comparable with its predecessor. Sales have risen to Rs 229 lakhs from Rs 211 lakhs, but the net profit after depreciation has declined from Rs 9.2 lakhs to Rs 4 lakhs, due to the fact that while the Bombay unit earned a profit of Rs 10 lakhs, the Madras unit incurred a loss of more than Rs 6 lakhs during the 8 months from May 1 to December 31. Closing stock has increased to nearly Rs 69 lakhs from Rs 38 lakhs on account principally of accumulation of finished goods. After providing Rs 2 lakhs for taxation including Rs 74,000 to make up for the arrears of 1955, against Rs 3.60 lakhs, net profit amounts to Rs 2 lakhs against Rs 5.60 lakhs during the previous year. Net earning (after tax) per ordinary share of Rs 200 has, therefore declined from Rs. 32.09 to Rs 11.8. With Rs 2.84 lakhs brought forward from the previous year, the amount available for distribution this year came to Rs 4.83 lakhs. A dividend of Rs 15 per share, free of tax, absorbed Rs 2.55 lakhs and the balance of Rs 2.28 lakhs is carried forward. At the close of the year, gross block stood at Rs 114 lakhs and net block at Rs 51 lakhs.

Donations during the year amounted to Rs 84,600, of which the All India Congress Committee received Rs 60,000.

The Company has made no provision for the additional taxes levied this year nor have many contingent liabilities been taken into account. In calculating the managing agents' commission, the provisions of Section 198 of the Companies Act, 1956, have not been taken to apply for this year. Had proper allowance been made under these heads, the figure of net profit would have been significantly lower.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1493.49	1487.47	1480.31	1438.28
2. Rupee Coin	133.66	134.21	138.11	119.40
3. Deposits				
a) Central Government's	53.84	51.81	52.86	55.44
b) Banks'	90.61	94.15	104.60	48.58
c) Other Governments'	3.61	10.14	6.16	4.70
d) Others'	111.25	110.48	109.95	12.73
4. Foreign Securities	321.65	326.62	345.61	526.80
5. Balances held abroad	20.55	18.64	28.23	73.76
6. Rupee Securities	940.84	935.87	916.87	685.91
7. Investments	215.90	215.86	223.14	54.88
8. Loans and advances to Governments	51.27	44.77	44.50	4.48
9. Other loans and advances	73.50	78.65	63.74	92.28
Scheduled Banks				
1. Demand liabilities (net)	723.18	719.66	714.55	635.68
2. Time Liabilities	626.50	619.54	601.66	454.29
3. Cash on hand	42.55	36.74	37.81	37.52
4. Borrowings from Reserve Bank	42.11	37.20	30.51	65.71
of which against Usance Bills	32.42	30.86	28.85	38.20
5. Advances and Bills discounted	796.20	787.30	793.47	712.38
of which State Bank's	161.38	156.75	158.42	131.36
6. Invst. in Govt. Sec.	385.93	386.27	365.90	374.66
of which State Bank's	151.97	151.98	135.20	107.86
Cheque Clearance	57.60	87.35	157.97	127.39

† For Reserve Bank week ended 11-10-57. Scheduled Banks and Cheque Clearance week ended 4-10-57.

Bombay Money Rates

	4-10-57	27-9-57	6-9-57	5-7-57
Call Money				
From banks	2½-4 7/8	2½-4 7/8	3½-4½	3½-4½
From public	3½-4 7/8	3¾-4 1/8	3¾-4 7/8	4-4 7/8
Three Months	2½-4 7/8	2½-4 1/8	2½-4 7/8	3-4 7/8
Six Months	2-4 7/8	2-4 7/8	2-4 7/8	2-4 3/8

Bombay Bullion

(In Rupees and nP)

	17-10-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	106.62	107.00	107.69	103.65
Forward	106.81	107.25	107.78	103.40
Silver (per 100 tolas)				
Spot	181.75	183.75	182.44	173.06
Forward	182.37	184.56	183.19	173.00

RAYON PRODUCTION IN INDIA

(In lakhs)

	Yarn (lbs) Viscose	Acetate	Fabrics (yds)
1955	128.37	23.28	2431.40
1956	166.81	31.66	2957.52
Jan	11.17	2.59	169.07
Feb	11.56	2.40	169.73
Mar	13.87	1.80	196.69
Apr	14.13	1.28	186.17
May	14.08	2.21	239.12
June	13.88	2.84	239.20
July	14.44	3.30	243.72
Aug	14.24	2.33	222.50
Sept	13.74	2.99	250.00
Oct	13.41	3.27	197.82
Nov	18.12	3.13	176.36
Dec	16.04	3.02	228.22
1957			
Jan	16.75	2.98	247.23
Feb	15.23	3.10	214.71
Mar	18.13	3.52	232.90
Apr	16.69	3.23	210.81
May	16.35	2.69	246.46
June	13.48	2.25	219.24

Source : Textile Commissioner.

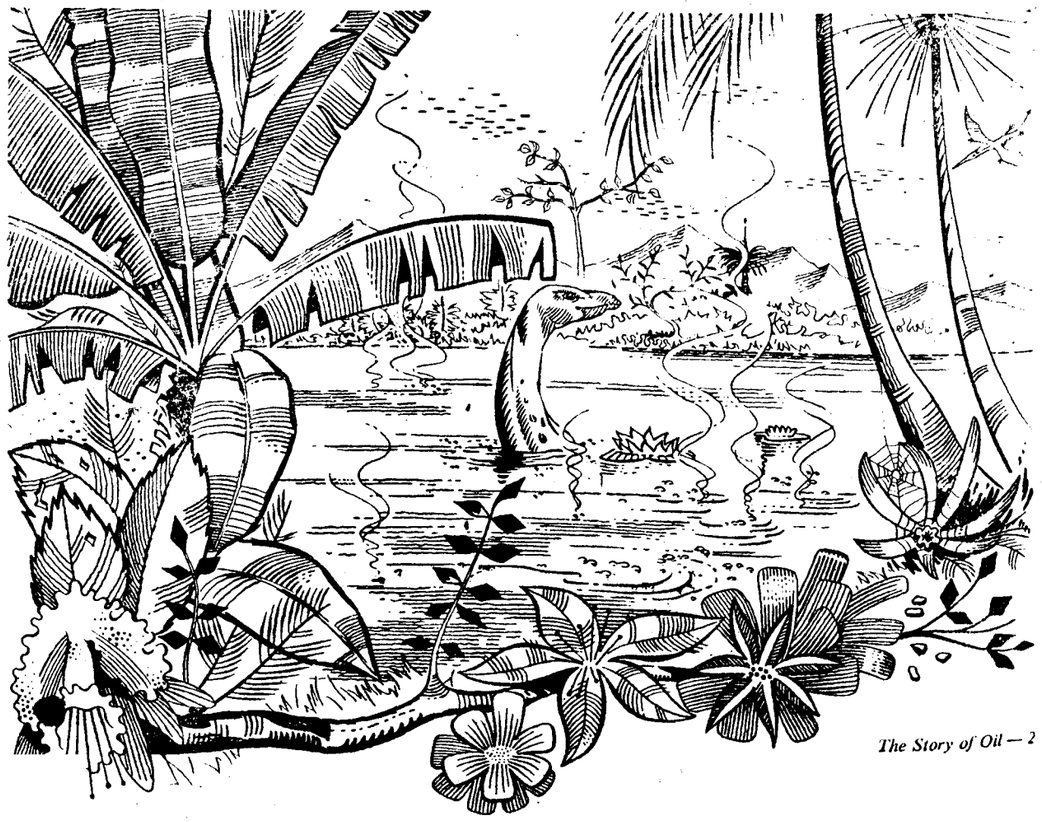
INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 21-9-57	14-9-57	24-8-57	22-9-56
Food Articles	**108.7**	**108.5**	**111.8**	**103.6**
Cereals	102	103	106	99
Pulses	83	84	86	81
Fruits & Veg.	121	118	152	119
Milk and Ghee	110	109	108	102
Edible Oils	129	128	129	124
Fish, Eggs & Meat	102	102	102	97
Sugar & Gur	111	110	110	98
Others	127	129	133	127
Liquor and Tobacco	**94.3**	**93.5**	**92.0**	**84.6**
	93	92	90	83
Fuel, Power Light & Lubricants	**114.6**	**114.5**	**114.7**	**106.2**
Industrial Raw Materials	**116.1**	**115.4**	**118.2**	**106.2**
Fibres	115	115	119	113
Oilseeds	122	120	123	123
Minerals	109	109	111	103
Others	107	107	108	110
Manufactures	**108.8**	**108.5**	**108.3**	**109.2**
Intermediate Products	**107.4**	**107.4**	**108.0**	**111.1**
Finished Products	**109.1**	**108.7**	**108.4**	**108.9**
Textiles	109	108	108	112
Cotton	117	117	117	122
Jute	100	99	96	99
Woollen	103	103	103	97
Silk & Rayon	83	83	83	89
Metal Products	141	141	141	131
Chemicals	99	98	98	93
Oilcakes	117	112	113	114
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**109.8**	**109.4**	**111.5**	**106.9**

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Regd. No. B. 5489



The Story of Oil — 2

A miracle of nature

Crude oil, or petroleum as it is often called, occurs in many parts of the world — chiefly in regions where sedimentary rocks once formed the bottoms of ancient seas.

No one is sure how oil originated. The most widely accepted theory is that it resulted from the decay and alteration of the remains of prehistoric animals and plants. This organic matter was washed from the land into the vast jungle of marine life under the seas. The deposits, mixed with mud and sand, formed layer upon layer on the bottom. As these became buried, Nature's mysterious chemistry got to work. It slowly transformed the organic matter into the compounds of hydrogen and carbon which we now know as oil, and at the same time the fine sediments which covered it were compressed into rock strata. The newly-formed oil oozed into the nearest layers of porous rocks, which held it as if in a sponge, and here it remained.

Throughout the millions of years that oil was being formed, many changes were taking place in the earth's crust. It rose and fell, was crushed and expanded. Lands were drowned, sea-beds became dry land. In some places cracks developed and the land slipped, forming 'faults'.

During these violent changes, some of the imprisoned oil escaped and was lost. In other places it was so near the surface that it seeped through and was discovered and used by man from the earliest times. But the bulk has remained trapped in its porous rocks beneath the surface of the earth.



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East-West Conflict

BOTH London and Washington have denied the possibility of an immediate "Summit Conference" between Heads of Western Powers and of Russia as a sequel to the talks between the British Prime Minister and the American President. Washington finds it convenient to stress the "Bermuda spirit" behind the talks between Mr Macmillan and President Eisenhower. London is diplomatic in not emphasising the changed circumstances and conditions of the second meeting between Mr Macmillan and Mr Eisenhower. When the British Prime Minister had his first talks with the American President in March last, the former went to Bermuda as a repentant aggressor. There was an open breach in the Anglo-American alliance over the Anglo-French aggression in Egypt. Mr Macmillan was in Bermuda to restore that alliance. Britain and America reached an understanding whereby the former conceded the latter's title to a sphere of influence in West Asia. That was the genesis of the Eisenhower Doctrine.

Much has happened since Bermuda. America has lost her initiative in world diplomacy, acquired by her immediately after the Suez war. After the spectacular initial success, the Eisenhower Doctrine, it is now widely admitted, has failed to attain its objective. Russia's achievements in launching the inter-continental ballistic missile and the satellite have tilted the military balance against the West. Even though Washington is inclined to minimise the strategic significance of these attainments, diplomatic and political implications of the Russian successes are not denied. Despite refutations and contradicting statements, the series of meetings scheduled to take place after the Washington talks underline the Western Powers' concern over Russia's military and scientific lead. It is evident that one of the major aims of these series of talks is to assess properly the military potential of the West in relation to that of the East.

Though Mr Macmillan as well as President Eisenhower has repeatedly resisted Russia's requests for a second "Summit Conference" on the Geneva model, both have suggested the urgent need for talks between Heads of like-minded governments. From Washington, Mr Macmillan will go directly to Ottawa for talks with the Canadian Prime Minister. After his return to London, he will have discussion with Dr Adenauer. M Spaak, Secretary-General of the Atlantic Pact, will visit London and Washington shortly for discussions. Besides Russia's military and scientific achievements, two recent developments would seem to have hastened the Western Powers' decision to hold joint consultations in order to reach a common policy against Russia and the Communist States. Events relating to Syria demand a frank re-appraisal of the American policy of containment in west Asia. No less urgent is an appraisal of Marshal Tito's attitude to East-West conflict. Neither London nor Washington may share Bonn's assessment of Belgrade. But there are growing indications that doctrinal differences are no bar to Belgrade's endorsement of the fundamental aspects of Moscow's foreign policy. "There are too many points", the London Times recently concluded, "at which Western countries have got themselves into anomalies".

London took the initiative in proposing the Washington talks. Mr Macmillan's original purpose was to reach closer Anglo-American

scientific co-operation through the repeal of the McMahon Act which prevents America from sharing her atomic secrets with her allies. As is evident from the statement issued at the White House the subject did figure quite prominently in the talks that Mr Macmillan had had with the President so far. They have agreed in principle on the pooling of resources for scientific and weapons development work, and in pursuance of this agreement two groups of experts one at the technical level and the other at the political level have been named to work out specific recommendations in the nuclear and missile field. It is clear beyond doubt that these steps are designed to meet the challenge of growing Soviet power.

But the grave situation in Syria must have been an equally urgent topic for discussions between the British Prime Minister and the American President. With the United Nations seized of the situation, the Syrian issue is not likely to explode into war. But there is confusion about the reasons which have precipitated the crisis. M Khruschev's appeal to the Socialist parties of N A T O countries and Moscow's initiative in drawing pointed attention to the serious Syrian situation may not have caused further confusion. But M Gromyko's prompt action in calling a United Nations Commission to investigate the Syrian situation suggests that Russia is not interested in risking a conflict over Syria. Moscow's main tactics seem to be to make political capital out of the obvious failure of the Eisenhower Doctrine, as indicated by events in Syria. Britain may be as much involved as America in Turkey, a key member of both N A T O and the Baghdad Pact.

No doubt, the changing power relationship between East and West has been the prime theme under discussion in the Washington talks. Latest international developments underline the urgent need for a re-appraisal of the fundamentals of Western policy to Russia. In a recent assessment of this policy, Mr Walter Lippmann observes that it is "not grounded in the realities and its objectives are therefore unattainable". After a critical examination of the Western policy, Mr Lippmann concludes that "the common characteristic of the Chinese, German and Middle Eastern policy is the crucial assumption that our power and influence are not great that our adversaries —Russia and China—will have to surrender. Since they show no signs of surrendering, since they show many signs that they are growing in power, we do not have negotiable policies. As a result, when an event like the launching of Sputnik discloses that we are far from being all-powerful, our prestige and influence are profoundly shaken". That it is more than time for a re-adjustment of basic Western policies, is widely conceded. Such a modification in the policy is an essential condition of an East-West understanding. Even if the Washington talks are not immediately followed by the West's decision to have a second "Geneva Summit Conference there will be hope that Mr Macmillan will succeed in convincing President Eisenhower of the need for a re-appraisal of the Western Powers' policy to Russia.

The Darkening Horizon

. . . O Gertrude, Gertrude,
When sorrows come, they come not in single spies,
But in battalias . . .

Hamlet, Act IV, Scene V

As if the difficulties already haunting the Second Plan were not enough. On the domestic front, inflationary pressures have raged with sufficient force over the past one year or so. The explanation for these may no doubt lie, in part, in the Plan itself, because the mounting outlays contemplated under the Plan add to the existing demand on current resources. But the major part of the explanation of domestic pressures lies in outlays outside the Plan. On the external front, the foreign exchange reserves have witnessed a continuing decline at a pace never anticipated by our planners and if the decline continues at this pace the country would have exhausted nearly all her reserves by the close of the current year. Here again the explanation for the deterioration of the country's balance of payments position lies not so much in the Plan as outside it. A larger part of the recent drain can be ascribed to non-Plan outlays on the import of defence equipment, foodgrains, or capital goods for investments outside the Plan. Partly also the explanation may lie in the rise in foreign prices of capital goods imported for projects within the Plan. The point, which it is intended to make is that the stresses and strains to which the Plan has been subjected in the past one year or so were mostly the creation of forces exogenous to the Plan.

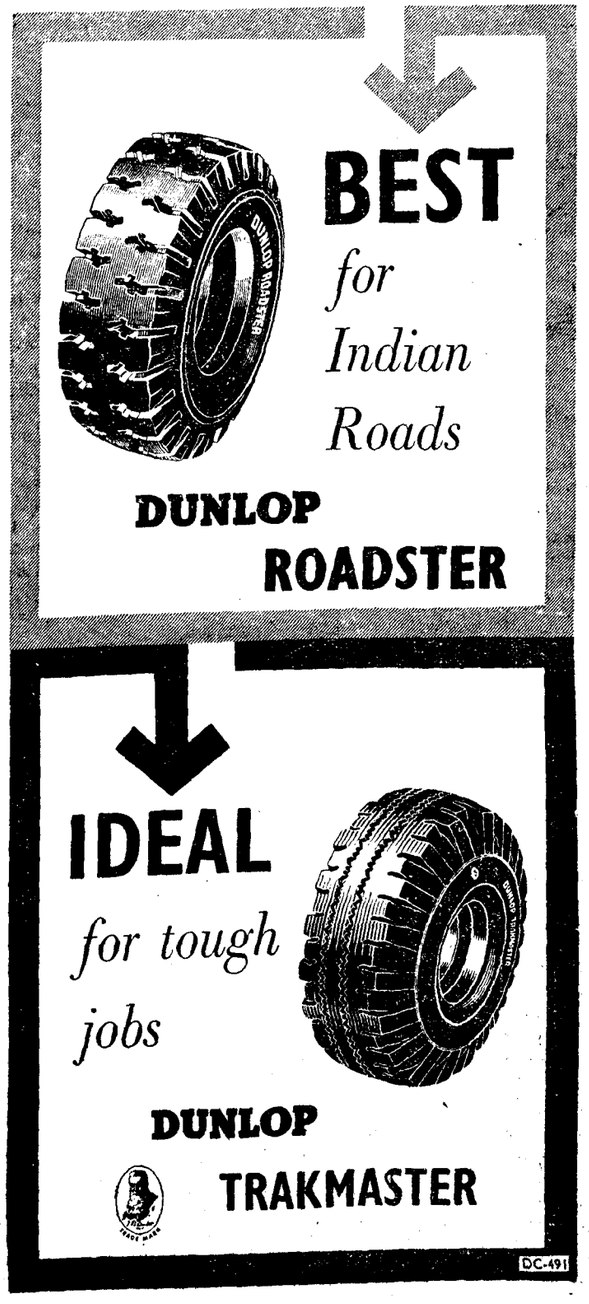
Gloomy prophets forecast the cutting down of the Plan a long time ahead of when the axe was actually applied. The delay in applying the axe might to some extent be due to political exigencies. But that could not be the whole explanation. The cut was not applied earlier also because it was hoped that the clouds might clear away soon, that something which could brighten up the prospects of the Plan might happen and the cut may never have to be applied. It was the hope of the 'invisible hand' not trying us too far. And there was nothing wrong in that, for does not hope spring eternal in human breast? But this sort of building up on hope does go against the very essence of planning. Planning, by its definition, does not leave anything to chance. Chance occurrences are taken into account when they come off, but a planner does not hang his plans on chance. Anyway, if, as hoped for the things had turned for the better and the faith of the Indian planners in chance were thereby justified, everyone would have congratulated them. Unfortunately things were not to be that way. They seem to be getting worse.

And now the planners are under fire. Why did they not take resort to stringent measures the moment they discovered late last year that the balance of payments was in a bad way? Why did the Government have to wait for nearly a year before they could decide upon a really strict restraint on imports? Why is it that the planners did not advise the Government to resort to food control measures in the face of continuing rise in food prices? And so on.

The most disheartening part of the latest economic situation is provided by the worsening food position in the country. Vast areas in Bihar, Bombay, eastern Uttar Pradesh, West Bengal, Madhya Pradesh, Orissa and Andhra are stated to be in the grip of serious drought owing to the widespread failure of rain, and as the Prime Minister indicated the other day in the course of his press conference a 50 per cent loss of crops is feared in the affected areas. According to reports, it is the current paddy crop which has been damaged the most. Unless the position in the rest of the paddy growing areas is better than it used to be before (and reports so far give no reason to expect that to be so) so that the short-fall in the drought-affected areas can be made up with surpluses elsewhere, imports of rice this year may have to be stepped up considerably. And a ton of rice costs considerably more in foreign exchange than a ton of wheat.

It is not just that sorrows of the Plan continue to multiply but they seem to be multiplying in something like geometric proportion. The strain on account of the shortage in foodgrains will be reflected not merely in the already much-depleted foreign reserves, but also in so many other spheres intimately connected with the Plan. If the shortage is severe enough it might compel resort to a system of food rationing in the urban areas coupled with compulsory procurement of rural surpluses. This would mean diverting the administration from its present tasks which include the execution of Plan projects to the more immediate task of meeting the food situation. And if the Government hesitates in taking recourse to food control measures including food rationing when the situation demands it the shortage of food may express itself in higher food prices which in turn may add to the existing inflationary pressures which again will not only endanger the execution of the Plan but engender further strains on the balance of payments.

The situation facing the Plan is grim enough. Bold words have a vital role to play in such circumstances because they help in keeping the morale high. Prime Minister Nehru's public assertion that India would go ahead with the Plan whatever the sacrifices it might entail will embolden many Indian hearts. But no one will deny that the situation, if it has to be tackled properly, requires much more than bold words. And the Prime Minister is not unaware of this. That is why, in his Divali message to the nation, he wants the people to remember that the country is faced with extreme food shortage and that they should pledge themselves to utmost co-operation with the Government in its endeavour to meet the shortage. And let us hope that on its part the Government does measure up to the situation.



Weekly Notes

Uneasy Coalition

IT may be a tribute to Mr Suhrawardy's political tactics that, by resigning on an issue of principle, he has put his political rivals in the wrong. But the circumstances under which the Muslim League has returned to power are symbolic of political intrigue and instability in Pakistan. General Iskander Mirza's efforts to form an interim National Government failed because the Awami League refused to participate in such a Government. Neither the Awami League nor its leader is beyond reproach; both have acted wisely in deciding to function as the main element in Opposition. Mr Chundrigar and the Muslim League can congratulate themselves for their shrewd tactics in heading a coalition Cabinet in which the League has no majority. This is no mean achievement. But the Muslim League has scored a bigger victory in leading the coalition Cabinet on its own terms and conditions.

Time alone will show whether the Republicans are right in anticipating future developments. It would be hasty to blame the Republican Party of inconsistency, though it cannot escape allegations of political opportunism. Contrary to the popular criticism or interpretation, the Republican Party does not seem to have abandoned its demand for disolution of one-unit West Pakistan into separate, linguistic units. It has only postponed the demand till the elections. In the circumstances, what prevented the Republican Party to continue to lend support to Mr Suhrawardy and the Awami League? Will it, then, have to be presumed that the Muslim League has entered into an understanding with the Republican Party for a joint policy to the break-up of the one-unit West Pakistan after the election in return for the Republican Party's acceptance of the League's insistent demand for elections on the basis of separate electorates? If that be so, the Republican Party seems to have been cajoled to dig its own political grave. For, separate electorates can only help the emergence of those elements which the Muslim League represents.

Whether or not the Republican Party has been outmanoeuvred by the Muslim League is not as significant as the implications of the deal between these two parties. East Pakistan is not enamoured of the Muslim League. It has lost its support in Pakistan's eastern wing. But the system of separate electorates may help the Muslim League to gain ground in East Pakistan, and to regain its former status in West Pakistan. This much seems clear. But the Muslim League's assumed acceptance of the Republican Party's demand for dissolution of the one-unit West Pakistan may have disturbing consequences. This may be the price that the Muslim League has agreed to pay to retain the support of the Republican Party. But it can only revive the rivalry and antagonism between the two wings of Pakistan. Or, is the Muslim League relying on the strategy that East Pakistan's inevitable demand for parity will force some sections of the Republican Party to abandon their demand for separate, linguistic States in West Pakistan? Mr Suhrawardy can wait with confidence. Time is on his side.

Tribalism

AS was only to be expected, New Delhi's proposal for integration of the Naga Hills District and the Tuensang Division into a single administrative unit has encouraged other Assam tribes to revive their demand for a separate Hill State. Neither NEFA nor Tripura nor Manipur may like the wider proposal for integrating these areas with the Naga Hills so as to form a separate, single, administrative unit. But these plans have intensified the demand of tribes people to have separate States. Not only in Assam, but in other parts also, the tribes people have started campaigns for separate administrative units, though the campaign is most vocal in Assam. New Delhi's policy to the north-east frontier must necessarily be tinged by strategic considerations. It is no use denying this vital aspect of this issue. Demand for a separate Hill State by Assam's hill peoples cannot be conceded. Not only strategic considerations, but political and economic viability is as much an argument against such a separate Hill State.

Nor can Assam's claims to territorial cohesion be ignored altogether. But that does not mean that the problem of the hill peoples is not urgent, or that it does not need to be solved amicably. In retrospect, it would seem that Shillong is not without blame. New Delhi's policy immediately after independence was hasty and undiplomatic. But the main trouble seems to have arisen because of unsympathetic or arrogant handling of the situation by Shillong. This is implied in New Delhi's new policy, though it is diplomatic in not apportioning blame to Shillong. To try to find out who is to blame, is to cry over spilt milk. Far more urgent it is to evolve a satisfactory solution. There is no doubt about the prevailing discontent among the hill peoples. It is more than time for New Delhi to invstigate their complaints and grievances so as to reach an agreed solution of the problem. Though the hostility of the Nagas has revived it, the demand for separate administrative units for hill peoples is not new. There is need for forming an expert committee of sociologists and administrators to investigate the problem of the tribes people before it assumes ugly or alarming proportions.

Industrial Output in China

THE Statistical Bureau of Peking claimed that China now ranks 12th in the world in Steel output and 8th in world pig iron output. The Bureau also announced that 1957 output of major industries will be: Coal 120 mn tons, Electricity 18,860 mn kilowatt-hours, Steel 5 mn tons, Pig Iron 5.5 mn tons, Steel products 44.7 mn tons, Coke 7.46 mn tons, Caustic Soda 178,000 tons, Boilers 4,019 ton-hours (steam output), Hydraulic Turbines 72,320 kilowatts, Steam Turbines 143,500 kilowatts, Transformers 3.59 mn kilowatts, Metal-cutting machines 22,640 units, Cement 6.8 mn tons, Machine-made paper 836,000 tons, Cotton Yarn 4.6 mn bales, Cotton Cloth 5,000 mn metres.

Twelve Years Old

ON October 24, 1945 representatives of fifty one nations gathered in San Francisco and pledged collective effort through the United Nations Organisation for peace, security and human rights. India, though it was one of those 51 nations, was still not independent and was therefore represented by persons who derived authority not from the Indian people but from the British rulers. The Indian delegation was led by a senior Indian Civil Servant and significantly its deputy leader was Sir Feroz Khan Noon, who is now the foreign Minister of Pakistan. The real voice of India was gagged at that time because the persons who could be said to truly represent the country were languishing in jails. Still, some voices were raised even at that time, but only in the lobbies and anterooms of the Conference, that the purpose of the United Nations would not be served properly so long as there were nations which were not given the right to speak for themselves within and outside their countries.

India became independent about two years after the U N was created. But many other nations continued under subjugation. Therefore, the struggle for the deliverance of such nations had to continue if the U N were to become truly representative of the entire world. It is a matter of satisfaction to note that the membership of the U N has risen to 82 and that a majority of these new member countries has graduated into independent nationhood within the last ten or twelve years. We are not being immodest if we claim that in so far as the international opinion can be said to have forced the hands of the colonial powers India played not a small role in fostering such opinion since the time of her own independence. But all has not been achieved as yet. In fact the problem of true representation has become complicated compared to what it was twelve years back. Then the problem was one of raising the existing colonies to the status of independent countries. Very soon afterwards, serious doubts came to be expressed against the independent status of the East European countries which were within the orbit of Soviet influence. And in these past ten or twelve years while considerable progress has been made on the colonial front, it cannot be claimed that the East European States are today any more independent than they were before. In fact some tragic events in the very recent past lead one to believe that there is little prospect of an early relaxation of the grip on these countries.

This brings us to the most important question that has confronted the U N from the very day of its inception and continues to confront it today. What is the basis on which the major powers can live or coexist (if one may use the word shorn of its present demagogic associations) without any fear of attack or any other violation from the other side? The problem of the East European countries and its solution as well are very intimately connected with the question just posed. The U N has a fairly long list of achievements to its credit (which, of course, does not mean that it has not failed on occasions) but so long as the main question regarding the basis of co-existence remains unresolved, peace and security will remain balanced on a thin edge and human rights will continue to be sacrificed in the name of national security. Still it is good that there is a body like the U N in existence which not only provides a conference table for the contending parties to sit together and try to understand each other's point of view and reconcile them if possible but also serves as a forum or platform where mutual suspicions can be aired and rebutted, and in some cases answered to the other party's satisfaction. In its latter role the U N may not help resolve differences and disputes, but it does provide an outlet for the heat generated by these differences etc and prevents thereby an unduly large, and therefore explosive, accumulation of heat. It is hoped that the latest conflict between the Great Powers on Syria would be solved in the conference or ante-chambers of the U N and not lead to any actual clash of arms. There is no doubt that without the U N the world would have been closer to the precipice of war than it is today even though the most difficult question remains unsolved. We therefore have no hesitation in wishing a long and effective life to the U N.

Britain Stoops to Conquer

ALL in Great Britain were agreed that if the European Common Market became operative without Britain's membership it would hit the British industry rather hardly. But then the full membership of the Common Market was not acceptable to Britain. This would have meant that Britain should relinquish all her special economic ties with the Commonwealth and her colonies. Not only that this would also expose the highly subsidised British agriculture to the competition of the technically more advanced, and consequently low-cost, agriculture of some of the Continental countries. And this the present Conservative Government thought would turn the agricultural vote, and therefore the political tables, against them. The Conservative Government came forward with the proposal that as a complement to the six-nation Common Market there should be set up a Free Trade Area of all the West European Countries—an institution which would be a much looser association of national economies than the Common Market. According to the British proposal, members of the Free Trade Area will gradually remove all tariff and other barriers on trade within the area but the individual members could pursue independent tariff policies in regard to (a) trade with the rest of the world, and (b) food stuffs.

No one would deny that the British Government had a hard time in trying to put their proposal across and in convincing the other West European countries, particularly those subscribing to the six-nation Common Market of the genuineness of their proposal. And if Britain has ultimately succeeded in securing the approval of the 17-nation Organisation for European Economic Cooperation and that too a unanimous one, the credit must be given to the resourcefulness and the negotiating skill of that black horse of the Conservative Government, Mr Reginald Maudling. It has been decided to set up a special inter-governmental Committee under the Chairmanship of Mr Maudling to negotiate and draft the Free-Trade Area treaty. The Committee has been asked to start its work forthwith in order that the Free Trade Area become operative at the same time as the Common Market, i e, from January 1, 1958.

But Britain could not secure the unanimous approval without a price. She had to forgo her condition in regard to foodstuffs and agree to

work out a common policy on agriculture for the entire area. In making this concession the British Government should have been able to allay a larger measure of suspicion nursed against them by other countries. However, politics apart, this concession may ultimately prove advantageous even to the British economy in more than one way. Stoppage of agricultural subsidies should help relieve pressure on the Government resources and the release of labour from agriculture might help in holding down the wage demand. As for the balance of payments, it is conceivable that after the economy has adjusted itself to the change in the present pattern of resource allocation consequent on the withdrawal of subsidies to agriculture, the impact in this case as well of the above concession would be favourable.

Decentralisation in Development

THE idea of associating people directly with the development tasks of manageable units of territory, so that progress follows closely the line of local needs and enough popular enthusiasm is released, has been receiving attention for some years now. The intention was to bring the panchayats, primary organs of local self-government, into the picture by delegating enough power and allocating adequate resources to them; but how this was to be done was not clear. A team, headed by Shri Balvantrai Mehta has, after conducting a field study of the Community Development programme on behalf of the Planning Commission's Committee on Plan Projects, made certain recommendations which deserve thought. The team has suggested the creation of a new tier of local bodies, above the Panchayats and below the district organisations, for undertaking the work of development. Each of these new bodies, tentatively designated as Panchayat Samitis, is designed to cover the area of a Development Block; and it is to take charge of all aspecs of development work in rural areas.

The Panchayat Samiti is to be set up by statute; and it is to come into being through indirect election from village panchayats. The team's preference for a new agency of development between the panchayats and district bodies is understandable. While the former are too small and too ill-equipped administratively and financially to take up development work on an adequate scale, the latter are somewhat too unwieldy. Again, the area of a panchayat is too restricted to permit of development work, which at times may have to be visualised on a scale big enough to meet the overall needs of a whole group of panchayats, involving problems of effective co-ordination and economical use of resources. On the other hand, the territory of a district is apt to be too scattered and too far-flung, rendering concentrated attention and devotion on the part both of the authorities and 'e people raher difficult. Local development calls for the stimulation of local initiative and zeal which is possible only in an area which is not too large to dissipate interest or energy nor too cribbed to militate against a well-thought-out and harmonised plan for development for clusters of villages with common needs and problems.

Compact Agency

THE proposed Panchayat Samiti is evidently meant to be a compact, workmanlike agency: "We consider that the time has now arrived to establish a single representative and vigorous democratic institution to take charge of all aspects of development work in the rural areas. It must not be cramped by too much control by Government or Governmen agencies." What is more, 'it must have the power to make mistakes and to learn by making mistakes, but it must also receive guidance which will help it to avoid making mistakes.' The trend towards decentralisation has so far been hindered by an excessive concern for rectitude on the part of Authority and also a certain attitude of reserve, if not of doubt and suspicion too, in regard to the capacity of newly-established self-governing units to manage their affairs on proper lines.

There is no doubt some justification for this attitude; for, where people comparatively new to tasks of self-management and businesslike administration are concerned, there is bound to be a tendency to go wrong, seek short cuts to action or overlook minor rules and regulations. But if such a tendency arises from excessive eagerness and enthusiasm rather than from indifference and lethargy, there is good reason to be tolerant. After all, what matters is the amount of work turned out and the degree of progress achieved, and not the act of conforming most punctiliously to the mere formulae or formalities of functioning, which may often be at the cost of real progress. It is like sacrificing expression at the altar of grammar.

That the possibility of error has been robustly recognised and the right to commit such error and learn from it in the course of progress has been amply granted, is a happy sign. Equally heartening is the realisation that the executive machinery, far from seekng to control the new units of self-government proposed, ought to be 'controlled and directed' by popular representatives of the area concerned. The principle of self-exertion and self-help through self-managed units would otherwise defeat itself; and indeed, there would be no need at all for going in for the luxury of a new set of agencies for local development. For good or bad, the work could well be left to proceed on the present lines, with a vast array of authorities laying down the law and the people trying half-heartedly to follow it.

Another wholesome recommendation of the Balvantrai team is in regard to the need for allotting to the proposed new agencies adequate sources of finance, without which they would soon sink into frustration and invite ridicule, as has happened in the case of a large variety of local bodies. These have ceased to be even effective show-pieces through prolonged self-stultification. The team's lukewarmness to district boards, school boards and the like, meant to serve whole districts and reduced in the process to the misfortune of being neither here nor there, need not cause surprise. Their jurisdictions have been too large and their resources too crippled to cope with the ambitious tasks set for them. With the establishment of Panchayat Samities, covering manageable areas, district bodies might well go or they could usefully be replaced by some other agencies for ensuring co-ordination among the Panchayat Samities in a district. The team has suggested the setting up of Zilla Parishads for the purpose, to be composed of the presidents of Panchayat Samities, all MLAs and MPs of the district and district-level officers of various categories concerned with development.

From the London End

Britain and the European Economic Community

The Issues Involved

THE complicated negotiations for a European free trade area are now coming to a head. In Paris the Ministerial Council of the Organisation for European Economic Cooperation (OEEC) has declared the determination of the seventeen member countries to "secure the establishment of the European free trade area", and various high-powered committees have been set up for conducting negotiations. The OEEC meeting was preceded by a series of bilateral discussions held at an official level and by considerable public comment. Only now the real issues are becoming clearer—the translation of the vague ideas contained in the first British approaches into concrete proposals for a free trade area of West European countries has brought to the fore the fundamental realities of Britain's international problems and how far Britain's position precludes her from making quick decisions in a world of rapidly changing economic relationships. For what is at stake in Western Europe today is not so much whether the European customs union will be a purely industrial one or not (though this is not without significance) but whether the choice of greater economic cooperation will in course of time sufficiently submerge existing geographical and hence national differences in Western Europe and so forge a political unity which would allow the old nations of Europe to do two things at least: to match the political and economic performance of the United States and the Soviet Union, and secondly, to make the continent of Africa with its vast resources the sole preserve of Europe.

The attainment of these purposes however stands permanently on the brink. The removal of national interests in favour of a larger ideal is at best difficult to achieve but when in fact the designs for such larger purposes patently involve a gradual demise of nations who only twenty years ago were world powers in every sense, the obstacles tend to be well-nigh impossible to cross. There is today an undercurrent of suspicion and distrust. The British free trade proposals are understood by every chancery in continental Europe as a bid to negate the far-reaching implications of the Rome Treaty for a European Economic Community and Common Market. In Britain itself the Rome Treaty is taken as a threat not only to the British economy but to Britain's interests in Africa and the Commonwealth and Empire. Even in the Common Market the advantages that may accrue solely through economic specialisation are severely outweighed on the one hand by the nationalist ambitions of the German **revanchists** and on the other by the already announced move towards the cartelisation of prices, output and markets by West European industrialists. While the French have succeeded in securing German and other contributions to a projected investment fund to "develop Africa's resources", they continue to fear the revival of the old Bismarkian ambition for a possible extra-European expansion of Germany. This fear is certainly at the back of the minds of the British authorities as well. The French are also apprehensive that the classical tendency to specialisation following the removal of tariffs may denude France of her industry and lead to a lowering of French social and economic standards. In Holland and Belgium also similar fears persist, and as the **Times**, not without purpose, put it recently, ".....there are little identical interests—the balance has yet to be struck".

This then sets the broader background to the current negotiations for a free trade area. Any attempt at understanding the issues at stake must begin with a set of definitions. On March the 25th, this year, Belgium, France, W Germany, Holland, Italy and Luxembourg, the Six as they have become known, signed two Treaties in Rome: one instituting the European Economic Community (i e, their customs and economic union) and the other instituting the European Atomic Energy Community (Euratom). Both treaties have already been ratified by Parliament in France and Germany. The first Treaty projects the creation of a Common Market over the next 12 to 15 years. The idea is to forge not merely a customs union but a more meaningful economic union of the signatory countries and eventually perhaps of Western Europe. Taken to its logical conclusion this conception requires the policies of the countries comprising the Common Market to be brought into harmony not merely in the matter of tariffs but also to a considerable extent in the whole field of economic, social and financial policy.

The Free Trade Area proposed by Britain would be only a partial customs union in that the participating countries abolish all tariffs and restrictions on goods entering one of them from any other but is unlike a full customs union in that each of these countries continues to maintain her own tariff on goods coming from the outside world. There are no tariffs as between the countries taking part but their individual and often different tariffs (including tariff preferences) vis-a-vis the rest of the world remain unaffected. The Free Trade Area proposals are being negotiated through the OEEC because Britain would wish the area to encompass not only the six Common Market countries but also the Scandinavian countries, Austria and Switzerland and perhaps other peripheral countries (like Greece, Turkey, Portugal, Spain and Iceland) if that is possible. Finally the British Government in their proposals have specially excluded agricultural commodities from the purview of the proposed Free Trade Area.

In recent discussions on the subject of the European Common Market, Britain has understandably been concerned with the implications of her being shut out of this market. As will be clear from the figures given in the accompanying tables she cannot afford either to be cut off from a vast market comprising the EEC or to sacrifice her existing economic interest in the Commonwealth and Sterling Area.

There appear to be three issues which are likely to prove the more

al in the present negotiations. first, certainly concerns the bility of the most novel feature ie FTA proposals—that of the dit of independent tariff poli- towards third countries. The of the United Kingdom is ely based on her commitments ained in the Import Duties Act 932. This measure which introd a permanent protective tariff the U K had exempted from luties under the Act goods prod in and consigned from the monwealth and Empire. In case of the Colonial territories exemption was permanent and accompanied by reciprocal essions accorded by them to the C goods. In the case of the Unions, the exemption was coned and made permanent by the wa Agreements of 1932 in rn for preferential and other essions granted to the U K ls by the Dominions concerned. principle of reciprocal prefers which is basic to the Ottawa eements now makes it exceedy difficult for Britain to pursue lexible policy. But this fairly ight forward case of the United gdom provides the very clear for exceptions which the Com- Market countries are now takfor in essence the F T A proals would mean that the Six ld have to compete on equal as with Commonwealth and pire countries in the United gdom market without the Comwealth and Empire according Six the same treatment in their ntries as are accorded to the C. Thus while the U K for very ious reasons is prepared to intain the principle of reciprocity h the Commonwealth and Em-, the others are naturally not y happy about it. The negotiais on this as on the other points likely to prove difficult. There one possible solution. To comsate for the lack of equality h the Commonwealth and Eme in the British market the Comn Market countries could main- a small tariff on imports of itish goods. There is, however, a tain sense in which this solution es against the very grain of the ncept and purpose of the FTA.

The second problem concerns ricultural commodities. In the ommon Market arrangements ere is to be established a common licy for agriculture, involving in particular a commonly managed though not free market in agricultural products. In contrast the F T A will exclude foodstuffs. The British view is founded on two arguments. The pattern of trade between the U K and the Commonwealth and Empire is such that some 90 per cent of the goods imported into the U K from the Commonwealth and Empire and enjoying imperial preference are agricultural goods and this forms the first argument. Next the U K has under the 1947 Agricultural Act committed herself to a vast system of subsidies and price assistance measures all designed to revive the agricultural sector of the British economy. The revival has in fact been phenomenal and the existing state of British agriculture can only be maintained by continued protection. Against this the countries like Denmark, France, Holland and Italy are asking whether the British expect of them a removal of tariffs on British industrial exports while they, as significant agricultural exporters, will find the British market heavily protected against their exports of foodstuffs. It is reported that Mr Maudling, the British Cabinet Minister entrusted with negotiating the F T A proposals, has now intimated that Britain will be prepared to examine its and other countries' agricultural policies but this step by itself signifies little when the conflict of interest in this matter is so patent.

The third issue which is likely to be the most intractable of all concerns the institutions to be set up for the proposed F T A. The Common Market Treaty envisages the setting up of a number of institutions. There is to be an Assembly of delegates from the Parliaments of the Six. A permanent Council of Ministers with supra-national powers is also to be appointed. Apart from these, committees of a consultative nature, a court of justice, an investment bank, a development fund to exploit the resources of the overseas territories and a social fund are to be set up. In strict contrast the British plan envisages the F T A as being an adjunct of the OEEC. The F T A, the British argue, would have in the OEEC an organisation with long experience of organising economic cooperation in Europe. But as M Fayat speaking at the OEEC meeting on behalf of the Six expressed the view that the F T A can and will evoke little response unless "there was the need for it to be something more than a set of arrangements to deal with tariffs.". It is clear that Britain does not wish to become too heavily embroiled in European institutions out of fear that this may weaken the Commonwealth link. It is however precisely this which makes continental Europe impatient with the U K.

These problems and issues are by no means all. There remain, inter alia, the question of colonial involvement in the Common Market designs, of the solution of balance of payments difficulties in a system of free trade and free movement of labour and capital.

Table I—Britain's Foreign Trade
(£ million)

	UK Imports	Percentage of Total UK Imports	UK Exports	Percentage of Total UK Exports
Common Market	493.2	12.4	429.0	13.5
Free Trade Area (12 Countries)	860.6	21.7	736.9	23.1
Free Trade Area (17 Countries)	1085.5	27.4	970.7	30.4
Sterling Area	1764.6	45.3	1469.1	46.3
U S A	408.5	10.5	243.2	7.7

Table II—Relative Size of Markets in 1955

	UK	Common Market	Free Trade Area*
Population (millions)	50.97	161.2	239.3
National Income ($ millions)	42,544	96,309	161,157
Percentage Share of World Trade			
Imports	12.2	21.6	41.0
Exports	10.0	21.4	37.6

* The peripheral countries are excluded.

A Calcutta Diary

This is the Way the Strike Ends

IT is not much of an understatement to say that the bank strike ended, on Saturday last, with a whimper. The bank employees had been on strike for a 31-day month; the service that continued in spite of the strike was at best skeletal. There was widespread inconvenience, especially for small traders consisting mostly of Bengalis. Some people have been saying that the damage done to West Bengal's already limited participation in the economic life of the State will be irreparable, which may not be an exaggeration. The time chosen by the bank employees, or their leaders, for going on strike has been criticised widely. It has been described as a piece of blackmail on the Bengali public, whose consumption becomes conspicuous only during the Puja. The strike enjoyed very little public sympathy, but there is not much reason for calling it immoral. If the bank employees tried to exploit the Puja, no less can be said for the bankers who gladly seized the opportunity of telling the public that the employees were sacrificing the interests of the State and the country for sectional gains. In it all the scope for moderation was exceedingly limited, and Dr B C Roy, who is now being thanked for ending the crisis, decided to intervene only when intervention was scarcely necessary.

The bankers are being courteous in not gloating over their victory. The bank employees' leadership is being downright dishonest in claiming, with many qualifications, that the strike has been worthwhile. There are not many bank employees who take this self-deception (and not merely self) seriously. Pretensions notwithstanding, several aspects of the employer-employee situation are painfully clear, and both Bengalis and those doing business in Bengal will do well to take the lessons to heart.

The employers were on a good wicket right from the start. To the basic demand, that the dearness allowance be adjusted in accordance with the regional cost of living index rather than to the all-India average, they were from the beginning sympathetic. But, poor angels, a certain legality stood in their way, and they are all honourable men—or this was the picture, not wholly faked, presented to the people and the Government. The latter, painfully aware of the chain of reactions to follow any concession to bank employees, soon found itself fully ranged on the side of the employers. And if there was, in the final act of the sorry farce, an effort on the part of the Government to wrest from the employers a favour or two for the strikers, it is only because the class character of the Government still awaits a frank definition.

The case of the employees was never excessively strong. In the first place, their demands amounted to the regional revision of an all-India settlement and thus did not have behind them the force of what might be called national support. Secondly, soon after the strike was joined it was an illegal affair. Thirdly, the design to cash in on the impending Puja—if so one can describe an operation entirely contrary in consequence —was an insult to Bengali sensitiveness. It has also been suggested that rivalries within the employees' association had not a little to do with the faulty leadership.

The people striking were about ten thousand middle-class Bengalis —perhaps the farthest thing from Marx's proletariat. The majority of them must have been married and with children, a further factor against militant trade unionism. In one direction or the other, to declass oneself is a very difficult exercise, as Lenin knew. There was some jubilation in Bengal recently that the middle class had shed its familiar pattern of behaviour, that it was more revolutionary than the working class. It is not unfair to attribute to Prabhat Kar M P, the leader of the bank employees, a roughly similar assumption—now proven wrong. The Communists will have to do better next time, or there will be a change in the leadership of many middle-class trade unions. They should have known that the militancy was chiefly verbal—which fact is stated with no implied comment, for militancy is not always a virtue and the Bengali's circumstances today are exceedingly difficult.

A strike that ends in a failure does not leave things where they had been **ante bellum**, and there is evidence that the bank strike has worsened them in important respects. Appeals from politicians—one of whom made a premature effort to end the strike and perhaps did more harm than good—and newspapers (whose behaviour was equivocal) that there should be no rancour are unlikely to change mental attitudes bred by a deep sense of frustration.

Anyone that went to his bank on Saturdays saw some very sullen faces across the counter. Across the entire trade union movement in the State, especially that part of it which deals with middle-class employees, there is widespread demoralisation. It will spread and deepen before it begins to shrink and disappear, and faith in the present leadership will have to be restored before another strike call can have any hope of a response from the called. The ill-advised strike may or may not have done permanent damage to the West Bengal economy. That it has been a serious setback to the growth of trade unionism is already clear. Not everyone can regard that as a wholly good thing.

Middle-class life in Calcutta today must be harder than the surface reveals. (It is a middle-class trait to conceal the frayed collar under the coloured **chadar**.) It was not demonstrated in the recent argument, still, that bank employees are the worst sufferers. Indeed, the bankers were able to produce figures indicating something to the contrary. This is as good an occasion as any to ask the final question whether, the unemployment situation being what it is and will be for a long time to come, a man who is lucky to have a job at all is entitled to demand ever more dearness and other allowances which, when granted, can do many things—add to inflation for instance—but cannot possibly create jobs for those who do not have a job at all.

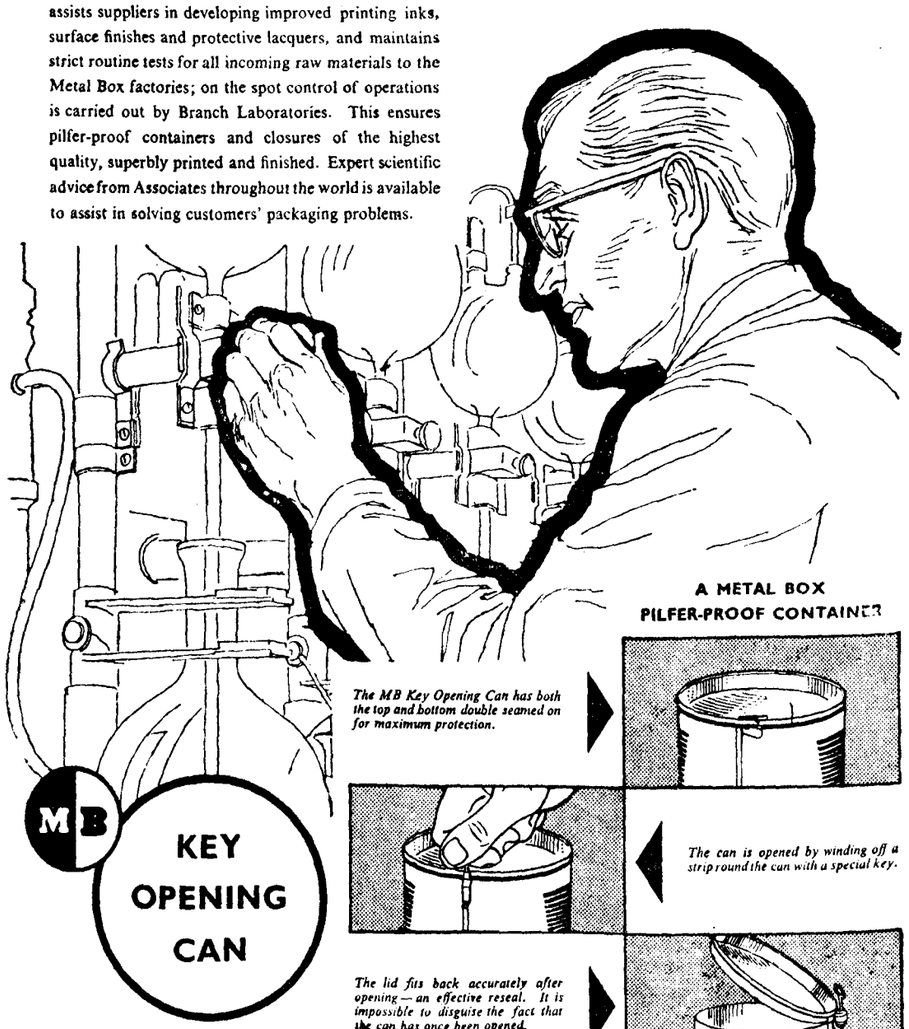
—**Flibbertigibbet**

October 21.

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Book Review

Modern Trends in Economic Analysis

Activity Analysis and the Theory of Economic Equilibrium by Helen Makover. MacMillan & Co Ltd. London. 1957. Pp 252. Price 25 s.

TWO significant modern trends in economic analysis seek to make it a more serviceable instrument in understanding empirical economic reality. The first is towards the development of a macro-dynamic theory and the second, towards a more realistic turn in micro-static analysis.

The point of departure with regard to the first trend is to be traced to Keynes. The tools which Keynes developed were very useful in the recent attempts to build a macro-dynamic theory; for now it is possible to give empirical content to economic principles. More refined tools are now available to continue the line of development which started with Ricardo-Marx-Schumpeter and was given up for a long time. A systematic development of these modern trends is found in Mrs Robinson's **Accumulation of Capital**, in which like Ricardo-Marx, but with greater elegance, she has linked up the theory of growth with the theory of distribution. Of course, her theory lacks the wider historical-sociological setting of Marx, but then she is quite aware of this lacuna.*

The neo-classicists gave up all attempts at continuing the line of development in economic analysis, started by Ricardo and later perfected by Marx and Schumpeter. Instead, they applied calculus to economic analysis and developed a formal structure of analysis, which was more elegant and logical than the classical analysis but which at the same time was hardly of much use in understanding empirical economic reality. They gave up macro-dynamic analysis; and hence they had hardly anything to say about the changing economic reality. The micro-static theory which they developed was hardly realistic and turned out to be mere tautological formulae. However, they used tools more refined than were available to the classicists and developed the concept of an interdependent economic system. Walras's contribution, though formal, was very important from the point of view of economic analysis as he, for the first time, conceived of economic reality as an interdependent system.

The formal analysis of the neo-classicists is now being reformulated with a view to giving it more empirical content. The first attempt in this direction was made by Leontief in his **Structure of American Economy** (1939), where he tried to describe the structure of the American economy on the basis of the Walrasian theory of general equilibrium. For doing this, he had to segregate final consumption, as it was difficult to give any precise empirical content to the theory of consumers' behaviour. However, on the production side, by assuming specific functions in place of general functions of the neoclassicists, he was able to give a precise description of the input structure of the American economy. His static input-output analysis is useful in describing an empirical economic system as well as in measuring precisely the changes in its structure. Further, with the dynamic formulation of his input-output analysis, it is possible to predict economic change for a short period of time on certain assumptions regarding final demand. Moreover, this dynamic input-output analysis provides a planning technique for countries which intend to plan their development. It is high time that this development is included in textbooks on economics; for, students can now understand clearly the relevance of general equilibrium theory for the purposes of understanding economic reality.

However, a creditable attempt is made now by Helen Makover to link up the other reformulation of some aspects of the micro-static theory of the neoclassicists called 'linear programming' or 'activity analysis' with the main body of economic analysis. This reformulation also, like that of Leontief's, substitutes specific functions for general functions and thus by making all elements explicit and all relations clear, it makes it possible to put empirical content in this part of economic analysis. This development is very recent and owes its origin to the attempts in the post-war period in the United States at solving certain practical problems. Much of the work in question is directed towards 'operational economic planning' or the formulation of the principles of optimal utilisation of scarce means in such terms, and for such limited projects, as can be given quantitative empirical content in an actual factory, or on an actual railway system.' The whole treatment is mathematical and deals with maximisation or minimisation of some magnitude. As such, this method can be easily applied to the theory of a firm or a Crusoe economy, thereby making economic analysis more realistic and more meaningful.

And this is exactly what Dr Makover is trying to do. Students would be greatly benefited if this new reformulation of the neoclassical theory is integrated with the main body of economic analysis. Their understanding of economic reality would improve and they would appreciate the relevance of economic analysis for solving practical problems. Another such attempt at integrating linear programming with the main body of economic analysis is made, it appears, in the forthcoming book **Linear Programming and Economic Analysis**.* These new trends, it seems, will slowly get absorbed in the text-books on economics and students would now find that economic analysis is useful for understanding day to day practical problems.

If the modern trends in economic analysis continue and further if attempts are made to cast economic analysis in a wider historical-sociological setting, Economics would certainly become a true empirical science, which it professes to be today.

*For a clear and admirable statement in non-technical language of what Ricardo, Marx and Keynes tried to do, see John Strachey, **Contemporary Capitalism.**

*Linear Programming and Economic Analysis. Edited by Samuelson etc. MacMillan & Co.

A Memorandum on Foodgrains Policy

IN analysing the rise in foodgrain prices that has taken place over the last two years there are three questions which we shall attempt to answer*. Firstly, given the rise that has already taken place, to what extent is it a matter for concern, and why? Secondly, what are the factors responsible for this rise in prices, and how powerfully are they likely to operate over the next two or three years? And thirdly, what are the implications of a programme aimed at (a) stabilising foodgrain prices at their present level, and (b) bringing prices down to the level prevailing at the beginning of the Second Plan period? In the light of the answers to these questions, we shall indicate what, in our view, should be the main features of the policy followed in regard to foodgrains during the remaining period of the Second Plan.

The rise in foodgrains prices has been considerable if we take the middle of 1955 as the base year. The price of rice, for instance, has gone up by nearly 52 per cent between June, 1955 and March 1957; and the price of wheat by about 77 per cent. But this rise, it must be remembered, followed a period of sharply falling prices. This decline in foodgrain prices between the middle of 1954 and the middle of 1955 had occasioned considerable alarm among producers of foodgrains. A part of the rise in prices over the last year could be regarded, from this point of view, as having merely corrected the situation created by the earlier decline of prices.

Judged with reference to the prices prevailing immediately before the Korean War, the rise that has taken place appears far less alarming than when considered with reference to the level obtaining in 1955. Thus the prices of both wheat and rice at the end of March, 1957 were only about 20 per cent higher than they were at the end of June, 1950. The rise in prices appears still smaller when compared to the peak prices reached immediately after the Korean War in April, 1951. The price of rice in March, 1957 was only about 11 per cent higher, and in the case of wheat about 4 per cent higher.

The concern with foodgrain prices today cannot, therefore, be explained solely in terms of the level of prices that has been reached. This level is not significantly higher than the peak level reached immediately after the Korean War. But there are other possible reasons: (i) Though the level of foodgrain prices reached now is not higher than the peak level reached six years ago, the rate at which prices have gone up may have been faster than before; (ii) foodgrain prices may not be much higher than they were before, but the prices of the manufactured products sold to the rural sector in exchange for foodgrains may be lower now, resulting in a relative deterioration in the terms of trade for the urban sector; (iii) even if there has been no change in the terms of trade between the rural and urban sectors of the economy, the real wages of labour and the real income of salary earners may have fallen as the result of a general rise in the prices of wage-goods; (iv) without real wages and real incomes being any smaller than they were before for the bulk of the wage and salary earners, there may be greater sensitiveness to price changes, due to past experience and/or better organisation of labour; and (v) even if none of the above is true, there may be widely-held expectations of further rise in prices, which may have serious consequences of their own irrespective of the grounds on which these expectations are based.

The first is to some extent true. Thus, for instance, the price of rice has gone up by 28 per cent between June, 1955 and March, 1956 and by 19 per cent between March, 1956 and March, 1957 as compared to only about 10 per cent between June, 1950 and April, 1951 during the period of the Korean War. But if we leave out of account the rise in prices between June, 1955, and March, 1956—which only corrected, to a large extent, the decline in prices that had taken place earlier—the rate at which the price of wheat has gone up recently has not been any faster than the rates at which it went up between June, 1950 and April, 1951.

There is also no evidence of a marked change in the terms of trade of the urban sector compared to the pre-Korean War position, though, of course, compared to the middle of 1955, there has been a serious deterioration. The prices of foodgrains imported from the rural sector are higher now than they were in June, 1950, but so also are the prices of cotton textiles exported from the urban sector to the rural sector. If the prices of all commodities figuring in the exports and imports of the urban sector are taken into account, they may still reveal some deterioration in the terms of trade of this sector compared to the pre-Korean War position, but it seems unlikely that this deterioration has been of any large order.

Though the deterioration in the terms of trade of the urban sector compared to the pre-Korean War position has not been significant, it is possible that the deterioration since 1955 has made a powerful impression on it. The fall in agricultural prices between 1954 and 1955 had shifted the terms of trade sharply in favour of the urban sector, and this was reflected in the form of higher real wages as well as larger profits and savings within this sector. The marked improvement in the capital market after 1954, and the investment boom in industries over the last three years, are both attributable to a large extent to this improvement in the terms of trade of the urban sector. The impact of the subsequent reversal of this trend, it must therefore be expected, would also be felt in this sector.

It would appear, however, that higher agricultural prices have not had a serious impact so far on urban industrial profits, compared even to the level reached in 1955. This is because both the volume of industrial output, as well as the rate of utilisation of equipment in industries, has been rising rapidly over the last two years. Even when the rate of profit per unit of output has fallen the total volume of profits has, therefore, tended to increase. With the rising rate of investment expenditure visualised in the Plan, the outlook for profits is also bright, and this remains true in spite of the new taxation measures and the higher agricultural prices.

But there is reason to believe that there has been a significant reduction in real wages in both urban and rural sectors. The volume of employment, and therefore the total wage bill, has undoubtedly increased, but the prices of wage goods have risen in both sectors and there has been nothing to compensate the individual worker for the fall in his real wage. In this context, any rise in foodgrain prices becomes naturally a matter of concern. It affects the vulnerable sections of agricultural and industrial labour as well as the salary earners whose real incomes have been reduced alongside.

A fact which we need to observe here is that, while most sections of industrial labour had succeeded by 1950 in securing wage increases sufficient to restore their pre-war real wage, this, by and large, does not appear to have been true of Government employees, both in the administrative departments and in State enterprises. To them, therefore, such decline in real wages and in real income as has taken place over the last year is over and above the decline suffered over the decade 1940-50.

More important than all these perhaps is that, unlike the price increases experienced during the period of the Korean War, the high prices touched over the last year are regarded by many as having come to stay for some time, and as likely to be followed by further rise in prices. These expectations are now sufficiently widely held to affect the attitude and outlook not only of wage and salary earners but also of holders of stocks. What has so far been a mild profit inflation is, therefore, on the verge of being transformed into a spiral of rising prices based upon inflation of costs and commodity speculation.

Our approach to the problem of food prices can differ according to the aspect of the rise in prices we decide to concentrate upon. If it is the movement in the terms of trade against the urban sector since 1955 that we want to reverse in some measure—and there are good reasons why, in the context of our development programme, this could be regarded as an important objective—we have the choice between (a) pegging food prices at the present level and raising the prices at which urban products are sold to the rural sector, and (b) keeping the latter where they are and lowering food prices. The first alternative carries with it the implication that, in the process, real wages will be reduced still further, and this may not be confined to the rural sector; the higher prices may, therefore, stimulate demands for higher wages, create expectations of further rise in prices, and start an upward spiral movement. The second alternative has the advantage of avoiding these possible repercussions, but it would be a practicable proposition only if (i) the conditions of demand and supply of agricultural products are favourable to such a unilateral scaling down of foodgrain prices, or (ii) fiscal and administrative measures can be devised to compel the producers of foodgrains to sell their output at lower prices. We can avoid making a choice between these two alternatives only if we give up the objective of both changing the movement in terms of trade in favour of the urban sector and of raising real wages by lowering the prices of wage-goods. But if we do so, prices could be left where they are, and we can concentrate on the sole objective of preventing further rises in prices. This also may not be easy, because if prices are stabilised at the present level there is no assurance that the demands for higher wages will disappear. Moreover, if there are forces at work tending to push agricultural prices further up, even stabilisation of foodgrains prices will require fiscal and administrative measures of essentially the same kind as would be necessary for pushing them below their present level.

The choice between the above alternatives is largely a matter of judgment as to what is practicable, and what is not, under present and foreseeable conditions. But this would depend, to a large extent, on our appraisal of the factors underlying the price rises that have already taken place, and the likely trends in the future. Let us therefore turn to the factors underlying the price rises.

II

The rise in foodgrains prices over the last two years could be explained in terms of any one, or all, of the following factors: decline in output of foodgrains, increase in demand for foodgrains, and contraction of marketed surpluses. It is extremely difficult to disentangle and assess the relative importance of these factors because of the non-availability of necessary data and the unsatisfactory character of such data as are available. Almost unavoidably, therefore, whatever observations we make have to rest more on general reasoning, and on insights gained from limited enquiries, rather than on facts whose validity is beyond question.

As regards the output of foodgrains, we shall confine ourselves to two observations. The first concerns the magnitude of the increase in output during the period of the First Plan. Undoubtedly production did increase substantially during this period, but there is reason to suspect that it did not increase to the extent indicated by the available statistics. The Planning Commission does not claim an increase in production potential of more than 6 million tons as a result of the investment programmes completed during this period. But, this apart, an examination of the statistics regarding the State-wise increases in foodgrains production, shows that a disproportionately large part of the reported increases is concentrated in Part B States, i e, in areas which until recently were part of the Princely States. In fact, almost the entire increase in the output of foodgrains by 1955-56, over and above the targets set in the First Plan, are attributable to the increases registered in these Part B States. The increases do not also show any obvious relationship to the investment programmes undertaken in these States during the period of the First Plan. It seems more than plausible, therefore, that a considerable proportion of these increases do not represent actual realised increases during this period, but reflected only the wider coverage of production statistics following the absorption and consolidation of the Princely States in the Indian Union.

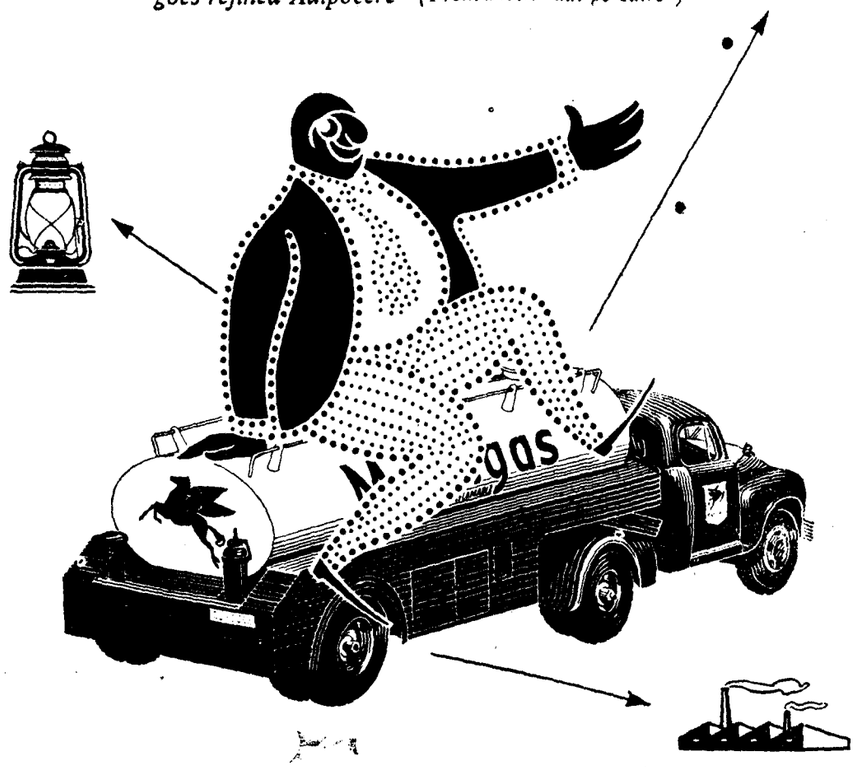
The second observation, which in a sense follows from the first, is that, so far, there has also been no conclusive evidence of a rising trend having been established in India, either in yields per acre or in the total volume of agricultural

*This memorandum was submitted by Dr K N Raj of the Delhi School of Economics to the Asoka Mehta Committee on Foodgrain Prices. It embodies some of the conclusions arrived at through group discussion among members of the staff of the School.—Ed.

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output. It is of course possible to show such a trend, statistically, by working out 5-yearly moving averages covering the last few years. An attempt along these lines was made by the Food Minister in a statement in the Lok Sabha on May 14, 1957. But this is extremely deceptive, because this "trend" can be explained entirely by the substantial increase in production registered in 1954-55 and the continuance of foodgrains output at around this level since then; the yield appears to be rising only because, when working out five-yearly moving averages for the years following 1954-55, the share of the years, with output larger than before 1954-55, tends to increase progressively. But, for this same reason, unless output registers substantial increases in 1958-59 and 1959-60, over the level reached in 1954-55, moving averages will show a levelling off, and possibly even a decline, of both total output and yields per acre.

It was reported some time ago that, according to a sample survey conducted by the National Sample Survey in the community project areas, the agricultural output in these areas had been found to have risen more than elsewhere. The details of this survey have not been published by the Government, and so it is difficult to judge the validity and significance of the results obtained. But whether they are valid or not, the point to consider is whether the increases in production in the community project areas have been in the nature of once-for-all increases registered in 1954-55 or whether there is evident a trend of rising production. Otherwise, the larger increases in these areas may only be reflecting the fact that the areas initially selected for intensive development were the better and more fertile ones in the country.

The reason for our making these two observations in this context is two-fold. Firstly, if the output of foodgrains has not gone up to the extent indicated by the available statistics, a decline in output by one or two million tons per annum, of the kind which appears to have taken place in 1955-56 and 1956-57 compared to 1954-55, must be expected to have a greater impact on foodgrain prices than would otherwise be the case. And secondly, if a trend of rising production has not been conclusively established, it would be clearly dangerous to rely on increases in output alone, over the next two or three years, to counter the present tendencies in regard to foodgrain prices.

III

We shall now turn to the demand for foodgrains. About this we have a little more to say. On general grounds, one can infer that the demand for foodgrains must have increased substantially over the last two or three years, and that it should be expected to rise further over the period of the Second Plan. But the questions to ask really are by how much the demand is likely to have increased, and what precisely are the factors which determine the rate of growth of this demand.

We have no precise answer to offer to the first, but we would submit that the estimates of additional demand which are sometimes attempted (both for the period of the First Plan and for the period of the Second Plan) are based on wrong permises and fallacious reasoning. Thus, from the information that has been available to us regarding the method of estimation of additional consumer demand in the Plan Frame for the Second Five Year Plan, it would seem that the basic, underlying assumption is that the rate of growth of consumer demand would be governed by the rate of growth of real income. Accordingly, if the total national output is expected to increase by a certain amount, as a result of the planned investments, the additional demand that is likely to develop for a particular commodity (or commodities) in ties) is estimated by applying to the increases in real income the income elasticity of demand for the commodity (or commodities) in question.

This method of estimation is totally inappropriate in a period of rising investment expenditures. For the growth in demand for consumer goods, under these conditions, is determined not by the growth in real income but by the growth in money income consequent on the higher investment outlays. In other words, it is not the famous Say's Law (which says that supply creates its own demand) that is determined not by the growth in relevant in this context but the Keynesian multiplier theory which links up increases in consumer demand with increases in investment expenditure.

The application of Keynesian multiplier analysis to the estimation of consumer demand under dynamic conditions is, however, by no means easy. In the first place, we have to isolate the factors, other than investment expenditures, which are subject to autonomous changes (e g, exports, Government consumption expenditure, etc). Secondly, having fixed the factors which should go into the multiplicand, it is necessary to have some idea of the marginal propensities to consume and of the time-lags in the multiplier process; we have also to isolate the points, and stages, at which leakages (other than those through savings) take place in the multiplier process (e g, imports, tax payments to Government, etc). Thirdly, we have to allow for a factor which was not taken into account in the formulation of the Keynesian multiplier theory, namely the effect of short period price changes on the marginal propensities to consume (in terms of money income) and, through them, of total consumer outlay. Still another factor not taken into account in the Keynesian multiplier analysis, but which needs to be brought in for sake of completeness, is the likely effect of shifts in asset holdings on consumer demand; this is likely to be important particularly in periods of latent inflation.

A great deal of work, both analytical and inductive, would need to be done before an attempt can be made along these lines to estimate the trends in consumer demand under conditions of rising investment expenditure. Into the problems that would arise in this connection we do not wish to go in this memorandum. What we would, however, like to emphasise is that (1) when there are time-lags in the working of the multiplier process, the effect of an increase in investment expenditure on incomes and consumer demand will not be exhausted in that year but will spill over into the succeeding years as well; (2) when the level of investment expenditure is being stepped up from year to year, the growth of consumer demand will be cumulative; and (3) if the price elasticity of demand for consumer goods as a whole (or for any particular consumer goods) is less than one,

the effect of a short period rise in prices will be to raise the marginal propensities to consume in terms of money income, and make the multiplier larger than would otherwise be the case.

Without going into all the complex considerations which would have to be taken into account in attempting a quantitative estimate of the growth in consumer demand over the period of the First or the Second Five Year Plan, we give below, in Table I, a highly simplified model to illustrate the way in which consumer demand is likely to have increased over the period, 1951-56.

Over this period, the total expenditure of the Central and State Governments rose from a level of Rs 960 crores in 1950-51 to Rs 1687 crores in 1955-56; a part of these expenditures was incurred abroad, which, when deducted, gives us the increases in the domestic expenditure of the Government. *Exports* from the country did not increase substantially over these five years, but they fluctuated very much from year to year. We have taken, for the purposes of our model, the increases in Government domestic expenditure and the increases in the value of exports, added together, as the multiplicands in each of the years. We have left out the effect of short period price changes on the working of the money income multiplier, as well as the effect of shifts in asset preferences, and assumed a constant marginal propensity to consume of 0.9. For estimating the increases in demand generated each year (the multiplicand, in these estimates, has been arrived at as shown in Table I) and the extent to which the multiplier effect gets spilled over into succeeding years, we have assumed that there takes place, in the course of a year, only three rounds of expenditure and income generation.

Even on the assumptions outlined above, we must note, consumer demand will not have grown to the extent indicated in the above table for the reason that we have not taken into account the leakages, other than through savings, in the multiplier process. In some of these years, there were substantial increases in imports, which must have had the effect of exporting the multiplier effects and reducing domestic expenditures and incomes generated within the country.

If we bear this in mind, and match the above estimates of the increases in demand against the increases in domestic output, over their respective levels in 1950-51, we would find a fairly plausible explanation of the price movements that took place during the period of the First Plan. According to national income estimates, the total output of the country (valued at 1948-49 prices) went up by only Rs 250 crores in 1951-52, and Rs 610 crores in 1952-53, compared to its level in 1950-51; but there was a sharp rise in 1953-54 and 1954-55, when the total output was higher than in 1950-51 by Rs 1190 crores and Rs 1320 crores respectively. Since the increases in domestic output were tending to be greater than the increases in consumer demand after 1951-52, there was set afoot a downward movement of prices, and this movement was arrested only towards the end of 1954-55, by when the increases in demand generated by the rising investment outlays overtook the increases in domestic output.

The above model, as emphasised earlier, is meant only to illustrate some of the important factors which we need to take into account in estimating increases in consumer demand and in assessing the likely tendencies in regard to prices of consumer goods. We do not wish to claim anything more for these estimates. But it would seem to follow that, if the likely increases in consumer demand over the period of the Second Five Year Plan are estimated with reference to the above factors, along the lines indicated above, the increases in supply visualised in the Plan (even if they are realised) will be found to be inadequate by themselves to maintain prices stable during this period. This, we believe, will be particularly true in the case of foodgrains, since they form an important part of consumer outlay in this country.

In support of the above statement, we would advance the following further considerations:

(a) The rate of investment expenditure in the economy was raised by only about Rs 300 crores over the period of the First Plan (i e, from Rs 450 crores in 1951-52 to about Rs 750 crores in 1955-56), but it is now proposed to be stepped up by no less than Rs 750 crores (i e, to around Rs 1500 crores by 1960-61). Part of this increase is, of course, to be sustained by foreign aid, but the amount of foreign aid visualised for 1960-61, we must remember, is only about Rs 150 crores. The increase in the rate of domestic investment expenditure will be, therefore, roughly twice as much as during the period of the First Plan. At the same time, the increase in foodgrains output planned for, during the Second Plan period, is only about 10 million tons according to the original targets, and 20.5 million tons according to the revised targets; this has to be compared with the reported increase of 11 million tons over the First Plan period.

(b) When the supply of foodgrains increases faster than the demand for foodgrains, the terms of trade tend to move against the rural sector, and this has the further effect of reducing the marginal propensities to consume and slowing down the working of the multiplier. This was what happened towards the middle of the First Plan period. But when the demand for foodgrains increased faster than their supply, as seems inevitable during the Second Plan period, the rise in foodgrain prices will increase rural incomes, raise the marginal propensities to consume, and accelerate the working of the multiplier.

(c) The bulk of the increase in Government expenditures in the first year of the Second Plan, i e, in 1956-57, compared to the level in 1955-56, appears to have been offset by the deficits in balance of payments incurred in the process of importing machinery and producer goods. Despite this, it required imports of 3 million tons of foodgrains to keep prices stable in the country during this period. This shows that (i) the increases in demand which became obvious during the first year of the Second Five Year Plan are not likely to have been increases generated by the additional Government expenditure during the year but increases due to the lagged cumulative effects of past expenditures; and (ii) if we cannot afford to increase the balance of payments deficits in the next two or three years at the same rate as the investment expenditures on the Second Plan, the consequent increase in domestic outlays will necessarily have the effect of causing a further cumulative growth of consumer demand; if, in these circumstances, foodgrain prices are sought to be kept stable without the help of physical controls, this would necessitate larger imports of food, and aggravate further the balance of payments difficulties of the country.

(To be Continued)

Table II—Increase in Demand Generated over the Level in 1950-51
(Rs Crores)

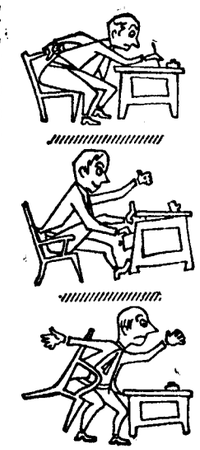
	1951-52	1952-53	1953-54	1954-55	1955-56
1951-52	+ 260	+ 187	+ 133	+ 95	+ 65
1952-53	—	+ 116	+ 83	+ 57	+ 38
1953-54	—	—	+ 63	+ 43	+ 28
1954-55	—	—	—	+ 1296	+ 943
1955-56	—	—	—	—	+ 1875
	+ 260	+ 303	+ 279	+ 1491	+ 2949

Table I—A Simplified Model Showing Increases in Consumer Demand 1951-1956
(Rs Crores)

	Total Govt Expenditure	Govt Expenditure Abroad	Change in Domestic Expenditure by Govt. over 1950-55 level	Total Receipts from Exports	Receipts of Govt from export Duties	Change in Receipts of the Public from Exports compared to 1950-51	Multiplicand (3-6)
1950-51	960	190	—	647	47	—	—
1951-52	1140	313	+ 57	730	91	+ 39	96
1952-53	1076	209	+ 97	602	56	— 54	43
1953-54	1122	150	+ 122	540	39	— 99	23
1954-55	1389	176	+ 415	597	41	+ 63	478
1955-56	1687	151	+ 688	641	37	+ 04	692

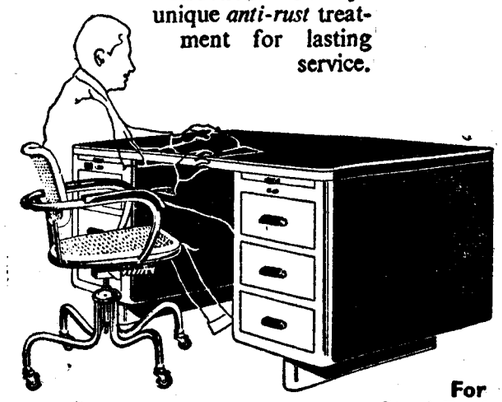


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Population Policy of China

The Background

Subhash Chandra Sarker

UNTIL recently, estimates of China's population were mostly guessworks, not infrequently contradicting one another. Most sinologists, however, agree that the growth of China's population followed a cyclical pattern for about fifteen hundred years during which it paralleled the rise and fall of dynasties. In periods of relative peace and stability the numbers grew, while in periods of turbulence and natural disaster the numbers declined. This process led to a doubling of the population of China between the seventeenth and nineteenth centuries. It rose from about 112 million in 1685 to 300 million in 1872. Since then the history has been one of steady growth in numbers, and by 1940 China's population came to be generally estimated at more than 450 millions. At the time of the Communist victory in China in 1949, the population figure used to be generally quoted as 475 millions.

The first systematic census of the population of China, conducted under the aegis of the Communist Government in 1953, belied almost all the earlier estimates by disclosing that China's population had grown beyond six hundred million. Some observers from the West, notably Mr Colin Clark have questioned the correctness of the figures released by the Communists. The great majority of the observers however accept the figure as reliable. The Census of 1953 put the figure of total Chinese population at about 601 million including 12 million overseas Chinese and about seven million living in Formosa. The Census however was quite restricted in scope and did not therefore disclose all the required data which would throw light on the nature and growth of population in China.

Favourable Composition —Age and Sex

The population of China is relatively youthful. According to Professor Ta Chen, the noted Chinese authority on demography, the working people in China constituted 53.5 per cent of the total population in 1946—a proportion higher than in any other country of the world. According to Mr Pai Chien-hua, the Communist Census Commissioner, in 1953 infants constituted 15.6 per cent, children in the age group 5 to 9 years 11 per cent and those in the age group of 10 to 17 years 14.5 per cent of China's total population. From these figures Professor Yuan-li Won, an authority on China's communist economy, has estimated that in 1954 China's working population represented 58.9 per cent of the total population. The age composition of the people would tend to conform the view that China's population was still in the first half of the cycle and would encounter much growth in the coming years.

A test survey of 30,180,000 people in 1953 in which the urban population had a slight preponderance—disclosed that China's population was growing annually by two per cent—the rate of births being 37 per thousand, and that of deaths being 17 per thousand. The sex ratio is 107.5 males for 100 females on the average. About 80 per cent of the 582,603,417 people of mainland China live in villages. Of the city dwellers 45 million live in cities with more than 50,000 people about 10 million in cities with a population between 25,000 and 50,000. The rest live in smaller cities

Prospect of Increasing Pressure

The urban-rural ratio of the Chinese population together with the age composition suggests, among other things, the prospect of a steady increase in population. In the case of China (as in India), however, it is not so much the rate of growth of population as the addition of absolute numbers that presents the crux of the problem. This is another way of saying that China is already suffering from relative over-population. Well it is, and the Chinese Communist authorities themselves admit that. According to one Chinese Communist expert the Chinese economy can somehow support fifty crores of people, but actually there are already about 65 crores (bringing the figure up-to-date on the basis of a two per cent annual growth). At the existing rate of increase China's population would be doubled within the next twentyfive years when it would reach the colossal figure of one hundred and twentysix crores. By the turn of the century China's population would almost equal the world's present total.

Communists' Awareness

To assure a living standard to such increasing population is a formidable task indeed. The problem was underlined in Premier Chou En-lai's speech to the 4th session of the National People's Congress (Parliament) of China when he said: "Ours is a country of 600 million people. If every purchasing power increases by one yuan per year, that means an increase of 600 million yuan for the country, and the State must provide additional 600 million yuan worth of consumer goods . . . the living standards of our 600 million people can only be improved gradually on the basis of increased production, and we must not demand too rapid an improvement." The acuteness of the problem—whether it is viewed from the point of population growth or of economic development or from both—is further brught out by the fact that about 10 to 15 per cent (50 to 75 million) of the peasants have neither enough food nor clothing and require state help for their very sustenance. The average income of a Chinese peasant is only 70 yuan (about Rs 80) per year.

Land-man Ratio

China is one of the world's largest countries covering an area of 3.76 million square miles. She is also the most populous country in the world. But her average population density is only 156 per square mile—almost half that of India and far less than in some of the countries of Western Europe, with much greater per capita income. Though China is nearly three times the size of India the cultivated land per person in China (0.58 acre) is lower than in India. (0.83 acre). From this one may

tend to conclude that China has vast scope for increasing agricultural population by reclaiming new lands. Yet, despite the fact that only ten per cent of the land in China has been brought under cultivation (against 15 per cent in Japan, 18 per cent in the U S A, 30 per cent in the U K and 35 per cent in India-Pakistan), on all accounts there is not much scope for opening out new agricultural lands. During the centuries the Chinese people have concentrated in particular regions and despite heavy congestion found no scope for new settlement in China. In a country suffering from chronic food shortage (between 108 B C and A D 1911, 1828 famines occurred in China) an industrious people such as the Chinese are, would not have remained idle if suitable cultivable lands were available. As a matter of fact there has been no change in the pattern of settlement of the Chinese south of the Great Wall. In the whole of China, population increased by some 30 per cent between 1873 and 1933, but the farm acreage increased by only one per cent. The Chinese Communist experts also underline the difficulty of expanding the acreage and further point out that even with the addition of virgin lands wherever it is possible agricultural production could not be increased sufficiently so as to provide for the increasing population. While considerable progress has been made in increasing agricultural and industrial production in China, the impact of such increase on the standard of living of the people could not have been but insignificant. At the present rate of the growth of the national economy China cannot provide new employment to more than one million workers, while to provide for the growth of the population at the present rate, she has to create thirteen to fifteen million jobs every year—which is clearly beyond her capacity.

Population Control Measures

It is no wonder then that the Chinese Communist leaders realised the necessity of adopting a policy of population control soon after the completion of the Census in 1953. In that very year the Chinese Communist Party adopted a policy of promoting birth control as a measure to check population growth—though characteristically the decision was not made public for a long time to come. After the adoption of the policy of birth control for China by the Communist Party of China, it became one of the "political tasks" of the Party members to encourage birth control by all means. The Government withdrew restrictions on abortion and on the manufacture and sale of contraceptives. Hospitals and medical clinics were instructed to offer all possible help regarding birth control. The Government also called for a modification of the Marriage Law by enhancing the minimum age of marriage.

The goal of the Chinese policy, writes Professor Wu Ching-Chao in an article in the March 3, 1957 issue of the New Constitution, is to reduce the present birth rate of 3.7 per cent to 1.7 per cent, and the death rate of 1.7 per cent to 1.2 per cent, thus to restrict the growth of population to 0.5 per cent per annum, i e to 25 per cent of the present rate. The objective aimed at is certainly very impressive. It is however doubtful if the Government of China will be able to make much headway with the help of the measures which are publicly stated to have been taken in this direction. Japan has not succeeded in checking her rate of growth of population with the help of similar measures. We in India would watch with considerable interest the advances made in this field in China because the problem of overpopulation is quite serious in India as well. The general belief among population experts is that appreciable results in this direction depend upon the evolution of social institutions and personal aspirations conducive to natural fall in the birth rate—a task obviously difficult of achievement over a short period. A significant fall in the birth rate cannot therefore be expected before considerable progress is achieved in economic and cultural fields. But if China succeeds in bringing down her birth rate, and therefore the rate of growth of the population it will be a great achievement more so if the Government does not have to adopt coercive and other non-democratic methods for the purpose.

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From the Chair

The Jay Engineering Works Limited

Speech of the Chairman Sir Shri Ram

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 October 16, 1957:—

Gentlemen,

The Balance Sheet and Profit & Loss Account and the Directors' Report have been in your hands for some time and with your permission I will take them as read.

The year under report was one of steady progress as in the past, which is evident from certain figures given in the table below.

As mentioned last year, we have been able to put on the market a Table Fan for Rs. 65|- and a Ceiling Fan for Rs. 105|-.

We are continuously making efforts to improve the quality and reduce the costs of our products and with success.

The erection of the factory at Bansdhani of which I made a mention last year, has been completed, and most of the Fan Section has been shifted to the new factory and is running satisfactorily. I can say with some pride, that it is one of the best laid out factories in the country.

The Needle Plant was put up during the year under report, and its production is steadily going up. The quality is absolutely satisfactory.

I am glad to say that we have been able to produce a satisfactory Heavy Industrial Machine also and we hope the same will go in production by early next year, and thus we will be meeting the country's needs in yet another class of Sewing Machines.

We are also making efforts to design Zig-Zag type of Sewing Machine, and we hope to succeed in this effort soon.

The difficulty for obtaining various raw-materials, particularly Steel, Pig Iron and Hard Coke is greater now than what it was last year.

I am glad that the Government of India have, to some extent, made it easier to get draw-back on goods exported, and will also supply a certain quantity of Steel at controlled rate on the basis of goods exported.

Foreign Exchange

Last year I drew the attention of brother industrialists, to the importance and necessity of taking steps towards increasing exports, and earning foreign exchange. The position has not improved, and we all know the difficult foreign exchange position in which the country finds itself today, and I feel that Indian Industry as a whole owes a duty to the country in this hour of need.

Indian Industry has arrived at its present stage of expansion and development, as a result of various reasons—the Swadeshi Movement of 1905, the spirit of Swadeshi as manifested in the boycott of foreign goods, the protection given from time to time to industries, due to the pressure of the nationalist movement, and more recently, the restriction of imports of manufactured goods.

It is true that private industry has expanded very considerably, **and has exceeded its quota of performance during the first Five-Year Plan.** Probably, this will be repeated during the Second Plan as well.

It is also true that the rate of contribution towards the increase in national income is higher, in the case of industry, than it has been in any other major sector of economy.

It is also creditable that the prices of industrial products have increased at a lower rate, as compared to either food products, or industrial raw-materials, as may be seen below:—

	Rise in Price Index between Oct. 1955—Sept. 1957
1. Food Products	+ 29.2%
2. Industrial Raw Materials	+ 21.6%
3. Manufactures	+ 9.9%

This, it might be emphasised, has been so in spite of sizable additional burdens, on account of various excise duties, or increases in excise duties levied recently, and sales taxes, etc., etc.

Nonetheless, in these difficult times, attainment of targets—even exceeding of targets—and maintenance of lower and stabler price levels are not enough in themselves. Indian industry owes more than this to the country, at this difficult time. I am convinced that if we fully make up our minds, and make determined and sincere and honest efforts, Indian industry can export goods of the additional value of about Rs 50 Crores a year.

I realise that there are difficulties in the way, and that often the return in foreign markets is much smaller than the return from sales within the country. But this is not the time for industry to concentrate on its immediate gains, or on its self-centered purposes.

I am glad that in this connection the Export Promotion Board recently set up, has made some valuable suggestions. I hope that the various Ministries will take early action, and implement the suggestions.

Cooperative Effort

So far as the industry itself is concerned, they could very well join, on a voluntary basis, in a cooperative effort at propaganda and publicity, development, study of markets, inspection of goods prior to export, and take such other steps as would help in exporting larger volumes than has been the case in the past. It is equally important that those who are not exporters at all today, should also take part in the drive towards attaining greater exports.

Naturally, the greater responsibility in this matter would attach to the bigger industries. The case of the Cotton Textile Industry, faced with huge stocks and poor demand, comes readily to my mind. It is tragic that in the largest Indian industry, there should be talk today about closing down factories, or reducing shifts when greater and greater production is necessary in the national interest. Besides Cotton Textiles, Rayon Weaving factories, Sugar Mills, Vanaspati factories, and various Engineering Industries like, Bicycles, Sewing Machines, Fans and many others could join hands for achieving larger exports in this time of the country's need.

On our part, I am glad to state that the Directors of The Jay Engineering Works have made up their mind, to steadily increase their exports and thus earn, in whatever measure they can, additional foreign exchange for the country.

And I hope that my friends in various industries will forgive my presumption in giving this advice to them.

Last year I closed my remarks by expressing the hope that it will be possible for us to give better account of the working of the year under report, and I am glad to say that due to the efforts and hard work put in by my colleagues at all stages, right from Mr. B. S. Agarwal & Mr. T. R. Gupta to the juniormost worker, the results are quite satisfactory for which I am extremely grateful to them.

Particulars	Year ending 31-3-1956	Year ending 31-3-1957
Sales	Rs. 3,05,31,764	Rs. 3,89,49,999
Profit before providing for Taxation	27,26,497	35,76,491
Number of Workers	2934 Nos.	3506 Nos.
Number of Usha Schools	150 ,,	196 ,,
Number of Students in Schools	11,000 ,,	15,000 ,,

New Members of IBRD

Four new members joined IBRD during the quarter July|September 1957. They were Ireland with a capital subscription of $ 30 million; Ghana with $ 15 million; Saudi Arabia with $ 10 million and the Sudan with $ 10 million. This brought the Bank's membership to 64 countries and total subscribed capital to $ 9,333.4 million. Applications for membership were also approved in September from four additional countries Libya, Malaya, Morocco and Tunisia.

During the quarter ended September 30, the World Bank lent a larger sum than in any quarter since it began lending for development. The 11 loans, amounting to $ 214.3 million signed during the quarter brought the gross total lent by the Bank to $ 3,322 million in 45 countries and territories. The major loans given were as follows—Belgium ($ 10 mn), India ($ 90 mn), Thailand ($ 66 mn), Japan ($ 7 mn), Ecuador ($ 19.5 mn), Chile ($ 21.3 mn).

The Bank was able to add to its lending funds by borrowing $ 175 million in U S dollars during the quarter from the central bank of West Germany. This sum consisted of two loans, both repayable over the next four years.



Company Notes

Great Eastern Shipping

THE year ending June 30, 1957 was one of achievement for the Great Eastern Shipping. By following the policy of trading old time chartered vessels on the coast as substitutes for better owned vessels which were employed in the overseas tramp trade, the Company was able to increase its freight and charter hire earnings from Rs 211.51 lakhs to Rs 363.03 lakhs, i e, by about 75 per cent. This the company could achieve in spite of the fact that for fairly long periods it was not possible for the Company to time-charter its own tonnage at favourable rate because of Government restrictions. Correspondingly gross profit before providing for depreciation and Managing Agents' commission rose from Rs 46.40 lakhs to Rs 102.33 lakhs and the net profit amounted to Rs 67.62 lakhs as against Rs 24.95 lakhs during the previous year. No tax liability arose during the current year because of the carry forward of depreciation allowances for previous years and depreciation allowance and development rebate for the year.

In spite of the sharp increase in profits, the Company has proposed to maintain the dividend equity capital at 15 per cent after paying the 5½ per cent dividend on preference shares. The Directors have proposed an allocation of Rs 11.59 lakhs to the Reserve for Deferred Taxation as against none last year raising thereby the total amount in this Reserve to Rs 50 lakhs. The General Reserve has also been strengthened by the allocation of Rs 46 lakhs, (the allocation last year was Rs 15 lakhs) its total rising therefore to Rs 76 lakhs. The Fleet Replacement Reserve has remained unchanged at Rs 11.18 lakhs. Total reserves other than Depreciation Reserve amounting to Rs 85.1 lakhs have thus been raised from Rs 79.59 lakhs to Rs 137.18 lakhs during the year under review.

In pursuance of its programme of fleet expansion the Company acquired a 1944-built second hand ship "Chepman" (being renamed "Jag Janam") at a cost of about Rs 41 lakhs and a Japanese manufactured ship named "Jag Laxmi" at a cost of about Rs 118 lakhs. The "Jag Laxmi" is stated to be the largest ship on the Indian registry. The fleet now consists of ten ships with a deadweight tonnage of 84,291. Two ships are on order: one from Hindustan Shipyard for delivery by the end of 1958 and the other from a German Shipyard for delivery by the middle of 1959.

Rohtas Industries

FOR the Rohtas industries, the year ending October 1956 was one of progress. In spite of a strike lasting 30 days the Company has been able to achieve increases in output in every one of its products, Paper and Boards, Cement, Power, Caustic Soda, Asbestos Cement and Sugar. The Company also increased its profits from 83.77 lakhs to Rs 85.19 lakhs and maintained its dividend on ordinary shares at 15 per per cent for the third year in succession after paying the normal dividends on cumulative preference shares. Because of this high rate of dividend, however, the appropriation to reserve funds was only of the order of Rs 5 lakhs. Still the Company's reserves other than Depreciation Reserve amounted to Rs 1.8 crores as at the end of the year. Whether this indicates that companies with huge accumulated reserves tend to distribute more of their profits than companies with smaller reserves may not, however, be a generally valid conclusion.

The programme for the modernisation and expansion of the Company's works and the reorganisation of the town under its control, which has been under way for some time, was completed during the year. The total expenditure on this programme has worked out to nearly Rs 5½ crores. Presumably, it was to help meet part of this outlay that the Company was given a loan totalling Rs 80 lakhs by the Industrial Finance Corporation.

Tata Chemicals

TATA Chemicals Ltd is one of the leading chemical producers in the country, and therefore the progress it makes is of interest to the country. The year 1956-57 was one of steady progress for the Company, registering increases in output of all its products, viz, soda ash, sodium bicarbonate, caustic soda, benzene hexachloride, magnesium sulphate and ethylene dibromide. The last named is one of the new products manufactured from bromine and was introduced in the market for the first time. The extension of the Company's bromine plant was completed in March, 1957 and the year 1957-58 is expected to witness therefore a further increase in output.

Also, the Company has programmed for the expansion of its soda ash, caustic soda and sodium bicarbonate plants involving a capital outlay of Rs 376 lakhs. The project has been approved by the Government. It is now proposed to raise a part of the finance needed for the projected expansion in the form of equity capital. The proposal is to increase the authorised capital of the Company from Rs 5 crores to Rs 10 crores by the creation of 25 lakhs ordinary shares of Rs 10 each and 25 lakhs unclassified shares of Rs 10 each. Of these, the Company directors suggest an immediate issue of 11,20,000 ordinary shares, to be offered at par to the existing ordinary shareholders in the ratio of 4 new to 5 existing ordinary shares.

As for the financial results of the operations during the year 1956-57, the Company has done better than in the previous years. Gross profits recorded an increase of about 25 per cent over the last year's figure. The net profit after providing for depreciation (Rs 26.6 lakhs as against 25 lakhs last year) and taxes (Rs 7.9 lakhs as against none last year) works out to Rs 16.9 lakhs which is about 4 per cent higher than in 1955-56. It is proposed to declare an 8 per cent dividend on ordinary shares, which together with a 5 per cent on preference shares will absorb Rs 14.19 lakhs. The allocation to the general reserves of the Company therefore is relatively small.

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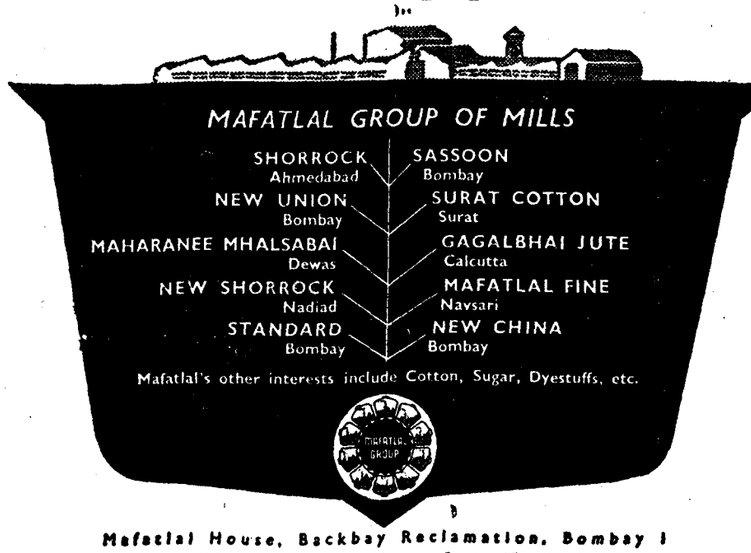
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Around Bombay Markets

Listless Divali Trading

Thursday, Morning

THE turn of the commercial year has been characterised by listless trading, with a weak undertone imparted by disappointment over the Government's refusal so far to lower the excise duty on cloth. New India, Ahmedabad Electric and Shipping shares constituted the only bright patches on the practical confirmation of their bonus and/or higher dividend expectations. Steels lacked enquiry, with Tata Steel sliding down over the week from Rs 163 to Rs 161, and Banks turned lower after a long time on profit-taking, brought on by yield considerations. The reason underlying this general listlessness is the considerable uncertainty about the future. The Finance Minister is returning home with little more than deferred credit from West Germany, which will no doubt help our heavy industry plants but cannot increase our liquid foreign reserves; at best, it can only ease the pressure on them by lengthening the period of loan repayments. Like tied loans under P L 480 from the U S, the display of enlightened self-interest by West Germany does not provide any cause for jubilation, particularly when foreign exchange reserves are touching the statutory bottom.

However, the cutting down of the Plan had been discounted by Dalal Street even before T T K left on his foreign tour and his explicit statements in recent weeks have, therefore, not come as a surprise. What the operators now await with bated breath is the post-tour performance of T T K. An influential section expects him to sober down in his attitude towards the capital market, if not to seek charity at home after failing to secure it abroad. The fact that Shri Birla's reminiscences of his delegation's tour are much happier than T T K's will, it is hoped, have a salutary influence on Government policy towards the private sector in the Second Plan. The generous pat on the back bestowed on the Finance Minister by Shri Birla in London might help soothe the tempers mutually ruffled by the Budget. But the formulation of policy changes may take nearly as long as the negotiation of external loans, and, in the meanwhile, the money market has begun to tighten in anticipation of exchange banks' borrowing, and the drain on external reserves appears to have been intensified, at least temporarily. Bitten sharply in the recent past, Dalal Street, therefore, displayed little more than formal interest in **moorat** trading on Divali.

The U S Export-Import Bank has granted a loan of $1.8 mn to the National Rayon Corporation for the setting up of a rayon tyre card plant. This is the third loan received by an Indian firm from the Bank and brings up the total lent by it to India so far to $2.13 mn.

External Drain Increases

The trend towards relaxation of the pressure on foreign exchange reserves which had been noticeable since August seems to have been reversed. During the week ending October 18, the reserves declined by Rs 11.70 crores, of which Rs 9.94 crores is accounted for by contraction of Foreign Securities in the Issue Department. This steep decline following soon after the depreciation caused by raising of Bank Rate in London, may not all be due to deficit on current payments. A significant proportion may be attributable to some repatriation of funds to take advantage of higher interest rates in London, together with, perhaps, a return of some speculative balances from rupees to sterling now that fears of the latter's devaluation have receded almost completely. If the latter turns out to be of significant magnitude, the slowing down of the external drain noticed before the rise in Bank Rate may prove to have been at least partly speculative, masking to some extent the actual deficit in current payments during those months.

During the same week, Government deposits have gone down on the whole by Rs 1 crore while its borrowings from the Reserve Bank have gone up by Rs 14 crores. Bankers' deposits, on the other hand, have expanded by Rs 10 crores to cancel out the previous week's decline, while loans to them have gone down further by Rs 4.5 crores, of which Rs 2 crores are accounted by advances against usuance bills. Notes in circulation have contracted by Rs 10 crores.

Scheduled bank credit has expanded further by Rs 5.5 crores to Rs 852.61 crores during the week ending October 11, despite almost no change at the State Bank. Net total deposit liabilities are higher by Rs 4 crores, after allowing for a decline of Rs 2 crores in time deposits, but actually this has been made possible only by an expansion of nearly Rs 5.5 crores in the State Bank's total deposits. Pressure on liquidity is indicated by the decline of Rs 10.66 crores in cash balances and of nearly Rs 2 crores in call and short loans; of these, the State Bank accounts for Rs 7 crores and nil, respectively. While the bank's gilt-edged portfolio remains practically unaltered, there is a curious rise of Rs 12 crores in the State Bank's 'Other Assets (including inter-office adjustments)'. Another transfer of gilt-edged from the Reserve Bank to the State Bank is obviously in the process of completion. Even then the State Bank's cash ratio stands at 11.4 per cent against 9.54 per cent for scheduled banks as a whole, while the respective statutory liquidity ratios are about 51 per cent and 39 per cent, respectively.

Cotton

Erratic Movements

PRICE movements at Kalbadevi during the last week have been almost entirely speculative, with mills shying away from specific delivery contracts on account of cloth accumulation, financial difficulties and excise uncertainty. Mills can hardly be expected to finalise their cotton purchase programme so long as the structure of excise duties on various categories of cloth continues to be so uncertain as it is. They would perhaps like to weave more medium cloth if the burden of excise on it were to be readjusted suitably.

Earlier in the week, tension on the Turko-Syrian border led to bear covering, which was, intensified by reports of some revival of activity at Moolji Jetha market and rumours of lower excise duty on cloth. The end of the week, however, witnessed heavy unloading.

Oilseeds

Seeds Decline

THE oilseeds market has been influenced during the week by fears of intervention on the part of the Forward Markets Commission, particularly in Saurashtra markets where teji options have been applied in recent weeks with great enthusiasm. Reports of rains in castor growing tracts also had a depressing effect. As a result, Groundnut February which had moved up from Rs 156.87 to Rs 159.00 came down to Rs 156.37 at the end of the week, while Castor May eased from Rs 154.25 to Rs 152.25.

Bullion

Enthusiasm Lacking

THE precious metals have shown divergent trends during the last few weeks. Silver has been persistently easy on account of heavy imports of Tibetan coins while gold has moved up on firm spot support which, however, has not come up to the preceding Divali level. Over the week, gold gained nearly a rupee while silver barely managd to scrape up four annas, and that too towards the end. The yellow metal appears to have received some attention from those who had to turn away from the dull **moorat** session at Dalal Street.

CONTROL OF CAPITAL ISSUES

During the quarter (April - June, 1957) 61 applications involving a sum of Rs. 31.12 crores have been consented to by the Controller of Capital Issues. As against this 81 applications for an amount of Rs 31.61 crores were agreed to in the preceding quarter (January-March, 1957) and 58 applications aggregating Rs 43.61 crores in the corresponding quarter (April-June, 1956).

Number of refusals during the quarter under review comes to 67 for an amount of Rs 17.95 crores comparing with 35 involving a sum of Rs 3.82 crores in the preceding quarter and 12 for Rs 11.99 crores in the corresponding quarters. Of the total amount agreed to, the Industrial Group claimed 80.8 per cent followed by Non-Industrial group (18.7 per cent) and Agriculture and Allied Activities (0.5 per cent).

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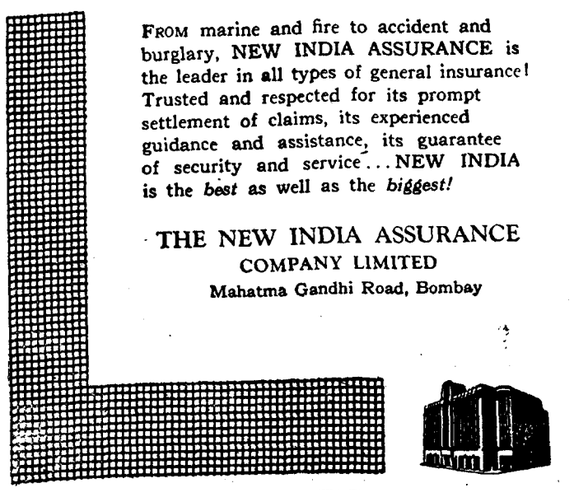
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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1493.19	1487.47	1480.31	1438.28
2. Rupee Coin	133.66	134.21	133.11	119.40
3. Deposits				
a) Central Government's	53.84	51.31	52.86	55.44
b) Banks'	90.61	94.15	104.60	48.58
c) Other Governments	3.61	10.14	6.16	4.70
d) Others'	111.25	110.48	109.95	12.73
4. Foreign Securities	321.65	326.62	345.61	526.80
5. Balances held abroad	20.55	18.64	28.23	73.76
6. Rupee Securities	940.84	935.87	916.87	685.91
7. Investments	215.90	215.86	223.14	54.88
8. Loans and advances to Governments	51.27	44.7 7	4.50	4.48
9. Other loans and advances	73.50	78.65	63.74	92.28
Scheduled Banks				
1. Demand liabilities (net)	723.18	719.66	714.55	635.68
2. Time Liabilities	626.50	619.54	601.66	454.29
3. Cash on hand	42.55	36.74	37.81	37.52
3. Borrowings from Reserve Bank	42.11	37.20	30.51	65.71
of which against Usance Bills	32.42	30.86	28.85	38.20
5. Advances and Bills discounted	796.20	787.30	793.47	712.38
of which State Bank's	161.38	156.75	158.42	131.36
6. Invst. in Govt. Sec.	385.93	386.27	365.90	374.66
of which State Bank's	151.97	151.98	135.20	107.86
Cheque Clearance	87.35	157.97	127.39	57.60

† For Reserve Bank week ended 11-10-57. Scheduled Banks and Cheque Clearance week ended 4-10-57.

Bombay Money Rates

	4-10-57	27-9-57	6-9-57	5-7-57
Call Money	$2\frac{1}{4}$-$4\frac{7}{16}$	$2\frac{1}{4}$-$4\frac{7}{16}$	$3\frac{1}{2}$-$4\frac{1}{4}$	$3\frac{1}{4}$-$4\frac{1}{8}$
From banks	$3\frac{1}{2}$-$4\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{9}{16}$	$3\frac{3}{4}$-$4\frac{9}{16}$	4-$4\frac{7}{16}$
From public	$2\frac{1}{4}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{9}{16}$	$2\frac{1}{2}$-$4\frac{7}{16}$	3-$4\frac{1}{16}$
Three Months	$2\frac{1}{4}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{7}{16}$	2-$4\frac{7}{16}$	2-$4\frac{5}{16}$
Six Months	2-$4\frac{7}{16}$	2-$4\frac{7}{16}$	2-$4\frac{7}{16}$	2-$4\frac{5}{16}$

Bombay Bullion

(In Rupee and nP)

	17-10-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	106.62	107.00	107.69	103.65
Forward	106.81	107.25	107.78	103.40
Silver (per 100 tolas)				
Spot	181.75	183.75	182.44	173.06
Forward	182.37	184.56	183.19	173.00

INDUSTRIAL DISPUTES IN INDIA

Year/Month	Disputes	Workers involved	Working days lost
1953	772	466,607	3,382,608
1954	840	477,138	3,372,630
1955	1,166	527,767	5,697,848
1955:			
June	152	91,269	1,144,011
July	111	55,260	660,492
Aug	236	90,218	533,999
Sept	251	92,619	580,031
Oct	134	47,600	214,214
Nov	99	48,609	178,112
Dec	129	45,277	239,550
1956:			
Jan	107	61,050	349,655
Feb	122	69,450	786,768
Mar	146	133,188	678,716
April	140	83,524	569,087
May	137	65,037	549,582
June	153	71,047	484,439
July	150	100,335	529,151
Aug	138	64,767	2,173
Sept	184	130,667	922,685
Oct	150	113,404	819,619
Nov	138	59,451	499,636
Dec	145	65,851	407,166
1957:			
Jan	154	128,896	395,003
Feb	135	103,288	260,794
Mar	116	42,700	277,013
Apr	144	59,309	353,245
May	164	64,546	434,879
June†	131	85,124	649,314

† Provisional

Sources: Deputy Labour Commissioner, Govt of Bombay.
Labour Bureau, Delhi.

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 5-10-57	28-9-57	7-9-57	6-10-56
Food Articles	**107.1**	**107.1**	**109.6**	**103.1**
Cereals	102	102	104	97
Pulses	82	82	84	78
Fruits & Veg.	108	106	124	121
Milk and Ghee	108	107	110	101
Edible Oils	129	130	128	121
Fish, Eggs & Meat	97	99	104	96
Sugar & Gur	111	111	110	99
Others	127	127	132	131
Liquor and Tobacco	**94.3**	**94.3**	**92. 7**	**84.6**
Tobacco	93	93	91	83
Fuel, Power Light & Lubricants	**114.5**	**114.5**	**114.5**	**105.7**
Industrials Raw Materials	**114.1**	**114.9**	**115.2**	**115.7**
Fibres	113	115	114	115
Oilseeds	119	120	121	120
Minerals	109	109	110	103
Others	107	106	107	109
Manufactures	**108.7**	**108.7**	**108.5**	**108.8**
Intermediate Products	**106.7**	**107.5**	**106.9**	**110.3**
Finished Products	**109.0**	**108.9**	**108.7**	**108.5**
Textiles	108	108	108	112
Cotton	117	117	117	122
Jute	..	99	98	97
Woollen	103	103	103	97
Silk & Rayon	83	83	83	89
Metal Products	141	141	141	131
Chemicals	99	99	98	93
Oilcakes	118	116	111	113
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**108.6**	**108.7**	**109.9**	**106.4**

INDUSTRIAL PRODUCTION

		1957 July	June	May	Apr	Mar	Feb	Monthly Average 1956	1955	1954
I Consumer Goods:										
1) Cotton textiles	mn yds	458.9	419.6	453.0	464.4	453.1	435.1	442.3	424.5	416.5
2) Woollen and worsted fabrics	,,	1.4	1.2	1.2	1.1	1.1	1.0	1.4	1.2	1.1
3) Matches	000 cases	40.9	38.7	45.8	56.4	52.0	45.1	49.1	51.3	44.1
4) Soap	000 tons	—	8.4	9.0	10.1	9.4	9.2	9.1	8.2	7.3
5) Electric lamps	mn	3.0	—	2.8	2.9	2.9	2.3	2.1	1.6	1.6
6) Hurricane lanterns	000	—	377.3	363.8	362.2	524.2	372.8	431.6	457.3	415.6
7) Razor blades	mn	—	23.8	35.7	38.8	32.0	34.4	22.1	14.6	11.0
8) Sewing machines	000	—	12.3	14.4	15.1	14.7	13.2	10.9	8.4	6.7
9) Vegetable oil products	000 tons	—	25.7	26.8	25.4	27.9	25.0	24.9	21.3	21.7
10) Electric Fans	000	—	40.0	45.3	46.7	43.8	38.4	28.2	23.5	19.9
11) Radio Receivers	000	15.8	15.3	14.6	20.1	14.7	13.6	12.6	6.8	4.7
II Raw Materials or Intermediate Goods										
1) Cement	000 tons	—	393.1	448.4	456.4	491.6	427.7	410.7	373.9	366.1
2) Coal	mn tons	3.3	3.3	3.8	3.7	3.7	3.5	3.3	3.2	3.1
3) Jute manufactures	000 tons	85.9	80.1	87.3	86.8	84.7	80.2	91.1	85.6	77.3
4) Cotton yarn	mn lbs	150.2	137.0	150.0	153.7	150.5	143.2	139.3	135.9	130.1
5) Paper & paper board	000 tons	—	16.8	17.3	16.9	17.3	16.0	16.1	15.4	12.9
6) Asbestos cement sheets	,,	12.4	11.2	12.4	12.5	13.2	12.6	10.0	8.7	6.6
7) Chemicals:										
i) Sulphuric acid	000 tons	—	17.9	15.8	13.0	15.5	13.9	13.8	13.8	12.6
ii) Caustic soda	,,	3.1	—	3.3	2.6	3.8	3.3	3.3	2.9	2.4
iii) Soda Ash	,,	6.9	7.8	7.3	7.5	8.5	6.6	7.0	6.4	4.0
iv) Chlorine liquid	tons	1,178	1,270	1,257	1,246	1,426	1,343	1,256	965	815
v) Power Alcohol	000 gals	—	847.1	910.7	973.8	976.1	915.7	855.9	869.4	667.3
vi) Rectified Spirit	,,	—	366.3	300.1	442.2	496.1	447.6	350.8	429.7	385.9
vii) Denatured Spirit	,,	—	215.3	311.1	321.2	269.5	251.0	281.9	249.1	236.3
8) Paints & Varnishes	tons	—	2,743	3,543	3,612	3,295	3,347	3,467	3,253	3,068
9) Rubber Products										
i) Footwear	lakh pairs	32.6	24.2	25.0	30.9	28.6	27.9	30.1	29.1	26.0
ii) Tyres										
a) automobile	000	84.4	77.5	84.7	92.8	82.3	82.0	78.2	73.5	69.4
b) cycle	,,	611.0	590.1	615.5	668.3	565.2	586.4	526.7	479.0	435.5
iii) Tubes										
a) automobile	,,	86.4	81.2	84.7	84.8	82.0	77.5	76.5	65.5	62.4
b) cycle	,,	565.7	564.6	611.7	651.4	583.7	559.5	531.1	466.1	464.8
10) Non ferrous Metals:										
i) Copper (virgin)	tons	670.0	680.0	700.0	700.0	735.0	665.0	635.7	606.8	596.8
ii) Aluminium	,,	—	615.3	646.9	627.7	676.9	592.3	541.7	602.1	407.2
iii) Lead (virgin)	,,	264.4	280.5	181.7	276.2	235.5	243.5	208.1	186.2	149.0
iv) Antimony	,,	53.0	56.0	20.0	23.0	33.0	43.0	49.1	42.0	44.9
11) Iron & Steel:										
i) Pig iron	000 tons	—	133.7	145.1	145.8	158.3	145.4	150.6	146.4	149.4
ii) Steel ingots & castings	,,	—	129.4	136.4	145.1	149.8	135.4	144.8	142.0	140.4
iii) Semifinished steel	,,	—	102.8	118.4	121.1	130.7	118.5	123.7	121.4	121.0
iv) Finished steel	,,	—	101.4	110.8	111.7	116.9	103.7	109.7	105.0	103.6
III Capital Goods										
1) Diesel engines	nos	—	1,184	1,334	1,393	1,119	1,007	998	852	721
2) Power driven pumps	000	—	4.9	4.9	5.1	5.2	4.5	3.9	2.9	2.4
3) Machine tools	000 Rs	—	1,713.3	2,422.0	1,268.3	1,679.9	1,666.4	839.7	620.0	416.9
4) Twist drills	000	271.9	194.5	213.3	31.2	81.2	141.6	129.1	64.9	44.9
5) Calico looms	nos	219	217	259	255	239	273	239	228	157
6) Ring frames	,,	105	101	115	124	118	124	93	72	30
7) Carding engines	nos	101	79	48	63	92	79	61	50	36
8) Grinding wheels	000 lbs	—	299.2	305.9	292.3	293.0	261.3	207.6	119.9	94.5
9) Arc welding electrodes	lakh ft	180.5	164.2	212.1	201.9	180.4	153.3	156.3	100.8	72.5
10) Dry cells	lakhs	160.1	133.0	122.7	143.0	141.6	150.5	151.2	134.2	123.9
11) Storage batteries	000	27.2	24.5	25.9	26.6	27.6	26.3	26.2	19.6	15.7
12) Electric motors	000 HP	42.8	30.5	38.8	38.6	36.0	33.2	29.9	21.0	15.6
13) Power transformers	000 KVA	—	80.7	93.1	97.7	111.7	93.6	75.9	47.1	33.3
14) Insulated cables	lakh yds	—	97.3	77.8	87.0	90.2	83.2	88.0	71.8	52.3
IV Transport Equipment										
1) Automobiles (total)	nos	2,811	2,317	2,299	2,664	3,136	3,161	2,678	1,924	1,205
of which:										
i) Cars	,,	—	772	871	998	990	1,144	1,082	791	—
ii) Jeeps	,,	—	256	195	461	577	533	345	278	—
iii) Trucks & Buses:										
a) Petrol	,,	—	116	366	278	337	181	366	406	—
b) Diesel	,,	—	1,102	807	842	1,227	1,252	828	385	—
2) Bicycles	000	—	58.7	68.7	63.1	64.0	65.2	55.3	40.9	31.0

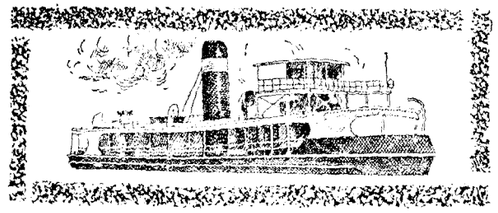
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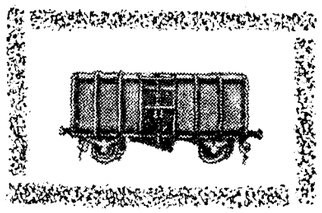
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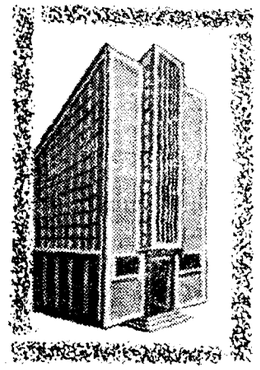
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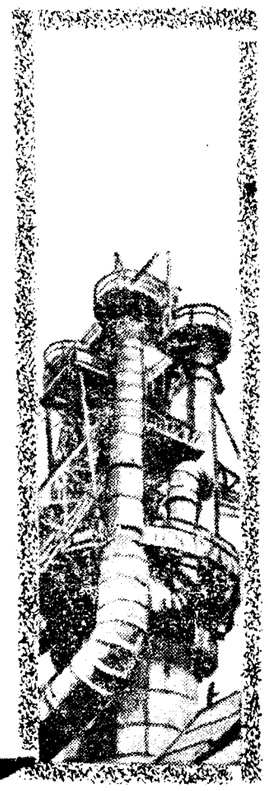
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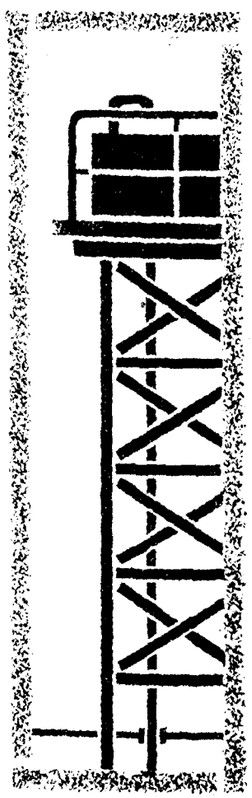
AIDING INDIA'S PROGRESS











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Prospects of Foreign Assistance

THE Finance Minister is back in New Delhi. The Air India International plane bringing him back home was specially diverted to reach him back to Delhi. The A I I plane was on a scheduled flight via Bombay to Delhi and had already been delayed because of some mechanical trouble. Ordinarily an airliner on a regular flight is not supposed to alter its schedule of halts. The alteration must have been made in this case because the Finance Minister wanted to, or was required to, be in Delhi urgently. The fact of the diversion of a plane on a regular scheduled flight is by itself quite important and raises the question whether the Government (or for that matter, a Minister) is entitled to ask the airline (the fact of its being a nationalised concern is of little consequence in this respect) to divert the plane except in the event of an emergency. If the Government thinks it can, it must remember that its airline stands in danger of losing much of its clientele, especially foreign, if the schedules of the airline are known to be at the mercy of the Government. But this perhaps is stretching the point too far. The Government probably is not keen on asserting its rights in this respect and would rather that the case under discussion be treated as somewhat exceptional.

Even if one is prepared to accept the Government's plea to treat the diversion of the plane from its regular schedule flight as exceptional and leave it at that, it still remains to be asked: what was the exceptional circumstance which required the Finance Minister's presence so urgently in Delhi? Although the future of the Plan was not hanging so precariously in balance as to require the Finance Minister's immediate presence he was perhaps very keen on reporting back to the Cabinet on his mission, or perhaps the Cabinet was anxious to hear him. No doubt, the economic prospects today are somewhat darker than when the Finance Minister left on his foreign tour. That, however, is so because of the deterioration in our current crop position.

As regards prospects of foreign aid they are better today than they were when the Finance Minister left India. Still it is worthwhile remembering that the Finance Minister had on the eve of his departure cautioned people against entertaining undue hopes about the outcome of his tour. It was already well known, for instance, that any assistance from the U S A, if it was to be in a large measure, could only come through a Congressional sanction, and prospects of a large Congressional allocation were known to be not very bright. It was therefore too much to expect that the Finance Minister would immediately secure promise of a large allocation from the U S Government. And he could not be accused of being wise after the event if he were to tell us today that he never pitched his immediate expectations too high.

The fact remains, however, that a fair measure of success was achieved in creating a sympathetic climate of opinion in the U S A by the contacts the Finance Minister is reported to have made at all possible levels with a view to explaining the Indian case for assistance. There is little doubt that in doing so he acquitted himself admirably. He did not give in on any of the principles which are regarded as fundamental in India. In none of his speeches or interviews, did he say, for instance, that India has forsaken, or is willing to forsake at a price, her socialist objectives or her independent foreign policy. If he had said that, it would perhaps have pleased the Americans immensely. But he did

not. On the other hand, he made it perfectly clear that those "responsible for the shaping of the destiny of our people at this juncture in our history have no intention of being jolted out of our fundamental values by temporary upsets and difficulties". (This is significant also in the context of the controversy on the alleged indiscretion committed by the Finance Minister on the eve of his departure. Remembering that American reporters are quite prone to dramatize situations, it is still conceivable that the Finance Minister might have said some thing purporting to emphasise the Communist danger within the country and the propensity of local Communists to seek foreign assistance, if not precisely what appeared in the Press. Even then, it is clear from his words just quoted that he could not have seriously suggested a change in the foreign policy of the country, as is being alleged in some quarters.)

Of course, he also explained at length the bright prospects that exist in the country both for foreign as well as Indian private enterprise but in doing this again he was only adhering to the policy already laid down by the Government. In his own characteristic way, he also assured American businessmen that the Indian Government sincerely wanted foreign business interests to give a hand in developing the country. 'It is certainly not our intention', he said, 'to enter into shot-gun weddings with foreign enterprises followed by feverish activity and excitement for a short time and culminating in quick divorces. What we want is an enduring partnership which will give them a decent return and at the same time help in cementing friendship based on mutual interest.'

It is primarily as a consequence of these efforts of the Finance Minister to explain the Indian case that the attitude in America towards India and her urgent requirements is known to have taken a more sympathetic turn than ever before. Even if no forthright promise of assistance has been forthcoming, there is little doubt that even without going to the Congress, the aid allocations to India would be larger this year than before. And if the Congressional opinion is found to be favourable a legislative measure may also be pushed through. It is with the specific object of assisting the Government of India that a special committee of the top officials of the U S Government has now been set up. This Committee is supposed to examine India's requests for assistance and to suggest measures to meet those requests. This by itself is no mean achievement and the tendency on the part of some to belittle it betrays either ignorance of all the complicated procedure which has to be gone through in the U S A before a substantial allocation of funds can be made or deliberate intention to run down the Finance Minister personally.

As for his visits to London and Bonn, the Finance Minister could not possibly approach the authorities in the former City for financial assistance in view of their own difficulties. The British are finding it hard to meet our draft on our own accumulated balances held in London and are, in fact, complaining that we are less vigilant about the position of the reserves of the Sterling Area. But his visit to Bonn has met with a good measure of success. The West German Government is reported to have agreed to open a line of credit in the immediate future to enable India to make new purchases in West Germany. While the details will take a number of months to work out, it is safe to expect the assistance from West Germany to approach something like Rs 100 crores over the rest of the Plan period. But as the assistance is likely to be in the shape of a line of credit and not a loan which could be used for purchases not only in West Germany but even outside, it can be utilised only in meeting the cost of machinery and equipment which can be had from West Germany.

The particular form in which assistance is now being offered need not raise eyebrows in India because unlike the U S prices, the German prices do not compare unfavourably with other countries competing with her. But it does mean that the maximum amount of assistance by West Germany could be to the extent of India's trade deficit with that country. In 1956, the deficit with West Germany was of the order of Rs 68 crores. That was the largest deficit we had had with that country so far. Assuming that our annual deficit over the remaining part of the Plan-period (i e, three and a half years) will be of the order of Rs 70 crores a year the maximum assistance from West Germany can be of the order of Rs 240 crores, if it has to come only in the form now being stipulated. Indications are that while assistance from West Germany would be much smaller than Rs 240 crores, some assistance on the German line might also be forthcoming from such countries as Japan, France and Yugoslavia. But the amount of such assistance is not likely to be in excess of Rs 50 crores. All this only means that we cannot rely solely on assistance from European countries even if our most optimistic calculations were to prove true which only underlines the need for a serious follow-up of the Finance Minister's campaign for U S assistance.

Otherwise, we should be prepared to cut down the Plan further. But that would mean that we are not sincere in arguing that the targets laid down in the Plan are the minimum essential and that it is politically and socially imperative to have a Plan of that order. This is to argue not that the Plan targets should be regarded as absolutely inviolable but that these targets are to be brought down only in an extreme circumstance. We are not convinced that the response to the campaign for foreign assistance has been such as to create that circumstance which may be said to compel a further cut in the Plan. On the other hand, the recent campaign seems to have brightened up prospects which looked dim before. The need of the moment is to maintain, and if possible accelerate, the tempo of the campaign for U S Assistance and in the meanwhile to rephase the Plan projects according to the timing of assistance, from whatever quarters, as it flows in. The rephasing suggested here should not be used however as a subterfuge for a cut in the Plan. It is and should be used as a short-term planning device to adapt the timing of Plan-projects to the accretion of resources.

NOTICE

Readers are requested to note that the telephone number of The Economic Weekly is :

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Schism among Anti-Stalinists

WITH the dramatic yet not so unexpected dismissal of Marshal Zhukov from the post of defence minister early this week M Khrushchev gave the impression of having done with the last of his political rivals to the ultimate power in the Soviet Union. So far neither the party organ Pravda, which usually prepares a background for such news a couple of days in advance, nor indeed any top ranking Party official has come out with any definite reason for the removal of Marshal Zhukov—the great War hero and living symbol of Soviet military might.

Not much speculation has so far been done by students of Soviet Affairs on this event. The British and French Communist papers have come out with reasons of the Marshal's dismissal which are none too convincing. They have blamed the Marshal for preventing the Party from strengthening its hold over the army. The Marshal, they say, neither provided facilities for the smooth functioning of the Party units inside the army nor did he allow functionaries to approach top Party officials. The Marshal had to be dismissed so as to establish the supremacy of the civilian authority over the military.

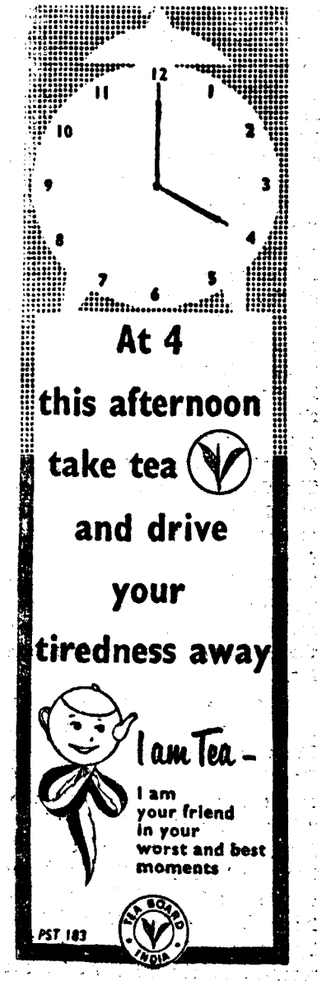
Such an argument not only oversimplifies the problem but misleads one into believing that the Zhukov-Khrushchev clash was but a duplication of the MacArthur-Truman clash in which the civilian section of the state had to assert itself against the military. That would be viewing the position out of its context. The Zhukov-Khrushchev clash is one of the repeated manifestations of the race for ultimate power which is on since the death of Stalin.

The Party units function within the army for the purposes of political education of the average soldier. Soviet civilians, Government functionaries and specially soldiers have a tradition of desertion. In 1942, Lt Gen Andrei A Vlasov, was captured by the Nazis. He was later on allowed to form the 'Committee for Liberation of Russia'. Afterwards a number of Russian Generals, including Major General Malyshin, and soldiers joined it. The Committee also published a paper called Novoye Slavo from Berlin. Not that the Nazis relied much on these deserters nor that they succeeded in weakening the morale of the Red Army, but this had alarmed Stalin and other top Soviet military generals. Consequently, soon after the War the political education of the soldiers was intensified. Even then during the Hungarian uprising cases of desertion from the Russian forces did come to notice.

Stalin himself was a great general and was in complete command of the army during war and peace. Khruschev inherited Stalin's throne but not his gifts. Consequently, when he started making use of party units within the army for the purposes of strengthening his control, it might have annoyed Zhukov and he might have attempted to keep the Party functionaries out of the major deliberations of the army.

It would however be wrong to suggest that the clash between Zhukov and Khrushchev took place only over the issue of Party units within the army. They both in fact belong to two different shades of anti-Stalinism and were apparently reconciled to one another, as long as Stalinists were strong and were therefore a force to be reckoned with. The anti-Stalinism of Khrushchev is an instrument to fight his political opponents. Zhukov, on the other hand, is a thorough-going anti-Stalinist. In fact, for him the down-grading of Stalin has meant an upgrading of his own stature. He was perhaps waiting for an opportunity to use anti-Stalinism, with the help of which Khrushchev was doing away with his rivals, to do away with Khrushchev himself. He gave his willing support to Khrushchev to oust Malenkov, Molotov and Kaganovich. Zhukov's public speech in Leningrad demanding a trial of all the persons involved in Stalin's purges and murders is significant in this respect. Khrushchev was away in Czechoslovakia at the time. On his return Khrushchev could not perhaps do anything immediately except that he managed to see that such a demand did not become sufficiently strong. Now, when Zhukov left for Yugoslavia, Khrushchev brought about a complete change in the army set-up and made the Presidium agree to Zhukov's dismissal.

Khrushchev might have done away with the top Stalinists, but at all the levels of administrative and party heirarchy there are people who owe their positions and security to the Stalinists who used to be in power in the not very distant past. The same could be said of the army. Khrushchev has dismissed Zhukov from the post of defence minister but he could not have altered the feeling of loyalty which the men at different levels of army heirarchy may have towards the Marshal. It is said that a Russian tyrant, who was about to die, was approached by a priest. The priest asked him, 'Have you forgiven your enemies?' The tyrant answered, 'I have no enemies. I had them shot!' Khrushchev cannot even say that.



Weekly Notes

A Timely Ordinance

THE much anticipated revision of the statutory minimum currency reserve has at long last come about. And the revision has really come with a bang, for very few expected that the Government would lay the revised statutory reserve so low as has actually been done. The Ordinance issued on the subject authorises the Reserve Bank to bring down its reserves to Rs 200 crores compared to the erstwhile minimum of Rs 515 crores. The existing legislation permitted a temporary reduction of the reserve to Rs 415 crores, and this proviso had already been availed of as the total reserves, including gold coin and bullion, as on the 25th October, 1957 amounted to Rs 445 crores, Rs 70 crores below the regular minimum.

The reduction of the statutory reserve would be welcome in many quarters though opinions may differ in regard to the amount of reduction. It is more or less generally agreed that to relate foreign reserves to the total of domestic currency is anachronistic and that the magnitude of foreign reserves should appropriately be related to the external transactions of the country. But should this function of adapting reserves to the requirements of external transactions be left to the discretion of the Reserve Bank or should the legislature retain this function is a question which obviously has been decided in favour of the legislature. The Ordinance, which in due course would be replaced by a proper enactment passed in Parliament, lays down the minimum below which the Reserve Bank cannot go. In other words the ultimate power to readapt reserves would continue to rest with the Parliament as was the case so far.

As to the economic impact of the measure, since it allows the Reserve Bank to draw down its reserves by Rs 245 crores, it provides the Government a resource which can be utilized for the financing of the Plan. Not that this amount by itself will be enough, but it should enable the Government to tide over its immediate difficulties. If we go by the rate of withdrawal of foreign reserves in the four weeks ending the 25th October, the net withdrawals till the end of March may amount to Rs 140 crores. But it is quite likely that the Government may very soon have to indent for larger imports of foodgrains and the actual draft on reserves may therefore be higher. In any case, this step of the Government gives it a stand-by resource while negotiations for foreign credits, whether they are for the import of machinery and equipment or for the import of foodgrains, are in progress. Let us hope that these negotiations would fructify soon and the draft on reserves would not be very large.

Estimated Damage to Paddy Crop

FOR some time now reports have been current about the severe damage caused by drought to crops in various parts of the country. The drought has affected Bihar most though the crops in Eastern U P, Orissa, Madhya Pradesh, Manarastra and West Bengal have also suffered considerable damage. In Andhra Pradesh some areas have been affected by drought but it appears the overall crop position in the State is quite good. In Mysore also it is feared that the ragi crop may be affected somewhat by the current drought.

Detailed reports about the actual loss to the crops are yet awaited from most of the States. But on the basis of the scanty information that is available, an attempt has been made to estimate the probable loss of the rice (Kharif) crop. Other crops like maize, jowar, ragi, etc, have also been adversely affected but far less information is available about the damage caused to these other crops than to rice. The venture of estimation has therefore not been extended to any crop other than rice. In making these estimaes the 1956-57 crop figures have been taken as the base figures on the assumption that production in 1957-58 would be of the same pattern and level as last year. The table below shows the position in four States in which the damage is said to be most extensive.

In addition to the loss in these States, if we can assume that the damage in Maharashtra and West Bengal is about 10 per cent, another 450 thousand tons of rice will have to be written off. Thus in all, the estimated loss comes to around 5.5 mn tons of rice.

An attempt is being made in some quarters to minimise the significance of the damage caused this year by saying that similar alarming reports were current at this time last year and that the preliminary all-India estimate of food production was consequently pegged very low. Ultimately, however, the actual production exceeded this estimate by two million tons. It is with a view to anticipate objections of this nature that in our calculation we have not gone by the current crop forecasts but by the actuals of the last year, because in following this procedure the element of underestimation said to exist in preliminary crop forecasts is completely taken care of.

If the loss of paddy crop indeed approaches anywhere near the figure of 5.5 million tons arrived at in our calculation, it should awaken the authorities because the problem of food shortage assumes in that case proportions hardly ever experienced before.

Table Showing Estimated Loss of Rice (Kharif) Crop

State	1957-58	1956-57	
	Prod in 000 tons	% of estimated loss	Actual Loss in 000 tons
Andhra Pradesh	3,030	27	810
Bihar	3,882	61	2,380
Madhya Pradesh	3,146	8	250
Orissa	2,131	50	1,065
Uttar Pradesh	2,262	26	600
		Total loss	5,105

Fraternal Exhortation

THAT the Indian Industry has arrived at the present stage of expansion and development as a result of various reasons—the Swadeshi Movement of 1905, the spirit of the Swadeshi manifested in the boycott of foreign goods, the protection given from time to time to industries due to the pressure of the nationalist movement, and more recently, the restriction on imports of manufactured goods —and that it owes to the country at this difficult time more than the attainment of targets, even exceeding the targets, and maintenance of lower and stabler price levels, are words addressed to the Indian Industrialists by one of their own class—by one who is a pioneer among them.

Addressing the annual general meeting of the shareholders of The Jay Engineering Works, Sir Shri Ram was emphatic in saying that if the Indian Industrialists made up their mind they could do a lot more in promoting the exports from this country. Given determined, sincere and honest efforts, the Indian Industry could, according to Sir Shri Ram, increase exports by about Rs 50 crores a year. In this connection, he pointed out that Government had, to some extent, made it easier to get draw-back on goods exported.

While affirming the determination of his Company to steadily increase its exports, Sir Shri Ram exhorted his friends in the Indian Industry to come forward and make an effort, if necessary on a cooperative basis, at exporting larger and larger volumes. The bigger industries would naturally have to shoulder greater responsibilities.

Sir Shri Ram, whose own interests in the cotton textile industry are substantial, regards it as tragic that in the cotton textile industry, which is easily the largest industry in the country, there is talk about closing down factories or reducing the number of shifts at a time when greater and greater production is the need of the hour. Sir Shri Ram would rather that the cotton textile industry produced more than ever before and sold its wares increasingly abroad even though the return in foreign markets is much smaller than in the domestic market.

Is the Cloth Crisis Real?

HOWEVER, the complaint of the cotton textile industry at the moment is that the domestic demand for cotton piece-goods is on the decline whereas production has been increasing with the result that there has been an unduly large accumulation of unsold stocks with the industry. And the entire blame for the crisis which the industry is said to confront is laid on the doorstep of the present Finance Minister, for the rot is stated to have started when he raised the excise duty on cloth in September last year. When the excise duty was raised last year, the cotton textile industry was making abnormally high profits and it was with a view to sharing in the prosperity of the industry that the duty was raised. Of course, the Finance Minister was emphatic that he wanted to collect the additional duty from the manufacturers and that it would not be passed on to consumers for the prices already charged were too high to admit of any further increase. In spite of what the Finance Minister asserted in regard to the incidence of the excise duty, a part of the additional duty did show up in the form of a rise in cloth prices.

Viewed against this background, the present crisis loses the simple form in which it is now being presented to the public. The cloth prices charged to consumers have not registered any decline compared to what they were in September, 1956, and unless costs have registered an increase, profits should have remained more or less on the same level. But the question arises: why is it that sales have gone down? The answer to this may lie partly in the fact that the prices of foodstuffs having gone up sharply during the period September 1956—October, 1957 the purchasing power available with consumers for items other than food naturally declined and this might have caused a slack in current demand for cotton textiles. As for the inability of dealers to lift stocks sold to them, the recent credit squeeze might have something to do with it.

In any case, the situation does not at all appear to be one which should give cause for alarm. In fact some decline in cloth prices should be welcome as a corrective to the rise in foodgrains prices. But this does not mean that the production of cloth should slacken. One of the purposes of the excises raised in the Budget for 1957-58 was to cut down domestic demand so that exports could be expanded. Even if the additional excise duty imposed in September, 1956 can be said to have outlived its original purpose, i e, of siphoning off a part of the abnormal profits which the industry was making at that time, it might still be useful as a device to hold down domestic demand. The crisis in the textile industry, if there is one in the real sense of the term, can be resolved not by boosting up domestic demand by a reduction in the excise duty but, as has been wisely counselled by Sir Shri Ram, by taking all possible steps to sell cloth abroad. Already the statistics for the current year suggest that exports this year are going to be better than last year. Perhaps the performance could be still better if sincere efforts were made in that direction. Therein lies the solution to the present accumulation of stocks—a solution which will not only dispose of the surplus stocks but also earn the country more foreign exchange.

Naga Amnesty

IT would be rash to hope for an early solution of the Naga problem. Shillong does not seem to be hopeful. But the declaration of an amnesty indicates that New Delhi is more optimistic. It would be readily conceded that the proclamation of an amnesty was a wise gesture. This was demanded by the leaders of the Kohima Convention as one of the essential conditions for their establishing contacts with the Naga National Council which sponsored the rebel activities. Their other two demands about the ending of grouping of villages and withdrawal of troops have been only partially met. But it is necessary that all steps should be encouraged to enable the leaders of the Convention to meet rebels without being shadowed by soldiers and policemen. It needed courage for the responsible Naga leaders of the Convention to initiate discussions with the Prime Minister. There is not yet any clear evidence that the Convention leaders have the support of the majority of the Nagas. Much has happened since the Kohima Convention. But it should not be ignored that the Naga National

Council has not given any indication yet that it approves the policy and actions of the Kohima Convention.

Despite the promising implications of the amnesty, the hurdles that the Convention leaders have yet to surmount should not be minimised. By choosing to opt out of the State of Assam, the Convention leaders hope to establish their bona fides with the more recalcitrant Nagas. But it has yet to be demonstrated that they can secure the consent of the Naga National Council for the Kohima plan which has, in effect, been endorsed by New Delhi. At a recent meeting at Mokokchung, the Kohima Convention Committee has approved the report submitted by the Naga Delegation on the discussions with the Prime Minister. But the Committee's guarded verdict that the provisional administration set-up evolved during discussions with New Delhi is to be treated only as an "interim measure" reflects its own doubts about whether the plan will be acceptable to the majority of the Nagas. Many obstacles have yet to be overcome. But New Delhi can take comfort from the Kohima Convention Committee's decision that "all proposals relating to the future administrative set-up in the Naga Hills would be within the framework of the Indian Constitution". Once there is agreement on this basic issue, it should not be too difficult for New Delhi and the responsible representatives of the Nagas to reach an amicable settlement of the problem of the Naga Hills.

Turkey's Choice

IT was Mr Dulles, and not M Khruschev, who initiated the scare about the tension between Syria and Turkey. Long before M Khruschev issued warnings that the tension between these two countries could, if not checked in time, lead to a nuclear war, Mr Dulles proposed a discussion by the United Nations on the Syrian-Turkish tension. Since the Suez war, Syria has been complaining about frontier mobilisation of troops by Turkey. But the timing of the present crisis would seem to be odd, as Turkey would not seriously be expected to launch an aggression against Syria at a time when the former was having an election. Could it, then, be that Washington, with the connivance of Mr Menderes, was fanning the war flame so as to influence the Turkish elections on behalf of the Democrat Party? Similarly, could it be presumed that Moscow emphasised the war scare in order to enhance the election chances of Mr Inonu and his Republican People's Party? There are reasons why Mr Menderes has deemed it wise not to make the Turkish-Syrian crisis an election issue. But it is rather strange that Mr Inonu has failed to exploit the situation. That the Turkish-Syrian crisis was not an election issue, might be a commentary on the "cold war" tactics of both Moscow and Washington. But the return to power of the Democrat Party was not unexpected in the prevailing system of Turkish elections. Even so, the substantial ground gained by Mr Inonu and his Party reflects the growing discontent about the domestic policy of Mr Menderes. Subsequent developments confirm the Opposition criticism that Mr Menderes, leader of the Democrat Party, leans too heavily on Press Laws, the radio and the Army to stay in power.

Red Cross

FREE India, pursuing the path of peace, goodwill and general beneficence, is happy to have the International Red Cross Conference meeting on her soil for the first time. The 19th session of the Conference, facing the unprecedented responsibilities posed by the emergence of weapons of total destruction, could hardly have chosen a more appropriate venue. As Prime Minister Nehru indicated at the Conference, the function of the Red Cross, in the new situation of grave peril to humanity, would not so much be the binding of physical wounds in war as the soothing of fear-stricken, disturbed minds in peace. For, should a war of nuclear proportions eventuate, there would be nothing of mankind left to save or heal; and the saving or healing agency itself would be part of the smoking ruins. It is only when certain limits are set to destruction, if war should be inevitable at all, that a mission of mercy like that of the Red Cross can have any alleviating role to play. So, it is to this task that the organisation has to address itself now; and one notes with gratification that it is trying to do so.

But the controversies that have developed in the process are yet another indication that nothing, not even an instrument of pure 'moral force' like the Red Cross, 'non-governmental, non-political and non-denominational', can hope to free itself from the all-pervasive, fissile influence of 'cold war' manoeuvres and counter-manoeuvres. Indeed, it would seem as though the moment man started splitting the atom, fission has become the ruling feature of every aspect of his life and activity. And even the Red Cross, which for ninety long years was the one outstanding beacon of sanity and hope in the midst of much human lunacy and distress, seems contaminated. or likely to be contaminated. But that ought to be a challenge rather than a source of despair to the lofty minds and the brave hearts that have been fostering or guiding the movement along the path of silent, unquestioning service to suffering humanity.

War on the cataclysmic scale suggested by the frenzied quest for instruments of quicker and vaster devastation may never come; and if it comes, there would be no scope for thought left either. In any case, it is the present that matters; and it is on this that the Red Cross has to concentrate with all its energy and zeal to vindicate itself. The endeavour might take either the shape of a determined bid to prevent the use of nuclear and other equally deadly weapons or at least to limit their use to manageable areas, with no undue threat to the civilian population; or, if in the prevailing atmosphere of fear and suspicion, both of these courses should not prove possible, then the mission of mercy might at least take the shape of relieving human suffering here and now on a wider scale than before —before the day of doom arrives. when it might be instantly put out of action with all else that was worthwhile in life.

Letter to the Editor

Twelve Hours Without a Visa

YOUR proof-reader or printer's verdict should not be final. The feeble Time-ism I attempted in my Rangoon Diary (issue of Oct 19) was "Massassination." My defence: Touchstone's "A poor thing, but mine."

Flibbertigibbet

Calcutta
Oct 21.

A Calcutta Diary

Look Back in Anguish

IT had to come, and it came last week. For the past eleven years West Bengal has been receiving a stream of Hindu refugees from East Pakistan, and it is a deserved compliment to the people of West Bengal that the worm did not turn until last week. At what seemed an informal meeting of Congress Parliamentarians from West Bengal it was suggested that it should now be considered whether the hospitality could continue indefinitely. The Union Rehabilitation Minister spoke in his personal capacity and went on record with the view that a date should be fixed whereafter Hindus would come from East Pakistan without any expectation of help from the Government as refugees; they would be like any other immigrants from any other country—Czechoslovakia or Korea.

Up went a protest—from East Pakistan, from the refugees, and from the Press. (The protest of the last-named is disposed of easily: one of the curious facts about Calcutta journalism is that while the Press is owned by West Bengalis the majority of the leader-writers are from East Pakistan.) The refugees' disquiet was fully understandable Only a small number of them had been really rehabilitated, for which the Government's fault may well be slightly greater than that of the refugees themselves. As for the Hindus still remaining in East Pakistan, nobody has a right to blame them for being nervous.

It was inevitable that the question of India's moral responsibility to the Hindus in East Pakistan should have been raised anew. The responsibility cannot be talked away. On the other hand, both East Bengal Hindus and their champions would do well to remember that love, affection and similar sentiments are exhaustible quantities, and none of us can be saddled with moral responsibility without a time limit. Nobody in West Bengal would have bothered if employment and other opportunities in the State were ample. They aren't, and, after eleven years of waste and frustration, the native of West Bengal is entitled to ask whether he has done something to deserve discrimination vis-a-vis the immigrant. Generosity is a brittle thing, and seldom survives the exacting test of daily scrambles for a little more milk for the sixth baby or a yard more cloth for the fifth jobless brother's ailing wife.

What elder brother West Bengal has been receiving is a steady stream of cousins and nephews, widowed aunts and their marriageable daughters. There is no denying the misfortune of the comers, but the impossibility of the host's assignment should not be denied either. He hates to mention it, but he cannot help remembering either that the moral responsibility was national and not statal. Secondly, he knows how much of his money has gone down the drain in the past eleven years, for which the Government's inefficiency, or worse, may have been helped, in however small a degree, by a possible lack of enterprise on the part of the refugees themselves. An incidental discovery of recent years, rarely mentioned in public, has been that in the set-up of Hindu East Bengal there was an inordinate number of parasites who are unemployed today because they are unemployable. Why the Government does not say so is that it hasn't the moral right, which it would have if jobs had been offered to those useful. Doles have demoralised these parasites further, and the extent of anyone's moral responsibility to them cannot possibly be unlimited.

The agonising reappraisal the West Bengal Congress recently attempted has generated more anger than anguish; the latter would have been a more appropriate emotion in the circumstances. On the other hand, sentiment (of which there never was an abundance in some of those in charge of relief and rehabilitation) cannot be the answer either. Having acquired the moral right to be firm, the Government would be right to be firm—and in this process the Government is entitled to support from the Press and the Opposition. Not as though there is much hope of either coming forth. Unpleasant truths are not the commodity either deals in today in West Bengal. Popularity is all, popularity in the here and now.

Will the border be sealed? (Which Atulya Ghosh says he does not want; he only wants no more refugees.) Will the Rehabilitation Ministry be wound up? Or will it be toned up to tackle the problem it has fiddled with so long? Will the other States come to the help of West Bengal, and, if they do, will the East Bengal refugees respond to it? Or will everything go on as now, with refugees continuing to suffer and the West Bengal economy bleeding to death?

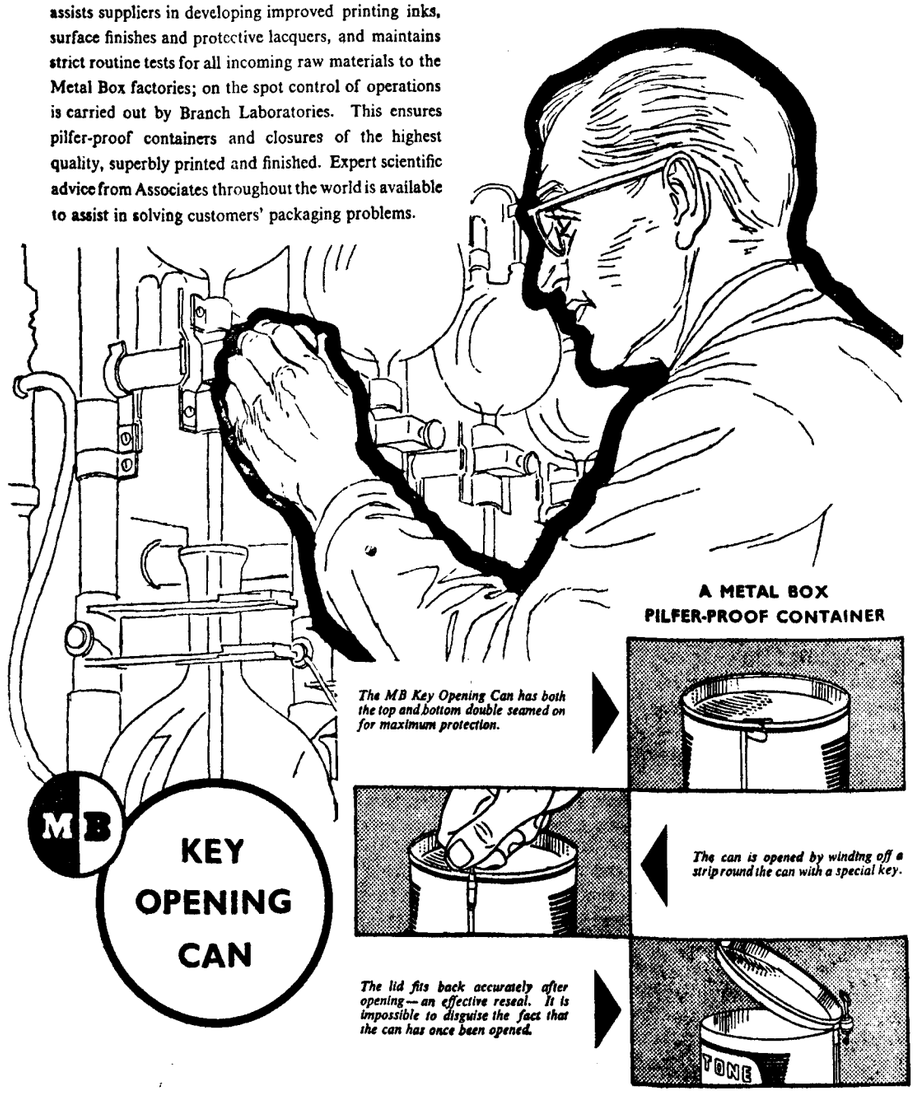
There is no cynicism in the present writer not expecting a firm answer to any of these questions. Anguish has gone sour, but not sour enough to force a decision. The refugees may continue to come, and West Bengal may continue to sulk. Improvised ovens on pavements may continue to produce more smoke than food for the kids playing around, and secretaries' conferences may continue to be held in Darjeeling—with a break for a quick one at the Gymkhana—to discuss the refugee problem. It is a part of human nature to look ahead in anger; it is also a part of human nature to look on in resignation. The saddest aspect of the refugee problem may be that most of us have come to accept open and collective misery as a part of the City's furniture—like that street lamp with the bulb stolen, that gaping pothole with turgid water in it, that three-day-old open manhole with refuse piled up beside. Nothing to be done about them.

Where cynicism comes in is that fatalism and passivity are not all. In the pervasive inertia there are people who are only too active—to keep the problem alive. Both Dr B C Roy and Atulya Ghosh know that the disappearance of the refugee problem, either by solution or by dissolution, would mean the end of the flow of funds from the Centre. On the journey of the funds from the Treasury to the refugees (a journey infrequently completed) there are others, who can help politicians, in or out of office, besides helping themselves. Patronage is hard to part with, and politicians love it. Dr Roy certainly does. Why, I ask you, should anybody want to see an end of the refugee problem? That it would have been immensely difficult to end the problem even if it was desired does not have to be stated because nobody does. (Even some refugees don't.)

October 30. —Flibbertigibbet

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From U N Headquarters

A Nation at Sea

THIS article should properly be entitled "The Political Consequences of Sputnik" but it is questionable whether the Soviet top hierarchy realised, when their scientists sent an earth satellite suddenly spinning through space on October 4, what the impact of it would be in the United States. The newspapers —with a commendable sense of what constitutes news—gave the event a treatment reserved for the outbreak of war and the conclusion of peace. Page-wide headlines announced to a dazed public that the Soviet Man had succeeded in adding another denizen to the over-crowded space. It was such an achievement that could fully merit descriptive phrases like "beginning of an era". It was an achievement that any one could be proud of as signalling Man's conquest over Nature. Indeed, in scientific circles, the Soviet success was hailed, albeit with a sense of envy, as one more and necessary step towards the ultimate conquest of space. But outside their closed preserve, the scene was one long orgy of breast-beating. In the Press and from the platform sensible Americans were seen indulging in a kind of intemperate hand-wringing that betrayed a feeling of loss too deep for tears.

The truth of the matter simply lay in the fact that the Press and the state had long fed the American public with the myth of continuing American superiority in technology. Hatred of a political system had blinded the American to the inherent talents of other people, notably the Russians. In the past, the Russians had been guilty of claiming to be the first to discover many things that the Western world claimed to itself. The tendency, therefore, had always been to laugh at the Soviet Union. So the Soviet Union was the first to invent the radio, was it? The Soviet Union was the first to discover penicillin, was it? Ha, ha, ha, said the Western scientist and the Western politician, and the Western world laughed with them. The Russians, they said in effect, are a very funny people.

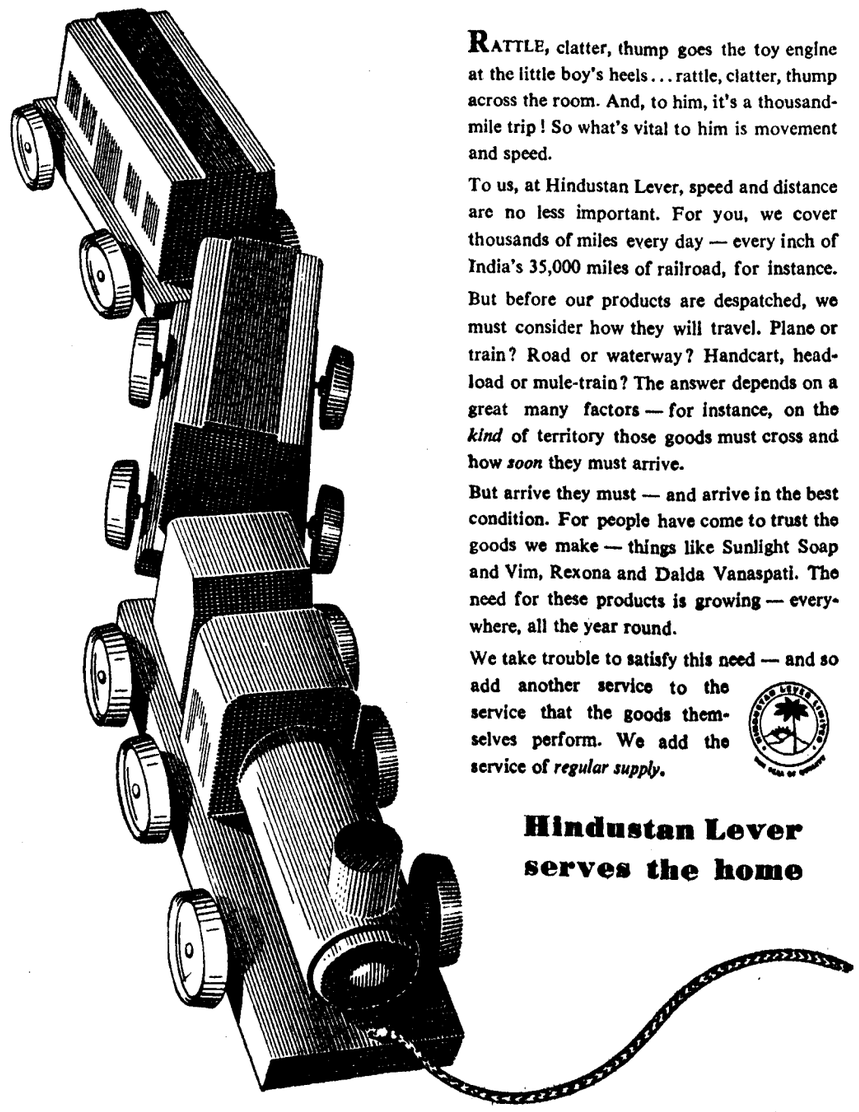
It never occurred—or if it did occur, it was never taken seriously —to the American people or to American administrators that the Russians could also have the same inventive talent that their own people possessed. Every invention was attributed to the possibility of Russian spies having stolen American secrets. The Russian, to the American mind, was no great shakes in science. If the Russian achieved anything at all, that was because an American traitor had sold American secrets to Communist spies.

Though nothing along these lines can be proved with any degree of certainty, this seemed to be the general prevailing sentiment in the country and nothing was more damaging to it than this. The United States exploded its first atomic bomb on July 16, 1945. A year later Major General Leslie Groves who had directed the American atomic bomb project was quoted as saying that it would be five to twenty years before even the "most powerful of nations" could "catch up" with the United States in atomic bomb development. Russia exploded her first atomic bomb on September 22, 1949. The United States exploded its first thermonuclear device in November 1952. Some U S experts again thought it would be a long time before the Soviet Union could follow suit. The Soviet Union gave the lie to this, also. The Russians exploded their first thermonuclear device in August 1953, within ten months of the American explosion. Later that year, Secretary of Defence Charles E Wilson gave it as his considered belief that the Russians were "three or four years behind" the United States in developing an H-Bomb which could be dropped from a plane. But the Russians actually beat the United States at this. The Russians dropped their first H-bomb in November 1955; the United States which had proudly vaunted its superiority dropped its first only in May, 1956.

The tragedy of the United States has been its chronic inability to face up to the reality. The New York Times brought this up in a poignant summing up of the situation. It compared and contrasted the Soviet Union with the United States over the period of the last twelve years. "Twelve Years Ago" it said, "the contrast between the United States and the Soviet Union could scarcely have been sharper. Russia, a major battleground in World War II, had lost seven million people. A thousand or more communities lay in ruins. Twenty-five million Russians were homeless. The war had taken a grievous toll of Soviet industry, but the United States had not been a battleground. Her dead were only 397,000 but she had no ruins and no homeless. Her industry, having been the arsenal for the anti-axis powers, was at pinnacles of capacity and efficiency". What happened since then? Soon after the war the Soviet Union was producing 23 million metric tons of steel to 76 million in the United States. Last year Russian production was 48 million tons—or more than 100 per cent. American production stood at 101 million tons.

The fierceness with which the Soviet Union must have shot ahead in trying to "catch up" with the United States can thus be well imagined. The familiar Aesop's story of the rabbit and the tortoise is a good analogy, but the fact was that a "peasant" people had raised themselves up with their bootstraps. "It must be realised" said M Khrushchev speaking to two British members of Parliament the other day, "in the West that the Soviet Union is no longer a peasant country—it is dangerous to take this view". When the Russians claimed that they have succeeded in launching the first intercontinental ballistic missile, some sections of the American public was willing to believe it—but they were at the same time frightened to air their belief too publicly. It was just not done. It was not still safe to think of the Russians as a technologically advanced people. The fear of airing views had filtered down to many homes and among the nation's best scientists. There is something pathetic in the editorial tone of the New York Herald Tribune which said—a fortnight after Sputnik went into outer space—that it was time many doors in the country were opened. "Too many doors" said the Tribune in agonising re-appraisal of the nation's ethos, "have been closed in this land. Too many needless walls have been reared between the free communication of the free world's scientists". It added: "May be ... the Sputnik is a warning to us to open other doors, to let the

It's 1,000 miles across the room...



RATTLE, clatter, thump goes the toy engine at the little boy's heels... rattle, clatter, thump across the room. And, to him, it's a thousand-mile trip! So what's vital to him is movement and speed.

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sunlight of free inquiry and mutual trust into the musty air of secrecy and suspicion in which we have been confining ourselves, not to the detriment of the Russians, but only to our own scientific progress."

To understand this, perhaps, one must understand the state affairs in this country after the conclusion of World War II. The American soldier came back home from wars, determined never to fight again. He had hung up his sword and taken literally to the plough and there was prosperity in the air. Came Stalin's ideological ambitions and the rise of MacCarthy and a whole people, terrorised into fear, went into inactivity. Prosperity brought in its wake the zest for increased pleasures in life. While the Russians went from the production of D C 3s to the jets, the Americans went into luxury production of the D C 5s and the D C 7s. While the Russians concentrated on ballistic missiles, the best American technical knowledge went into the production of the Edsel—a fancy car. A cartoon in the New Yorker satirised this only the other day. The scene is an elegant drawing room in an upper middle class home. A well-fed husband is reading the day's news with some alarm. But the smartly dressed wife reading the Ford advertisement for the latest product says: "Darling, isn't it thrilling? The Russians have an ICBM but we have an Edsel!" No technician worth his salt was inclined to work for the Government, lest his past be examined for Communist contamination and his future needlessly endangered. Government projects therefore suffered by default.

The people were fat and contented. The Administration was racked by internal squabbles. Instead of the Administration working wholeheartedly for the progress of science, it was racked with inter-departmental jealousies between the Army, Navy and the Airforce, that to the outsider looked nothing short of farcical. Cut the defence budget, roared the Congressmen with one eye on their constituents. Lower taxes, said others. We are superior to the Russians, said some others. We have the highest standard of living, came the chorus. At the Rockefeller plaza, poshest of all posh places on earth, Mr Mike Todd, to celebrate the first anniversary of his multi-million dollar technicolour extravaganza "Round the World in Eighty Days" gave a party to 18,000 (sic) people, even as the Soviet Sputnik was going round the world in ninety six minutes—both to the utter disgust of patriotic Americans, who could no more tolerate the idea of Soviet superiority in the field of ballistics than show of home-grown opulence, so reminiscent of Nero fiddling, in their own backyard. But that was America.

The Sputnik opened many eyes. "The West is softening up and slowing down. That is the message of the Sputnik" wrote Mr Anthony Nutting, a former British Minister of State for Foreign Affairs, in a special article to the Herald Tribune. And he added: "Yet this message has not penetrated to the Governments of the Western world; and because it has not penetrated to Governments, the ordinary people have had no leadership. Drift has taken over where once there was taken over where once there was dedication, complacency has succeeded compulsion ....". You have never had it so good, boys, the people had been told, but now the people were hearing different voices. The columnists have been having a field day since the Sputnik's beepy hoist into space. The Herald Tribune wrote a series of agonising editorials under the continuing title: "A Call to Action". Walter Lippmann wrote on "Bitter Truths". Another columnist, with her tongue-in-the-cheek asked: "Did the Russians Invent Baseball?" in obvious condemnation of her countrymen. Joseph Alsop, of the two famous Alsop brothers, wrote alarmingly on "The Key Question" and "The Rot Revealed". There were other equally interesting comments, such as, "Lessons of Defeat".

Since then there has been much talk of a "crash" programme. The President has been blamed for American lassitude. Charles E Wilson, the former Secretary of Defence has been attacked in the Press for allegedly shelving the satellite programme. While blame is being freely apportioned, observers here have been noting the United States Administration going into what is virtually a tail-spin on such subjects as Syria and disarmament. The political consequences of Sputnik are most noticeable in this latter field. The Americans are baulking at disarmament, according to the most unbiassed of political observers watching them from the eyrie of the United Nations. For what the Sputnik in effect means is that the Russians have indeed made phenomenal headway in the realm of science and technology. Their claims for firing an ICBM are now freely recognised. If the Russians can fire an ICBM the Americans now say, what safety is there in radar, in bomb bases and in the theory of containing Communism by means of a ring of air bases? In the field of propaganda, the Americans find themselves outpaced—as much because of Sputnik, as for their own domestic troubles evidenced in racial tensions in Little Rock. In the field of psychological warfare, they find themselves equally at a disadvantage—because the Russians have played their cards in Asia well and with a great deal of respect for Asian sentiments. Thus outpaced and desperately wanting time to make up for technological lag, the Western nations today cling to each other, giving yet more propaganda ammunition to the Soviet Union. While the Soviet Union would have been equally unwilling to make concessions when it was lagging behind the West in technology, and in fact was, today it points to the West an accusing finger much to the discomfiture of the United States. The boot is now on the other leg.

If the Sputnik has succeeded in one thing, it has succeeded in pushing the United States in particular and the West in general, back to the wall. The West is showing fight and is on the defensive. Sputnik, it may be said, not without much doubt, has demolished the chances of any agreement on disarmament. It has, in the same way, demolished any chances of any "agreement" between the major powers on a hands-off policy in West Asia. Sputnik has put the holy fear of Communism in the hearts of Western statesmen. Sputnik has made them feel that the chances of survival are—now. There is now a great amount of scurrying to safety and to each other's arms. The strained relationship between the United States and the United Kingdom is being mended with alacrity. The Queen's visit might have been planned a long time before Sputnik arrived on the international scene, but it is being used to better Anglo-American relations. Mr Macmillan comes to Washington and the President wants an easier flow of scien-

tific information between Allies. If the Russians felt that their little Sputnik would get the quarrelling Allies together, would they have been less anxious to speak about it? There is one school of thought which claims that the Russians themselves were not too sure they would succeed with their satellite. There is another which suggests that what the Russians do has no relation to Western development at all. Possibly the second conjecture is right.

In any event, the United States is waking up. Three years ago, the United States Council on Foreign relations launched a major project to find the answer to what it called the American Dilemma. The results of this study have now been published by the Director of the Studies, Dr Henry A Kissinger. They make important reading because they reflect the beliefs of a large number of thinking Americans from all parties. According to Dr Kissinger:

(i) The basic requirement in the United States is an organisational structure that would put an end to inter-service rivalry.

(ii) What's been lacking in the United States is a sense of urgency over the last few years. (Says Dr Kissinger: "We have fooled ourselves that the Soviets were disintegrating, that we did not have to worry, that they could be mastered easily. This is a desperate struggle which requires a major effort".)

(iii) The United States is in trouble now. It has been pushed back gradually, position by position. (Says Dr Kissinger: "The Soviets are on a technological curve. Each invention implies that there are other inventions waiting to be revealed. It is hard to stop their progress".)

(iv) On the political plane, the United States is losing position after position. Its victories are negative.

(v) The United States should not run from crisis to crisis. (Says Dr Kissinger: "More energy is absorbed in United States Government machinery in analysing what a problem is than in getting a solution for it.... this means that there is a lack of clear purpose as to what we want in the world".)

(vi) It is important to bend all efforts towards overcoming the Soviet technological lead.

(vii) If things continue as they are the United States expulsion from Eurasia is a mathematical certainty. (Adds Dr Kissinger: "Eight years ago, it would have seemed fantastic that the Soviets would become a major power in the Middle East. We like to smile now at Baldwin and Chamberlain in 1938, but they thought of themselves as tough realists. The main thing at this stage is to get across the feeling that this is an urgent and important matter. Clever bureaucratic rationality is not adequate".)

Right now there is a good deal of thinking in the United States on these lines. Which is, perhaps, just as well.

Burn and Company Limited

Notice

NOTICE is hereby given that the Annual General Meeting (being the Sixty-third Ordinary General Meeting) of the Company will be held on Friday the 22nd November, 1957, 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, 1957, and the Directors' and Auditors' Reports thereon.

2. To declare a dividend. The Dividend if declared will be paid on or after 27th November, 1957, to the Shareholders whose names are on the Company's Register on the 22nd November, 1957, 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 Sections 261 and 281 of that Act to move the following resolution as a Special Resolution at the meeting:—

   "That Sir Josna Ghosal having attained the age of 86 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 with or without modification the following resolution of which Special Notice has been received.

   "That the age limit specified in Section 280 of the Companies Act, 1956, shall not apply to Mr. T. Leslie Martin and this meeting hereby approves any appointment of Mr. Martin as a director of the Company which may hereafter, whilst this Resolution remains in force, be made by the Managing Agents pursuant to Article 109 of the Company's Articles of Association".

The Ordinary Share Register of the Company will be closed from the 15th November, 1957 to 22nd November, 1957, 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,
S. Gupta,
Director,
Managing Agents.

Calcutta,
28th October, 1957.

From the London End

Britain and the Free Trade Area—II

Implications for Britain

LAST week I attempted to isolate the more crucial issues involved in the institution of the European Economic Community and the proposed Free Trade Area. Here some of the possible implications of the Free Trade Area for the British economy are examined. It is clear that the British Government favours the exclusion of agricultural commodities from the scope of the Free Trade Area and it remains to be seen whether this will prove acceptable either to the other member countries or for that matter to the members of the General Agreement on Tariffs and Trade. It is here, somewhat heroically, assumed that the Free Trade Area will in some form or for some consideration be accepted. At a plainly theoretical level the arguments favouring a customs union are fundamentally based on the various economies in production and distribution that are made possible. It is of course well nigh impossible to compile the array of statistical information that will be necessary to ascertain how far these arguments are in fact valid in the case of the Free Trade Area. The Board of Trade itself has published an enterprising booklet, **Free Trade with Europe**, designed to provide a statistical picture of the potentialities of the European project. A more illuminating series of data has been compiled by Mr J Black in a recent issue of the **Bulletin** of the Oxford Institute of Statistics. It is understood that the **Economist** will be publishing a lengthy statistical analysis of the implication of the Free Trade Area for the British motor industry and there can be no doubt that other institutions are being commissioned by various industries for similar studies. All these studies are indicative of the direct and feverish interest being shown by British manufacturing industry on the possible long-term impact of the Free Trade Area on the British economy. It is generally realised that for some British industries the benefits of free trade are an increasing function of the size of the new European market while for others continued existence is dependent on tariff protection and trade restrictions.

As broad generalisations, the advantages flowing from freer trade are the economies which accrue from the greater efficiency stimulated by competition; the increased productive efficiency generated for those industries whose expansion is at present inhibited by the confines of a single national market and lastly from the increased specialisation and the location of industry in regions of least cost. Should these economies be given full opportunity to develop there is the likelihood of some tendency towards the equalisation of wage rates and other factor earnings in at least the manufacturing sectors of the economies of the Free Trade Area. In themselves they provide all the attractions of quick entry and for providing the opportunities for these economies to be reaped. But there lurks, especially for Britain, a range of anxieties and problems the very nature of which are likely to create the greatest reluctance on the part of many industries and certain vested interests and not least of them the trade unions, to give their sanction and support for the full flowering of the Free Trade Area project.

Intra-European Trade

The process of adjustment and indeed of the implementation of the Free Trade Area is likely to be a slow one. And this gradualness must in turn affect the scope of the economies which would otherwise accrue from the freeing of trade. This makes necessary a projection of existing trends in intra-European trade and to assess, insofar as it is possible, the benefits likely to be obtained by Britain with a removal of tariffs. With the exception of Holland, Britain's exports as a proportion of gross national product are higher than that of any of the Six countries. Within the Six, the proportion ranges from 11½ per cent for Italy to 51 per cent for Holland and averages about 18 per cent. For Britain the proportion is about 24 per cent. Between 1951 and 1955 an annual average of 30 per cent of U K exports found its way into Western Europe. The place of Britain as a market for continental European exports shows the following: of the Six, Holland had the highest percentage of exports to Britain (15½ per cent) and West Germany the lowest (4½ per cent). The Six sent on average about 25 per cent of their exports to each other. The sources of imports show a similar pattern. Here on an average of 1953 and 1955, Britain obtained 27 per cent of her imports from Western Europe as a whole and 11½ per cent from the Six. This compares with 39½ per cent from the sterling area and 20 per cent from the dollar area. In contrast the Six obtained only 6 per cent of their imports from Britain and about 40 per cent from each other. This pattern of trade suggests that as markets go, the basic condition exists for a larger volume of Continental exports to Britain to take place with the removal of tariffs and this at least establishes for Britain, prima facie, a balance of payments problem. This is, however, likely to be compensated by the import trade of Six with the overseas sterling area though the inclusion of the French overseas territories in the Common Market and the exclusion of the Commonwealth in the Free Trade Area make this compensation less certain.

Automobile & Textile Industries

With regard to the composition of Britain's trade with Western Europe, the results of a Council of Europe study published in 1952 are pertinent. Having regard to the levels of tariffs and of various quantitative restrictions, the Council of Europe study showed that there is a tendency for an important part of Britain's trade with Western Europe to consist of manufactured goods. Thus the removal of tariffs may provide greater scope for this type of trade. This, however, creates a difficulty; since the sterling area accounted for more U K exports than Western Europe in every class of commodities (except raw materials) the relative U K inelasticities in supply may make it difficult for the overseas sterling area to obtain quick and easy deliveries of the range of manufactured products normally imported from Britain.

These implications are not the only ones for Britain. There exists a group of effects which directly concern the structure of the British economy. There is, first, the danger of dislocation and unemployment in particular industries. In this connection the investigation conducted by the Federation of British Industries is illuminating. This was done at short notice and inevitably the conclusions are tentative. Although the need for certain "safeguards" are expressed, the enquiry shows that British industry finds the gains from freer trade sufficiently attractive. The majority of the Trade Associations were in favour of British participation. The ten regional councils of the F B I thought that the readjustments which would be necessary were worth accepting for the benefit of a large free market. In spite of these views, there is ground for belief that at least in some British industries the dislocation involved would be serious. This is particularly the case with the British motor industry which continues to be organised on the basis of small industrial units and of a large number of models and types. The contrast with the American and German industry is striking. In the later countries the motor industries are enjoying all the economies of large scale production and this is shown clearly by the relative cheapness of their motor vehicles to those made in Britain.

In 1955 total production of private cars was 890,000 in Britain and 1,490,000 in Germany, France and Italy combined. All these countries exported far more than they imported. It is, therefore, certain that freer trade in cars might mean a danger of European producers capturing a major part of the British home market and this is likely to worsen the present problems of the British motor industry. Another industry likely to find itself in similar difficulty would certainly be the textile industry.

Payments Problem

Another important fear concerning the Free Trade Area is the effect on Britain of competing with people possessing a relatively lower standard of living. This fear, of course, can possess little validity on theoretical grounds, but the attitude of the British Trade Union Congress clearly shows that this question has its importance. The International Labour Organisation attempted a comparison of wage earnings in various West European countries. Taking the 1954 level of average hourly earnings in the U K as being 100, the indices for all the Six were considerably lower: France 83, Belgium 85, Germany 77, Netherlands 61 and Italy 55. Even if adjustment is made for social welfare contributions and other charges, the indices for Germany, Holland and Italy are found to be well below the British level. These comparisons certainly create anxieties which for well over a generation caused Western Governments to discriminate against Japanese exports. The fact remains, however, that while Britain's living standards are still higher than in most other European countries, her ability to maintain them depends not on protection from European competition but on adequate investment and rising productivity.

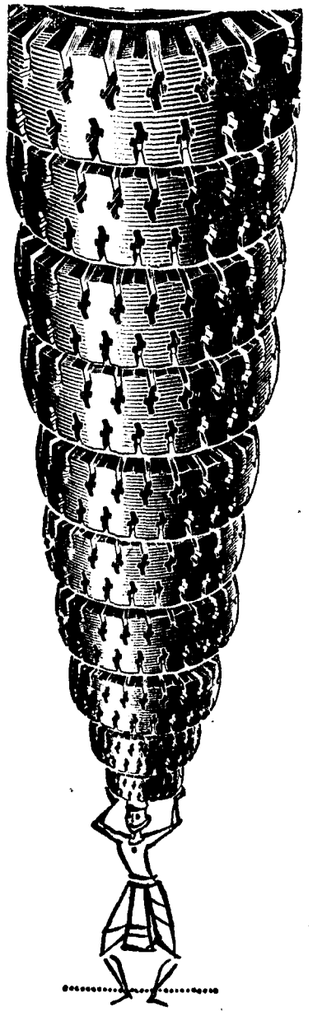
A great danger for the United Kingdom, should the Free Trade Area come into existence, would be the threats to the policy of full employment. Given a possibility of increased U K imports because either the level of British prices and costs are too high or the higher level of purchasing power in the U K may lead to increased imports, the British foreign exchange reserves will stand in danger.

It is true that the Free Trade Area project provides various escapes from the tariff and quantitative restriction obligation for those countries experiencing balance of payments difficulties but these escapes are considered to be exceptional. Having regard to the fact that not all of West Europe's countries are of equal size or possess equal resources, balance of payments disequilibrium becomes a structural problem for the Free Trade Area. Britain with its vast international financial responsibilities cannot enter a trade arrangement which possesses within it potentialities for increasing balance of payments difficulties. This certainly is the most important implication for the United Kingdom in the Free Trade Area.

SUGAR OUTPUT

The production of indigenous sugar amounted to 20.25 lakh tons up to October 15, 1957, in the current season, against 18.59 lakh tons in the corresponding period of last year, according to the Union Ministry of Food and Agriculture.

The note gave the following figures for despatches and stocks: total offtake including quantities despatched for exports, was 20.24 lakh tons; stocks with factories on October 15, 1957, stood at 5.44 lakh tons.



Book Review

The Basis of Despotism

Oriental Despotism—A Comparative Study of Total Power by Karl A Wittfogel. Yale University Press, 1957. Pp XIX + 556. Price $7.50 or Rs 37.50.

D D Kosambi

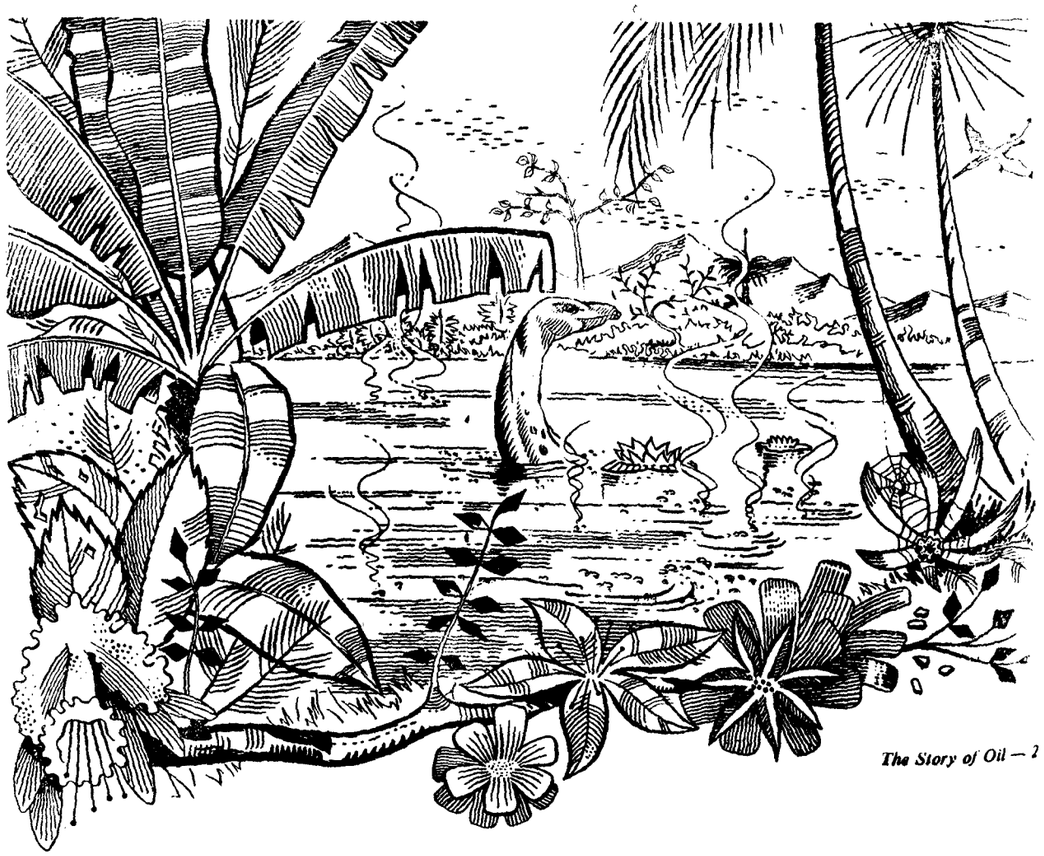
THE contents of this impressive, beautifully printed and well got up publication with its usual paraphernalia of current American scholarship leave very much to be desired. Perhaps the most extraordinary feature of this book (and many others like it) is the profoundly meaningless terminology, such as the following: hydraulic civilization; agromanagerial society; agrobureaucratic and agrodespotic regimes. One can understand the function of the fluid in the working of a hydraulic press, a hydraulic lift, or a hydraulic ram. How it operates in a 'hydraulic' society—apart from the fact that human life cannot exist without water, and that water is not uniformly distributed upon the earth's surface—is not made clear by all the pseudo-scientific verbiage of the initial chapter. The one clear statement is that hydraulic states sadly damage the rights of private property—the ultimate and unforgivable sin. 'Oriental despotism', as if it were plague or cholera, succeeded in infecting Rome without benefit of hydraulics. The whole performance is reminiscent of Lewis Carroll's Jabberwocky, the more surprising because semantics is so fashionable in the U S A.

The word 'Oriental' is sometimes used as synonymous with 'Asiatic', though frequent references to Egypt, Mexico, and Peru show that the geographic limits are not essential. Nero and Caligula were certainly more powerful and more despotic than any oriental despot; but neither they nor Tiberius, with his unspeakable vice and cruelty appear in the book. Our present author goes so far also as hydraulic-oriental despotism. It was, apparently, introduced by Augustus in Rome, much in the same way as smallpox was introduced by the Spaniards into America, and syphilis by the Portuguese into India. There is no discussion of one undisputably Oriental book which praised despots provided they did not follow the wrong cult, and which gained tremendous authority as well as circulation in the West —the Old Testament.

The author, so we are told, experienced the despotism of absolute total power at first hand in one of Hitler's concentration camps. Yet, there is no analysis of that particular experience. On pages 143 to 149, we find that terror and torture are prominent features of oriental despotism. "It was left to the masters of the Communist apparatus state to reverse the humanizing trend and to reintroduce the systematic infliction of physical pain for the purpose of extracting 'confessions' " (p 147). Was there no torture worth the mention in any of the Nazi judicial procedure and 'confessions' obtained in Fascist Italy and Germany, or for that matter third degree methods employed elsewhere (including the 'benign' rule of the British in India)? The reason for this rather lopsided emphasis is very simple. The clear and imminent danger against which the book warns is that of Communism. Apparently, Communism is the most dangerous form of Oriental despotism and total power. Marx, even more Engels and Lenin, (so the author tells us) used all their intellectual power to disguise the fact that they were really introducing Oriental despotism into the West. It is, therefore, not surprising that the Chinese, in trying to introduce Western civilization, mistakenly adopted the Soviet system which was really their own Oriental despotism imposed upon Russia by Lenin! Nehru's India seems (to the author) naively ambivalent. This means that the evil present in the communist danger has not sufficiently impressed itself upon the Indian mind.

The author has hardly considered the monsoon worth mentioning as fundamental in Indian 'hydraulic' society; or, for that matter, caste—which all foreigners from the classical period to the present day seem to regard as a peculiar and very important feature of Indian society. Thana is mentioned twice but only because of a worthless fourth century Nepali legend about its merchant guild. Sopara is, in the author's geography, "one of several settlements located on the coast of Thana, south of modern Bombay". The Manigramam, the Shreni, or the Vira-Vanunja trading caste in India, and the gigantic and really powerful Hong merchants' organisations in China are not allowed to disturb the reader's consciousness. The **Arthashastra** is quoted (without understanding) several times, but nothing whatever has been said of the benign rule of Ashoka, just after the **Arthashastra**. Why this sudden reversal of despotism in that brief interval of not more than 50 years, without any corresponding change in Indian hydraulics? Why is no mention made of the Chinese travellers' emphatic account that under the Guptas (4-5th centuries) and Harsha (early 7th century) penal legislation was extremely mild, labour was not dragooned and no torture used in the examinations of witnesses? In a study of 'Oriental despotism', why is it essential to omit periods when the rule struck all observers as being singularly kindly and unoppressive not only in form, but in fact? How does it happen that the laws of the Roman Twelve Tables and the first Athenian code were far more draconic than under such 'despots', if not because of the right of private property first showing its teeth and claws?

On page 141, we find the following: "Lenin defined the dictatorship of the proletariat—which he held to be the heart of the Soviet regime —as 'a power not limited by any laws'. Like other utterances of Lenin, this formula combines an impressive half-truth with important fallacies." The half-truths and fallacies derive only from Professor Wittfogel. Lenin was first defining dictatorship as such, and not merely that of the proletariat. Dictatorship is precisely rule not bounded by law; and this definition goes back to the days of the Roman republic when, in times of emergency, the people and senate agreed to set up a dictator whose orders would be obeyed for a specified period without question as to their legality. Such dictatorship cannot possibly be



The Story of Oil — 2

A miracle of nature

Crude oil, or petroleum as it is often called, occurs in many parts of the world — chiefly in regions where sedimentary rocks once formed the bottoms of ancient seas.

No one is sure how oil originated. The most widely accepted theory is that it resulted from the decay and alteration of the remains of prehistoric animals and plants. This organic matter was washed from the land into the vast jungle of marine life under the seas. The deposits, mixed with mud and sand, formed layer upon layer on the bottom. As these became buried, Nature's mysterious chemistry got to work. It slowly transformed the organic matter into the compounds of hydrogen and carbon which we now know as oil, and at the same time the fine sediments which covered it were compressed into rock strata. The newly-formed oil oozed into the nearest layers of porous rocks, which held it as if in a sponge, and here it remained.

Throughout the millions of years that oil was being formed, many changes were taking place in the earth's crust. It rose and fell, was crushed and expanded. Lands were drowned, sea-beds became dry land. In some places cracks developed and the land slipped, forming 'faults'.

During these violent changes, some of the imprisoned oil escaped and was lost. In other places it was so near the surface that it seeped through and was discovered and used by man from the earliest times. But the bulk has remained trapped in its porous rocks beneath the surface of the earth.



Assam Oil

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B.O.C

written off as Oriental infection of the truly unhydraulic Roman mind.

Similarly, on page 447: "The Second Industrial Revolution, which we are now experiencing, is perpetuating the principle of a multicentered society through large bureaucratized complexes that mutually—and laterally—check each other: most importantly, Big Government, Big Business, Big Agriculture, and Big Labour. But the destruction of one major nongovernmental complex may bring about the downfall of others. Under Fascism and National Socialism, the liquidation of Big Labour so strengthened Big Government that eventually Big Business and Big Agriculture were also threatened. And in Soviet Russia the liquidation of Big Business and Big Agriculture quickly enabled Big Government to subdue labour." This might raise a dangerous question: the responsibility of Big Business and Big Agriculture in helping fascism suppress Big Labour. The author hastens to bypass it in a footnote: "Moscow's role in Hitler's rise to power is a similarly neglected issue". No mention of Thyssen or Krupp; nor of the unfailing Western support of Hitler almost to the beginning of World War II.

It is depressing to note that Hitler, after all, has scored a victory if a graduate of his concentration camps imbibed enough of the 'master-race' philosophy to damn so widespread a social phenomenon as 'Oriental'. This parallels the extraordinarily weak hold upon the ideal of pure liberty that the Greeks themselves manifested during their brief period of glory. They might deride the Persians for not having tasted the joy of sweet liberty, but the book fails to mention what the Athenians did to ruin the freedom of Melos, and what happened to the liberty of Plataea at Greek hands, in the Peloponnesian War. Militiades, a private citizen of free Athens who had led his side to victory against the Persians at Marathon, was also the tyrant of the Chersonese; this did not diminish Byron's poetic admiration for both Militiades and liberty. Pausanias, field commander in the Persian war, missed a coup d'etat against his own state. He starved to death in an unroofed sanctuary at Sparta, ringed in by the very men whom he had led in defence of the liberty of which he then tried to deprive them. The Athenian naval commander in the same war, Themistocles, had similar designs at Athens, but escaped in time to serve the Persian despot as provincial governor, without any further qualms about the loss of his ineffable liberty.

What is the tap-root of despotism? Marx noted that the Asian states performed a considerable economic function in development and control of irrigation; but that the solid foundation of Asiatic despotism was furnished by the passive, unresisting stratum of producers in the virtually self-contained, stagnant villages, whose produce did not become a commodity till it reached the hands of the state. There is no esoteric doctrine here about hydraulics and 'statism'. It might be suggested that the passive, unresisting stratum of Indian peasants in Latin America has something to do with the constant resurgence of tyrannical dictator-presidents like Trujillo. If such a despot has any other prop, it is neither the water supply, nor communist instigation, but some foreign company capitalized in the land of free enterprise and liberty for the stockholders.

"The history of hydraulic society", says Wittfogel on p 329, "suggests that the class struggle, far from being a chronic disease of all mankind, is the luxury of multicentered and open societies". This is the same sort of nonsense that derides socialism because it is supposed to deprive the workers of their most precious possession, the right to strike, which is far more important than a living wage or control of the state. Yet, the painful maxim, "Better the tyranny of one than the tyranny of the many", goes far back into Greek antiquity. Despotism is clear evidence of some acute internal struggle. By formal outward submission to the absolute authority of the state, or of a despot—raised, if necessary, to the level of a cult—a particular class can effectively disguise its own need for, and benefit from, the despotism.

The Roman senatorial and equestrian orders were based on the possession of wealth. The citizen whose property assessment fell below the requisite level would lose the privileged status at the next census. In the last days of the Republic, the greed of these classes in extracting wealth from the provinces had attained intolerable lengths. Cicero's oration against Verres shows how a patrician could strip a province unhindered. The case was won by the provincials, without restitution of the loot or punishment for Verres. That model lover of liberty, Brutus, loaned money to a tributary Asian king at 48 per cent annually compound interest. He asked Cicero to call out the nearest Roman army, to collect payment on the debt. The emperors, with their paid civil service of freemen and slaves, at least restricted the robbery to less intolerable limits; they held the balance of power between looter and looted. The progressive deification of the Roman emperors had its basis in the need to minimize the use of force, always a costly proposition, during expropriation. The last remnants of Republican pretence were dropped by the emperor Diocletian because the structure of the state no longer corresponded to such fictions. The 'Roman' legions had to be recruited primarily from barbarians near the frontiers. The Italian heartland whose free, smallholding, peasant citizenry had been eaten up by the **latifundia** of the patricians could supply neither soldiers nor officers.

What makes despotism inevitable is not Orientalism, nor hydraulics, but the particular type of production: how much surplus is forcibly expropriated by the state for its own use and that of the class it mainly serves. Despotism would have no function in a primitive tribal society; but should a tribe reach a certain level of development, a cruel despot like the Zulu Chaka seems a natural phenomenon. Even so, his cruelties as reported by unsympathetic foreigners who wanted to justify intervention and conquest do not match the cold, treacherous malice of the Roman Republic towards any opposition, nor the Spartan massacre of Nikias and about 7,000 Athenian prisoners of war after the battle of Syracuse. Not the insidious vileness of Orientals, but the need to industrialize at all costs in the face of a uniformly hostile environment explains the stresses set up in the first state to be ruled by a Communist party—the USSR. On the other hand, the despotisms that many lamented under fascism were engendered by the unrestrained exercise of the rights of private property.

A Note on Surpluses and Forms of Production

Amlan Datta

THIS note may be prefaced with a summary of what is now more or less an accepted position. If maximisation of the current output is the desired objective, the choice of techniques of production and the pattern of investment should be so decided as to equalise, as far as possible, the marginal (social) net product of ("simple") labour in alternative lines, at any positive level however low. If, however, the aim is to maximise the "surplus", which is the potential source of future investment, there is an alternative principle that emerges, viz, that the marginal (social) net product of labour should not fall below the marginal (social) net cost of employing labour. This distinction is practically unimportant only for those advanced economies which possess sufficiently large capital resources to be able to attain full employment of labour without driving marginal labour productivity below the current level of wages.

Cost of Employment

The marginal social net cost of employing unemployed, or virtually unemployed, persons is measured not by the whole of their wages or consumption (assuming the whole of wages to be consumed), but by the positive difference in total consumption that results from their employment, that is to say, wages minus doles plus increase in other people's consumption as a result of the cessation of doles, the word doles being interpreted broadly to cover whatever goes to provide the consumption of the unemployed. Now, in the underdeveloped countries generally, the "joint" family is the basic social institution on which unemployed people, or the proportion of the population making no positive contribution to production, depend for their maintenance. A large part of the surplus labour force is in the rural areas, ostensibly occupied in agriculture. When such people find more productive employment, it is not uncommon for the consumption of the basic social unit, viz, the joint family, to go up by the whole, or nearly the whole, amount of the newly accruing income. In so far as this is the case, wages, or the newly accruing income, must be considered entirely as a social cost to be deducted before calculating the surplus.

This line of reasoning seems to lend support to the case for relatively more capital-intensive methods of production. Somewhat paradoxically, it strengthens, at the same time, the case for cottage industry, or all modes of production based on the family as the basic unit. This is because the marginal cost of employing labour in a family-based industry is next to nil: under the joint-family system, a family member has to be fed even when he sits idle, and does not have to be fed very much more when he is set to work. In other words, while under the factory system the employment of more labour per unit of capital will only be justified from an accumulation point of view so long as the marginal productivity of labour is not below the current wage rate, in a family-centred production unit almost any level of marginal productivity justifies employment so long as it is a positive level.

Ambar Charkha : An Illustration

The point may be illustrated. In an interesting note on the Ambar Charkha, the net value added per Charkha per year has been estimated at Rs 61-4-0. ("A Short Note on the Ambar Charkha" by Amartya Kumar Sen, **Economic Weekly**, October 19, 1957.) The writer, then, takes spinning wages per worker per day at 9 annas, and goes on to add: "The volume of recurring deficit per Charkha per year is equal to the difference between the net value added per year and the wage bill per year". This latter being calculated at Rs 337-8-0, the writer concludes: "We find that the rate of surplus per year per unit of capital is **minus** 276 per cent". Now, this is how the calculation ought to be made if production with the Ambar Charkha is "capitalistically" organised, and how it ought not to be made if such production is organised in the form of cottage industry with family as the basic unit of work. In the latter case the more relevant fact is that the Ambar Charkha, which costs Rs 100 and has an expected life of 10 years, adds Rs 61-4-0 per year, after deductions have been made for depreciation and maintenance, thus showing a capital-output ratio of 1.6, as the same writer estimates but apparently disregards. This presents the case for the Ambar Charkha in a much more favourable light. Perhaps it overstates the case for the Ambar Charkha. But to show that it does, it will be necessary to introduce facts and considerations other than those which find place in Shri Sen's note.

Whatever the case for the Ambar Charkha—and one would suspect, on general grounds, that it is weak since in spinning, as distinct from weaving, there are overwhelming technical advantages in favour of mechanised processes—the main interest of the above discussion lies in the light that it throws on the different bases of calculation in estimating "surplus" under different forms of organisation of production. In the underdeveloped countries the economic landscape presents not unoften the rather striking spectacle of a few modern industries in the factory sector adopting comparatively capital intensive techniques of production, with the background of a more general pattern of handicrafts production organised on a family basis, with very little to suggest explicit continuity. On reflection this appears to be not too puzzling or "uneconomic" after all.

Case for Planned Development

This is not to deny that the "rational" planner may, under certain circumstances, decide in favour of more labour-intensive methods of production in the factory sector of the economy than what tends to be adopted under the private profit motive. If labour can be drawn away from the rural sector to the factories, and if at the same time measures can be adopted to ensure that the reduced burden on the rural population results in resources being released for new investment, then the case for adoption of labour-intensive methods of production in the factories would be stronger than otherwise. There are two ways of ensuring that new savings created pari passu with the withdrawal of labour from those sectors where a surplus of employable labour exists. In the first place, this can be done through a system of taxation or state sponsored savings campaign. Secondly, at the same time as new factories or other lines of employment are created, supporting development projects (such as "community projects") may be adopted to spread investment-consciousness in the countryside. It goes without saying that these two methods are not mutually exclusive, and that their adoption would remain desirable whether the additional employment is found in factories or road construction or any other line of creation of wealth.

In those countries where economic development has proceeded without central planning, the choice of technique has naturally been decided on the basis of the current wage-rates relatively to levels of labour productivity; but in countries where a centrally coordinated programme of development has been adopted or is envisaged, there is no reason why the problem should not be considered within a larger frame-work and the choice tipped in favour of labour-intensive methods as, and to the extent that, measures are adopted to mobilise rural savings. The superiority of this strategy to planless development in the poorer and over-populated countries of the world lies in this that it helps to reconcile more satisfactorily the rival objectives of maximum accumulation and maximum expansion of employment.

IBRD Assistance to Pakistan

THE World Bank has announced a loan in various currencies totalling $31 million to Pakistan to help meet part of the foreign exchange cost of Pakistan's programme of replacement, improvement and expansion of her two railway systems, viz, the North Western and the East Bengal Railways.

The N W R with a route mileage of 5,340, carries much the greater part of the freight traffic and about half the commercial passenger traffic. Bulk cargo such as wheat, cotton and cement depends very heavily upon the railways. In East Pakistan, though the inland waterways system handles two-thirds of the total traffic, the pressure on the E B R with a route mileage of only 1,710, is by no means small. Although the Railway network in Pakistan as a whole is operating at a profit and railways are able to handle the traffic offered, much of its equipment, particularly steam locomotives and wagons, is worn out. On many sections speeds are low and, in the absence of adequate replacement, not to speak of new investment, the operational efficiency is on the decline.

The present railway development programme, it is now reported, envisages a total expenditure of Rs 84 crores ($176 million). Of this, the equivalent of $119 million will be in foreign currency. The Bank's loan will apparently meet only part of the cost of this programme. The balance is likely to be met largely out of U S aid and also a credit from the United Kingdom.

The new $31 million loan is the second railway loan made by the World Bank to Pakistan. The first amounting to $27.2 million was lent in 1952, to finance the introduction of diesel locomotives on the main lines of both systems.

The World Bank has now made seven loans to Pakistan totalling $108.2 million.

Industrial Progress in Pakistan

IN 1947, there was no jute mill in Pakistan although 70 per cent of world's jute was being produced in the country. Now, as many as 14 mills with over 6,000 looms have been established. The Cotton Textile Industry had only 4,828 looms at the time of partition. 25,730 looms had been installed by the end of 1955.

Cement production in the country has more than doubled, from 323,890 tons in 1948 to 700,000 tons in 1955. Two big cement factories with annual capacity of nearly 220,000 tons have almost been completed.

Sugar production has increased substantially by about 12 times over the production figure of 1948. The production in 1955 was 87,000 tons against 7,000 tons in 1948.

A number of new industries have been set up, e g, newsprint, fertilisers, rayon, penicillin, etc. A 50,000 ton Fertilizer plant has gone into production while a 6.8 million mega Unit penicillin plant is almost nearng completion. A 350-mile pipeline from Sui (Baluchistan) to Karachi has been completed.

ASIA of today can be best understood through the columns of the Newspapers and Periodicals appearing in Asia.

Asia is being transformed. This is the time when we must see and assess the changing image of Asia. That is why an exhibition of Newspapers and Periodicals in Asia and Books on Asia is being organised by ASIAN STUDIES in December 1957 at Bombay to be opened by the Hon'ble Mr M C Chagla, the Chief Justice of Bombay.

The exhibition will be later shifted to Calcutta, Madras and New Delhi.

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Publication: Asian Press and the People

Publishers of Books, Newspapers and Periodicals are kindly requested to send their Publications for display. Others interested in the Exhibition, please write to:

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Bombay 26.

A Memorandum on Foodgrains Policy

(Concluded)

IV

A HIGHER rate of growth of demand, relatively to the rate of growth of output, can perhaps by itself explain the price rises over the last two years. But this is not to suggest that there have been no other factors at work. There is reason to believe that, while production of foodgrains has risen, the proportion of output marketed by the producers has been tending to diminish. To the extent that this has happened, it would have clearly aggravated the upward movement of foodgrain prices, since the supply of foodgrains in the open markets would have failed to keep pace even with the realised increases in output.

While discussing this problem, we often use the concept of marketed surpluses. But it is important to be clear as to what exactly we mean by this term and what are the different factors which might cause a contraction or expansion of marketed surpluses.

In the first place, marketed surpluses are clearly not the same thing as surpluses in the sense of profits or savings. They represent the proportion of the total output of a commodity that is exchanged for money or for other commodities or services. If the demand for money, or for these other commodities and services, is inelastic, a larger proportion of the total output of the commodity will be marketed than would otherwise be the case. For this reason, as the income of the producers rises their savings surpluses may rise, but the marketed surpluses of their produce may actually contract.

Secondly, we need to make a distinction between the marketed surpluses of the producers of foodgrains and the marketed surpluses of the rural sector of the economy. If conditions develop, in which a larger proportion of the payments by producers within the rural sector are made in foodgrains, the marketed surpluses of the producers may well expand without an expansion of the marketed surpluses of the rural sector. This can also happen if the incomes of the non-foodgrain producers in the rural sector go up independently.

The marketed surpluses of foodgrain producers may contract for either of two reasons: (i) the producers may decide to sell less of their output because the price of foodgrains falls relatively to the prices of the other commodities for which they are exchanged (this is usually considered the normal response of suppliers to a fall in prices); or (ii) the producers may sell less of their output for exactly the opposite reason, namely a rise in the price of foodgrains relatively to other prices (this is usually referred to as the special case of 'backward sloping' supply curves). In the latter case, what happens in effect is that, when the price of foodgrains goes up relatively to the prices of other commodities, the real value of foodgrains output goes up, as also the real income of the producers, and this induces them to consume more of their own produce. The differences in the two responses are, therefore, ultimately traceable to differences in the income elasticities of demand, of the producers of foodgrains, for their own produce relatively to their income elasticities of demand for other commodities and services.

Apart from these factors, the marketed surpluses of producers may also contract if there are expectations of rise in prices, and if the natural propensity to hold larger stocks under these conditions is backed by adequate capacity on the part of producers to do so. An increase in the holding capacity of producers, whether due to growth in incomes, greater availability of credit, or better storage facilities, may therefore reduce their marketed surpluses, given certain price expectations. But increased holding of stocks by producers goes usually alongside increased hoarding by traders, both big and small, and it is therefore difficult to know how much of the contraction in foodgrains supplies in the market is due to contraction of marketed surpluses by producers and how much due to the speculative activities of traders.

In India, over the last two years, the terms of trade have moved not against, but in favour of foodgrain producers. A contraction in their marketed surpluses can, therefore, be explained only in terms of backward sloping supply curves on the part of these producers or in terms of increased holdings of speculative stocks. Both are probably true, since (i) the income elasticity of demand for foodgrains, on the part of the bulk of the foodgrains producers, is high, and (ii) the effect of improved supply of rural credit and the facilities rendered by the agricultural extension services appears to have been to strengthen the more substantial peasants in the rural sector. We must remember also that, while land reforms have as yet made little impression on the larger holdings, rents generally have been scaled down all round. Since a large part of the rents previously went to absentee owners in urban areas, this scaling down of rents is also likely to have contributed to a reduction of the marketed surpluses of the rural sector. The reduction in interst payments on account of improved credit facilities is likely to have had a similar effect. Over and above all these, the expectations of rising prices, created over the last year, have undoubtedly stimulated increases in the stocks held by traders and contracted further the supplies available in the open market.

Assuming, therefore, that marketed surpluses have contracted, the questions to consider, from a practical point of view, are: (i) how big has been this contraction? (ii) what are the likely tendencies over the next two or three years? and (iii) at what points is it possible to intervene to counteract these tendencies?

There is very little information available on the magnitude of the contraction in marketed surpluses that has taken place. All that can be said is that, considering the relatively small prportion of the total output of foodgrains that is marketed from the rural to the urban sector, even a slight movement, in one direction or the other, can bring about significant changes in the price of foodgrains in the urban sector. On the whole, it would also seem a safe statement to make that, over the last two years, the contraction in the marketed surpluses of producers has probably not been as great as the increased holdings of traders.

The likely trends in regard to marketed surpluses over the next two or three years cannot also be forecast with any precision. But, on the reasoning above, it will be clear that the factor of price expectations is likely to cause increased holding of stocks and prevent supplies in the market rising alongside possible increases in output. This can be countered only to the extent that the price expectations can themselves be reversed or to the extent that the freedom and the capacity to hold stocks is reduced. If prices of foodgrains go up, there may be a contraction of the marketed surpluses also on account of the backward sloping supply curves governing the behaviour of the small producers.

These tendencies cannot possibly be counteracted either by reducing credit supplies to the rural areas or by favouring the larger producers whose income elasticity of demand for their own produce is relatively low. Something can perhaps be done by making available to the rural areas low-priced commodities from the urban areas for which there is a felt demand, so that the smaller producers are induced to part with their produce in exchange for these commodities; it may also be worthwhile, with the same end in view, to promote new tastes among the agricultural producers. With the rapidly rising industrial production in the country, some progress in these directions may be possible. But, on the whole, we should regard them as part of a long-term strategy rather than as measures which will show significant results within the period of the Plan.

The only way of directly touching the potential supplies during this period, and preventing the marketed surpluses from contracting, will be by (a) either eliminating middle men altogether in the trade in foodgrains or by introducing a licensing system which will make it possible to check hoarding by traders, and (b) supplementing this, wherever found necessary, by a system of discriminating procurement. For this purpose, the programme, in the Second Plan, of building warehouses in rural areas needs to be given the highest priority.

We have spoken above of a system of discriminating procurement. What we mean by this is that it should be a system in which (a) the amounts procured have some clear relation to the capacity to pay of those from whom the procurements are made; (b) the administrative and other expenses involved are not out of proportion to the amounts realised through procurements; and (c) the effect of the procurement is not to raise the foodgrains prices for the non-foodgrain producers in the rural areas. These three conditions, it would appear, are most likely to be satisfied if direct procurement is limited to the larger holdings.

The suggestion has often been made that one way of securing a sizable amount of foodgrains from the rural sector would be to make land revenue and other cesses payable in foodgrains. The possibilities of working out a scheme on these lines need to be examined closely. On general considerations, however, it would seem that the administrative costs involved might be disproportionately high if these dues are to be collected in small amounts from all the producers distributed over the country. Procurement from the larger producers has distinct advantages from this point of view, particularly because there is reason to believe that the major part of the marketed surpluses of foodgrains comes from a relatively small proportion of the producers. Procurement at a fixed price is also a form of taxation when market prices are higher; a system of procurement from the larger producers will also, therefore, help to introduce an element of progressiveness into the taxation of the agricultural classes.

For the success of a scheme of this kind, however, it would be necessary to ensure that there is no large-scale movement among the larger producers from the production of foodgrains to the production of commercial crops. Even normally, there is a tendency for the share of commercial crops to grow with increase in the size of holdings. This may be aggravated if the procurement prices of foodgrains are fixed and the prices of the competing commercial crops are allowed to rise. The tendency can be counteracted only by adopting any one or all of the following measures: (i) fixing the maximum prices of competing commercial crops alongside the prices of foodgrains; (ii) directly enforcing some kind of crop planning which gives foodgrains the necessary weightage; and (iii) fixing the procurement quota in terms of foodgrains according to the size of the holdings.

V

From our analysis in the last three sections, it would seem that, left to themselves, foodgrain prices are likely to rise further during the remaining period of the Plan. In the first place, there is no evidence that any definite trends, in yield per acre or in total output, have so far been established; this means that, even though it is important to set a reasonably high target for foodgrains production, and work for its achievement, we cannot rely solely on increases in output as a means of countering the rise in foodgrain prices. Secondly, given the planned increases in investment expenditure, not only is the demand for foodgrains bound to rise but it is likely to rise cumulatively. And thirdly, given the likely trends in demand and output, it would appear that conditions will be favourable for further contraction of marketed surpluses and for more speculative holdings of stocks.

In the light of these considerations, a policy of scaling down foodgrain prices below their present level seems likely to prove impracticable, unless (a) there is an unexpected increase in the output of foodgrains, as in 1953-54, and/or (b) we are in a position to import large amounts of foodgrains. It should be our assumption that, while some more food surpluses may become available to us from the United States under P L 480, we are not likely to get more than another 3 million tons of foodgrains over the remaining period of the Second Plan. More can, therefore, be imported only by using up foreign exchange needed urgently for purchasing capital goods for the Plan. In fact, we must recognise that any policy in regard to foodgrains which depends implicitly or otherwise on large-scale imports would, in effect, be a policy which comes in the way of the implementation of the Plan.

It follows that though a reversal of the movement in terms of trade,

Note: The first three sections of this Memorandum by Dr K N Raj appeared in the issue of October 26, 1957—Ed.

in favour of the urban sector, and a raising of real wages, would be advantageous from many points of view, neither is likely to be feasible over the next two or three years. We shall have done well if, in this period, we are able to prevent a further rise in foodgrain prices and a further deterioration in the terms of trade of the urban sector, with all their further consequences. It is, therefore, our submission that the policy, in the immediate future, should be to stabilise foodgrain prices at their present level, and to be prepared for such sectional adjustments in money wages as may be necessary to compensate those who have suffered reduction in real wages over a period (e g, employees of Government departments and State enterprises).

Even this limited objective, as we have indicated above, will require adopting a system of direct procurement. Opening of fair price shops in the urban centres is by itself only a way of distributing foodgrains at reasonable prices; the system would remain logically incomplete, and unworkable in practice, unless it is supported by direct procurement for securing the necessary supplies of foodgrains. There is a tendency to avoid facing this problem, and to find an escape through contracting for larger imports of foodgrains. But it is a solution which, in the context of the Second Plan, is likely to prove extremely costly.

Moreover, the system of procurement we adopt should be based (unlike the system we had previously) on the relative capacities of those from whom the procurements are made. It is important to bear in mind also the requirements of the non-foodgrains producers in the rural areas. A system of procurement which indirectly throws the burden on the wage-earning landless workers in these areas will make this section of labour needlessly hostile to physical controls on foodgrains, and even to the Plan. In the long run this may have more serious consequences than a policy which reduces the real wages of urban, industrial workers.

The success of a control system based on procurements from the larger producers will depend on the extent to which tendencies for moving from the production of foodgrains to the production of commercial crops can be checked. This would require the maintenance of an appropriate structure of relative prices (as between foodgrains and commercial crops) as well as measures designed to enforce directly some kind of crop planning among the larger producers.

One can, of course, consider alternative ways of operating a control system, taking into account administrative as well as political considerations. It should be possible to introduce some flexibility and scope for adaptation according to differences in regional conditions and regional needs. We have not gone into the details of these in this memorandum. But what we would like to emphasise is that we cannot altogether do without a control system during the remaining period of the Second Plan. To proceed any longer on the assumption that we can would be to place in jeopardy the implementation of even the so-called 'hard core' of the Second Plan.

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Around Calcutta Markets

Slow Recovery

Wednesday, Evening

IT all started with the publication in a local daily of a reported statement by the Finance Minister to one of his audiences in America. TTK is reported to have assured American private industry that the system of compulsory deposit of company reserves will be abolished in next year's budget. Lyons Range, if not Dalal Street, seems to have concluded from this reported statement that bonus and dividend taxes will also be lowered, if not abolished. Lyons Range led the upward movement in equities. Dalal Street was reluctant to follow the lead, but would seem to have caught the contagion at the time of this writing.

TTK may or may not have disclosed the next year's budget secrets to American private industry. But he did make some statements to inform American private capital about the Indian brand of socialism. He was at pains to assure Wall Street that India's mixed economy did not mean taxing or elbowing private industry out of existence. Though the source of inspiration is not known, stock markets in India seem to have jumped to the conclusion that New Delhi has decided to adjust its economic policies to encourage expansion in the private sector.

Assumptions

Lyons Range is entitled to its views. There is circumstantial evidence to suggest that stock markets are more impressed with Shri G D Birla's interpretation of TTK's mission abroad than of the latter's reported statements and assurances. Shri Birla has been gracious in his compliments to the Finance Minister. But Shri Birla's main argument is that even foreign private investment will be of no help unless domestic capital is forthcoming. There will be no quarrel with this assumption. Shri Birla has every right to emphasise the conditions for a virile capital market. Evidently, stock markets endorse his conclusion that lower taxation and a more lenient attitude to private industry are essential requisites of an active capital market.

That may or may not be an arguable proposition. But the point is whether there is any scope or possibility of lower taxation. It should not be ignored that the Plan has to be financed. And, if the financing of the Plan is not to aggravate inflationary pressures on the economy, taxation will have to be high, and deficit financing will have to be curtailed. Stock markets may be in a mood to minimise these wider issues. But that does not mean that the slight recovery in equities is without basis altogether. Industrial output is moving up. Industrial profits are rising, despite the increased tax load. Equity yields are quite attractive. And the technical market situation is not unfavourable. There is some basis behind steadiness in equities.

The Other Side

Consider, now, the other side of the coin. Seven States are affected by droughts. There are disturbing developments on the food front. At the start of the monsoon, there were hopes that the favourable progress of the monsoon would ease the food shortage. These hopes have been falsified. After a slight stoop, food prices have again shown a tendency to crawl up. Higher food prices will affect industrial costs adversely; savings will continue to be prejudiced. But these arguments can be emphasised. New Delhi seems determined to check any undue rise in food prices. That would involve more imports. There is urgent need for another PL 480. Even then, increased food imports may cause a further drain on scarce foreign exchange reserves.

This is where TTK's mission abroad enters the picture. Opinions vary. Some are inclined to write the mission off. Others are over-optimistic. Any substantial dollar loan from America is not likely. But some American aid can be relied on. Those who expected too much from West Germany, may feel disappointed. But assistance from West Germany will continue. Pandit Nehru's visit to Japan has been more fruitful than anticipated earlier. The position is not as gloomy as pessimists like to think. But it is not very reassuring, either. Stock markets may discover later that the current optimism is being overdone.

Jute Shares

Though speculative scrips have firmed-up in recent days, an encouraging feature of recent trading on the Calcutta Stock Exchange has been the gradual recovery in certain cash scrips. For the last few weeks, Jute shares have been active at gradually higher rates. There is growing belief that the industry is now in a position to do simultaneous business with profit. Jute goods have been moving up. Stocks of Jute goods with mills are at the lowest level in recent years. Despatches, if not exports, continue to be highly satisfactory. Raw jute is steady, but not as firm as jute goods. This is the main basis behind the continued steadiness in Jute shares.

Some days ago, there were rumours that sealed looms may be unsealed. These rumours originated from the depleted stocks position. As was only to be expected, jute goods were affected by these rumours. But the gunny market seems to have discounted these rumours already. It was significant that Jute shares did not drop as a sequel to these rumours. Last time when sealed looms were unsealed, the looms had to be sealed again promptly as production quickly outpaced demand. The industry is not likely to encourage a repetition of that experience. But the only trouble is that raw jute is not declining as fibre prices are expected to do at this time of the year.

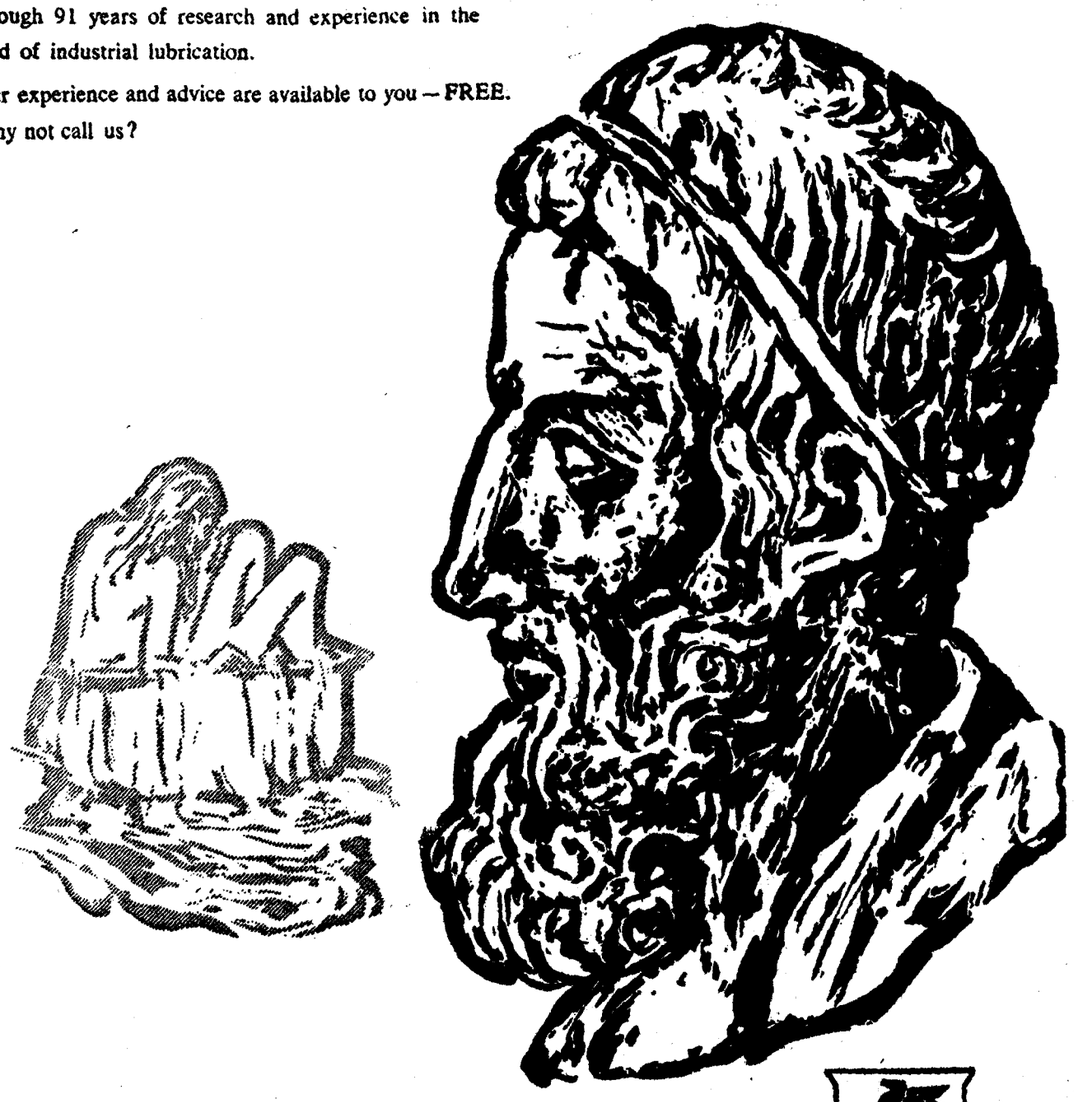
Coal Shares

After many months, Coal shares have met with some enquiries. This may seem surprising as the Coal Prices Committee's recommendation about coal prices is not likely to be out before the end of the year. Meanwhile, there is some replacement buying of Coal shares on the argument that the Government will have to raise the output target for the private sector of the industry.

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Mobil Lubricants

Around Bombay Markets

Cheerful Feeling

Thursday, Morning

THE market has turned cheerful, understandably enough, in the hope that Government policy towards the private sector would become 'realistic' in the near future. The excise duty on coarse and medium cloth is expected to be reduced soon. But since this relaxation may pass for little more than an empirical remedy, some modification of the 'ideological' measures announced over the last thirteen months is also expected to be thrown in for good measure. Among the measures high up on the casualty list is the company reserves deposit scheme which has done much psychological damage without bringing in any deposits worth mention, statistically or otherwise. While the withdrawal of this scheme may be announced in the very near future, a decent time interval may be allowed to elapse, if only to protect the Finance Minister's physiognomy, before any relief in company taxation is granted.

The appearance of these expectations has coincided with the realisation in Dalal Street that present values offer pretty good bargains—if only to book gains after a fairly long period of inactivity. It is hardly surprising, therefore, that Dalal Street has experienced a boomlet this week after ending the last settlement on a tame note. Textiles have looked up almost with a vengeance after a long period of sluggishness. Most of the so-called Miscellaneous scrips firmed up, partly on account of professional support, and Tata Steel rose from Rs 161.50 to Rs 165.50. New India Assurance continued to attract investment inquiry, while Shipping scrips remained in active demand in anticipation of bonus shares from the two leading companies. The good cheer in equities became contagious towards the end of the week and spread even to gilt-edgeds. As a result, 3 per cent Conversion Paper moved up fractionally from Rs 71 to Rs 71.10.

Fundamentally, this boomlet though sudden is timely. Equity values have been quite attractive of late in relation to their yields. The only major difficulty in taking advantage of them was the fear of capital depreciation consequent on the insecurity generated by Government policy. This fear is now gradually petering out since the official announcement of pruning the Plan and the apparent absence of any intention to change the Bank Rate. Even monetary stringency may lose some of its terrors in the near future because the banks have entered the current busy season with an intrinsically sound liquidity position and are, therefore, expected to be no more than conventionally stern in renewing credits. As counterweights against these favourable factors are the continued drain on the external reserves and the re-emergence of the food problem. Since these have to be lived with for at least a year more, there is obviously no point in being continuously scared of them.

Bank Liquidity Improves

The cash reserves of scheduled banks went up by Rs 12 crores during the week ending October 18, the State Bank being responsible for more than Rs 10 crores of this figure, and their borrowings from the Reserve Bank declined by about Rs 5.5 crores. Net deposit liabilities went up by Rs 1 crore in spite of a decline of Rs 2 crores at the State Bank, which was responsible for the entire rise of Rs 2 crores in total bank credit. Investments in gilt-edgeds contracted by more than Rs 1 crore without any change at the State Bank, the 'Other Assets' of which fell back by Rs 12.5 crores during the week as the result of some extraordinary transaction which, unlike the previous occasion, has resulted this time in a larger cash balance instead of a heavier gilt-edged portfolio.

During the week ending October 25, Government borrowing from the Reserve Bank, excluding ways and means advances, went up by nearly Rs 22 crores, all of it in the Banking Department, but total Government deposits went up at the same time by Rs 6.5 crores. Unadjusted deficit - financing by the Central Government during the week thus amounted to more than Rs 19 crores, a figure roughly equal to last week's. Bankers' deposits went up further by Rs 6.5 crores and loans to them declined by Rs 1 crore though advances against usance bills increased by a similar figure. 'Balances held abroad' have been depleted still further by nearly Rs 3.5 crores to stand at Rs 15.39 crores while foreign securities in the Issue Department remained unchanged at Rs 311.71 crores. Notes in circulation expanded by Rs 2 crores, almost entirely at the expense of notes held in the Banking Department. An ordinance to reduce the statutory minimum reserve below Rs 300 crores worth of foreign securities is expected any time now. The amended provision relating to the currency reserve may not mention any definite figure as the minimum.

Erratic Trend Continues

KALBADEVI has been swayed during the week by alternate waves of nervousness and bullish sentiment. Early in the week, bull liquidation brought on by credit stringency, reports of rain in Gujarat and Khandesh, and the aloofness of mills, brought down Jarilla March from Rs 710 to Rs 697. Later, rumours of reduction in the cloth excise duty and support from Ahmedabad, together with firmness at Sewri inspired by the shortfall in the African crop, helped lift it back to Rs 704.25 but profit taking at this level brought it down once again to Rs 701.50. Daily turnover at Kalbadevi fluctuated between 14,000 and 18,000 bales while that at Sewri moved widely between 2,000 and 4,000 bales.

These erratic movements at Kalbadevi are bound to continue so long as there is uncertainty about the present cloth excise duties.

Silver Recovers

PROFESSIONAL support has enabled silver to regain nearly a rupee over the week while fair spot demand lifted gold by a further 6 as. The absence of any further reports of imports of Tibetan coins has helped silver find its feet again while the setting in of winter, with the consequent prospect of practical cessation of this flow, has made for a disparity of nearly a rupee between the two forward contracts of silver.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1486.19	1483.81	1471.11	1418.89
2. Rupee Coin	133.72	134.10	135.20	121.49
3. Deposits				
a) Central Government's	52.54	50.02	52.19	54.15
b) Banks'	106.91	100.47	100.01	51.89
c) Other Government's	11.01	6.58	7.53	27.81
d) Others'	111.73	111.54	109.97	12.76
4. Foreign Securities	311.71	311.71	326.62	492.02
5. Balances held abroad	15.89	18.79	25.90	90.23
6. Rupee Securities	950.78	950.78	935.87	720.69
7. Investments	241.84	219.80	201.27	55.14
8. Loans and advances to Governments	49.92	51.08	41.79	3.88
9. Other loans and advances	67.37	68.83	73.38	83.35
Scheduled Banks				
1. Demand liabilities (net)	730.15	729.07	718.55	644.60
2. Time Liabilities	627.44	624.50	616.24	454.30
3. Cash on hand	42.04	42.67	36.64	40.75
4. Borrowings from Reserve Bank	31.19	36.57	36.98	61.25
of which against Usance Bills	26.81	28.71	33.00	41.29
5. Advances and Bills discounted	800.24	801.55	784.85	708.00
of which State Bank's	162.64	161.14	157.72	128.70
6. Invst. in Govt. Sec.	384.96	386.15	386.04	372.53
of which State Bank's	151.83	151.83	151.86	107.64
Cheque Clearance	93.66	76.34	152.06	117.78

† For Reserve Bank week ended 25-10-57. Scheduled Banks and Cheque Clearance week ended 18-10-57.

Bombay Money Rates

	18-10-57	11-10-57	20-9-57	19-7-57
Call Money	$2\frac{3}{4}$-$4\frac{7}{16}$	$2\frac{3}{4}$-$4\frac{7}{16}$	$2\frac{1}{4}$-$4\frac{7}{16}$	$3\frac{1}{2}$-$4\frac{5}{16}$
From banks	$3\frac{1}{4}$-$4\frac{7}{16}$	$3\frac{1}{2}$-$4\frac{9}{16}$	$3\frac{1}{4}$-$4\frac{9}{16}$	$3\frac{7}{8}$-$4\frac{7}{16}$
From public	$3\frac{3}{4}$-$4\frac{11}{16}$	$2\frac{1}{4}$-$4\frac{11}{16}$	$2\frac{1}{2}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{6}{16}$
Three Months	$2\frac{1}{2}$-$4\frac{9}{16}$	2-$4\frac{7}{16}$	2-$4\frac{7}{16}$	2-$4\frac{5}{16}$
Six Months				

Bombay Bullion

(In Rupee and nP)

	17-10-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	106.32	107.00	107.69	103.65
Forward	106.81	107.25	107.78	103.10
Silver (per 100 tolas)				
Spot	187.75	183.75	182.14	178.06
Forward	182.37	184.56	183.19	173.00

JUTE STATISTICS

	August	July	June	July '56 to June '57
Production ('000 tons)				
Hessian	38.9	35.6	32.3	428.8
Sacking	43.1	45.0	42.3	526.8
Others	4.9	5.3	5.5	70.1
TOTAL	81.9	85.9	80.1	b1,025.2
Total production in the Corresponding months of:				
1956	89.6	94.1	98.9	1,095.0
1955	81.4	84.1	85.7	994.8
Stocks at the end of the month ('000 tons)				
Hessian	34.7	38.3	42.4	—
Sacking	50.6	63.3	64.8	—
Others	6.6	6.6	8.8	—
TOTAL	91.9	108.2	115.9	—
Stocks at the end of the Corresponding months of:				
1956	122.1	137.9	127.0	—
1955	79.2	81.5	87.6	—
Despatches : † ('000 tons)				
Hessian	37.4	39.1	30.2	424.5
Sacking	56.4	46.8	35.7	547.0
Others	4.3	6.8	7.3	60.4
TOTAL	98.1	92.7	73.2	1,031.9
Total despatches in the Corresponding months of:				
1956	105.6	84.2	90.7	1,047.2
1955	82.7	91.6	84.0	988.4
Raw jute consumption: (lakh bales of 400 lbs each)				
1957	4.78	5.08	4.77	60.15
1956	5.18	5.44	5.54	63.40
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	76	54	57	508
In corresponding periods of:				
1956	84	44	87	1,191
1955	159	190	126	1,178
Indian	391	286	322	5,866
In corresponding periods of:				
1956	524	363	378	5,190
1955	265	284	309	5,196

† Despatches include exports and sales for internal consumption.

Source: Indian Jute Mills Association

CLOTH PRODUCTION IN INDIA

	Mill-made Yarn mn lbs	Cloth mn lbs	Cloth mn yds
1954	1,561.0	1,161.3	4,997.7
1955	1,630.4	1,180.9	5,094.5
1956	1,671.2	1,200.1	5,306.6
1955: April	130.9	94.2	419.2
May	129.4	92.2	406.4
June	132.3	95.5	415.0
July	142.6	105.0	447.8
Aug	137.2	98.4	415.0
Sept	141.4	103.3	435.0
Oct	144.0	104.0	437.3
Nov	133.5	95.4	401.6
Dec	150.7	109.0	466.3
1956: Jan	132.5	94.1	413.8
Feb	133.6	96.0	425.5
Mar	132.6	92.0	418.8
Apr	131.0	93.2	420.8
May	135.4	99.4	452.7
June	137.0	100.5	451.4
Ju'y	145.3	105.5	467.0
Aug	140.3	100.5	438.3
Sept	146.2	106.6	465.6
Oct	142.5	101.0	443.4
Nov	139.5	99.0	430.1
Dec	155.2	111.4	479.3
1957: Jan	156.4	111.8	483.7
Feb	143.2	100.8	435.1
Mar	150.5	105.3	453.3
April	153.7	108.3	464.4
May	137.0	110.5	460.3
June	150.0	105.0	453.1
July*	149.6	110.5	460.3

* Provisional

Source: Textile Commissioner.

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 12-10-57	5-10-57	14-9-57	13-10-56
Food Articles	**107.0**	**107.2**	**108.5**	**103.7**
Cereals	102	102	103	98
Pulses	82	82	84	79
Fruits & Veg.	107	108	118	121
Milk and Ghee	106	108	109	101
Edible Oils	129	129	128	122
Fish, Eggs & Meat	98	96	102	99
Sugar & Gur	110	111	110	100
Others	127	128	129	181
Liquor and Tobacco	**94.3**	**94.3**	**93. 5**	**84.6**
Tobacco	93	93	92	83
Fuel, Power Light & Lubricants	**114.5**	**114.5**	**114.5**	**105.8**
Industrial Raw Materials	**115.0**	**114.2**	**115 5**	**115.9**
Fibres	113	113	115	115
Oilseeds	121	120	120	121
Minerals	109	109	109	103
Others	107	107	108	109
Manufactures	**108.6**	**108.7**	**108.5**	**108.5**
Intermediate Products	**106.6**	**106.7**	**107.4**	**110.1**
Finished Products	**109.0**	**109.0**	**108.7**	**108.3**
Textiles	108	108	108	111
Cotton	117	117	117	122
Jute	99	—	99	—
Woollen	103	103	103	97
Silk & Rayon	83	83	83	86
Metal Products	141	141	141	131
Chemicals	99	99	98	93
Oilcakes	117	118	112	113
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**108.7**	**108.7**	**109 5**	**106.6**

WAGON LOADING

(in terms of 4-wheelers)

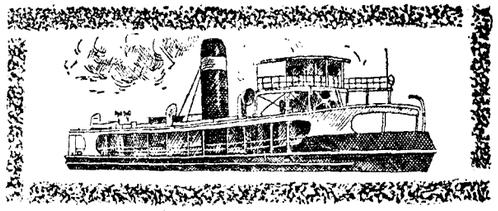
	Broad Gauge			Meter Gauge		
Revenue Earning						
Coal & Coke:	August 57	July 57	August 56	August 57	July 57	August 56
(a) For Public	90,219	86,823	94,921	19,933	20,516	17,891
(b) For Non-Govt Rlys	271	193	258	—	—	—
Grains and Pulses	32,717	34,498	31,533	35,491	35.819	26,286
Oilseeds	4,096	5,548	5,187	4,293	5,590	5,833
Cotton (raw)	1,202	1,752	1,395	1,153	1,523	1,453
Cotton (mfd)	1,650	1,496	1,639	765	710	889
Jute (raw)	2,849	3,699	4,338	2,971	2,718	4,968
Jute (mfd)	520	396	608	544	516	445
Sugar	7,549	4,846	4,713	8,858	6,618	6,443
Sugarcane	19	276	4	947	1,861	64
Cement	14,335	13,309	12,667	9,128	9,952	9,216
Iron and Steel						
(a) Pig iron	783	702	1,372	895	684	648
(b) Others	17,597	16,646	14,305	3,654	3,776	2,871
Tea	1,327	1,325	1,158	3,570	2,994	1,760
Metallic Ores						
(a) Manganese	8,410	6,426	6,953	1,967	1,293	1,458
(b) Iron ores	7,249	14,897	14,544	3,423	2,866	2,730
(c) Others	1,705	1,195	1,349	1,567	1,366	540
Miscellaneous full wagons	126,012	130,066	127,311	101,211	108,225	97,557
Miscellaneous smalls	31,156	32,625	34,587	23,187	23,516	28,195
Non-Revenue Earning						
(a) Coal for homeline	21,371	21,605	23,494	21,786	18,393	16,061
(b) Coal for other Rlys & mfg. units	33,553	29,350	27.074	834	721	929
(c) Other stores	16,637	13,675	14,936	9,119	845	9,608
Total	431,148	420,342	426,346	255,306	260,562	236,845

Source : Ministry of Railways.

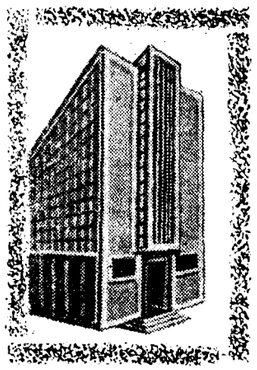
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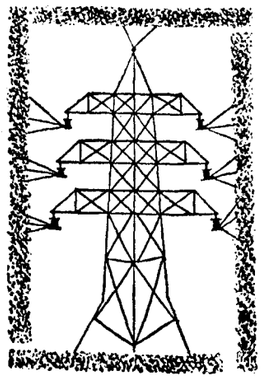
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A Climate to Cultivate

THAT in order to promote exports it is necessary to have a proper export climate is no doubt a truism but it is a truism which bears repetition. As has been pointed by the Export Promotion Committee in its report released this week India's exports have been somewhat stagnant over the recent past in spite of the significant rate of growth experienced by the world trade as a whole. This stagnation may be due partly to the fact that within the traditional channels of Indian export trade a stage has been reached where it could be said that the demand for our export commodities has little scope for expansion.

But this cannot be the whole truth because if the individual items of exports even in the traditional Indian export schedule were to be analysed on a countrywise basis one would discover that some scope still existed for an increase in our export earnings. But the direction in which energies have to be directed most for the promotion of Indian exports is not indicated by the traditional pattern of our exports, but beyond it. It is in respect of commodities and countries other than those which figure prominently in our present export schedule that our promotional efforts are likely to reap rich dividends. And for this purpose it is necessary to forge proper trade links with business houses and other agencies abroad dealing, or likely to deal, in those commodities.

Export promotion on the above lines could not be left in the hands of the private trade, because naturally when ventures into new fields involve large promotional costs and attendant risks private parties may be either incapable of incurring such costs and risks or else they may not have sufficient incentive to do so. The Government can play an important role in this matter by stepping in by sharing the initial costs of export promotion and/or by providing adequate guarantees against risks involved besides providing adequate incentives to private traders which induce them to go exploring new possibilities for export.

In other words, export promotion has to be a two-front drive. Not only that the foreigner has to be persuaded to buy Indian wares, but also that the Indian manufacturer has to be persuaded to sell his wares abroad. We cannot just take the latter for granted. And the willingness to sell does not stand for a sort of readiness to strike a bargain for whatever is in one's possession. The Indian businessman must be persuaded to canvas actively for his wares. That is, he must undertake to be a 'salesman' in the modern sense of the term and not just wait passively for customers to call on him—an attitude of resignation which is typical of the traditional Indian shopkeeper.

Now the measures to be taken on the two fronts have to be different because of the very distinct nature of the class of people to be approached. On the domestic front, the campaign has to be addressed to sellers whereas on the foreign front to buyers. A seller would react favourably to a suggestion for selling in a new market provided he sees prospects of sale at a high margin of profit without incurring much selling costs. But how does one know whether such prospects exist or not in the markets which have hardly been approached so far? Only by a proper appraisal of such markets. That involves a proper study of the new markets (the word 'market' is used here in a wide sense usually adopted in discussions on economic theory). It is in this context that

the proposal of the EPC for organising market surveys as a preliminary to undertaking a sales campaign has to be viewed. Such surveys can be made to collect information not only on the extent of existing and potential demand but also on matters like local terms of business, the character of retail outlets and marketing methods of competitors. Already some of the export promotion councils have undertaken market surveys. The Engineering Council, for instance is reported to have completed a survey in Egypt and the Plastic Council in Sudan. The Cotton Council is also conducting surveys in Baghdad, Singapore, Lagos, Rangoon, Aden and Mombasa.

It is hoped that as a result of these market surveys new opportunities for exports will come to notice. All effort in this direction is therefore welcome. But would it not be more advisable to set up one expert body which can specialise in conducting surveys of foreign markets? This would be economical because a survey in any one country by this expert body could cover a variety of commodities instead of only one class of commodities as would perhaps be the case if separate surveys are to be organised by the various Export Councils. Also this would ensure better results because the organisation we have in mind will gradually come to have a band of specialised surveyors whose services can then be availed of extensively. The E P C itself refers to the existence of such specialised agencies in Japan and Britain but it contents itself by suggesting that existing private advertising agencies in India may be encouraged 'to take up the position of a similar organisation'. It is felt that the Committee could have gone further and advised the Government to take initiative in setting up such an agency in consultation with the manufacturers. That would mark a beginning in the right direction and in due time equip the export trade with a dependable agency for foreign market surveys. As for the present, whatever surveys can be organised by Councils, or other bodies they may go ahead with them because the proposed Central agency may not be able to meet all immediate demands.

Now when the survey reports become available, in several cases it is likely to be discovered that though immediate prospects are not very bright, there exist possibilities if the market is properly cultivated. Therein comes the task of publicity and contact in the foreign market on the one hand and enterprise on the part of the sellers on the other hand. The E P C has made a number of suggestions both regarding publicity abroad and encouragement to local enterprise.

One of the principal weaknesses of our export trade is the lack of advertising support. "Several Indian products", says the E P C Report, "are not known or appreciated in foreign markets as they are never advertised". The Committee realised that the situation calls for an intensive advertisement and propaganda campaign in foreign countries but it suggests hardly anything more than participation in exhibitions and fairs. Could not our Embassies and Consulates be made to play a more positive role? If the existing service personnel manning our Consulates cannot do the job (and there is not much quarrel about it) why not take over persons from the trade itself who can competently do the job? Proper training of service personnel would be a long process and may be undertaken. But for our immediate purposes, let the services of those who can deliver the goods be obtained.

The E P C does suggest however that the Indian manufacturers should undertake jointly to organise propaganda campaigns for their products. A proposal to the same effect was recently made by Sir Shri Ram who is hopeful that scope exists for increasing Indian exports by about Rs 50 crores a year in value. Sir Shri Ram's figure is lower than the target of Rs 100-150 crores set by the E P C. But then Sir Shri Ram did not perhaps take into account all the monetary incentives like concessional railway freights, extension of the existing provisions allowing the refund of excise duties to manufacturers who are not directly chargeable to excise duty on their products but the raw materials used by them may have been so charged, refund of Central sales tax, relief from income tax, liberalisation of the existing provisions for the refund of import duty, and provision of cheaper financing services to export trade than are available today, which the Committee has recommended to the Government. Perhaps on Sir Shri Ram's calculations, if cooperative publicity campaigns on the part of manufacturers were to be coupled with these incentives the scope for expansion of export trade would be far greater. Ultimately, however, it is what we actually achieve that matters.

Old Wine in New Bottle

IT would be presumptuous to anticipate history's verdict on Washington talks. It must be left to a future historian to assess whether the Washington Conference marked the beginning of a Grand Crusade for Peace or whether it embodied an unimaginative, if not also insincere, repetition of old ties and obligations by the major partners of one of the two power blocks waging a relentless "cold war" for world domination. But even a chronicler of contemporary events will feel disappointed at the lack of vision and statesmanship of two major powers who jointly claim moral leadership of the world. Their major task is to "bring about conditions in which peace can prosper". It is a sad commentary on the prevailing "cold war" that Britain and America hope to achieve this noble aim only by providing "adequate security" to those areas and countries with whom they are in alliance.

Is there anything new or noble in the "declaration of common purpose" by Britain and America? It is as old as the Truman Doctrine. This is the basic principle behind N A T O, S E A T O, Baghdad Pact and the other bilateral military treaties entered into by these two countries. Long ago, Washington spelled out its foreign policy as one of building "positions of strength". This policy was enumerated with London's consent and endorsement. Collective security, close cooperation in all spheres, mutual trust and confidence —these have been the aims of the Western Powers ever since the start of the "Cold war". It is a permissible deduction from the "declaration of common purpose" that America is now forced to abandon the policy of self-sufficiency in her relations with her allies. There is hope in London, Paris and Brussels that Washington talks will lead to a decisive strengthening of the military structure of the Western alliance. This policy has not succeeded so far in resolving the East-West tension. What guarantee is there that a more energetic policy of building "positions of strength" will succeed in ensuring world peace?

Washington talks will be followed shortly by a "summit conference" among Heads of Government of N A T O countries. It is a safe presumption that the interdependence of N A T O powers will be reiterated in this "summit conference". Britain and America will, no doubt, assure their N A T O allies that they can rally their varying resources around the partnership formed between these two countries. As a sequel to the talks between President Eisenhower and Mr Macmillan, Washington is already committed to closer cooperation in defence matters, and to free and full exchange of nuclear secrets. Will this military cooperation, and particularly the sharing of nuclear secrets, apply to all N A T O powers? In a cryptic reply to an inquisitive reporter's query, Mr Macmillan hinted that the sharing of nuclear secrets would be confined to nuclear powers among N A T O countries. Mr Macmillan had the grace to emphasise that America and Britain, the only two nuclear N A T O powers will act as trustees for all N A T O countries. But neither Bonn nor Paris is likely to be jubilant about the joint superior status of London and Washington.

It is evident that Russia's latest military and scientific achievements have prompted Washington to abandon its lofty attitude to its allies. It is understandable that America's allies including Britain, will welcome her declaration of interdependence between her and her allies. But there should be no doubt about what this new American gesture of interdependence with her allies will mean and involve. America will have to foot the major portion of the inflated bill. Will even Sputnik II shock the American Congress to accept the financial implications of this shift in Washington's foreign policy? Meanwhile, there are doubts even in London whether this American declaration of interdependence will lead to tangible results. Such cooperation, the Manchester Guardian recalls, "was supposed to have begun in the development of guided missiles three years ago and the arrangements were supposed to have been improved and intended earlier this year". Despite promises the guarded conclusion of the Manchester Guardian is that "experience breeds scepticism."

Britain however has every reason to congratulate herself on her reemergence as a major partner in the Western alliance. Nor is it difficult to understand why, despite misgivings on certain issues, Paris, Bonn and Brussels are enthusiastic about the Washington talks. During and since the war, America has emerged as the single, dominant power in the West. America's predominant world status is conceded by her allies, but the latter have felt a grievance that the former has exploited her undisputed material and military superiority to dictate the terms and conditions of the Western alliance. With the abandonment of America's attitude of lofty self-sufficiency to her allies, there is jubilation in London that Britain will no longer subsist as the forty-ninth State of America. Paris, Bonn, Brussels and Rome are no less pleased to discover that Washington needs their cooperation as much as each and all of them look to Washington for help.

Thus interpreted, the Washington "declaration of common purpose" may mark the beginning of a new relationship between America and her Western allies. This is not without significance to America's allies. They now have the assurance that a bilateral understanding between America and Russia is no longer likely. This is the main reason for jubilation among America's allies. But the "declaration of common purpose" will be deplored none the less because it is likely to perpetuate the "cold war". Even as N A T O powers will be holding a "summit conference" in Paris, there are indications that Russia may also hold a similar "summit conference" of the Communist States during the anniversary celebrations of the October Revolution. Some time must elapse before the actions and reactions of developing events become clear, but one thing is evident already and that is the intensification of the 'cold war'.

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Weekly Notes

Another Marathon

SHRI Krishna Menon ran yet another marathon this week on Kashmir in the Security Council. Sceptics who smile amusedly at these performances of Shri Menon are again likely to prove right in assuming that all his pleadings will have fallen on deaf ears. But what does this mean? Should India give up in despair? If she does give up, what are the likely consequences of that action? The Security Council will still be seized of the problem so long as it suits the Big powers to keep the pot boiling. If so, deliberations of the Council and its decisions, in whatever form, on the subject of Kashmir would, it can be argued, be patently one-sided.

At present there exists a facade of fairness because hearing is given to both sides, although in actual practice resolutions are framed and mooted without even waiting to hear the Indian view. There is considerable force in the above argument but to adopt such a course would affect adversely our position in the deliberations of the United Nations as a whole. Not that we matter much, but the little influence that we do exercise will perhaps be lost if we refuse to participate any further in the discussions of the Security Council; for then we are open to the charge of giving an affront to the institution. So back we are from where we began. Let Krishna Menon therefore keep running marathons. Maybe, one day he will be heard.

A Sorry Episode Ends

THE end of the Syrian-Turkish tension has been as mysteriously abrupt as its beginning. This is a possible interpretation of the agreement between these two countries to discontinue the acrimonious debate. Those who have faith in the settlement of disputes through mediation will welcome the "gentleman's agreement" between the two countries to initiate direct negotiations. Such an understanding between the two sides to the dispute would seem to be a happy end to the bitter charges and counter-charges levelled by each against the other during the U N debate. Yet, there will be suspicion whether there is any coincidence between the end of the elections in Turkey and the conciliatory spirit in which both countries have agreed to allow the U N debate to peter out. With the election victory, Mr Menderes and his Democrat Party may have thought it wiser to initiate moves to ease the tension with Syria. But what could have prompted or induced Syria to reach an understanding with Turkey?

From the beginning of this sorry episode it has been evident that both Russia and America are interested parties, if not directly involved, in the dispute. Syria had accused Turkey of aggressive designs with the support and connivance of America. Turkey, in her turn, had alleged that the Soviet military build-up in Syria was a threat to peace in West Asia. In her complaint to the United Nations, Syria had called for an international commission to investigate the tension between her and Turkey. Recent moves by both Russia and America would seem to lend weight to the suspicion of their interest, if not involvement, in the Syrian-Turkish tension. In the Eastern Mediterranean, both the American Sixth Fleet and the Soviet Southern Navy had carried on exercises. Despite verbal warfare and military moves by both America and Russia, the fact that the U N debate on the Syrian-Turkish tension has been allowed to lapse would seem to indicate that these two big powers have decided (each, of course, in her own interest) not to intensify the tension in West Asia at the moment. The decision on the part of America could be a possible sequel to a re-appraisal of the situation in West Asia during the Washington talks between President Eisenhower and the British Prime Minister. On the Russian side, it may have to do something with the events within that country which culminated in the dismissal of Marshal Zhukov.

Disarmament

IT would be rash to read too much into Russia's decision not to participate any further in the work of the Disarmament Commission and its five-member sub-committee. On more than one occasion, Russia has complained about the stubborn attitude of the other four members of the disarmament sub-committee, even as the latter have made allegations about Russia's delaying tactics in relation to the problem of disarmament. It is neither easy nor helpful to apportion blame for the failure of the disarmament talks. There has been growing suspicion about the utility of continuing desultory and barren discussions on disarmament. But how would it improve matters if the Soviet proposal to create a permanent Disarmament Commission, composed of all United Nations members, is accepted? The Russian plan whatever it reflects about the sincerity of her belief that small powers will be able to exercise their influence towards a speedy agreement on world disarmament is not at all a realistic solution.

It is tempting to interpret the Russian decision to disown the Disarmament Commission either as a diplomatic blunder by Moscow or as an open threat to the Western Powers. Since Russia's fatal mistake in boycotting the Security Council facilitated, and made possible, the move by the United Nations, at the initiative of America, to enter the Korean war, it has been a firm belief that Russia will never repeat such a tactical blunder as boycotting any agency or commission of the United Nations. This may be a valid assumption. But the Russian decision to discontinue participation in the work of the Disarmament Commission is not likely to prejudice Russia's interests in any way. It would be equally hasty to jump to the other extreme conclusion that Russia's decision means and implies a threat to the Western Powers. This decision does not, in any way, represent Russia's rejection of the principle of disarmament. Her technical and military supremacy is now beyond dispute. But Moscow must have the realism to admit that a war cannot be won only by I C B Ms and rockets. "Conditions now prevail in the world which", as M Khrushchev himself emphasises, "do not bode an early war". That being so, there is hope that the Russian announcement to boycott the Disarmament Commission is only meant to force the Western Powers to the formation of a more representative body which has better chances of working out and agreeing upon a realistic compromise formula for world disarmament.

Third Shipyard

"A COUNTRY which has goods to export but no ships to carry them is very disadvantageously placed", says the Report of the Export Promotion Committee (1957). India today is placed in this unfavourable position. She is at present able to carry hardly 6 per cent of her foreign trade in her own vessels. According to an estimate hazarded by the above Committee the annual freight bill on India's gross earning from freights is of the order of only Rs 8 crores a year. The net earnings will amount to still less. This means that if India were in a positon to carry her wares abroad and brng foreign goods home in her own vessels she would be able to make an annual saving in foreign exchange to the tune of about Rs 205 crores. Even if the above estimate were somewhat inflated the fact remains that India is losing a considerable amount of foreign exchange because of her inability to provide her own shipping services for her foreign trade.

It has been recommended by this Committee that as part of the campaign for export promotion a serious attempt should be made to increase the country's shipping tonnage. The Committee takes note of the fact that there is a provision in the Plan for a second shipbuilding yard but it is not satisfied that even the second shipyard will adequately meet the country's requirements, and is therefore of the view that planning of a third shipbuilding yard should be started immediately.

The emphasis which the Export Promotion Committee puts on the maximum provision of local shipping service is most unexceptionable. As is well known in circles connected with the shipping industry, and as is pointed out by the Committee also the capital-output ratio in the shipping industry is very low. A ship bought today recovers its entire cost by way of freight earnings within a short space of 3 to 4 years whereas its operating life may be anything between 10 to 15 years. Besides, these freight earnings are a direct method of adding to our foreign exchange resources. The acquisition of ships should, it will be agreed, therefore, figure prominently in our drive towards export promotion which is the other name for a campaign to increase external earnings.

As regards setting up of shipyards, however, we are not convinced that the addition of a third shipyard is really called for at this stage. What is called for at the moment is the investment of maximum amount that can be spared in purchasing ships because with the purchase of a ship, the moment the outlay is completed and the vessel is taken over, it starts yielding income. On the other hand, investment in shipyards stands on a different plane. Conceding that the construction of a shipyard proceeds by phases and that the shipyard can go into production the moment the first one or two phases are completed it must be remembered that the construction of ships even when it starts (and that itself will take at least two to three years) is a long process. The Hindustan Shipyard, for instance, could complete the construction of only nine vessels in a period of five years, 1952 to 1956. The construction of an additional shipyard may yield results in the long run but it would be wrong to expect the project to be of much service in facing our immediate difficulties. This applies as much to the second shipyard, for which a small allocation exists in the Second Plan with a view to making a start and for which a British team of experts is touring the country at the moment with a view to preparing a report on its site and lay-out, as to the third shipyard which the Export Promotion Committee has recommended. The proposal to construct shipyards should, it is felt, be judged and decided upon according to the long term requirements of the country for shipping space. In the immediate future, the emphasis should be on acquisition rather than on building of ships.

Protection to Eng. Industries

THE recent reports of the Tariff Commission on the Machine Screw and the Diesel Fuel Injection Equipment industries recommending continuation of protection at existing rates show that protection coupled with a developing economy does help the industries concerned to grow, though the cost to the consumer is difficult to assess and is usually ignored. Both these industries have done better than expected by the Commission at the time of their previous enquiry. They have responded to buoyant market conditions with a sizeable increase in production and have thus showed that given favourable conditions our industrialists do respond in an appropriate way. This rise in production has been due mainly to an increase in the installed capacity, though an increase in productivity may have played its part. It is also

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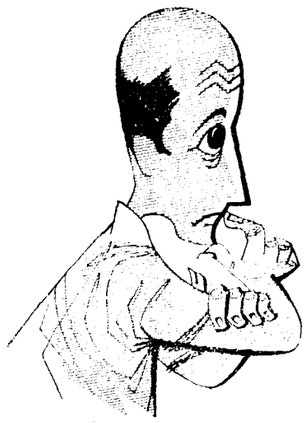
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encouraging to note that the quality of the products concerned has improved over the years and now compares favourably with that of the foreign imported products.

Both these industries are such that they are likely to continue experiencing a rising demand curve since the products they make are ancillary to the engineering and heavy industries. This sector of the economy can reasonably be expected to grow steadily in the coming decade if our country is to industrialise itself. Therefore these industries should be given the same priority as heavy industry if we are to succeed in creating an industrial base for further growth within a reasonable period.

Their position regarding raw material availability is, as the findings of the Commission show, not quite satisfactory. It is seen that even when raw materials can be obtained within the country and are actually available, (most any way as far as the Machine Screw industry is concerned), lack of coordination between the Development Wing of the Ministry of Commerce and Industry and different sections of the industries, makes it difficult to do so. Today the question of excessive dependence on raw materials from foreign sources puts on an added importance because of our foreign exchange difficulties. And one of the ways of dealing with this situation is to reduce imports as much as possible. According to the Commission however, this dependence on imported raw materials will continue in the case of the Diesel Fuel Injection Equipment industry till the steel projects in the Second Plan are completed.

It seems that the location of units in the Machine Screw industry has not taken place at places which can be justified on economic grounds. The two units about which details are given seem to be located far away from the main markets for their products as also from centres of raw materials. In contrast the location problem seems to have been better handled in the other industry examined. Bad location of industrial units in an industry not only inflates their own cost structures but also affects other industries which use the products produced by such units. As far as possible locational arguments should not be ignored on extra-economic considerations like satisfying particular linguistic or other communal consideration.

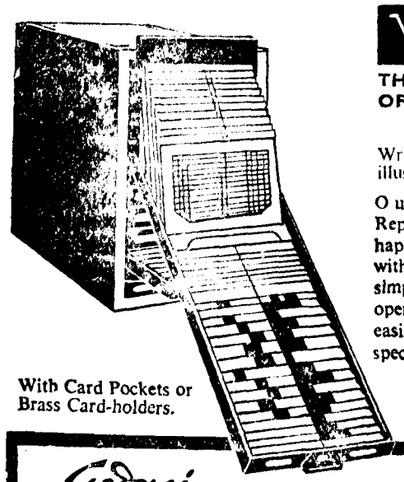


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It is apparent from these reports that the coordination between the various sections of the Government and private industry is far from satisfactory at present. But if the Second Plan has to succeed then the coordinating machinery must be improved and the earlier this takes place the better it will be for the country.

L I C Fares Well

CONTRARY to the pre-Interim-Report practice of treating its new business statistics as somewhat confidential, the Life Insurance Corporation now appears to be eager to publicise them. At his press conference last Monday, Shri Kamat revealed that during the quarter July-September, new business introduced and completed amounted to Rs 112 crores and Rs 73 crores, respectively, against Rs 95 crores and Rs 75 crores during the first six months of the year. This is impressive progress indeed, helped though it was by abnormally feverish activity by the field staff, whose categorisation under the proposed new pay rules hinged on business introduced before September 30. Total new business during the current year upto October is estimated at about Rs 180 crores, and the Corporation is confident that the year would close with a figure of Rs 250 crores (as against Rs 188 crores in the whole of 1956), since November and December are traditionally prosperous months.

The achievement of this level has already been almost under-written by allowing field staff the option of claiming categorisation on the basis of their business during the thirteen-month period ending September 30 or the twelve-month period ending December 31. Whether this pace will be maintained in 1958 and thereafter depends on the working of the new pay scales and the level of over-all efficiency which the Corporation can attain.

Needless Misunderstanding

IT is a sign of the parochial spirit stirred in this country by the linguistic agitation of recent years that so unexceptionable and indeed so welcome a proposal as paying a tribute to Chhatrapati Shivaji by free India's Prime Minister through a statue dedicated to the memory of the great hero should have got mixed up with a controversy over irrelevant issues. A political motive, so far-fetched as setting the seal on Bombay's present bilingual set-up has been read into the proposal; and on the basis of that flimsy assumption, old issues are being raked up in an effort to justify a counter-demonstration at the time of the unveiling ceremony.

To most thinking minds it would seem that if the bilingual arrangement is to stay or find fresh support, something far more basic than the unveiling of a statue in honour of Shivaji Maharaj or the occasional offer of homage to a hero, saint or sage of Maharashtra would be required. If feelings have been so deeply stirred over the bilingual formula and continue to be in that state, it would be somewhat fantastic to think that they could be assuaged by a simple unveiling ceremony. And if the Prime Minister is to perform the ceremony, it is rather difficult to see the relevance of what one of his colleagues might or might not have said about some particular act of Shivaji some time ago to the proposed function at Pratapgarh, particularly as the alleged remark, since denied, is believed to have been made when the Minister in question was not yet on the Central Cabinet. And are we really so humourless and intolerant that we cannot suffer a comment on our greatest of heroes should anyone choose to make it?

If it is a question of any stick being good enough to flourish and any argument being handy to use in defence of a pre-determined course, then there can be no quarrel. But if it is a question of carrying conviction to objective observers, then the line of justification followed cannot but defeat itself.

Debate on Diet

DIET is essentially a matter of custom and habit, depending in turn on climate, environment and the kind of foodstuff readily available. Most of us are born with our menu cut out for us, so to say, though there is nothing to prevent us from changing it to suit our particular needs or predilections. Vegetarianism that way has certainly much to commend it particularly on aesthetic and sentimental grounds if not also on the grounds of health, as modern medical science and experience would seem to indicate. Besides that, there is the homage paid to vegetarianism by saints and sages through the ages; and this homage is not something that can be easily brushed aside, no matter whether one is inclined to share in it or not. One would think that these were points enough for vegetarianism to thrive on and make steady headway in the world. But some exponents of vegetarianism seem to disagree. Not content with the advantages that their fancied diet already enjoys, they have been trying to bring in unrelated issues and facile generalisations, based on odd observations, to strengthen their cause. If in the process, the campaign takes on a slightly ludicrous colour, the blame is certainly not on the cause as such, but rather on its all too eager protagonists.

Some of these airy arguments in favour of vegetarianism were flourished in the course of a symposium on 'Vegetarianism as a Medium for the Integration of Humanity' in Bombay last week. One of the speakers had no doubt in his mind that those who ate meat were more militant and combative than those who munched only vegetables, while another was quite sure that vegetarianism could make the greatest contribution towards the easing of international tension. What the basis for these sweeping generalisations is has not been made clear; but if a generalisation can be countered with another generalisation, meat-eaters may well be justified in pointing to Hitler as a sample of ardent vegetarianism going completely berserk; or on a higher level, they may even point a finger at Bernard Shaw or other vegetarian thinkers and sages who were by no means embodiments of meekness in the intellectual or spiritual sphere. Why, the meat-eaters, keen on argument, may come closer in time and space and refer to the very speeches that are being delivered in praise of vegeterianism these days as indications of a combative fervour which no-non-vegetarian has yet chosen to manifest. As for relieving international tension, had it not been for the fact that the subject of food has ceased to be exciting or provocative, the fulminations of vegetarians in Bombay should have nearly set this island ablaze by now. The point to remember is that human combativeness need not necessarily express itself only in the arena of war, and tension is not something that is limited to the sphere of international affairs.

Since human life on its present gigantic scale cannot wait for ripe fruits or vegetables to fall by themselves into dinner plates held right under them, there is, no doubt, need for compromise. And when that first compromise has to be made, rightly or wrongly on the ground of self-preservation, it is perhaps open to each one to decide how far he should compromise and in what way, depending on his outlook on life, ideals, habits, taste, circumstances and the environment in which he lives. There is no place for the absolute in diet as in life. And the search for the lesser evil in preference to the greater may take as many shapes as there are thinking minds in this world, and one man's meat may well be another man's poison. 'Live and let live' is a favourite phrase of vegetarians; and it embodies no doubt a very laudable principle. But in living or eating as our habits, thoughts or inclinations dictate, we would perhaps do well to let others live or eat as their own habits, thoughts or inclinations may indicate, while, of course, exercising peacefully our right to win them over to our viewpoint.



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A Calcutta Diary

A Bullfighter in an Ashram

THANKS to the influence some former students of Tagore's university wield over some popular dailies, we have in the past week witnessed the end of a conspiracy of silence. (That what is going on may later turn out to be a conspiracy of noise will be indicated presently.) That quiet little place, Santiniketan, is not in the news very often, now that Tagore is no more and the Government of India has taken over the university. Everything has not been perfect since the Poet died; his son and heir was the subject of not a few scandals not so very long ago; but, partly out of respect for the Poet and partly out of affection for the institution he built, the Press treated the university rather kindly. Suddenly a campaign has been started for the removal of a particular professor.

The professor's conduct was outrageous in all conscience. Dr Sudhin Ghose—for that is the name of the character—was producing a Greek play (in English) with the students of Visva-Bharati. He had invited a sculptor, an old ashramite, Ramkinker, to assist him. The latter suggested some changes, which the doctor did not approve, which is all right. But he proceeded to express his disapproval in what is said to have been insulting language. Nor was it all. He then took up his stick and started beating the poor sculptor. Later in the evening the professor of English was beaten in return by some students when, he claims, he was on his way to Ramkinker to appologise. An enquiry is now in progress, and a good deal of pressure is being brought upon the vice-chancellor, Professor Satyen Bose, to dismiss the professor of English. This is what I have called the conspiracy of noise, all the motives behind which may not be strictly honourable.

* * *

The professor of English must be a very queer bird indeed, however much one may have a sneaking admiration for his "guts." Story has it that he was walking about in Santiniketan in the briefest of shorts and the loudest of Hawaiian shirts. To be louder, he made a habit of saying the most blasphemous things about the founder of the institution. Tagore? "A fourth rate versifier who should not be read in any language!" The ideals of Santiniketan? Just so much nonsense, so far as the imported professor was concerned. (It is said that he had spent 40 years in Europe before coming to Santiniketan.) It is not impossible that some of the stories are apocryphal. It is possible that the present campaign has behind it some of the rivalries and jealousies to which few academies are total strangers. There is no denying it still that, given an absolute faith in the ways laid down by Tagore in an earlier age, the profesor of English was a total misfit. Friction was only to be expected. That it took the form of childish physical fight between two old or elderly men (with one part not retaliating) is undoubtedly deplorable. The present essay at any rate is not concerned with this aspct of the matter which the vice-chancellor is investigating—on the wrong lines, allege the supporters of Ramkinker.

It may be more interesting to analyse the forms the students' protest has taken, the way they have reacted to the imported professor's alleged irreverence in his references to the Poet, and the manner in which the Press has treated the whole story. What is attempted is not an assessment of Santiniketan at all but that of the whole Bengali intellectual scene which was until the other day shaped by the great founder of the institution.

* * *

Professor Satyen Bose is being accused, rightly or wrongly, that in the course of his enquiry he is devoting more attention to the subsequent assault of Ghose by some students than to his own attack on Ramkinker earlier. For the purpose of this enquiry too the former incident is more important. Whether provoked by Ghose or not, the fact remains that the students of Santiniketan behaved as students in many other institutions have been behaving. Does it indicate that not even so tradition-ridden an institution like Visva-Bharati can escape the ways of the times we live in? Maybe, but the other fact remains that the students, themselves subject to the climate of the times were resisting the introduction of a teacher out of the run Santiniketan was used to. This is the place to mention that the liability or disinclination to dismiss a few perhaps frivolous remarks on Tagore may not be the surest indication of the students' confidence in their own opinions or of their receptivity to alternative evaluations.

The point has not been made hereabouts, but Ghose might well ask to what extent he was obliged to maintain a worshipful attitude towards Tagore since it was now a Centrally administered university run with public money. (Cannot critics of Jefferson join the University of Virginia in Charlottesville? I do not know. I found everyone speaking of "Mr" Jefferson as though the old man might walk in any minute.) There is also the other point that irreverence is usually a quality of the youth, and in the instance under discussion it is the irreverence of an old man that the students refused to take.

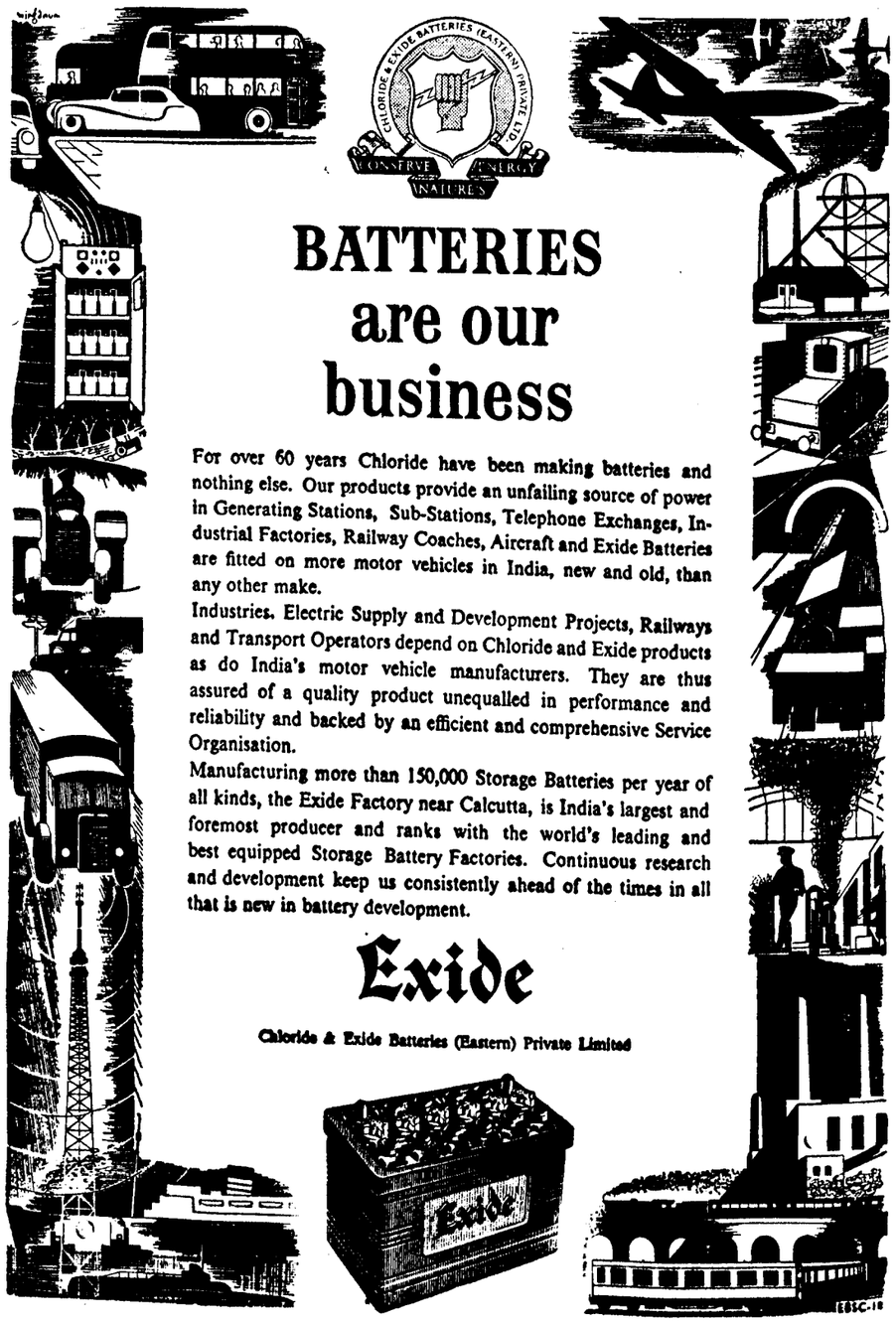
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A report in the Statesman suggested that the whole incident might be the result of a conflict between old ideas and new. That it was resented by many, including two former vice-chancellors (acting), was only to be expected, for the motto of the university is that here "the world becomes one." The question is still unanswered whether the world does not contain creatures like Sudhin Ghose and whether, if he is a good teacher (of which nothing is being said one way or the other) it should be a serious objection that he wears technicolor shirts and holds unorthodox opinions on men and things. Did he see nothing good in Indian character and culture? I would disagree with him, but would not deny him his right to talk the nonsense he might believe in. And yet, these are the objections the students have produced against him apart from the act of his beating a colleague, which may or may not have been an impulsive act which he himself may regret now.

I do not know, but it seems to me that the youth at Santiniketan may have ranged itself on the side of orthodoxy. As I have said, Ghose may be a real "stinker," a disgrace to the University of Visva-Bharati. But it is not his scholarship which I find attacked but his manners, his clothes, his heresies. Looking at the incident from a distance, with none of the genuine emotions students of the university may sincerely feel, it seems to me that a single odd individual is being persecuted by a great number of people. He seems an object of pity. From his point of view, I should not be surprised if he is feeling like something of a martyr. Amazing what some people will do for having that feeling!

—Flibbertigibbet

November 6



From the London End

Britain and the Free Trade Area

Implications for the Commonwealth

THE shape which the Free Trade Area scheme (described in the first of these three articles) has taken has been the ostensible consequence of the special trading interests which the overseas Commonwealth and Empire possesses in the British market. The reciprocal character of imperial tariff preferences according to the United Kingdom White Paper on the Free Trade Area precluded "H M Government from entering into arrangements which would in principle make it impossible for the United Kingdom to treat imports from the Commonwealth at least as favourably as those from Europe." This declaration has since been understood and proclaimed as the ultimate of indications that the United Kingdom stands by the overseas sterling area whatever the circumstances. And the United Kingdom has apparently succeeded in maintaining the full consent of Commonwealth representatives at their meetings held in the last year on questions relating to the European cooperation projects.

Economic Bloc

The British emphasis on Commonwealth cohesion at the present time appears largely to be a consequence of the speed with which the Six in Western Europe are organising the Common Market. For there can be no question that in the view of the United Kingdom the Six are by their projects attempting the establishment of an economic bloc, which can undermine not only Britain's position in Europe, but the export capacity of the entire sterling area. Hence the current meeting of G A T T was made an occasion for a combined Commonwealth attack on the Common Market—that the Six were diverting rather than creating trade and that the diversion was to the disadvantage of the sterling area. It is in the light of this that an examination of the Free Trade Area needs to be made: In what ways will it enable the oversea sterling area to continue to trade with Britain and indeed with Europe on the basis of past performance, and does there exist any opportunities for this trade to expand once the Free Trade Area is established?

Imperial Tariff Preferences

The importance of imperial tariff preferences for the overseas sterling area is of course governed by the commodity structure of British imports. Something like 50 per cent of British imports from the overseas sterling area are made up of foodstuffs and another 40 per cent are raw materials. Most raw materials enter the United Kingdom free of duty irrespective of source, so that it is only half of Britain's imports from the sterling area that really enjoy an effective tariff preference. The fact that 90 per cent of the United Kingdom imports of sterling goods would not be affected by an industrial Free Trade Area at all is suggested by the United Kingdom as constituting a sufficient protection for Commonwealth exports to the British market. As for the balance of 10 per cent the tariff preference, in so far as the Continental members of the Free Trade Area are competitive suppliers to the Commonwealth, will be removed. But Britain will still be able to keep a preference for this 10 per cent of Commonwealth exports over similar goods from countries outside Western Europe. They could, for instance, charge a lower duty on Canadian and Indian exports than on American and Japanese exports. This ability arises from one of the more essential differences between a customs union and the Free Trade Area: in a customs union the members have a common tariff against the outside world; in the Free Trade Area the members can keep intact, if they like, their individual tariff structures and policies in relation to the outside world.

Commonwealth Exports

It is however believed that the Free Trade Area, in spite of the exclusion of foodstuffs and of common tariffs against the outside world, does not provide the safeguards for Commonwealth exports which now stand threatened by the Common Market project of the Six. While it is true that the United Kingdom remains the most import-

Table I—Direction of Trade : Rest of Sterling Area
(£ mn)

	Imports from :		Exports to :	
	U K	Continental O E E C	U K	Continental O E E C
1952	338	132	302	133
1953	314	121	313	134
1954	333	141	315	143
1955	368	159	321	161
1956	367	181	320	173

Table II — Principal Exports of the Rest of the Sterling Area
(£ mn)

	1954		1956	
	U K	Continental O E E C	U K	Continental O E E C
Jute Goods	2.6	0.3	1.7	0.7
Raw Wool	36.4	43.5	33.5	48.9
Raw Cotton	4.4	3.5	4.0	3.7
Raw Jute	2.8	6.2	2.0	5.9
Raw Cocoa	13.2	9.5	4.2	8.1
Raw Coffee	2.3	3.4	2.3	4.1
Tea	27.4	1.5	28.7	1.8
Tin	2.2	1.6	2.2	2.4
Copper	13.7	6.8	18.7	9.8
Manganese	1.0	0.9	0.8	1.1
Wheat	2.1	1.2	3.1	1.7
Natural Rubber	10.4	12.9	16.8	18.2
Meat	29.5	0.8	24.8	2.1
Hides and Skins	6.2	6.3	5.3	6.5

ant market for Commonwealth produce, the fact remains that for the past decade the level of United Kingdom imports of Commonwealth foodstuffs and raw materials has tended to stagnate while the Continental European market has tended to expand. Between 1952 and 1956 the rest of the sterling area increased its exports to the O E E C (excluding the United Kingdom) by over one-third, compared to an increase to the United Kingdom of less than one-tenth. (Table 1.) Also in all the main classes of Commonwealth primary exports, the O E E C countries of Continental Europe proved to be an expanding market. In Table II the distribution of the exports of the main commodities exported by the overseas sterling area is given.

Taking a shorter but equally meaningful period, the relative expanding character of the European market as compared to the United Kingdom is decisively shown. The period between the first half of 1956 and the first half of 1957 excludes the impacts of the Suez crisis but does take into account the conversion of the international market from an expansionary one to that of relative stagnation with corresponding reductions in international commodity prices. In this period, the rest of the sterling area increased their exports to the United Kingdom by no more than 3 per cent. The increases to the dollar area and the Continental O E E C area was 5 and 10 per cent respectively. This lack of buoyancy in the British market has, in turn, led to the share of the rest of the sterling area to stagnate at the level of 35 per cent of total U K imports—a level that has remained since 1952.

The export experience of the overseas sterling area tends to suggest that the Continental European market is and will increasingly become important given no change in the existing system of trade. It is here that the Common Market of the Six can produce a threat of considerable severity to the international marketing of the produce of the overseas sterling area. The Common Market will tend to discriminate against the Commonwealth countries to the advantage of the overseas territories and colonies of France, Belgium and the Netherlands. It is certainly true that in a number of important instances the overseas territories of these latter countries are competing with the Commonwealth in such important markets as Western Germany and Italy. The Free Trade Area contains nothing which would be able to thwart this threat from the Common Market to the Commonwealth countries.

Commonwealth Imports

With regard to the import requirements of the rest of the sterling area, the Free Trade Area holds a certain disadvantage. As was shown in the second of this series of articles, an important part of the trade of both Britain and the other West European countries consists of selling manufactured goods to each other, and there would be more scope for this if trade within Western Europe was not subject to tariffs. But the sterling area accounts for more British exports than Western Europe in every industrial group. There is thus the likelihood that, in a Free Trade Area, the U K's share in the imports of the other Commonwealth countries may decline further because of the British inclination to compete and to sell more in Western Europe. Already over the past five years the rest of the sterling area has increased its imports of manufactured goods from Continental Europe without corresponding increases in imports from Britain. In consequence, the United Kingdom share of the imports of the overseas sterling area has fallen from 54.4 per cent to 49.2 per cent while that of Germany and the other O E E C countries has risen from 6.6 per cent to 8.6 per cent and 15.9 per cent to 17 per cent respectively between 1955 and the first half of 1956.

Two other consequences which shall be of concern to the overseas Commonwealth may follow upon Britain's entry into the Free Trade Area. In the first place, the Free Trade Area in industrial goods may make it necessary for the United Kingdom to devote a very much higher proportion of its resources for investment within British industry. The need to become competitive and to readjust the British economy consequent to the tendency for specialisation will make it well-nigh impossible for the United Kingdom to allow any large scale flow of investment funds either on private or capital accounts to the overseas Commonwealth. The other consequence concerns the industrialisation of some of the countries in the Commonwealth. Unless the United Kingdom is prepared to allow overseas-Commonwealth manufactured goods to enter the British market duty free, some Commonwealth countries like India, which are increasingly tending to undertake the exports of light manufactured products, may find it hard to hold their own in competition with the Continental European countries on the same terms, i e, exporting their light industrial products, duty free, into the United Kingdom. This may tend to inhibit to some extent the industrialisation process in the overseas Commonwealth.

The Free Trade Area and the Common Market, if they are ever to come about, can bring in their train far-reaching changes not only in the pattern of international trade but in international relations, and in the territorial and colonial influence of each of the European countries, including the United Kingdom. Viewed narrowly, the Common Market is certainly a desperate attempt at reserving colonial Africa's vast resources for European spoliation. This attempt is certainly not likely to be negated by the Free Trade Area.

Railway Cooperatives

The railways have taken special steps during the past few years to popularise the cooperative movement, and the number of consumer cooperative societies has risen from 36 in 1952 to 140 at present, with a membership of 45,000, a share capital of Rs 8 lakhs and an annual turnover exceeding Rs 50 lakhs.

The railways also have 30 cooperative credit societies and banks with a membership of nearly 4.75 lakhs. The societies grant loans annually to the extent of Rs 16 crores. They have also built up compulsory thrift deposits subscribed by railwaymen to the extent of Rs 2.33 crores. The railways have also been encouraging formation of cooperative housing societies and there are at present nine such societies.

Under the Railway Board's instructions railway administrations actively encourage the popularisation of the cooperative movement by assisting in regard to provision of accommodation, subsidies to consumer cooperative societies during the first three years of their existence, the privilege of special passes to members of managing committees, casual leave for attending committee meetings etc.

Agricultural Manpower in India: Labourers

Daniel and Alice Thorner

THE aim of this paper is to arrive at an estimate of the number of agricultural labourers in India as a whole and in the various parts of the country, and to determine what proportion agricultural labourers constitute of the total working population. There are two major sources of information on this subject: the Census of 1951, and the Agricultural Labour Enquiry which was conducted by the Ministry of Labour in 1950-51. The National Sample Survey has included certain relevant questions in various rounds since 1952, and some data from this source on the relative number of agricultural labourers are expected to become available.

The Agricultural Labour Enquiry (A L E) covered the inhabitants of 800-odd sample villages in all parts of rural India. Of the total number of earners in these villages, 38 per cent were found to be agricultural labourers. Projecting this percentage, the Enquiry estimated the hired farm labour force for the whole country to be 35,000,000. (Government of India, Ministry of Labour: **Agricultural Labour, How They Work and Live**, by Dr B Ramamurti, Delhi, 1954, p 10.)

In the 1951 Census, 26,772,410 men and women were returned as cultivating labourers, and another 2,380,299 listed agricultural labour as their secondary means of livelihood. (**Census of India, 1951, Vol I, INDIA**, Part I-B, **Appendices to the Census** Report, Delhi, 1955, Pp 234-35.) Taking all of these together as a little more than 29 million, they constitute only 20.5 per cent of all earners in the country.

Serious Discrepancy

Clearly, there is a serious discrepancy between the A L E estimate and the Census count. Whatever question may be raised of the adequacy and representativeness of the A L E sample or the accuracy of the Census enumeration, we shall see that the difference reflects in large measure the genuine difficulty of establishing, within the Indian scene, just who are earners and who, among the earners, are agricultural labourers. Both the Census and the A L E tried to identify persons who were primarily farm labourers. For the Census, the criterion was income. Persons with more than one means of livelihood were to be recorded as cultivating labourers if the income from their work as cultivating labourers was greater than their income from other sources such as cultivation of land owned or rented in. The A L E attempted a distinction in terms of actual employment rather than source of support. Thus a person was taken by A L E as an agricultural worker if he had worked in that capacity for more than one-half of the total number of days on which he actually performed work during the year.

The Census criterion of the relative proportion of one's income, presumably on an annual basis, provided by one's primary or subsidiary "means of livelihood", proved especially difficult to apply in the case of agriculture. How indeed is a villager to calculate, within the few minutes which the Census enumerator can spend with him, whether he has on the whole netted more from his own cultivation or from the work he has done as a labourer on other's fields. As various regional Census Superintendents remarked in the Reports, many agriculturists solved the problem simply by returning themselves in the category more flattering to their hope, ambition, or self-esteem. In other words, a man who could claim any title to being a cultivator tended to refrain from listing his principal source of livelihood as agricultural labour, even when that was in fact the case. At the most, he admitted agricultural labour as his secondary means of livelihood.

In a previous article, "India's Agrarian Revolution by Census Redefinition", **Indian Economic Review**, Vol III, No 2, Delhi, August, 1956, pp 1-21, one of us has discussed at some length this question of the interpretation to be placed upon the agrarian data collected in the Census of 1951, with specific reference to the enumeration of agricultural labourers. Subsequently, as an appendix to an article entitled "Demarcation of Agrarian Regions of India", in the Indian Society of Agricultural Economics Seminar Series, **I, Rationale of Regional Variations in Agrarian Structure of India**, Bombay, 1957, pp 53-67, we have compared for each Census subregion and "natural division" the percentage of agricultural labourers and their families to the total agricultural population, as shown in the Census of 1951 and the Agricultural Labour Enquiry. For almost every area, the Agricultural Labour Enquiry figure was the higher one, and by a substantial amount.

Regional Comparison

Table 1—Agricultural Labourers in Relation to All Earners according to the Census of 1951 and the Agricultural Labour Enquiry—offers a comparison on the same regional basis of persons actually working as agricultural labourers to total working population. Columns numbered 1—5 relate to the Census, and columns 6—9 to the A L E. The Census "natural divisions" and sub-regions, which provide the structure for the present Table as well as its predecessor in the article on "Agrarian Regions", represent a compromise between geographic and political boundaries. The 15 sub-regions are units into which the country has been marked off in respect of physical features, climatic conditions, soil, and cropping pattern. The Census further divided these sub-regions into 52 "natural divisions", each division constituting in 1951 either an entire small State or a group of contiguous districts within a State. Column 1 contains the Census code numbers for each "natural division" and sub-region; column 2, the names of these areas as given in the Census. Fitting the A L E materials into this framework was in most cases an easy task, since the A L E had also divided the various States into 75 odd zones. These zones have been recombined as indicated in column 9 to cover approximately the same areas as the Census "natural divisions"*

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* The districts included in each Census "natural division" are listed in **Census of India, 1951, Vol 1, India, Part 1-A, Report**, pp 232-234, and in other Census publications. The districts included in each A L E zone are given in **Agricultural Wages in India, Vol I** (Delhi, 1952), and in later publications of the Agricultural Labour Enquiry.

In this Table, we are concerned with working individuals rather than with families. Column 3, accordingly, contains the number of persons found in the Census of 1951 to be working as agricultural labourers in each of the "natural divisions" and sub-regions. The figures have been taken from Census Volume I, Part II-B, **Economic Tables**. In Census procedures, all earners were characterised as either self-supporting persons or earning dependants. A person in receipt of an income "sufficient at least for his own maintenance" was to be recorded as self-supporting; one with an income not sufficient to support himself, as an earning dependant. **(Census of India, 1951, Vol I, Part II-B, Economic Tables,** p x.) The distinction is at best subjective, and, as we shall indicate below, all but impossible to apply with any consistency. We have, accordingly, taken together the figures for self-supporting persons who listed cultivating labour as their principal means of livelihood and earning dependants (of both agriculturists and non-agriculturists) whose own occupation was given as cultivating labour. We have not included earning dependants of self-supporting cultivating labourers unless cultivating labour was also their own work. We have also added in all self-supporting persons who derived their secondary means of livelihood from agricultural labour. The figures in column 3 thus give the totals of all persons who, according to the Census, actually performed any significant amount of agricultural labour.

Census Earners

For the total number of earners we have taken simply the number of self-supporting persons plus the number of earning dependants. This figure appears in column 4. In point of fact, a small number of persons in these two categories are not actually earners in the sense of economically active persons, but rather recipients of rent, interest, pensions and the like. For the whole of India about three and a third million persons have been returned in such "unga'nful occupations"; they constitute less than one per cent of the whole population. To have eliminated the few thousands of them from the number of earners for each of the fifty "natural divisions" and fifteen sub-regions would have added inordinately to the computational labour involved, without materially affecting the results either in absolute terms or in percentages.

It would have been desirable to use Census figures for agricultural labourers and all earners **for the rural population only**, rather than for general population (rural plus urban), since the A L E data relate solely to the rural sector. But the Census publications do not provide separate rural and urban figures for earning dependants according to their own means of livelihood, so that it would have been impossible to separate out the number of these persons who were working as agricultural labourers. The great importance of the earning-dependant group within the agricultural labour force will become clear if we examine in detail the Census data for one particular natural division.

Earning Dependants

Let us take as our example Census "Natural Division" 3.32, Eastern Madhya Pradesh. This includes the rice-growing districts of Balaghat, Bhandara, Chanda, Raipur, Bilaspur, Durg, Bastar, Raigarh, and Surguja. These same districts comprise the A L E zone entitled Madhya Pradesh III. There live in this area, according to the Census, a total population of 10,666,351 persons, of whom 8,512,294 are listed as belonging to the "agricultural classes", that is landlords, cultivators, and labourers plus their families. Agricultural Livelihood Class III, Cultivating labourers and their dependants, amounts to 1,676,909 persons, or 20 per cent of all persons in the agricultural classes. Of these 1,676,909 persons, we find that 736,318 are self-supporting persons actually working as cultivating labourers, the others being their earning and non-earning dependants. Now let us ask who else in this area besides these 743,318 self-supporting cultivating labourers also work as cultivating labourers. We find that 361,801 men and 1,384,775 women classified as earning dependants have agricultural labour as their own occupation. But there are only 97,187 men and 323,653 women listed as earning dependants in the families of self-supporting cultivating labourers, and only 65 951 men and 266.732 women among these have cultivating labour as their own occupation.

Obviously, a considerable number of men (295,850) and a very large number of women (1,118,043) from landholding and non-agricultural families work as agricultural labourers in this region. Although these 1,413,893 earning dependants account for more than half of the agricultural labour force in Eastern Madhya Pradesh, they are **not** included in the Census Cultivating Labour Class for that division. Instead they are distributed among the other seven livelihood classes according to the source of income of the head of the household. Another 204,016 self-supporting persons who are described as primarily cultivators of owned or leased-in land or as non-agriculturists list agricultural labour as their secondary means of livelihood. The whole number of persons in the area who work as cultivating labourers thus comes to 2,686,910, which is 44 per cent of the total number of earners in Eastern Madhya Pradesh. This percentage more than doubles the 20 per cent given in the Census as the percentage of the Cultivating Labour Class to all Agricultural Classes. Lumping together all workers in a household under the livelihood classification of the head of the household served to obscure the true dimensions of the agricultural labour force. The importance of agricultural labour as an occupation of the working population in the country as a whole or any part of it cannot be shown unless we take full account of all earning dependants who have cultivating labour as their own means of livelihood irrespective of the occupation or status of the self-supporting persons upon whom they are listed in the Census as partially dependant.

A L E Earners

The corresponding A L E figures for agricultural labourers and for earners have been taken from the volume entitled **Rural Manpower and Occupational Structure** (Government of India, Ministry of Labour Delhi, 1954). In column 7, we have entered from Table 6.1 in every State chapter of this volume the number of agricultural labour earners in each zone, without reference to whether these workers are members of agricultural labour families. We have not, however, added in, as we did with the Census figures, persons listed as primarily owners, tenants, or non-agriculturists having agricultural labour as a subsidiary occupation, since the number of such persons has not been given separately for each zone.

Nor is there reason to suspect, as we do in the case of the Census, that a large number of the persons reported as having agricultural labour for a subsidiary occupation could more justly be regarded as being primarily agricultural labourers.

The number of earners entered in column 8 is simply that of persons so classified in Table 2 of every chapter. We have not added in with the earners the number of persons classified as helpers. The definitions of these two terms have been given as follows: "An earner was taken as one who had earned income however meagre it might be. Helpers are those who assist earners without earning independently any income themselves". **(Rural Manpower and Occupational Structure,** *op cit,* p 15.) For the whole A L E sample approximately 30 per cent of the villagers were classed as earners, 19 per cent as helpers, and the remaining 51 per cent as dependants. If we look at the relevant Census figures for the All-India rural population, we find that self-supporting persons and earning dependants constituted only about 41 per cent of all persons, leaving 59 per cent as non-earning dependants. Compared with the Census, the A L E classified fewer persons as earners, but also fewer as full dependants.

Unpaid Family Workers

The key to this lack of agreement lies chiefly in the treatment of the group usually referred to in labour-force literature as "unpaid family workers". In India this may include full-grown men working full time on land belonging to the undivided family as well as women and children who merely assist to a limited extent in the family's cultivation or handicraft work. The Census instructions explicitly provided that the decision whether such persons were to be returned as self-supporting, as earning dependants, or as non-earning dependants was to be left to the head of the family. He, in turn, was asked to state in each case if the share of the family income attributable to each person's work was sufficient for this person's maintenance, insufficient for this person's maintenance, or insignificant. Judgement as to the economic status of unpaid family workers was thus handed over by the Census to a separate arbiter for each family.

On grounds of prestige alone we may presume some tendency for heads of families to report other family workers as earning dependants rather than as self-supporting persons and, especially in the case of women and children, to report them as non-earning dependants rather than earning dependants. If so, the Census figure for self-supporting persons and earning dependants as 41 per cent of all persons may be somewhat lower than the actual position.

Earners and Helpers

The A L E, in theory, relegated all unpaid family workers to the rank of helpers. "For instance, if the head of a family was a cultivating owner or tenant, his sons or brothers who assisted him in the management of land were taken as only helpers and not earners". **(Rural Manpower and Occupational Structures,** *loc cit.)* One does not know to what extent this injunction was followed by the field investigators. What we can say, from the juxtaposition of the A L E and Census figures for earners, is that the A L E counted as helpers both a number of persons who were returned in the Census as self-supporting persons or earning dependants and a number who were returned in the Census as non-earning dependants. It is even possible that a number of persons tabulated in the Census as non-earning dependants were considered earners by the A L E. The A L E criterion was merely that the persons should have earned income on at least one day during the year; the Census required a regular income, however small, for qualification as an earning dependant. Taken together, the A L E categories of earners plus helpers are so inclusive that they have probably served to accommodate an unknown number of persons who should not really be counted among the working population. On balance, it seemed preferable to use the A L E figures for earners alone as the nearest equivalent to the Census totals for self-supporting persons and earning dependants. Although crude, the procedure is the best we have so far been able to devise for deriving roughly comparable percentages of agricultural workers to all workers from the two sets of data.

Figures calculated on this basis for the proportion of cultivating labourers to all earners from the Census and the A L E are to be found in columns 5 and 6. It will be immediately apparent that there is no close correspondence, and the A L E percentages are almost invariably higher. For example, the Census percentage of agricultural labourers to all earners in the Eastern Uttar Pradesh Plain is 11.4 per cent while the A L E percentage is 19.7 per cent. For "North Madras" (today Coastal Andhra) the Census figure is 33.4 per cent and the A L E 61.4 per cent. For India as a whole the Census percentage is 20.5 per cent and the A L E figure is 38.2 per cent.

To some extent, these differences could be expected on the strength of the reservations already noted about the comparability of the data. Thus A L E percentages would tend to be higher because they refer to rural population alone, in which there are a greater number of agricultural labourers, and since the number for "all earners" on which the percentage is based represents a smaller section of the total population than does the "all earners" category on the Census side of the Table. On the other hand, as we have noted, the A L E figures do not include persons who have agricultural labour as a subsidiary occupation. In certain divisions the A L E figures must be used with great caution since the sample is so small; this is particularly true of Assam Hills, Tripura, parts of Rajasthan, Bhopal, and Coorg. On the whole, however, there is no reason to assume that the A L E all-India sample is inadequate in size. The A L E all-India percentage would, in fact, be slightly higher if computed by a weighting method rather than as a direct average, since the A L E samples for the sub-regions with the highest proportions of agricultural labourers, such as the North and South Deccan and the Orissa and Madras Coasts were in the range of one in 800, one in 850, or one in 900 while the sample for some other regions with far fewer labourers such as the Eastern and Western Himalayas was roughly one in 500.

Estimate for Rural Sector

Let us try to estimate on the basis of Census figures the total number of agricultural labourers in rural India. We start with the all-India total at the bottom of

Table I—Agricultural Labourers in Relation to all Earners according to the Census of 1951 and the Agricultural Labour Enquiry

		CENSUS OF 1951			AGRICULTURAL LABOUR ENQUIRY			
1	2	3	4	5	6	7	8	9
Census Regional Code	"Natural Divisions" and Sub-Regions	Agricultural Labourers	All Earners	Percentage of Agricultural Labourers : 3,4	Percentage of Agricultural Labourers 7,8	Agricultural Labourers	All Earners	Agricultural Labour Enquiry Zones
1.11	Himalayan Uttar Pradesh	20,554	1,397,554	1.5	10.0	150	1,511	Uttar Pradesh IV and V
1.12	Himachal Pradesh and Bilaspur	21,807	660,219	3.3	16.8	198	1,177	Himachal Pradesh and Bilaspur
1.13	Himalayan Punjab	25,414	515,553	4.8	Separate figures not available			
1.14	Jammu and Kashmir	No census taken in 1951			3.8	65	1,688	Jammu and Kashmir
1.1	**Western Himalayan Sub-Region**	**67,779**	**2,555,346**	**2.7**	**9.4**	**413**	**4,376**	
1.21	Assam Plains	105,566	3,298,690	3.2	12.4	228	1,845	Assam I and II
1.22	Assam Hills	32,376	601,565	1.0	13.6	86	683	Assam III
1.23	Manipur	947	300,642	0.3	0.6	6	999	Manipur
1.24	Tripura	28,072	274,540	10.2	22.3	124	557	Tripura
1.25	Himalayan West Bengal	31,495	768,075	4.1	39.3	906	2,303	West Bengal I,II, and VIII
1.26	Sikkim	38,320	79,362	48.1				
1.2	**Eastern Himalayan Sub-Region**	**236,776**	**5,322,874**	**4.4**	**21.1**	**1,350**	**6,387**	
2.11	West Bengal Plain	1,424,739	7,836,065	18.2	23.8	1,850	8,190	West Bengal III, IV, V, VI, and VII
2.12	North Bihar Plain	2,134,102	6,158,613	34.7	44.7	3,677	8,233	Bihar I and II
2.13	South Bihar Plain	972,744	3,869,755	25.1	42.8	1,449	3,385	Bihar III
2.14	East Uttar Pradesh Plain	954,146	8,392,620	11.4	19.7	779	3,947	Uttar Pradesh I
2.1	**Lower Gangetic Plains Sub-Region**	**5,485,737**	**26,257,053**	**20.9**	**32.6**	**7,755**	**23,755**	
2.21	Central Uttar Pradesh Plain	582,059	7,162,814	8.1	17.9	859	4,792	Uttar Pradesh II
2.22	West Uttar Pradesh Plain	511,589	7,973,932	6.4	16.4	1,025	6,241	Uttar Pradesh III
2.2	**Upper Gangetic Plains Sub-Region**	**1,093,648**	**15,136,746**	**7.3**	**17.1**	**1,884**	**11,033**	
2.31	Punjab Plain	539,667	4,363,838	12.4	11.4	770	6,760	Punjab
2.32	P E P S U	151,338	1,362,108	11.1	16.1	434	2,698	P E P S U
2.33	Delhi	14,435	639,129	2.8	5.6	121	2,152	Delhi
2.34	East Rajasthan Plain	297,862	3,418,908	8.7	17.6	273	1,552	Rajasthan I
2.35	Madhya Bharat Lowland	54,192	603,179	9.0	17.6	181	1,027	Madhya Bharat I
2.36	Ajmer	71,384	341,082	20.8	15.6	226	1,446	Ajmer
2.3	**Trans-Gangetic Plains Sub-Region**	**1,128,878**	**10,728,244**	**10.5**	**12.8**	**2,005**	**15,635**	
2.41	**Rajasthan Dry Area**	**117,620**	**2,139,383**	**5.5**	**11.3**	**113**	**999**	**Rajasthan II and IV**
2.4	**Desert Sub-Region**	**117,620**	**2,139,383**	**5.5**	**11.3**	**113**	**999**	
3.11	Rajasthan Hills	69,092	1,097,115	6.3	2.5	19	751	Rajasthan III
3.12	Rajasthan Plateau	149,542	1,055,999	14.2	27.7	83	300	Rajasthan V
3.13	Madhya Bharat Plateau	507,053	1,885,993	26.8	39.5	420	1,064	Madhya Bharat II
3.14	Madhya Bharat Hills	300,900	[illegible]	26.1	36.6	421	1,151	Madhya Bharat III and IV
3.21	*Uttar Pradesh Hills and Plateau*	*296,075*	*1,930,396*	*15.4*	*17.8*	*243*	*1,419*	*Uttar Pradesh IV*
3.22	*Vindhya Pradesh*	*399,848*	*1,649,750*	*24.2*	*30.9*	*546*	*1,779*	*Vindhya Pradesh*
3.23	*Bhopal*	*96,361*	*346,673*	*27.7*	*66.1*	*495*	*749*	*Bhopal*
3.24	*North West Madhya Pradesh*	*1,260,237*	*2,842,869*	*44.3*	*35.0*	*672*	*1,919*	*Madhya Pradesh II*
3.2	**North Central Hills and Plateau Sub-Region**	**2,052,521**	**6,769,688**	**30.3**	**33.3**	**1,956**	**5,866**	
3.31	Chhota Nagpur	598,829	4,315,827	13.9	57.0	3,153	5,533	Bihar IV
3.32	East Madhya Pradesh	2,686,910	6,081,891	44.2	43.2	1,625	3,759	Madhya Pradesh III
3.33	Orissa Inland	737,842	3,259,343	22.6	57.0	1,311	2,298	Orissa II and III
3.3	**North-East Plateau Sub-Region**	**4,023,581**	**13,657,061**	**29.5**	**52.5**	**6,080**	**11,590**	
3.41	South-West Madhya Pradesh	1,757,716	2,911,228	60.4	70.2	2,246	3,200	Madhya Pradesh I
3.42	North Hyderabad	846,055	2,717,697	31.1	52.8	2,381	4,511	Hyderabad I
3.43	Bombay Deccan Northern	1,147,399	5,220,820	22.0	37.4	976	2,612	Bombay II and III
3.4	**North Deccan Sub-Region**	**3,751,170**	**10,849,795**	**34.7**	**54.3**	**5,603**	**10,323**	
3.51	South Hyderabad	2,053,015	5,802,786	35.4	51.3	2,735	5,330	Hyderabad II
3.52	Bombay Deccan Southern	556,328	2,075,003	26.8	39.6	797	2,011	Bombay IV
3.53	Mysore	285,066	2,667,438	10.7	50.5	1,655	3,279	Mysore
3.54	Madras Deccan	337,990	1,634,469	20.7	66.3	1,885	2,844	Madras III
3.5	**South Deccan Sub-Region**	**3,232,429**	**12,179,676**	**26.5**	**52.6**	**7,072**	**13,464**	
4.11	Bombay-Gujarat	946,985	4,744,011	20.0	26.1	1,147	4,397	Bombay I
4.12	Saurashtra	280,781	1,726,807	16.3	34.0	657	1,930	Saurashtra
4.13	Kutch	32,968	242,410	13.6	28.4	356	1,255	Kutch
4.1	**Gujarat-Kathiawar Sub-Region**	**1,260,738**	**6,713,228**	**18.8**	**28.6**	**2,160**	**7,582**	
4.21	Greater Bombay	Excluded						
4.22	Bombay-Konkan	261,672	2,028,243	12.9	25.8	410	1,591	Bombay V
4.23	West Madras	495,790	2,009,299	24.7	47.9	2,641	5,508	Madras V and VI
4.24	Travancore-Cochin	836,265	3,354,936	24.9	42.9	5,340	12,452	Travancore-Cochin
4.25	Coorg	11,586	91,786	12.6	17.7	130	733	Coorg
4.2	**Malabar-Konkan Sub-Region**	**1,655,313**	**7,484,264**	**22.1**	**42.0**	**8,521**	**20,284**	
5.11	Orissa Coastal	430,449	2,336,559	18.4	41.7	1,045	2,508	Orissa I
5.12	North Madras	1,647,606	4,871,935	33.4	61.4	4,063	6,620	Madras I and VII
5.1	**North Madras and Orissa Coastal Sub-Region**	**2,078,135**	**7,208,494**	**28.8**	**55.6**	**5,108**	**9,128**	
5.21	South Madras	2,083,363	9,050,020	23.1	64.4	9,721	15,089	Madras II and IV
5.2	**South Madras Sub-Region**	**2,083,363**	**9,050,020**	**23.1**	**64.4**	**9,721**	**15,089**	
	ALL-INDIA	29,152,709	142,306,790	20.5	38.2	60,684	158,777	812 sample villages in 75 zones

Sources: Census of India, 1951; Vol I—INDIA, Part II-B, Economic Tables (Delhi, 1954).

Agricultural Labour Enquiry, Rural Manpower and Occupational Structure (Delhi, 1954).

column 3 of Table 1: 29,152,709. We may subtract from it the 613,717 persons reported as self-supporting cultivating labourers in the urban sector plus an estimated 476,000 urban earning-dependant cultivating labourers and an estimated 95,000 urban self-supporting persons with cultivating labour as their subsidiary means of livelihood. (The assumption underlying these two estimates is that the proportion of earning-dependant cultivating labourers and self-supporting persons with cultivating labour as a subsidiary occupation is the same to all cultivating labourers in the urban sector as in the rural. Since the distinction between urban and rural areas in the Census has been drawn rather loosely, it seems likely that these "urban" agricultural labourers are really working in rural pockets which have been included for one reason or another within town limits, and that the conditions of their work are not materially different from that of their "rural" colleagues.) The estimate for total rural agricultural labourers would then be 27,968,000. Since the total number of rural earners is 120,877,000, the Census percentage of agricultural labourers to all earners in the rural sector becomes 23 per cent. This is still very far away from the A L E percentage of 38 per cent.

Now we may attempt to rule out the portion of the discrepancy which may be due to differences in the respective numbers classified as earners by taking the rural agricultural labourers as a percentage of the entire rural population. For the Census, the figure for the rural population is 295 million. Of this number the 27,968,000 agricultural labourers (as estimated above) constitute 9.5 per cent.

The all-India number of persons classified as agricultural labour earners by the A L E was 60,684. The entire population of the sample villages was 522,610. The percentage of agricultural labourers to rural population is thus 11.7 per cent according to the A L E. Although somewhat narrowed, the discrepancy remains.

All that we can say with any assurance is that the Census totals of 29 million agricultural labourers for the country as a whole and 28 million agricultural labourers in the rural sector must be taken as minimal figures. The dimensions of the disagreement between the Census and the A L E make it seem fruitless to attempt projections which would combine A L E percentages of agricultural labourers with Census figures for total number of earners or the whole rural population.

The surprising fact, in view of the failure of the two sources to agree on the percentage of agricultural labourers either in the country as a whole or in almost any particular area, is that there is a broad correspondence between them as to where there are relatively more agricultural labourers and where there are less. When we divide the sub-regions into groups with low, medium, and high percentages of agricultural labourers according to the Census percentages and also according to the A L E percentages, we find that there is general agreement. Table II — Percentage of Agricultural Labourers to All Earners by Census of India (1951) Sub-Regions—presents this comparison. All of the percentage figures are taken directly from Table I, those in the left-hand column relating to the Census and those on the right-hand to the A L E. The divisions between the low, medium, and high groups are based simply on inspection of the data. The only case which does not fit neatly into this rather crude set of boxes is that of the North Central Peninsular Hills and Plateau Sub-Region which falls into the high range of the Census percentages and ranks in the medium group of the A L E percentages. Roughly, we may say that agricultural labourers are fewest in the hilly border areas, and on the northern and northwestern plains. They are to be found in somewhat greater numbers in an arc sweeping eastward from Kathiawar to West Bengal. All the rest of India: the whole South, the two coasts, and the interior upland have relatively high percentages of agricultural labourers. The range according to the Census is from 3 per cent of all earners in the U P Hills and Punjab Hills to 35 per cent in the Northern Deccan which includes Khandesh, Berar, Bombay Deccan and Marathwada. The A L E range begins with 9 per cent for the same Western Himalayan Sub-Region, gives a figure of 54 per cent for the North Deccan, and rises to 64 per cent of all earners for the post-1956 Madras State.

Table II — Percentage of Agricultural Labourers to all Earners by Census of India (1951) Sub-Regions

		Percentages calculated from Census of 1951 Economic Tables	Percentages calculated from Agricultural Labour Enquiry (1950-51)
	Sub-Regions with Low Percentage of Agricultural Labourers		
		(Census) 0-11%	(A L E) 0-21%
3	Western Himalayan Sub-Region: U P Hills, Punjab Hills, Himachal Pradesh		9
4	Eastern Himalayan Sub-Region: Assam, Manipur, Tripura, Bengal Hills		21
6	Rajputana Desert Sub-Region		11
7	Upper Gangetic Plain Sub-Region: West and Central Uttar Pradesh		17
11	Trans-Gangetic Plain Sub-Region: Punjab, P E P S U, Delhi		13
	Sub-Regions with Medium Percentage of Agricultural Labourers		
		(Census) 12-21%	(A L E) 22-41%
19	Gujarat-Kathiawar Sub-Region		29
19	North-West Peninsular Hills Sub-Region: Rajasthan Hills and Plateau, Indore, Udaipur, Kotah		29
21	Lower Gangetic Plain Sub-Region: Bihar, Eastern Uttar Pradesh, West Bengal Plains		33
	Sub-Regions with High Percentage of Agricultural Labourers		
		(Census) 22% and over	(A L E) 42% and over
22	Malabar-Konkan Sub-Region		42
23	South Madras Sub-Region: Tamilnad		64
27	South Deccan Sub-Region: Telengana, Rayalaseema, Mysore		53
29	North Madras-Orissa Coastal Sub-Region: Coastal Andhra and Orissa		56
30	Northeast Peninsular Plateau Sub-Region: Chhota Nagpur Eastern Madhya Pradesh, Inland Orissa		53
30	North Central Peninsular Hills and Plateau Sub-Region: Northern Madhya Pradesh, Southern Uttar Pradesh		33
35	North Deccan Sub-Region: Bombay Deccan, Berar, Marathwada		54

New Criteria Needed

No more precise calculations as to what fraction of India's working population consists of agricultural labourers can be made until we have fresh data collected under rubrics more clearly conceived and defined. New criteria are needed for the delimitation of the categories of earners and agricultural labourer.

The obsession with income as the measure of all economic activity which characterizes the Census of 1951 accords ill with the facts of Indian life. Present-day India is very far from being a nation of shopkeepers, each with his account book conveniently to hand. On the contrary, for the typical peasant family, questions about primary versus secondary sources of livelihood or about the amount of the family's income assignable to each working member are virtually unanswerable. Many agricultural households cultivate mainly in order to provide their own food. The grain and pulses eaten by the family never enter the commercial market and thus have no genuine price; they can be readily quantified only in weights or measures. In effect the Census of 1951 questionnaire required the head of a peasant household to transmute into commensurable units food grown for home consumption, cash receipts for whatever crops were sold, and money or kind wages accruing to those family members who worked outside of the home. Specialists in national income studies of countries like India do not yet feel confident that they have attained sound procedures for making these calculations.

Even if we assume that it were possible, as it might be in a family of urban employed persons, to determine accurately which working members were self-supporting and which were earning dependants, the resulting information would be of dubious value for economic analysis. It is quite conceivable within the Census definitions for an individual to be employed full-time on full salary and yet not earn a sufficient amount to pay for his own upkeep at his family's level of living. Persons correctly classified as earning dependants in families or areas with relatively high living standards would be in receipt of absolutely greater amounts than self-supporting persons in poorer families or regions. In effect, the Census distinction between self-supporting persons and earning dependants not only presumes a reliable assessment of family and individual income but also rests on a sliding income scale, which differs from family to family.

The A L E categories of earners and helpers have the virtue of greater concreteness than the Census "self-supporting persons" and "earning dependants". Yet here also the distinction is made on the basis of quantum of income rather than quantum of labour. It is easy for an investigator to determine who is an earner and who a helper if he has simply to ask who has received income in cash or kind and who has not. But we cannot be satisfied with a procedure which singles out one man as head of the household and counts him separately among earners while the other adult members of the joint family who till the common holding side by side with him are counted among helpers. Nor is it logical to lump together women and children who participate regularly for part of every day in family economic activity with persons who help only rarely.

A few constructive suggestions may be in order for future attempts whether in Census questionnaires or special surveys to obtain the numbers of earners and agricultural labourers in India. It might be useful to begin by ascertaining the usual activity of each person over the age of, say, twelve years. This might be one of the occupations generally considered to be "economic" or "gainful" as, for example, cultivation, agricultural labour, production of handicrafts for sale, factory work. The usual activity might alternatively fall into the so-called non-economic sphere, as in the case of housewives, students, persons living on rents etc. Individuals usually occupied in these non-economic pursuits may in addition be asked whether they also participate for, say, one-third or more of the time, in economic activities. It will then be possible to arrive at the total number of persons, who might legitimately be termed earners. Within this total, figures could also be given for the number of persons whose usual occupation lies in the economic field, and the number whose usual activity lies elsewhere but who are also economically active for a substantial portion of the time.

Agricultural Labour Force

In determining the number of agricultural labourers, it might well be advisable to bypass the question of how many persons are primarily agricultural labourers. Instead, there may simply be one count of persons who have agricultural labour as their sole occupation and a second count of persons who may have other occupations but who also work for some minimum period (say four weeks in the course of the year) as hired agricultural labourers.

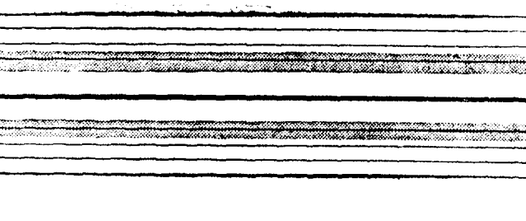
The essence of these suggestions is that the economically active population be conceived in terms of persons who work rather than persons in receipt of income. It then follows that we would no longer ask who is a self-supporting person and who is a dependant. It might even be worthwhile to drop the term "earner" and simply count the number of workers. Among these workers, in turn, distinctions could be made in terms of the amount and type of the work usually done. Accordingly, agricultural labourers would be set off from persons in other occupations simply in terms of whether they actually serve as agricultural labourers either exclusively or in addition to other work. It should be possible on this basis to gather figures for agricultural labourers and for other members of the working population which could be used with somewhat greater confidence in regional comparisons and in the computation of national totals.

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Book Review

A Plan for an Ex-Colony

The Economic Development of Malaya. Report of a Mission organised by the International Bank for Reconstruction and Development. The John Hopkins Press, Baltimore. Pp 707. Price $ 7.50.

IN discussing the problems of the economic development of underdeveloped countries, one can think on the one hand entirely in general terms and develop on that basis a theory of the process of economic growth. On the other hand, it is also possible to go to the other extreme of viewing the specific problems of each country in the light of the special conditions prevailing there and make ad hoc recommendations with regard to their solution.

While there has been a welcome tendency during recent years to pay adequate attention to the development of a theoretical framework of ideas regarding the process of economic growth, perhaps less attention has been devoted to the wide variety of conditions that are found in different countries. More particularly, not enough attention has been paid to the question of fitting the variety of problems that arise in different underdeveloped countries into the theoretical framework of ideas regarding the process of economic growth as these have been developed during recent times.

Wrong Assumptions

This study of the economic development of Malaya, which includes both the Federation of Malaya and the Crown colony of Singapore, by the I B R D Mission, brings out clearly the special problems of development facing that country but, unlike other studies of the Bank, there is no attempt to fit these special problems into the theoretical framework so widely accepted today. Nevertheless, the study is of value because it brings out clearly the peculiar developmental problems facing this part of the world, and also brings together a wealth of information about this region.

In a sense, however, this Report has already become out of date. The Report seems to proceed on the assumption of the political unification of the Federation and Singapore which, in the context of latest political development, seems a rather distant possibility now. The frequent references in the Report to one entity called 'Malaya' has a ring of unreality about it. The two units, i e, the Federation and Singapore, are, to all intents and purposes separate political entities and distinctions between the two on the political plane are likely to widen rather than narrow because the relationships with the colonial power, as they have emerged, follow different courses. It is doubtful that on the economic plane either the two units would act in cohesion. Of course, there would be numerous points at which cohesion of economic policies between the two units would perhaps be called for in their mutual interest but this is something which has to be brought home to the leadership of the two units on a proper appraisal of the points of contact between the two economies and not just taken for granted. The I B R D Report proceeds precisely on the latter assumption. Perhaps the fault is not theirs. They must have been encouraged to make the above assumption.

Two Distinct Units

There are no doubt a number of similarities between the Federation and Singapore. Both have witnessed a large volume of immigration in the past with the result that both in the Federation and Singapore the foreign settlers, who are mostly Chinese, Indian and Pakistani, comprise a majority of the present population. But, of course, with a difference. While in the Federation the Malayans comprised 49 per cent of the total of its total population, in Singapore they constituted only 12 per cent. In both cases, however, immigration in recent days is become a mere trickle. There is a steady trend towards a more 'settled' and less transient population. This means that, unlike in the past, fluctuations in the level of economic activity have to be absorbed and rectified internally. In the past whenever the economy was under strain the foreign settlers would migrate back to their countries of origin and that provided some relief to the economy. This is no longer so because a stage has now been reached when those who were once foreigners in Malaya have started considering it as their home.

But the very fact that the racial complexion of the population of the two units is not the same itself should not only give rise to different political and social problems but also project itself into the economic field. Wide differences actually exist between the Federation and Singapore in the economic field. The Federation's is primarily an agricultural economy whereas Singapore's is still almost entirely a commercial one. And one of the factors which accounts for these differences must have been the fact that the large proportion of Singapore's population consists of Chinese settlers whose interest is confined primarily to trade and commerce, whereas the majority in the peninsula consists of Malayans and Indians with interest in agriculture. Now, this cannot be taken too far because the argument can perhaps be reversed and sounded to apply equally forcefully. The important point that emerges is that because of the basic differences the lines on which development in the two units proceeds would have to be different. This does not mean that the two economies are not complementary or that they cannot become more complementary. The idea is only to emphasise the differences in the nature of the problems faced by the two units. The impression one gets from the Report under review is that the artificial attempt made towards a unified study of the problems and prospects of development in the two units must have been a handicap to the officials investigating on behalf of the Bank. It certainly is a handicap to the reader who is interested in understanding the problems as they exist in the two units.

As for the actual programme of development suggested by the Bank Mission there could hardly be any quarrel on broad recommendations. Remembering that the Mission concerned itself primarily with drawing up a programme of investment in the public sector the emphasis on concentration on social overheads is quite understandable. So also the broad lines of priority in the allocation of public investment

urces in the Federation with ter emphasis on agriculture, in Singapore with greater em- sis on public utilities and other si-commercial services and lities.

ne of the recommendations in Report which will, perhaps, rest Indian readers espicially at moment is the one relating to sterling reserves. So far the ctice in Malaya, as in other ish colonies, has been to keep 100 per cent sterling reserve king for the local currency ch meant that any expansion in l currency must be accompanied a corresponding investment in ling reserves. The Report is r cautious and circumspect in icising this practice. But it is rly not in favour of the present em. In its own words:

"The stability and the security of the currency board system does not depend on 100 per cent sterling backing for the currency; it depends on sufficient sterling being available to redeem that part of the currency in respect of which claims for redemption might conceivably arise. This fact provides a margin within which the Central Bank may effectively operate without losing any of the practical advantages of the existing system".

Still as a substitute what the Report suggests is a fiduciary issue within the present 'currency board' frame-work—a recommendation which comes rather as an anti-climax. No doubt this recommendation is an advance on the previous practice but, as we in India recently have found out, the practice of linking by statute foreign exchange reserves with domestic currency is outmoded and comes in the way of development. When development in Malaya gets into stride she will however have the advantage of the Indian experience to go by.

World Bank Loans

DURING the three months ended September 30, 1957, the World Bank made 11 loans totalling 214.3 million.

One loan was in Belgium ($ 10 mn), two in Chile ($ 22 mn), two in Ecuador ($ 19.5 mn), four in India ($ 90 mn), one in Japan ($ 7 mn) and one in Thailand ($ 66 mn), bringing the total number of loans to 181 in 45 countries and raising the gross total of commitments to $ 3,322.3 million.

Disbursements on loans were $ 119.3 million, making total disbursements $ 2,415.3 million.

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Urban Housing and the Plan

COORDINATION of economic activity within the economy is the very essence of planning. India is at the moment passing through that phase of planning in which the items pressing for expenditure are innumerable. In each case strong and forceful reasons could be put forward to justify outlays. Still if expenditure has to be matched with resources and when resources are in short supply, the question of the fixation of priorities cannot simply be avoided.

Housing Shortage

The conference of Housing Ministers held last week in Mysore and its deliberations leave no one in doubt that the housing situation in the country needs attention. As was pointed by Shri K C Reddy, Union Minister for Works, Housing and Supply, the shortage of houses in the urban sector was likely to be about 5.7 million units, i e, twice as much as it was in 1951 when the First Plan was started. The shortage of this order, he reminded the conference, would come about in spite of the fact that during the Second Plan nearly Rs 900 crores would be spent on urban housing—an outlay which is estimated to create about 1.9 million housing units. One may not agree with the Central Housing Minister about the precise figure of expected shortage (to that extent the position may be more or less appalling, depending upon the side to which the disagreement with the official figure inclines) because it appears that in calculating this figure he takes into account the possible rise of urban population which is estimated to be about 20.6 million during the decade 1951-1961. The more significant factor contributing to the demand for housing in the urban sector appears to be the magnitude of migration from rural to urban areas rather than the absolute increase in total urban population. The magnitude of this migration would obviously be much smaller than the figure of the total estimated increase in urban population. This should mean that the shortage in urban housing in 1961 would not be as great as is foreseen by the Central Housing Minister. Of course, the problem of housing shortage would remain but the point made here is that it may not be so serious as it is considered to be in official circles or, to be more precise, in the Government departments concerned with housing.

What Priority?

This brings us to the question of the priority to be assigned to urban housing during the Second Plan. As stated above the total outlay on urban housing during the Second Plan was originally expected to be around Rs 900 crores of which Rs 110 crores were to be spent by the Government and the rest by the private sector. If allowance is made for the rise in costs consequent on the recent rise in prices, the same projects should involve an outlay of over Rs 1,000 crores, in money terms, when the Second Plan is completed. It is common knowledge that the position in regard to the resources was viewed much more optimistically when the Second Plan was drawn up than what it is today when the country is in the throes of acute balance of payments difficulties and inflationary pressures. Now in assigning priorities to investment projects, in the circumstances in which the country is placed today, precedence should be given to those investments which mature quickly in terms of marketable goods and services. No doubt the construction of houses brings immediately into existence housing services which are usually paid for. But since most of the housing projects that the Government has in view are of the subsidised type whether it is for housing industrial workers, plantation labourers or slum dwellers, or even housing low income and middle income groups, the housing services created by these projects would not be priced according to the prevailing market and would therefore not exercise the same counter-inflationary effect on the economy as would be the case if the goods or services produced were to be placed straight on the market and priced as dictated by the current inter-play of the forces of demand and supply.

This argument should not be taken to mean that subsidised construction of houses or subsidisation of rents in the case of deserving classes of the community are not desirable. It only means that in times of stress of the type which weighs down the Indian economy at this moment schemes of this type, however demanding in terms of human values, have got to be deferred until better times.

There is another argument also which would argue in favour of the postponement of outlays on housing as far as possible. Even if it were granted that housing services are directly marketable (this would be the case if rents are not subsidised or if housing construction loans do not contain any element of subsidy) it still remains true that the current capital-output co-efficient is much higher in the case of house building as compared to most investments in manufacturing industry. This means that investment in housing matures over a much longer period than industrial investment although the services from the former investment start flowing in earlier than the goods from the latter.

Viewed in the above light there appears to be ample justification for the Planning Commission to recast the housing programme. No doubt the investment on housing, which is under the control of the public sector, comprises a small proportion of the total expected outlay on housing during the Plan period, (though the proportion would be higher than is indicated by the amount provided for in the public sector's plan because some of the private sector's outlays would not take place if subsidised loans or other concessions were not forthcoming from the Government). Still the Government can, through a system of controls which need not be extensive in scope, keep the aggregate outlay on housing within limits. The important point is that the Planning Commission must be clear about the priority that is to be assigned in its scheme of investments to urban housing.

Need for Urgent Reappraisal

The fear is that unless the Planning Commission makes its position clear and fully known the Government at the Central and the States levels may continue to urge an expansion in housing activity at a time when the need of the hour is to put a curb on such activity. For instance, in the conference of the State Housing Ministers referred to above, Shri Reddy actually exhorted the State Ministers to take measures necessary for expediting the construction of houses and it was to that



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end that he suggested that Housing Finance Corporations may be set up at the State levels. The idea, he said, was that such corporations would channelise into housing, funds drawn from the private sector as well as banks, investment companies and financial institutions supplemented by funds from the Life Insurance Corporation and the Employees Provident Fund Account. Following the Central Housing Minister the Chairman of the Life Insurance Corporation has announced the readiness of the Corporation to consider requests for loans from housing societies. All this rush on housing seems uncalled for, and particularly at this juncture. It is no doubt true that a certain amount of housing activity must go on even now. For example, housing accommodation must be provided to engineers and workers on the sites of the new steel plants. That is something which cannot simply be avoided. But apart from such unavoidable expenditures there would be so many other construction projects which could easily be deferred for a couple of years, or even more, and it is urged that the Planning Commission must come forward and assert itself in this matter. It may be a bit unfortunate from the point of view of the Housing Minister that circumstances are not conducive to the implementation of the projects of his department. But that after all is no criterion in directing national economic policies.

Around Bombay Markets

Movement in Narrow Grooves

Thursday, Morning

AN Ordinance promulgated last week reduced the statutory reserve of the Reserve Bank to Rs 200 crores, inclusive of gold coin and bullion valued at nearly Rs 118 crores. The minimum reserve of foreign securities required to be kept by the Reserve Bank has thus been brought down to Rs 82 crores, against Rs 317 crores actually held during the week ending October 25. The statutory reserve of Rs 200 crores is equivalent to about two and a half months imports at the average rate experienced in the first half of 1957. Since imports over the next two years are expected to be somewhat lower than this rate and assuming that larger imports of foodgrains would be financed from various aid programmes, the statutory reserves should not be considered unduly low. As for the impact of the reduction in the statutory minimum on external confidence in the rupee, even those who question the wisdom of the Government's drastic action are likely to suspend their judgment until such time as the foreign reserves actually decline below what they regard as the safe limit.

Export Promotion

The report of the Export Promotion Committee published last week bears marked resemblance to the one brought out by the Federation of Indian Chambers of Commerce and Industry late in 1955 (reviewed in E W, February 9, 1957). The patent fact that the exportable surplus of this country is rather small has to be clearly recognised—and together with it the equally patent necessity of squeezing home consumption to increase it. The refusal to lower the cloth excise duty is a step in the proper direction though some readjustment of its incidence on coarse and medium goods would have helped eliminate speculation) so long as it does not encourage the persistent tendency in Government policy to believe that economic policy is concretised as soon as an ad hoc measure for the textile industry is announced. If it is admitted that we are living through a foreign exchange crisis, then it logically follows that exports must be stepped up at all costs. The domestic consumer has, however, been assured that the Government has his interests in mind and that attempts at export promotion would not be all at his cost. There should be little objection in principle to the committee's suggestion that special income tax concessions be granted to encourage exports. If lavish depreciation allowances can be allowed to stimulate industrialisation and shipping companies can be exempted from the wealth tax, why not special concessions to promote exports?

Narrow Movements

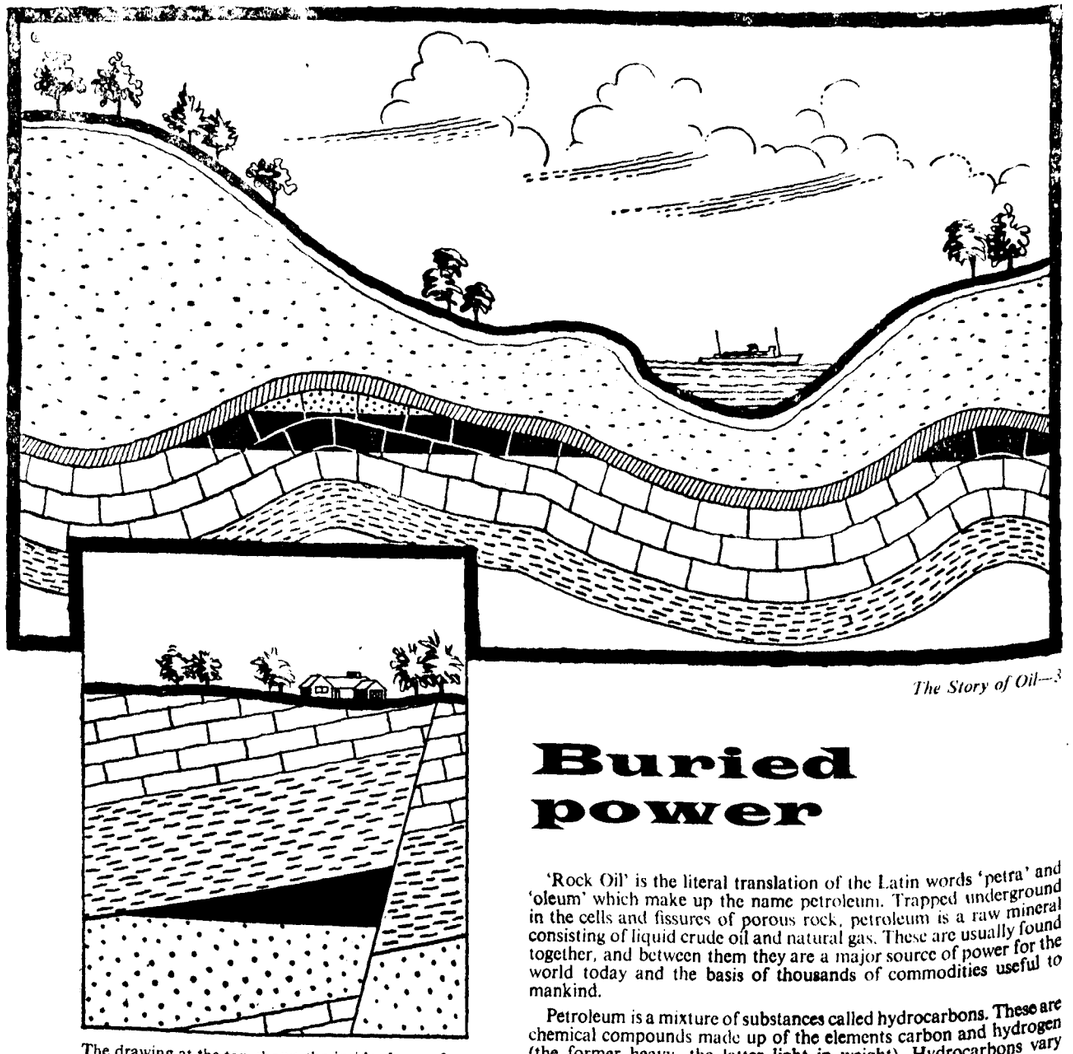
Over the week, Dalal Street has moved within a fairly narrow groove in the absence of any fresh incentives. Shri Manubhai Shah's announcement that the cloth excise duty will remain unchanged, and the continued sluggishness in piece-goods, led to profit-taking and bull liquidation in Textiles. Sugar scrips were buoyant on improved dividend reports and shipping continued to be in demand. While the past year has been exceptionally favourable for sugar companies, the prospects during the next season do not appear to be equally bright. The home market might be affected adversely by the high cost of living in urban areas, and by draught in the East, while international prices have already fallen below the Indian f o b quotations. Export prospects, therefore, depend very largely on the extent to which the profits collected from exports during the expiring season and pooled together can be utilised to subsidise the new season's exports. Though a direct Government subsidy to sugar export is ruled out by GATT obligations, the industry is optimistic about securing its help in some form or other. Government would do well to announce its policy fairly soon if last year's performance of sugar exports is to be emulated.

Indianisation

Following the successful conversion-cum-Indianisation issues to finance the expansion of National Carbon, Guest Keen Williams, Lever and Dunlop over the last year, three similar flotations are reported to be awaiting entry into the capital market. These are Philips Electric, Firestone and Siemens. Detailed information about these projected issues is not yet available but the first mentioned has announced its intention to offer 5 lakh shares of Rs 10 each to the public at a premium of Rs 2.50. Firestone and Siemens are known to be carrying on negotiations with the Tatas and Khataus, respectively; whether and when they will make an offer to the public is still uncertain.

Spurt in Bank Deposits

Deposit liabilities of scheduled banks have spurted by Rs 37.5



The Story of Oil—3

Buried power

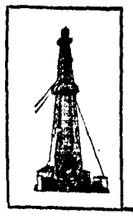
'Rock Oil' is the literal translation of the Latin words 'petra' and 'oleum' which make up the name petroleum. Trapped underground in the cells and fissures of porous rock, petroleum is a raw mineral consisting of liquid crude oil and natural gas. These are usually found together, and between them they are a major source of power for the world today and the basis of thousands of commodities useful to mankind.

Petroleum is a mixture of substances called hydrocarbons. These are chemical compounds made up of the elements carbon and hydrogen (the former heavy, the latter light in weight). Hydrocarbons vary widely in nature and behaviour according to the different proportions of these two elements they contain. Most are liquids at ordinary temperatures, but some are gases and others solids like bitumen.

Despite popular belief, this petroleum does not collect in large underground pools. If it did, exploration and discovery would be comparatively easy. Instead it lies, usually with a quantity of salt water, in layers of solid looking porous rocks closed in by walls or caps of non-porous rocks which prevent it escaping. There are three main types of oil trap—the 'anticline', an arch-shaped upward fold in the earth's rock layers; the 'fault', or fracture in the earth's crust whereby a non-porous layer has slipped to cut off a porous layer; and the 'stratigraphic' trap, where because of changes in the type of rock a porous layer becomes sealed off by non-porous rocks.

The drawing at the top shows the inside shape of an *anticline*. Compression has buckled up the earth's crust, squeezed it into these folds.
The other illustration is of a *fault*, a dislocation in rocks. Two sections of the earth have been forced in different directions until they cracked, slipped out of position, and upset the alignment of all the rock strata involved. The black section indicates oil-bearing rock.

Thus, when geologists begin their search for oil, they start with the knowledge that certain types of rock formation are more likely to yield oil than others.



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crores during the week ending October 25; of this increase the State Bank is responsible for about Rs 13.5 crores only. Transactions under P L 480 are presumably responsible for a large portion of the latter while the end of the Calcutta bank strike with the consequent return of cash and deposits have helped increase the resources of other scheduled banks. The inflow of Rs 37.5 crores into the banking system is reflected thus in changes on the assets side (figures in parenthesis relate to the State Bank): cash + Rs 5.5 cr (+Rs 8.5 cr); gilt-edgeds + Rs 9 cr (+Rs 2.5 cr); call and short loans + Rs 1.5 cr (negligible); advances including bills + Rs 11 cr (+ 3 cr); borrowings from Reserve Bank — Rs 1 cr; Total Rs 28 cr (Rs 14 cr). The remaining Rs 9 crores might have found their way into a larger portfolio of private securities and/or transfer of assets abroad. Liquidity (Cash plus gilt-edgeds) and credit ratios during the week in percentages were 39.54 and 63.85, against 42.19 and 69.95, respectively, a year ago.

During the week ending November 1, the foreign reserves of the Reserve Bank went up fractionally by Rs 0.5 crores in the Banking Department. Investments declined by Rs 11 crores against the previous week's increase of Rs 22 crores, and loans to bankers went down by Rs 4 crores, of which advances against usance bills accounted for the major portion. A rise of more than Rs 1 crore in Central Government deposits has been more than offset by depletion of State Governments' deposits, while bankers' deposits have gone up by Rs 2 crores. Note circulation has contracted by Rs 16 crores.

Cotton Sags

After displaying bullish ardour inspired by rumours of reduction in excise duty, Kalbadevi has beat a retreat on the Industry Minister's firm statement contradicting these rumours. Reports of higher arrivals in Berar markets also had an unnerving effect. Mills which had bought several domestic varieties at Sewri in expectation of higher prices liquidated their commitments; as a result quotations there came down by about 5 per cent. Jarilla March climbed down in sympathy from Rs 718.50 to 695.25 before recovering to Rs 703. A further decline was staved off by the Export Promotion Committee's recommendation in favour of an export target of 100,000 bales for Bengal Deshi, together with further targets for other varieties.

Oilseeds Buoyant

The premature abolition of export duties announced last week and expectation of an export quota for groundnut oil are largely responsible for the strident advance witnessed in oilseeds. Speculative interest has been intensified by diversion of bulls from Kalbadevi and hopes that the Forward Markets Commission will not be excessively strict. As a result, groundnut has gained over Rs 10 over the last fortnight while castor is higher by nearly Rs 9.

Silver Declines Further

The bullion market has been mostly listless through the week owing to falling off of spot demand. Seizure of contraband gold imparted some strength to the yellow metal while selling by Calcutta interests was largely responsible for the decline in silver.

Around Calcutta Markets

Steady Trend

Wednesday, Evening

IT was rather strange that equities did not drop on the day the Ordinance about the currency reserve was published. Stranger still was the set-back in equities on the day the recommendations of the Export Committee were released. Unpredictable though the stock market behaviour very often is, the easier trend in equities at the time of this writing is not without significance. Reasons for the earlier jump in equities were rather obscure. Some had been suspecting a set-back in equities. That suspicion has been confirmed. At the moment, after the drop, the market is healthier. Constructive operators will welcome the technical reaction as a long-term favourable factor.

No doubt, the climb-down has been mild. This shows the resilience of the market. But the earlier spurt would seem to be, in retrospect, partly unjustified. Latest available information indicates that prospects of foreign loans are not bright. Arrangements with some countries for deferred payments of imports are likely. But the expectation that these plans will succeed in equating India's trade deficits with some of the countries mainly concerned may not materialise. Like New Delhi, stock markets are now realising that the earlier optimism was over-done. That, of course, explains the corrective set-back.

Exchange Crisis

Far more disturbing is the growing realisation that, without sufficient and timely help in the shape of foreign loans, even the "hard core" of the Plan may be affected. The Ordinance about the currency reserve emphasises this point. Of course, stock markets are not far out of the mark in hoping that foreign exchange scarcity will not materially affect the private sector. There is something to this argument. But any curtailment of expansion projects in the public sector must necessarily lead to a slowing-down of economic activity.

Stock markets are not unaware of this possible repercussion of scarce foreign exchange resources. But the steady trend in equities reflects industry's hopes that the Government will encourage the private sector through tax inducements. It is therefore, presumed that expansion in the private sector will continue unimpeded. Some minor tax reliefs are possible. But it is unlikely that the Government will change its basic policy of mixed economy. Private industry will, as now, always be encouraged to expand. But strategic economic sectors will be more and more under the control of the Government. On this issue, there has been no major reorientation of the Government's policy which might warrant fresh or new hopes about the private sector.

Export Boost

Stock markets have a tendency to interpret events too rashly. That the Ordinance about the currency reserve underlines the prevailing foreign exchange crisis is obvious. But the foreign exchange crisis has been developing for quite a long time. And a lower cover limit for the currency was not unexpected. That the lower cover will enable the country to utilise more foreign exchange resources for financing imports for the Plan is a valid inference. But stock markets were, perhaps, reading too much in the Ordinance in interpreting it to mean a possible depreciation of the rupee in the near future. That was a rash anticipation, as indicated by subsequent movements in equities.

May be, because stock markets were rash about the implications of the Ordinance about the currency reserve, they thought twice before responding to the recommendations of the Export Committee. Speculative scrips are still suffering from the after-effects of the earlier spurt, but the Export Committee's suggestions are making their influence felt on some cash scrips. Indeed, it was the steadiness in cash scrips which halted the downward trend in clearing shares. It was just as well, for cash scrips would not have turned hesitant a few days ago but for the set-back in speculative counters.

Tea Shares

Tea shares have been the major beneficiary of the Export Committee's recommendations. During this year, there has been a substantial decline in exports of tea. That has involved a material reduction in foreign exchange earnings. That was why Lyons Range took it for granted that the Export Committee's recommendation for lower tea export duty will be accepted by the Government. Lyons Range is not wrong in its anticipation. Tea is a valuable foreign exchange earner. A lower export duty should stimulate tea exports, and, hence, foreign exchange earnings. These are the arguments and assumptions on which Tea shares are looking up.

State Finance Body

The Bombay State Financial Corporation's issue of 4-1/2 per cent 1957 Bonds was over-subscribed on Thursday. The subscriptions for the Rs. 1 crore issue amounted to Rs. 1.10 crores.

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1470.44	1486.20	1487.47	1448.59
2. Rupee Coin	134.31	133.72	134.21	120.74
3. Deposits				
a) Central Government's	53.81	52.55	51.31	52.15
b) Banks'	108.77	106.91	94.15	54.87
c) Other Government's	9.60	11.02	10.14	47.18
d) Others'	111.36	111.73	110.48	13.01
4. Foreign Securities	311.71	311.71	326.62	462.21
5. Balances held abroad	16.07	15.89	18.64	106.72
6. Rupee Securities	950.78	950.78	935.87	750.50
7. Investments	239.76	241.84	215.86	83.39
8. Loans and advances to Governments	49.51	49.92	44.77	0.06
9. Other loans and advances	68.08	67.87	78.65	94.73
Scheduled Banks				
1. Demand liabilities (net)	755.41	730.15	719.66	646.39
2. Time Liabilities	640.53	627.44	619.54	457.85
3. Cash on hand	47.02	42.04	36.74	38.27
4. Borrowings from Reserve Bank	29.77	31.19	37.20	57.8[1]
of which against Usance Bills	27.63	26.81	30.86	40.29
5. Advances and Bills discounted	810.19	800.24	787.30	708.67
of which State Bank's	165.64	162.64	156.76	129.76
6. Invst. in Govt. Sec.	393.95	384.96	386.27	371.44
of which State Bank's	154.19	151.83	151.98	107.44
Cheque Clearance	61.98	93.66	87.35	145.77

† For Reserve Bank week ended 1-11-57. Scheduled Banks and Cheque Clearance week ended 25-10-57.

Bombay Money Rates

	25-10-57	18-10-57	27-9-57	26-7-57
Call Money	$3\frac{9}{16}$-$4\frac{7}{16}$	$2\frac{6}{8}$-$4\frac{7}{16}$	$2\frac{1}{4}$-$4\frac{7}{16}$	$3\frac{9}{16}$-$4\frac{9}{16}$
From banks	$3\frac{9}{16}$-$4\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{9}{16}$	$3\frac{3}{4}$-$4\frac{9}{16}$	$3\frac{1}{2}$-$4\frac{7}{16}$
From public	$3\frac{1}{2}$-$4\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{9}{16}$	$2\frac{1}{4}$-$4\frac{9}{16}$	$2\frac{1}{2}$-$4\frac{9}{16}$
Three Months	$2\frac{1}{2}$-$4\frac{1}{2}$	$2\frac{1}{4}$-$4\frac{11}{16}$	2-$4\frac{7}{16}$	2-$4\frac{9}{16}$
Six Months	2-$4\frac{7}{16}$	2-$4\frac{9}{16}$		

Bombay Bullion	7-11-57	Week Ago	Month Ago	Year Ago
	(In Rupee and nP)			
Gold (per fine tola)				
Spot	108.22	108.26	107.00	104.56
Forward	108.22	107.87	107.25	104.69
Silver (per 100 tolas)				
Spot	182.06	182.50	183.75	172.56
Forward	183.06	183.50	184.56	172.94

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 19-10-57	12-10-57	21-9-57	20-10-56
Food Articles	**108.0**	**107.1**	**108.7**	**104.4**
Cereals	103	102	102	99
Pulses	83	82	83	80
Fruits & Veg.	110	107	121	123
Milk and Ghee	105	106	110	101
Edible Oils	129	129	128	124
Fish, Eggs & Meat	100	98	104	99
Sugar & Gur	112	110	111	99
Others	131	128	128	132
Liquor and Tobacco	**95.8**	**94.3**	**94.3**	**84.6**
Tobacco	94	93	92	83
Fuel, Power Light & Lubricants	**114.5**	**114.5**	**114.6**	**105.8**
Industrial Raw Materials	**114.5**	**114.9**	**116.0**	**115.7**
Fibres	113	113	115	115
Oilseeds	120	121	122	120
Minerals	109	109	109	97
Others	107	107	107	109
Manufactures	**109.1**	**108.7**	**108.8**	**107.9**
Intermediate Products	**106.3**	**106.6**	**107.4**	**110.1**
Finished Products	**109.5**	**109.0**	**109.1**	**107.5**
Textiles	109	108	109	110
Cotton	117	117	117	121
Jute	101	99	100	—
Woollen	103	103	103	97
Silk & Rayon	83	83	83	85
Metal Products	141	141	141	131
Chemicals	99	99	99	93
Oilcakes	120	117	117	115
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**109.3**	**108.7**	**109.7**	**106.8**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages of Calendar Months)

('000 tons)

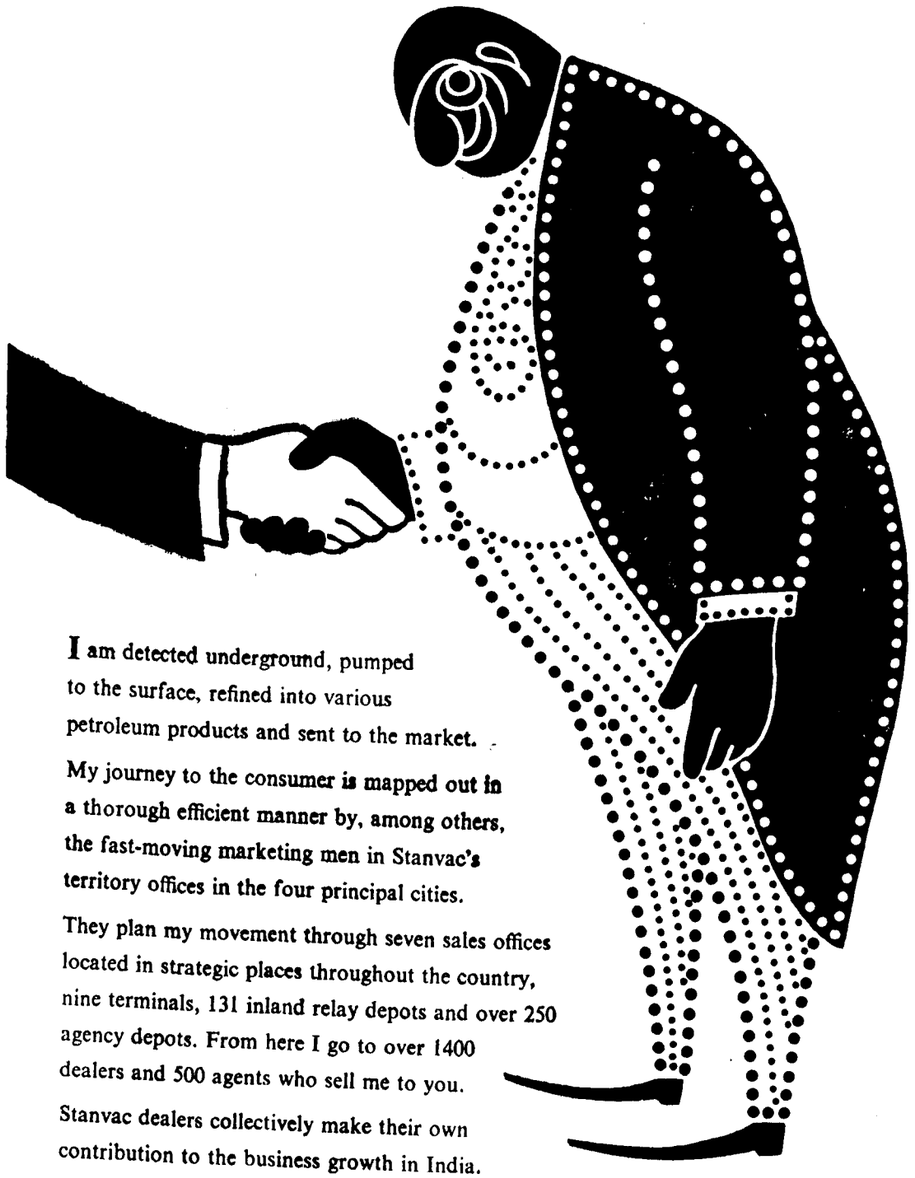
	Raisings	Despatches	Stock at Pit-heads*
1955	3,184	2,742	3,608
1956	3,287	2,913	2,766
June	3,075	2,658	4,129
July	2,956	2,756	3,902
Aug	3,119	2,880	3,697
Sept	3,378	2,802	3,786
Oct	3,086	2,883	3,516
Nov	3,097	2,770	3,449
Dec	3,388	2,782	3,608
1956: Jan	3,196	2,789	3,586
Feb	3,358	2,691	3,813
March	3,362	2,235	3,911
April	3,223	2,865	3,815
May	3,316	2,871	3,836
June	3,194	2,877	3,727
July	3,165	3,165	3,379
Aug	3,308	3,176	3,018
Sept	3,123	2,819	2,881
Oct	3,177	2,940	2,662
Nov	3,324	3,026	2,565
Dec	3,678	3,038	2,766
1957: Jan	3,628	3,138	2,780
Feb	3,508	2,841	3,029
March	3,652	3,251	3,000
April	3,731	3,158	3,087
May	3,792	3,187	3,246
June	3,330	2,915	3,252
July	3,331	3.045	3.091

* At or about the end of each period.

Source : Directorate of Industrial Statistics, Calcutta.

"I look forward to meeting you"

— *Adipocere* *(Pronounced 'adi-po-saire')*



I am detected underground, pumped to the surface, refined into various petroleum products and sent to the market.

My journey to the consumer is mapped out in a thorough efficient manner by, among others, the fast-moving marketing men in Stanvac's territory offices in the four principal cities.

They plan my movement through seven sales offices located in strategic places throughout the country, nine terminals, 131 inland relay depots and over 250 agency depots. From here I go to over 1400 dealers and 500 agents who sell me to you.

Stanvac dealers collectively make their own contribution to the business growth in India.

I will tell you more about them later.

STANVAC—*the name that stands for progress*

STANDARD-VACUUM OIL COMPANY—Incorporated in the U.S.A. with Limited Liability

1460

INDUSTRIAL PRODUCTION

		1957					Monthly Average		
		July	June	May	Apr	Mar	Feb	1956	1955	1954
I	**Consumer Goods:**									
1)	Cotton textiles mn yds	458.9	419.6	453.0	464.4	453.1	435.1	442.3	424.5	416.5
2)	Woollen and worsted fabrics "	1.4	1.2	1.2	1.1	1.1	1.0	1.4	1.2	1.1
3)	Matches 000 cases	40.9	38.7	45.8	56.4	52.0	45.1	49.1	51.3	44.1
4)	Soap 000 tons	—	8.4	9.0	10.1	9.4	9.2	9.1	8.2	7.3
5)	Electric lamps mn	3.0	—	2.8	2.9	2.9	2.3	2.1	1.6	1.6
6)	Hurricane lanterns 000	—	377.3	363.8	362.2	524.2	372.8	431.6	457.3	415.6
7)	Razor blades mn	—	23.8	35.7	38.8	32.0	34.4	22.1	14.6	11.0
8)	Sewing machines 000	—	12.3	14.4	15.1	14.7	13.2	10.9	8.4	6.7
9)	Vegetable oil products 000 tons	—	25.7	26.8	25.4	27.9	25.0	24.9	21.3	21.7
10)	Electric Fans 000	—	40.0	45.3	46.7	43.8	38.4	28.2	23.5	19.9
11)	Radio Receivers 000	15.8	15.3	14.6	20.1	14.7	13.6	12.6	6.8	4.7
II	**Raw Materials or Intermediate Goods**									
1)	Cement 000 tons	—	393.1	448.4	456.4	491.6	427.7	410.7	373.9	366.1
2)	Coal mn tons	3.3	3.3	3.8	3.7	3.7	3.5	3.3	3.2	3.1
3)	Jute manufactures 000 tons	85.9	80.1	87.3	86.8	84.7	80.2	91.1	85.6	77.3
4)	Cotton yarn mn lbs	150.2	137.0	150.0	153.7	150.5	143.2	139.3	135.9	130.1
5)	Paper & paper board 000 tons	—	16.8	17.3	16.9	17.3	16.0	16.1	15.4	12.9
6)	Asbestos cement sheets "	12.4	11.2	12.4	12.5	13.2	12.6	10.0	8.7	6.6
7)	Chemicals:									
	i) Sulphuric acid 000 tons	—	17.9	15.8	13.0	15.5	13.9	13.8	13.8	12.6
	ii) Caustic soda "	3.1	—	3.3	3.6	3.8	3.3	3.3	2.9	2.4
	iii) Soda Ash "	6.9	7.8	7.3	7.5	8.5	6.6	7.0	6.4	4.0
	iv) Chlorine liquid tons	1,178	1,270	1,257	1,246	1,426	1,343	1,256	965	815
	v) Power Alcohol 000 gals	—	847.1	910.7	973.8	976.1	915.7	855.9	869.4	667.3
	vi) Rectified Spirit "	—	366.3	300.1	442.2	496.1	447.6	350.8	429.7	385.9
	vii) Denatured Spirit "	—	215.3	311.1	321.2	269.5	251.0	281.9	249.1	236.3
8)	Paints & Varnishes tons	—	2,743	3,543	3,612	3,295	3,347	3,467	3,253	3,068
9)	Rubber Products									
	i) Footwear lakh pairs	32.6	24.2	25.0	30.9	28.6	27.9	30.1	29.1	26.0
	ii) Tyres									
	a) automobile 000	84.4	77.5	84.7	92.8	82.3	82.0	78.2	73.5	69.4
	b) cycle "	611.0	590.1	615.5	668.3	565.2	586.4	526.7	479.0	435.5
	iii) Tubes									
	a) automobile "	86.4	81.2	84.7	84.8	82.0	77.5	76.5	65.5	62.4
	b) cycle "	565.7	564.6	611.7	651.4	553.7	559.5	531.1	466.1	464.8
10)	Non ferrous Metals:									
	i) Copper (virgin) tons	670.0	680.0	700.0	700.0	735.0	665.0	635.7	606.8	596.8
	ii) Aluminium "	—	615.3	646.9	627.7	670.9	592.3	541.7	602.1	407.2
	iii) Lead (virgin) "	264.4	280.5	181.7	276.2	235.5	243.5	208.1	186.2	149.0
	iv) Antimony "	53.0	56.0	20.0	23.0	33.0	43.0	49.1	42.0	44.9
11)	Iron & Steel:									
	i) Pig iron 000 tons	—	133.7	145.1	145.8	158.3	145.4	150.6	146.4	149.4
	ii) Steel ingots & castings "	—	129.4	136.4	145.1	149.8	135.4	144.8	142.0	140.4
	iii) Semifinished steel "	—	102.8	118.4	121.1	130.7	118.5	123.7	121.4	121.0
	iv) Finished steel "	—	101.4	110.8	111.7	116.9	103.7	109.7	105.0	103.6
III	**Capital Goods**									
1)	Diesel engines nos	—	1,184	1,334	1,393	1,119	1,007	998	852	721
2)	Power driven pumps 000	—	4.9	4.9	5.1	5.2	4.5	3.9	2.9	2.4
3)	Machine tools 000 Rs	—	1,713.3	2,422.0	1,268.3	1,679.9	1,666.4	839.7	620.0	416.9
4)	Twist drills 000	271.9	194.5	213.3	31.2	81.2	141.6	129.1	64.9	44.9
5)	Calico looms nos	219	217	259	255	239	273	239	228	157
6)	Ring frames "	105	101	115	124	118	124	93	72	30
7)	Carding engines nos	101	79	48	63	92	79	61	50	36
8)	Grinding wheels 000 lbs	—	299.2	305.9	292.3	293.0	261.3	207.6	119.9	94.5
9)	Arc welding electrodes lakh ft	180.5	164.2	212.1	201.9	180.4	153.3	156.3	100.8	72.5
10)	Dry cells lakhs	160.1	133.0	122.7	143.0	141.6	150.5	151.2	134.2	123.9
11)	Storage batteries 000	27.2	24.5	25.9	26.6	27.6	26.3	26.2	19.6	15.7
12)	Electric motors 000 HP	42.8	30.5	38.8	38.6	36.0	33.2	29.9	21.0	15.6
13)	Power transformers 000 KVA	—	80.7	93.1	97.7	111.7	93.6	75.9	47.1	33.3
14)	Insulated cables lakh yds	—	97.3	77.8	87.0	90.2	83.2	88.0	71.8	52.3
IV	**Transport Equipment**									
1)	Automobiles (total) nos	2,811	2,317	2,299	2,664	3,136	3,161	2,678	1,924	1,205
	of which:				998	990	1,144	1,082	791	—
	i) Cars "	—	772	871	461	577	533	345	278	—
	ii) Jeeps "	—	256	195						
	iii) Trucks & Buses:				278	337	181	366	406	—
	a) Petrol "	—	116	366	842	1,227	1,252	828	385	—
	b) Diesel "	—	1,102	807	63.1	64.0	65.2	55.3	40.9	31.0
2)	Bicycles 000	—	58.7	68.7	Source : Directorate of Industrial Statistics					

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the rate of improvement (that is of Indianisation) in these groups is far slower than the rate which prevailed in the salary group of Rs 1,000—1,500.

Another aspect of this trend towards Indianisation which the latest review discloses once again is that in the older of the foreign concerns the proportion of foreign employees continues to be far above the average for all the foreign concerns, and that the pace of Indianisation also is far slower in these very concerns. In the foreign jute concerns and plantation companies the proportion of non-Indians continues to be about 80 per cent. In the foreign exchange banks the proportion is as high as 71 per cent and in transport companies it is 60.7 per cent.

If one goes by the pattern of the relative strength of non-Indians in the higher pay groups of foreign concerns in different fields, industrial and commercial, it would appear that the relatively newly established concerns show a greater preparedness to employ Indians in responsible posts, technical as well as non-technical. Old prejudices die hard. That appears to be the only explanation why the older of the foreign concerns in the country have shown reluctance to employ Indians except in the lower cadres even though the nature of even the most responsible of the jobs in these concerns are not beyond the reach of the Indians; for in almost all the fields in which the older of the foreign concerns operate Indian controlled concerns are also operating, if not more successfully, at least not less efficiently.

The employment of foreigners involves a cost to any country but it has to be allowed, and in some cases positively welcome, when the country does not itself possess adequately (or sometimes even entirely) the know-how essential to the execution and even operation of certain projects. Without the help of the foreign know-how such projects would either be never undertaken or if undertaken involve unduly large costs. It is therefore in the interest of the country concerned to admit foreigners equipped with the requisite know-how. But sometimes this know-how cannot be imported individually. That is why it has to be imported in a corporate form, i e, foreign companies are assigned the necessary jobs. But if the country is not to be burdened with undue foreign costs the primary criterion should be that the required know-how is not available within the country. In the past, foreign concerns came to India not necessarily because Indians did not possess the necessary qualifications to operate in those fields. But those were different times. Today, it is a measure of the broad-mindedness of this country and her administration that those of the foreign concerns which, in terms of know-how, technical or managerial, have hardly anything to give to the country continue to operate without any discrimination whatso-ever. But the country cannot close her eyes to the fact that it is mostly in such concerns that the worst features of foreign exploitation (like repatriation of profits and reserves, inadequate replacements of machinery and equipment, and over-employment of non-Indians) are to be observed. Such concerns should remember however that their persistence in these policies might only compel the reluctant hands to take some of those unpleasant measures from which they have so far refrained.

A Grand Global Alliance

WASHINGTON is certainly being ungracious in giving only a grudging recognition to Moscow's recent technological and scientific advances. Though Washington reluctantly concedes that Moscow may be ahead in rocket and missile development, President Eisenhower has been at pains to assure his friends and allies that **Sputniks** spell no military threat to the West. Unlike America, her allies are less apprehensive of any immediate aggression by Russia. But they remain unconvinced about President Eisenhower's repeated attempts to deny or to belittle the obvious military implications of Russia's military and scientific achievements. **Sputniks** seem to have prompted President Eisenhower to speak in two voices. Even as the President seems to minimise the strategic significance of Russia's technological and scientific achievements, he is anxious to assure America's allies that "the overall military strength of the free world is distinctly greater than that of Communist countries."

America's NATO allies are less sure that the military initiative is still with the West. Washington reveals its own apprehensions when President Eisenhower calls for "greater concentration of effort" in America, or when he officially and openly reiterates his Administration's plans to share and to coordinate scientific and technical information with NATO powers. Washington's double-talk is not as disquieting as its grim determination to "catch up" with Moscow. That the West will "catch up" with Russia, is a safe assumption. Meanwhile, and in the process, the Atlantic Alliance is to be fortified further; there will be speedy efforts to intensify and integrate the activities and functions of NATO, SEATO, Baghdad Pact, the Pan American alliance and the various bilateral arrangements of all NATO powers. The earth will be ringed round with more bases which will be equipped with the latest nuclear weapons.

This Plan of a Grand Global Alliance to overcome the Russian scientific, technological and military challenge will be elaborated during the forthcoming NATO "summit conference" in Paris. This Grand Alliance will perhaps function as a super-State within which the Western Powers and their allies will cooperate in political, military and economic spheres. This ambitious Plan will involve considerable sacrifices of sovereignty by the countries concerned. Washington is certainly entitled to demand such sacrifices from its allies in the crusade against Communism in return for its promise to exchange technical, military and scientific information with friends and allies. America now is in need of as much help and support of her allies as the latter are dependent on her aid and cooperation. This will be the main argument in support of Washington's declared intention to ask Congress to confirm President Eisenhower's promise to America's allies.

Two questions arise out of this proposal for a Grand Global Alliance. America is a rich country. But is even America so rich as to afford the astronomical cost that the Grand Global Alliance involves? Will the American people agree to shoulder the enormous burden involved in Washington's promise to underwrite a military alliance which runs around the world from Japan to Norway? Even if the dichotomy,

posed here, between the American people and the Government be brushed aside, the enormous extent of the responsibility involved cannot be belittled. Mr Walter Lippmann is wise and timely in emphasising the "disparity between the official and the popular promises, expectations, policies and commitments on the one hand, and on the other, the resources and the efforts which we as a people have been able or willing to expend upon them." More will surely be said and heard about these doubts as the American Congress starts the debate on the President's proposal for exchange of information with America's allies.

Nor are America's allies without apprehensions of the implications of this plan for a Grand Global Alliance. Some Western European powers have strong mental reservations about the common Anglo-American strategy of nuclear defence. Their emphatic reliance on conventional ground and air forces may seem out-dated in this era of rockets and missiles, but these land-locked countries seem to have strong doubts about the almost exclusive Anglo-American emphasis on nuclear weapons and armaments. Separated from the vast Continental land mass by a channel and an ocean, Britain and America may be more interested in developing and perfecting the strategy of "massive retaliation." But the West European land powers seem more pessimistic in their outlook. Experience as well as geography justifies their fears and sense of insecurity. Even as America's promise of pooling of technical and military information and resources have heartened them, they are apprehensive of the consequences of the American proposal to create and to fortify bases of intermediate range missiles in the countries of the Grand Global Alliance. Even in Britain, a belief is growing that "it is folly for Britain to possess nuclear weapons or provide bases." As Turkey and Western European countries realise fully the possible consequences of having bases for intermediate range missiles, some of these countries may echo the feeling voiced in some circles—non-communist, of course—in Britain that it may be advisable to "contract out of the whole (NATO) business."

M Khrushchev has, once again, repeated Russia's "no war" pledge during the celebrations of the 40th anniversary of the October Revolution. This offer has already been summarily rejected by the Western Powers. It is, therefore, clear that the "cold war" will continue so long as America, if not all of her allies, is doubtful of the superiority of her political and economic system under conditions of competitive coexistence. In the intensified battle among giants, the poor, underdeveloped countries will be the main casualties. Two great powers, America and Britain, have already threatened to curtail their contributions to FAO. The underdeveloped countries will receive less and less aid from rich Western Powers, as the latter concentrate their energies on greater mobilisation of resources for defence purposes. Developing events will, therefore, only deepen the gloom in the underdeveloped parts of the world.

A Gift to the States

THE much-awaited report of the Second Finance Commission has now been released. As had already been anticipated in most quarters the Second Finance Commission, like its predecessor five years back, has recommended the transfer of additional resources from the Centre to the States. The Commission's recommendations are estimated to involve the transfer of an annual sum of Rs 140 crores to the States by way of the States' share of the proceeds of the Central taxes and grants-in-aid. This compares with the annual average transfer of Rs 93 crores under the above heads during the five years ending 1956-57.

The Commission claims to have proposed this substantial increase in the devolution of resources from the Centre to the States in the light of the States' requirements for implementing the Second Five Year Plan, and it has expressed the hope that it will now be possible for the State Governments to balance their revenue budgets and implement the Plan in so far as it has to be met from revenue provided (a) the specific assistance from the Centre provided in the Plan is made available and (b) the States themselves raise the additional revenue expected of them according to the Plan. In other words, the Centre is not supposed to set off the quantum of assistance provided in the Plan against the additional allocations recommended by the Finance Commission, on the ground that the States' revenue position becomes better off in consequence of the proposed increase in revenue transfers from the Centre.

The question now arises whether in view of the fact that the revenue position of the States would improve as a result of the implementation of the Finance Commission's award, the States would not lag further behind in putting in the tax effort required of them to meet their part of the Plan. It is already well known that the performance of the State Governments in this respect during the First Five Year Plan was far behind the revenue targets which had been fixed by the Planning Commission after full consultation with the State Governments. And, again, in the first two years of the Second Plan the States have, barring a few exceptions, given no evidence that they mean to do better. There is a genuine fear, therefore, that with the improvement of their revenue position now their performance in the field of taxation might become more lax. It is to this aspect of the question of financing the Second Plan that the attention of the Planning Commission as also the Central Government has to be directed.

In the past, the State Governments were advised as to the avenues within their purview where scope existed for improving tax receipts. This was the procedure adopted in drawing up the scheme of finance for both the First and the Second Plans. But this advisory role has not proved sufficiently effective. Some more positive measures are now called for whereby the sources of taxation which, though constitutionally within the purview of the State Governments, are found after due research to have scope for expansion are made to yield more revenues. The stage has not yet arrived when it could be said that the States' tax sources do not have any further scope for expansion.

Weekly Notes

A Facile Judgment

IN reply to a question raised in the Lok Sabha regarding the effects of the recent rise in the Bank rate in the United Kingdom on the Indian economy, the Deputy Minister of Finance, Shri Bali Ram Bhagat, said that it would not have any significant effect on the Indian economy as a whole. Shri Bhagat does not seem to have taken several factors into consideration while pronouncing this facile judgement. Firstly it is well known that a considerable proportion of our sterling balances are held in the form of U K Government securities maturing within five years. The rapid rate at which we are drawing on sterling balances would force us to liquidate these securities at a considerable loss which might amount to Rs 20 to 25 crores.

Secondly it is the common practice of the Exchange banks in India to discount export bills drawn in sterling in India by quoting a rate which takes into account changes in interest rate in the London Market. About 80 per cent of the export bills in India are drawn in sterling. Under the Act the Reserve Bank is not permitted to rediscount bills drawn in foreign currencies. As a result the exporters are forced to rely on the London Market for getting their bills discounted. One can well imagine the extent of loss exporters in India suffer on account of adverse changes in the interest rate in the London Market. The exporters cannot pass on this rise in cost of discounting to the foreign buyers without risking the loss of their markets. And if the exporters have to foot the additional charges themselves, it will detract from the attractiveness of export business a development which is certainly most unwelcome at a time when we face a severe foreign exchange crisis.

Thirdly considerable outflow of short term capital can take place. The commercial banks in India may not surrender the exchange to the Exchange Control in time and employ it in the U K market to take advantage of the high Bank rate and thereby earn a handsome income. The bulk of the foreign exchange business is in the hands of the foreign Exchange Banks and their profits will be retained abroad. The total loss on all these counts, excepting the one of a likely fall in exports, or of a small rise in exports, can easily be placed around Rs 35 crores.

Will Shri B R Bhagat say if the loss of this order is to be regarded as insignificant?

A Generous Loan

IT is nearly a year that the Russian loan to India of 500 million roubles was announced. But the time taken in working out the details of this loan has been unduly long and suspicions did arise in many minds whether this offer by Russia was intended to be a political manoeuvring instrument. The announcement that the negotiations for the utilisation of the Russian loan have ultimately concluded has come none too soon. Any further delay would have only reinforced the suspicions referred to above however baseless they might have been.

The encouraging feature of the new loan is that, unlike the previous Russian credit for the supply of equipment for the Bhilai steel plant, in which case the agreement provided for repayment to begin one year after the delivery of each item of machine, the agreement for the new loan provides for repayment to start one year after completion of delivery of the entire machinery and equipment in respect of each of the projects for which the new credit will be available. As regards other terms of repayment they are reported to be more or less the same as for the previous Russian credit, i e, the loan bears an annual interest of 2½ per cent, and is to be repaid in 12 equal annual instalments.

Plan vs Non-Plan Projects

THE new Russian credit would be available for five projects: a heavy machine-building plant; a coal mining machinery plant, an optical glass factory; a thermal power plant at Neivelli and equipment for coal mining at Korba. It is estimated that the foreign exchange cost of the first two projects, i e, heavy machine-building plant and the coal machinery plant, will be Rs 26.5 crores. The equipment for the optical glass factory is estimated to cost Rs 85 lakhs, for Korba mines Rs 8 crores and for Neivelli power plant Rs 16 crores. The Soviet Union is also reported to have assured that further credits would be given in case the foreign exchange cost of these projects were to exceed 500 million roubles.

While there cannot be two opinions about the immense usefulness of the projects, which the new Russian loan will finance, it remains to be asked if all these projects were provided for in the Second Plan; because it is only to the extent that these projects formed part of the Plan that the new credit will directly relieve pressure of the Plan on resources. If one pages through the Second Five Year Plan, one's search for specific allocations for the first three projects is destined to bear no fruit for the simple reason that the Plan as originally conceived did not perhaps expect to have the requisite wherewithal to undertake these projects. There is a provision in the Plan of Rs 55 crores which was earmarked for the activities of the National Industrial Development Corporation. A part of this money, which was tentatively placed at Rs 20-25 crores, was expected to be utilised by the NIDC for assisting the modernisation of cotton and jute textile industries. The remaining Rs 35 crores was said to be available for pioneering new basic and heavy industries.

Granting that the NIDC were to assign the entire Rs 35 crores to the three industrial projects now to be financed out of the new Russian credit the total cost of these projects alone would possibly exceed Rs 35 crores, because if the foreign exchange cost comes to Rs 26-27 crores the complementary domestic cost for setting up these plants can be expected to range easily between Rs 10 to Rs 15 crores. In other words, the entire un-earmarked Plan allocation in favour of the NIDC would be more than absorbed by the Russia-assisted industrial projects, and unless the Plan allocation in favour of the NIDC is increased the other projects which the Corporation has been investigating and which it has already undertaken to assist or is considering for assistance will have to be scrapped for the present.

Deferred Payment Guarantee

THE Lok Sabha has just approved the Industrial Finance Corporation Amendment Bill. The most important clause of this amending Bill relates to the new provision authorising the Industrial Finance Corporation to guarantee deferred payments by industrial concerns for equipment which they import from abroad. It is well known that the Government has severely curtailed the issue of import licences for machinery and equipment from abroad and has insisted on prior agreement with the exporting concerns for the spread of payment over a period of seven years before an import licence can be issued. From the very outset it was foreseen that our industrial concerns would encounter difficulties in securing seven year credits abroad and that one way of lessening their difficulties was for the Government to arrange to give some sort of guarantee to the exporter for the credit extended by him. The Government's present action to authorise the I F C to give such guarantees is a step in the right direction although one might say that it should have been taken much earlier. A suggestion to this effect was made in these columns as early as in April this year (E W, April 13, 1957).

Although the main purpose of the amending Bill was to enable the introduction by the IFC of a deferred payment guarantee scheme, the rules and regulations of which will, we hope, be made known to the public without much delay, the other provisions of the Bill are also of sufficient significance. Under the existing Act any loss or profit accruing to the Corporation in connection with the borrowing of foreign currency on account of fluctuations in the rates of exchange is the responsibility of the Central Government. But with the coming into force of the amending Bill this risk would be borne by the industrial concerns on whose behalf the Corporation under takes the foreign exchange transactions. This means that the risk involved in contracting foreign credits in so far as they stem from the fluctuations of the rates of exchange would from now onwards rest on the importing concerns. One would have thought that it is precisely now, when the Government is insisting upon the import of capital goods on credit basis, that some sort of guarantee against risks of this type would be forthcoming from the Government, whereas the Government has actually taken a step in the opposite direction! While the Government seems to be prepared to guarantee the foreign exporter against risks involved in the credits extended by him, it seems to be unwilling to extend guarantees to the domestic importer against risks which too are germane to the deferred payment scheme. Surely if the Government seriously wants the deferred payment scheme to be accepted both in and outside the country it cannot abandon the responsibilities which the scheme throws on the Government.

IFC's Borrowing Power

THE amending Bill also authorises the Corporation to borrow ten times its paid-up capital plus reserves. Under the existing Act the Corporation can borrow to the extent of five times its paid—up capital plus reserves which means that the Corporation cannot borrow more than Rs 25.28 crores. This amount together with the paid-up capital and reserves totals up to Rs 30.33 crores and the Corporation has already disbursed loans amounting to Rs 26.51 crores. This means that unless the Corporation's paid-up capital is increased the scope for further activity on the part of the Corporation would have to be severely restricted.

As it is, the Corporation would not be able to honour all the commitments for loans it has already agreed upon. The Corporation is stated to have sanctioned loans aggregating Rs 55.12 crores till the end of June, 1957. Since the existing money market conditions are not favourable to the flotation of additional share capital without substantially increasing the minimum guaranteed dividend, it was only proper that the Government should resort to the other alternative course of authorising the Corporation to borrow to a greater extent than is permissible under the existing Act.

Philips' First Public Offer

PHILIPS, the well known Dutch Electric concern, was incorporated in India as a private limited company in 1931. It has now decided to join the ranks of those of the enlightened foreign companies which have lately thrown open their share portfolios to the Indian Public. On the eve of its new expansion scheme the company has been converted into a public company with effect from October 31, 1957. Its authorised share capital is Rs 5 crores divided into 50 lakh shares of Rs 10 each. Of this amount, 17 lakh shares worth Rs 1.70 crores have already been issued to, subscribed and paid up by the predecessor concern. The public are now offered 5 lakh shares of Rs 10 each at Rs 12.50 payable in full on application. The subscription list will be open from November 19 to 21 (or later at the discretion of the Directors, if necessary). Considering the company's reputation and the response which other foreign companies had in the Indian money market in the recent past the issue is assured of success.

The funds raised by this issue will finance a second manufacturing centre at Loni, near Poona, in addition to the one already in operation near Calcutta. The Dutch principals of the Company will make their know-how, patents and trade marks freely available for the development of electronics, television, etc, in this country. Requisite training of the staff is also being organised in India as well as abroad.

Gaillard's Chances

M FELIX GAILLARD may have the distinction of being the youngest head of the Government in France since Napoleon. But it would be a miracle if he can better even the poor record of governments in post war France. He was allowed to form the Ministry because the Popular Republican Movement succeeded in manoeuvring M Mollet out of his second term of office. Will M R P continue to lend support to M Gaillard when it hastened the downfall of his predecessor in office mainly because of the austere economic and financial policies which the new Prime Minister championed in his capacity of the Finance Minister? M Gaillard does not lack determination. His spartan financial policy stabilised the franc temporarily. He has now announced a more drastic policy of economy and of taxation to avert another impending crisis of the franc. France's troubles are faithfully reflected in the recurrent crises of the franc. But neither France's troubles nor the economic and currency problems can be solved without an amicable settlement of the Algerian issue.

M Mollet made the mistake of his life by pursuing a hostile policy to Algeria. With vision, the Socialist

leader could have adopted a more imaginative policy with the support of M Mendes-France and all the near-Left parties. Trouble in Algeria continues. And the Algerian war aggravates France's economic and financial troubles. Unlike the Socialists, M Gaillard and his government need have no mental reservations in pursuing a tough policy to Algeria. M R P, the Party to whom M Gaillard owes his position, will of course, encourage him to continue the war in Algeria. But M Gaillard will soon discover that M P P will not support his plans for economic and financial austerity. M Gaillard's "framework law" is opposed by all parties of the Right. That is why his and his Government's future will ever remain delicate. Without an amicable settlement of the Algerian problem, France's troubles are not likely to be over. Even so, some electoral reforms are urgently necessary to ensure comparatively stable government in France. M Gaillard's programme includes such reforms. Here again, his plans may be foiled by M R P's machinations. M R P has the tacit support of many parties of the Right in blocking electoral reforms. M Gaillard may however continue in office by following a policy of masterly inactivity. But he is likely to be out of office soon if he persists in his energetic political and economic policies. And the chances are that he won't stay in office very long.

End of a War?

MALAYA is now a nation, but the country is still torn by a ten-year old civil war. Will internal peace and tranquillity return to Malaya? Chin Peng's latest gesture has aroused hopes both inside and outside Malaya. A couple of months ago, Tengku Abdul Rahman made his "final Merdeka offer of an amnesty". That offer evoked no immediate response. The Communist rebels showed no inclination to reach a settlement. Nor did the people rally round the Government's appeal for cooperation in its fight against terrorists. But a month ago, the Communist rebels issued a pamphlet which included a hint of their desire to initiate negotiations. Tengku Abdul Rahman was quick, but firm in his response. He insisted that the rebels must surrender first. Available reports of Chin Peng's request for negotiations do not make it clear whether the Communists accept this condition for talks. But no major hitch is likely on this issue, provided the terms for laying down arms are not too strict.

Two years ago, the talks at Baling broke down as the Communist demand for legalising the Communist Party of Malaya was not conceded. Because Chin Peng has now approached the Government for talks, it is assumed that he and his rebel associates will not insist on this issue as a condition for settlement. If that be so it is a big "if" the chances of a rapprochement seem bright. Developments in Malaya since Merdeka lend weight to the assumption that the Communist rebels are in a conciliatory mood. Peking has tacitly recognised Kuala Lumpur by congratulating the Rahman Government on the "Merdeka Day". Russia has voted for the admission of Malaya into the United Nations. It is possible that Malayan rebels have lost hope of outside support or intervention. There is some indication of less popular support to the Communist rebels, now that their activities have lost their anti-imperialist appeal and glamour even though it may be arguable whether the people of Malaya have developed, since Merdeka, a feeling of irritation with the terrorist campaign as an unjustified prolongation of the costly civil war. But an end to the unseemly civil strife is desirable. There will be hope that both sides will be in a mood to accommodate each other so that Malaya will be free from costly internal troubles and disturbances. With law and order established firmly within the country, Malaya's march to progress, it is to be hoped, will be smoother and quicker.

Columbus of Space

THAT it was given to a member of the canine species to be the first live traveller in space, barking, so to say, at the whole of creation may have its mordant humour. But there is no doubt that Laika will go down in human history as the first creature to blaze a new trail and chart the unknown, opening thus an illimitable new realm to human adventure. The airy talk of jaunting through space for a week-end on the moon or a recuperative spell on the Mars or of earth-bound man finally wrenching himself free from this rather over-crowded and strife-ridden planet is no longer so airy. Indeed, one may choose to see some sense even in the scramble for housing sites on the Mars now on in Tokyo and the fear felt in certain quarters that entire planets may be claimed by countries that are in a position to be the first to plant their flags on them. Human thought and the urge for expression and action have the whole of the expanding universe as their arena. Laika's part in opening the first chapter of the new age of space travel might have been both unwitting and involuntary, and the creature probably went to its martyrdom in the cause of man without the slightest inkling of the stupendousness of it all or the glory that it was to leave behind. That is a pity.

Meanwhile, there are one or two aspects of the Laika exploit which have been not a little intriguing. First of all, there is still no knowing definitely whether the name of the dog was Laika after all and indeed whether the immured spectator of the heavenly panorama was a dog at all. A dog it might have been for all the raillery of sceptics here and there; but what was its real name? Here one has a bewildering array of at least half a dozen likable labels to choose from; and if future historians should entangle themselves in one of the fiercest controversies of their vocation on that particular point, we would not be surprised. Then there is the dispute about its sad end: when it actually came and how. There was a stage when it was supposed to be dead; then there was a stage when it seemed to be both dead and alive, depending on the source of information dominant at the moment; and now we have reached the third stage of being told that it has finally given up the ghost. Whether we might well wait for yet another stage of being surprised with the report that the dog has landed safely and is busy posing for press photographers is more than we can hazard a guess about. The point is what need, if any, there was to cause such confusion and make so great a mystery of the affair when there was enough to mystify in the launching of the second Sputnik itself. Up there in the yawning void no ordinary security reasons could be deemed to be valid; and if it was a question of providing side attractions or minor diversions, with the big event evoking so much attention, there might well have been something better than a play with canine names. It is somewhat disenchanting.

A Calcutta Diary

A Sputnic from the South

ONE of the most popular visitors to this city, now pleasant and cool, was Kerala's Nambudiripad, who was here for a few days recently and addressed many meetings and Press conferences. Large crowds went to see and hear him, even as, I remember being told by a southerner, an earlier generation of southerners used to walk miles to hear speakers from Bengal. It is possible to read too much in this reversal of roles. Bengal's decline may not be final, and the preponderance of Menons in the bureaucracy of New Delhi does not finally dispose of the question of India's leadership which is still with the North. It may be interesting still, if no more, to speculate whether the familiar pattern of regional behaviour may not in the years to come require a few readjustments. The enquiry cannot begin without first recognising that, in spite of the active unifying forces of the past hundred years, there are important points of fundamental difference between what are loosely called Aryavarta and Dakshinatya. Where Bengal fits in is a question to be taken up later.

What the Bengali speakers of yesterdecade took to the South was the message of the Indian renaissance as evolved in Bengal in the middle of the last century. Southern orthodoxy is a universal phenomenon, but the renaissance had the spiritual, to say nothing of the political and economic, force of the West, then very mighty indeed. It is futile to ask how much of the renaissance survives in the South, for its influence in its nursery today is negligible. What Nambudiripad brought this time was Communism, another oecumenical concept. Not as though the dreaded word, Communism, was mentioned, but the visitor did represent that world philosophy which had, however, temporarily, triumphed in a part of the south. It would be foolish of a Bengali to say it cannot happen here. It is no secret that, all going well, it is in West Bengal that the Communist Party of India will make their next outright bid for power.

I once asked a foremost Bengali intellectual what he thought was the reason for the bleak intellectual scene of Bengal today. Without waiting for a moment he said, "Communism." This seemed too facile an answer, but this was at a cocktail party and soon the subject was changed by a pretty intruder. But let us return to the South. It has not been seized by Communism, not yet. In Kerala itself it has the doughty Catholics to contend with; they too are inspired by a universal church and know every trick of the political game. Then there is brahminism, by no means a dead force everywhere, not even in the North. In the circumstances it would be absurd to prophesy a southern conquest of the North, even if it rode on the crest of Communism. Aryavarta's ability and will to keep the South in the place assigned to it in history are considerable, and the dream of a Hindian empire is latent in many a northern mind.

It is not to be imagined for a moment that a conflict is imminent. New Delhi's authority will have to be much weaker, perhaps by a natural process, before any region can even begin to think of a challenge, and this is by no means an immediate or early possibility. (We are now trying to think in terms of the next fifty or a hundred years.) As New Delhi's arteries begin to harden, many now unidentifiable forces will come to the surface, and the process is being hastened by the unfortunate militancy that has been noticeable in the behaviour of some northern politicians since Independence. This is where West Bengal comes in, for the Bengalis too resent the arrogance of the North.

* * *

Bengal's cultural affiliation hitherto has been more with the North than with the South. It may be an error to regard this as an unchangeable quantity, especially if the South comes with a non-racial philosophy such as Communism certainly is. Can it be that in this there are seeds for a new alignment? Nor will it be wholly negative in the sense that it is anti-North or anti-Hindi, for, if Communism is going to be the vehicle, it is a very positive philosophy indeed. Bengal's receptivity to new ideas is famous, and now there is the additional factor that she has very little of her own which she must defend against new ideas. The renaissance is dead, and its source of inspiration, the West, has just about dried up. America? Your Bengali intellectual has borrowed all the British upper-class disdain for most things American. This is rather ridiculous, but it is none the less true.

But if Communism is not going to be the cementer between the South and Bengal, as it may not, what else is there to bring the two together? Adherence to English as opposed to Hindi? Here the Bengali has fallen behind. Better English is written today in the South than in Bengal, and the latter's loyalty to the English language (and all that goes with it) is far from firm. English is neglected in schools and colleges, although where the extra attention goes is not at all clear. Not to Hindi, to be sure, although there are false analogists who suggest that just as the Bengalis once "ruled" by virtue of their superior mastery of English they could today repeat the performance by learning Hindi fast. (The Bengalis did not compete with the English a century ago; they will have to compete with other Indians today who will be born with an advantage.)

* * *

The picture is further complicated by the Communists' support for Hindi, even the southern Communists'. Then, the Communist Party is not dominated by southerners either, although it is in the South that the Party has scored its

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first electoral victory. Thirdly, it is arguable that a southern Communist is a Communist first and a southerner later which, if true, would mean that a Bengali-South alliance will be a getting together of one set of Communists with another and not between Bengalis and southerners. Finally, the plasticity of the Bengali character can blend only imperfectly with the austerity of the South. (The latter, incidentally, is contrary to the experience of almost every other southern culture in the world.)

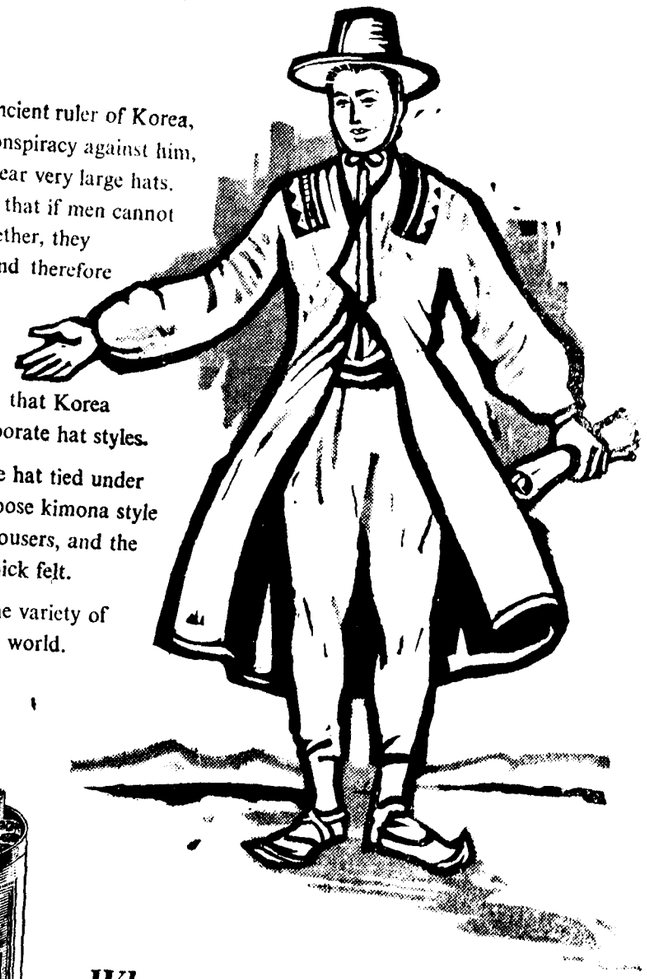
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It will thus be seen that the question is one of immense complexity. No answer has been given, for none is deducible from the data. The facts are that Nambudiripad came to West Bengal and made a good impression on many. Even Dr Roy received him. Dismiss it as an event of no importance, if you like. It may also be treated as a portent, although its significance is at least as difficult to decipher today as the signal of that other *Sputnik* going round the earth.

—**Flibbertigibbet**

November 13

Korea



It is said that an ancient ruler of Korea, to stamp out all conspiracy against him, made the people wear very large hats. His reasoning was that if men cannot put their heads together, they cannot whisper, and therefore cannot conspire.

This tale may or may not be true, but the fact remains that Korea today has many elaborate hat styles.

Here is a Welsh style hat tied under the chin. The long loose kimona style coat covers baggy trousers, and the shoes are made of thick felt.

There is no end to the variety of costumes all over the world.



Wherever you go
—they're good

GF/398

From the London End

British Policies in the Melting Pot

THE timing of the reopening of Parliament has, at least on this occasion, a significance all its own. It coincides with the culmination of a far-reaching revolution in the application of science to military problems and which, in something like one fell-swoop, has reduced the defensive dimension of say the Atlantic to no more than what the English Channel was in 1940, if at all. And this has brought to a head a real crisis in policy over the whole realm of foreign affairs. The structural basis, indeed all the assumptions, on which NATO was founded are now in question. And it is to be remembered that NATO has been regarded as the principal prop for Britain's European and international policies. This is by no means all. The remarkable spectacle which American economic policy presents—of fighting inflation and deflation at what appears to be the same time—has created in Britain an atmosphere of uncertainty and dismay as to the prospect of the future supply of dollars and of the strength of sterling. The pessimism characterising economic conditions is now being made worse by the belief that industrial relations are least likely to remain peaceful in the immediate future. And the most serious of the coincidences is the existence (at a time like this) of a government suffering desperately from a complex of inferiority and pursuing a set of policies bearing all the hallmarks of supreme mediocrity.

Inconsistent Defence Policy

No matter how remarkable the Soviet contribution to scientific enquiry—their entry into the cosmos is indeed a feat of considerable magnitude—no nation state has ignored the implications of these contributions, in terms of political influence, sovereignty and military power. The fact that scientific advances must be and have been so construed reflects the growing chasm between science and political man—a fact to which the Indian Prime Minister alluded during his recent visit to Japan. There is nevertheless a new anxiety that the Sputniks have irretrievably altered the balance of military power and there is a sense in which this is very true. The West European defence system has been founded on the assumption of the practical safety and inviolability of the principal Western arsenal of power—the United States. This is now no longer true. And there now follows from this realisation the urgent reappraisal of the functional capacity of NATO to provide its previously assumed shield and the search of a policy which could ultimately redress the obvious positions of weakness in which the Western world now finds itself.

That suitable redress can only be sought for in military terms is the basic assumption of British policy. And it is precisely this which sets the tone of a major crisis. For in the Defence White Paper of March last, the British Government enunciated a military policy of remarkable inconsistency and to some, a policy that was ridiculous. Mr Duncan Sandys, the Defence Minister, after stating that there existed no defence against the hydrogen bomb continued to enunciate a policy of nuclear armament for Britain on the grounds that it would "frighten" the enemy. The complete inadequacy, if not irrelevance, of this policy has now been unmasked. So too has been the emotional compromises of Mr Bevan—the "nakedness" of a British foreign secretary at some future disarmament conference should the U K unilaterally abandon H bomb production which he feared so much is now all too apparent.

West Germany & Middle East

In the field of foreign affairs the policies that follow from an inconsistent defence analysis are being found to lack direction, initiative and purpose. Mr Selwyn Lloyd, portraying a typical wooden and colourless approach to international problems, once again rejected the call for a new summit meeting on the grounds that the "problems involved were complex and baffling" and that there existed "uncertainty about Soviet intentions." The crucial testing grounds for diplomacy remain Germany and the Middle East. The German question has, by the very menacing character it takes, been virtually frozen since the Potsdam Conference of 1945. Various attempts at "adjustments" have been made, such as that of including West Germany in the NATO alliance but the exclusion of West Germany from rearmament in nuclear weapons has tended to make these adjustments

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just that tolerable as to avoid the German question becoming too dangerous. Now, when logic dictated otherwise, the Western powers are attempting to reply to the Soviet scientific advances by advocating the nuclear armament of West Germany's forces. The case for a detente in the Middle East is even stronger. In the Common's debate on foreign affairs the Labour speaker, Mr Phillip Noel-Baker was at pains to impress upon the Government that "it was useless to deny the Russian interest in the Middle East". It was equally useless for Britain to fail to recognise that the Arabs wanted to govern themselves, that the Baghdad Pact instead of promoting was actually harming the cause of political stability and that the first step towards a solution of the Middle East crisis was to agree with the Russians to stop pouring arms into that area. In this way Israel can be extricated from the great power struggle and will thus be enabled to compose its disputes with its neighbouring states.

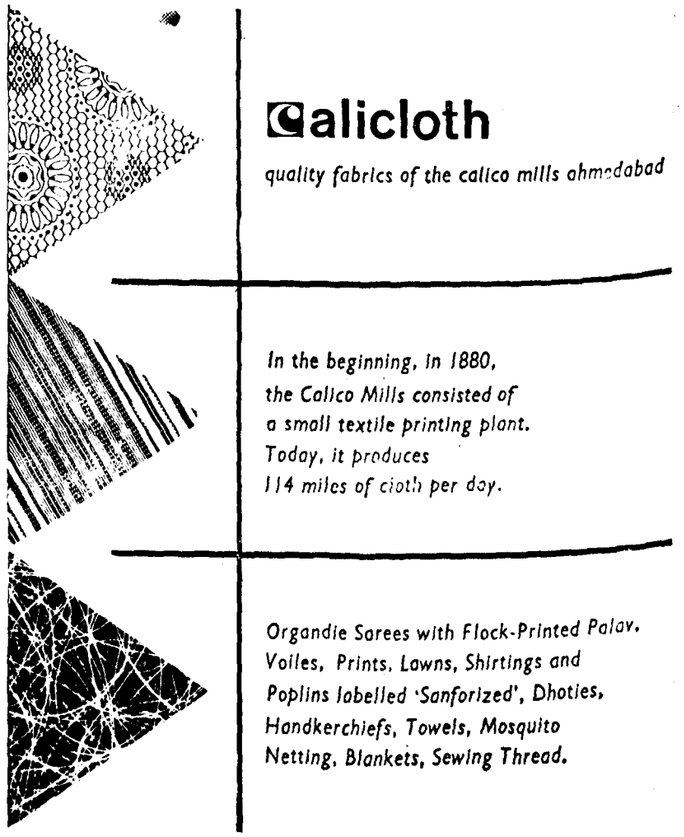
Impatience with Inferiority

At rock-bottom the whole structure of Britain's international policy rests on the unrealistic assumption that the U K can and does possess the resources to compete on equal terms with the two giant powers. In a notable declaration by Mr J B Priestley, published in the **New Statesman** recently, this myth was more than adequately exploded. Apart from the serious moral grounds on which this assumption has been shown to be invalid, the very structure and problems of the British economy show most pointedly that the mediocrity of British policies arises principally from their lack of realism and from their being motivated by a desperate complex of inferiority. The statement of Mr Selwyn Lloyd in the Commons was significant in this regard. His refusal to accept the Russian proposal for a summit conference was based, among other things, on the the ground that he had the "impression from Mr Khrushchev's speech that Britain did not matter in the modern world and was being elbowed out of the way by other countries."

Dangerous Economic Policy

This assumption of continued competitive status projects itself in the sphere of economic policy as well. It is the strength of sterling rather than the maintenance of full employment that governs economic policy and there is no recognition that rising levels of production and employment must in the nature of things bring about, what must certainly be a subsidiary aim, the restoration of confidence in sterling. At the present time the international hall-mark for economic growth and power is the level of investment in the industrial countries this is no less important. The German experiment of a high level of investment has proved to be a success. In contrast the United Kingdom is prepared to follow the dangerous American policy of credit restrictions at a time when excess capacity in a number of significant industries is rearing up its ugly head. And this policy is being pursued in spite of the sharp falls in world commodity prices and the buying power of the underdeveloped areas for the manufactured exports of the U K. Equally incomprehensible is the policy of inviting a sort of industrial war. The recent statements of the Chancellor of the Exchequer and the Minister of Labour had all the indications that the vast machinery set up and developed over a number of years for industrial conciliation and wage awards was going to be superceded by the Government's fiats and in spite of the Prime Minister's retreat on this question, the gravest anxiety pervades the whole of British trade union movement.

The current session of Parliament opens in the midst of a series of crises—the whole realm of British policies is now in the melting pot The public at large that was so dazed by the Russian scientific advances is however beginning to become articulate enough to question the assumptions of British policies in spite of the pain that naturally comes from reappraising a mode of outlook that is over a hundred years old.



Official Papers

Trends in World Trade

International Trade 1956. The Contracting Parties to the General Agreement on Tariffs and Trade, Geneva. 1957. Pp 278 + Tables. Price $2.00.

OF the many alphabetically designated institutions created to meet and solve the international problems of the post-war world, the GATT is perhaps the least spectacular, though certainly not the least important. Indeed the GATT is not, as its full name itself suggests (General Agreement on Tariffs and Trade), an institution at all. There is as yet no organisation to enforce a rule of conduct; no paraphernalia of executives, directors, alternates and all that. The Organisation for Trade Cooperation, agreement on which was reached in 1955, is yet to be established and the latest Report of GATT laments the lack of such an authority, particularly when questions of great importance and far reaching consequence are being debated and are likely to be settled during the current year.

Record Trade

The Report is not all laments, however. Trends in trade observed in recent yeas, and particularly during 1956, do not justify any pessimism in the future of world trade. "During 1956", says the Report, "both the value and volume of international trade again established a record level". In 1956 the value of world trade reached 92.64 thousand million dollars as compared to 83.33 thousand million dollars in 1955—an increase of 11 per cent. It is a long way from 1950 when the value of world trade was estimated at 56.86 thousand million dollars. A small rise in the general price level between 1955 and 1956, however, puts the rise in volume of production between the two years at 9.5 per cent—a rate not different from that of previous years. The year 1956 was however significant in one respect. It registered an increase in trade at more than twice the rate of increase in the world industrial production whereas in previous years these two rates kept pace with each other. This relative decline in industrial production may slacken future expansion of world trade.

The GATT Report confirms that the trend towards a relative decline in trade between industrial and non-industrial areas continued in 1956, and this decline in 1956 was entirely accounted for by a further relative decline in the exports from non-industrial areas. On the other hand, trade among the countries of industrial areas has tended to increase. The exports of the industrial countries rose much faster than those of the non-industrial countries, although whatever was the increase of exports of non-industrial areas their exports to industrial areas rose somewhat faster than to each other.

As can be seen from the table below, the share of non-industrial areas (as per cent of total) declined during the year under review. This decline was due entirely to the decline in their exports; their imports from industrial areas, in fact, remained constant at 25.2 per cent. On further analysis it will be found, as the IMF Report has already pointed out, that the industrial areas are importing less of primary products from non-industrial areas.

Three Angles

The pattern of world trade that is emerging can be analysed from three angles. First, the non-industrial areas are not completely non-industrial and therefore we should see how the degree of industrialisation has affected their export capacity. Secondly, the import requirements of industrial areas from non-industrial ones must be assessed. Thirdly, the greater liberalisation and increase of trade among the industrialised areas themselves have to be taken into account.

The GATT Report brings out the fact "that a large part of the decline since 1938 in the share of world exports that flows from the non-industrial to industrial areas is accounted for by the eight 'semi-industrialised' countries". (p 11.) Theoretically it need not have been so. For one of the strongest arguments in support of the industrialisation of backward areas is that such industrialisation would increase the volume of world trade—though it might change its pattern.

Explanation of this tendency has, therefore, to be sought elsewhere. First, there has been the fact of increased agricultural production subsidised or otherwise in industrial countries themselves. Secondly, the exportable supplies of primary products of semi-industrial countries have not shown appreciable increase—the supplies were not sufficient to meet both domestic and export requirements.

Discussing the long-term prospects of trade between industrial and non-industrial areas, the Report returns to the theme—"that further rapid growth of agricultural production in the industrial areas would inevitably lead to a radical fall in the volume of world trade in relation to the volume of world production...." (p 35.) Naturally those countries which depend upon the exports of agricultural commodities likely to be produced in industrial areas will be severely hit—their capacity to import and carry out programmes of industrialisation will be reduced.

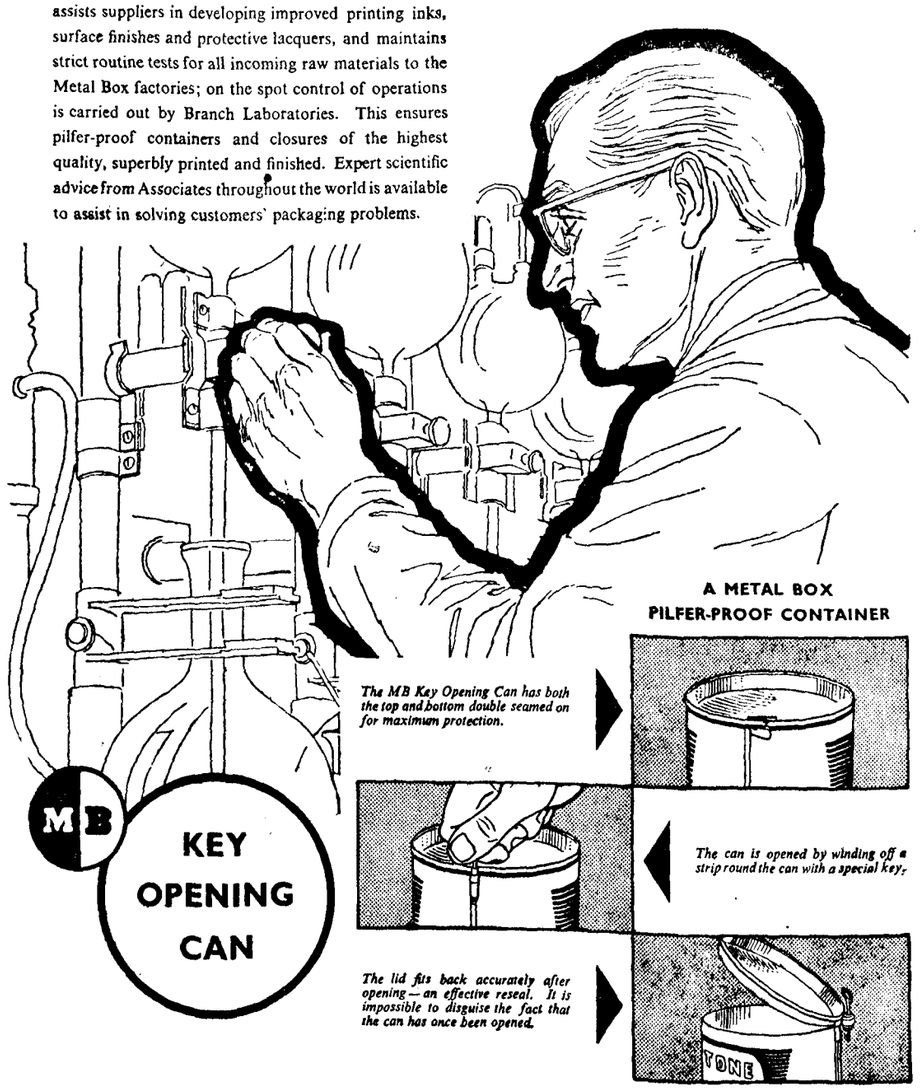
Analysing quite massive data of different countries and commodities, the Report points out that "the

Trade between Industrial and Non-Industrial Areas
($ 000 mn)

Exports to / Exports from	Industrial Areas		Non-Industrial Areas		Total	
	Value	%	Value	%	Value	%
Industrial Areas—						
1955	32.20	38.6	20.94	25.2	53.14	63.8
1956	37.30	40.3	23.38	25.2	60.68	65.5
Non-Industrial Areas—						
1955	20.90	25.1	9.29	11.1	30.19	36.2
1956	22.20	24.0	9.76	10.5	31.96	34.5

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long-term prospects for exports of raw materials and fuels from the non-industrial areas are on the whole, favourable. The analysis of future markets for food has brought out that for the tropical beverages and fruits the outlook is also promising. However, in respect of other foodstuffs, the market developments of the future are quite uncertain, depending entirely upon the rate of growth of agricultural production in industrial countries". (p 34.)

Intra-European Trade

If, as has already been noted, the exports of non-industrial to industrial areas have shown a decline, a corresponding increase must have taken place in the imports of industrial areas from one another. A short study of OEEC countries' trade shows that imports of these countries from among themselves increased from 7.85 thousand million dollars in 1948 to 19.18 thousand million dollars in 1956 whereas imports from other areas increased from 16.99 to 23.50 thousand million dollars during the same period. The findings of the GATT Report, when applied to individual commodities, are not conclusive and the Report itself admits that the difficulties in the way of accurate forecasts about the consequences of the proposed Free Trade Area are very great.

Trade Policies

The year 1956 continued to show recent years' trends in matters of commercial policy. Noting that tariffs were generally stable and reductions and suspensions of duties were more numerous and important, the Report points out—"an increasing tendency for Governments to use their import tariffs as instruments of short-term economic policy". West Germany, for instance, reduced most tariff rates with effect from 1st July 1956 with a view to, firstly, avoiding an increase in the cost of living, and secondly, attaining balance between exports and imports. It is not easy to see how such reduction of duties will necessarily and appreciably reduce the cost of imported goods. A unit of commodity costing say Rs 100 is paying a duty of Rs 20. If a reduction of duty is made to the extent of 25 per cent (maximum reduction allowed by West Germany) that unit of commodity will cost Rs 115, instead of Rs 120—a reduction in price of only 4 per cent. On the other hand, even such a small reduction may or may not be reflected in domestic prices of imported items depending upon the elasticities of demand and supply. From this view-point steps taken by Ceylon, Chile, France etc, appeared more rational.

There were, of course, other conditions under which tariff rates have been reduced—bilateral and multi-lateral negotiations, necessity of assisting domestic industry by making necessary materials available, the interest of public health etc.

The Reports of GATT and of IMF are in several ways complementary. They both corroborate the fact that in recent years there has been a progressive improvement in the international payments situation. The gold and dollar reserves of countries outside the United States, continued to increase, though not at the same rate. These gains of international liquidity were, however, concentrated in the industrial regions. As a result, the non-industrial areas faced balance of payments difficulties and could not therefore go ahead rapidly with dismantling of quantitative controls.

Countries of the industrial region, on the other hand, could afford larger liberalisation of trade. Moreover, the early postwar reluctance to use measures other than trade restrictions to correct imbalance in the payments situation has subsided, and in 1956, as both the IMF and GATT report, these countries, when faced with problems of external payments, relied to an increasing degree on internal measures.

Regional Formulae

Efforts are being made, at levels other than that of GATT, towards achieving greater degree of liberalisation of trade. Multilateral trade, of course, is a global question. That has not precluded some areas from attempting regional solutions. One should normally rejoice over the gradual disappearance of economic nationalism on the continent of Europe which is a large international market. In 1955, the Benelux countries, and France, Italy and West Germany—called Messina Powers after the name of the place where they met—decided to establish a European Economic Community—an economic and customs union—and a Treaty establishing it has since been signed. Subsequently, the idea of an European Free Trade Area has been mooted and debated. The Free Trade Area, when established, is to include most of Western Europe including the six countries of the Customs Union.

The Union, as well as the Area, can be used or abused. It is arguable that a customs union abolishes trade barriers among some, at least, of the countries, thus creating a larger market which is healthy for the economies concerned. It is to that extent a step towards the laudable objective of liberal trade. For, after all multilateral trade system can be established by gradual elimination of the barriers. The argument, however, can be easily inverted. What will the height of the tariff wall of the Union be as against the rest of the world? In the specific case under discussion, if it is raised to the height of French tariffs, it may mean a positive disservice to the ideal of multilateral trade. A believer in Free Trade like Dr Erhard has, therefore, every reason to be concerned with this question.

A Challenge

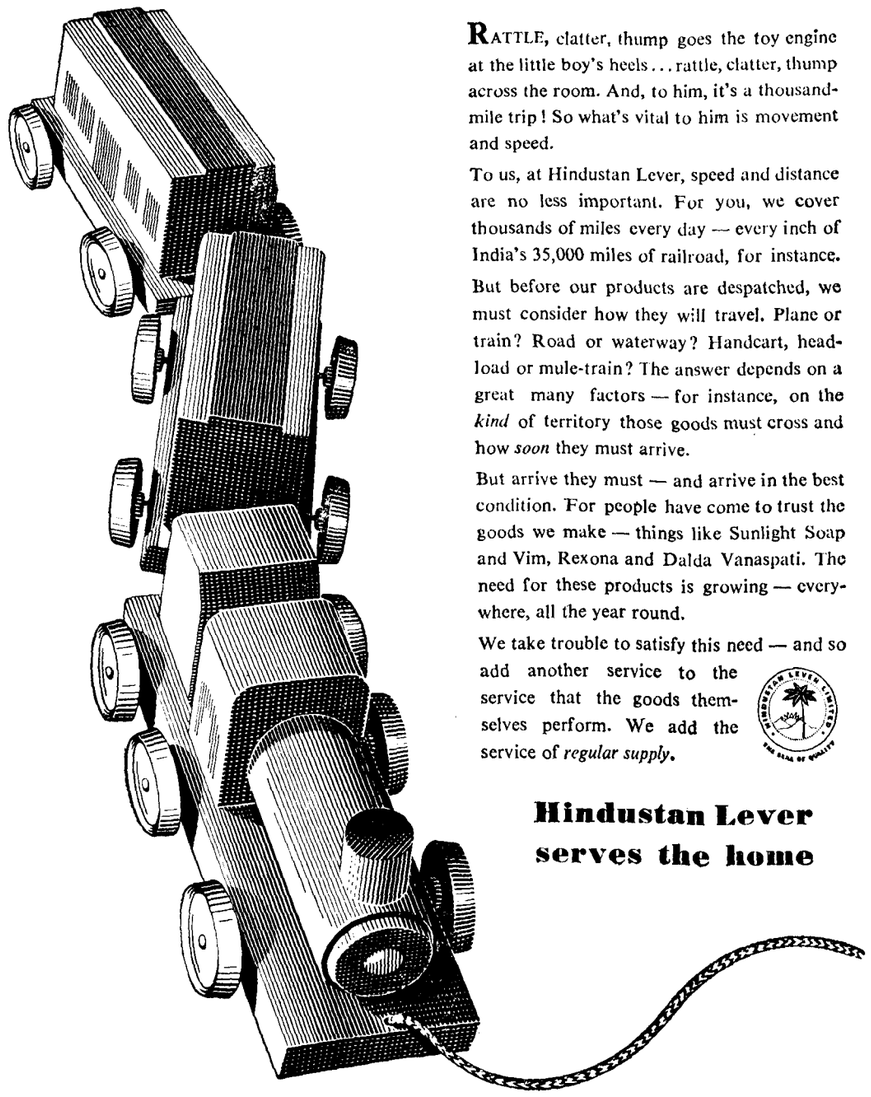
A Free Trade Area super-imposed on the Customs Union will have consequences of much greater magnitude and they will concern us generally, and if Britain participates, particularly. The ramifications of the proposed regional arrangements will be far and wide and particularly more so, as far as we are concerned, if the overseas territories of the Union countries are associated. It is difficult to foresee their long-term consequences and the GATT Ministerial Conference rightly decided to study the whole question. The problems raised by this movement for regional integration are a great challenge to the system of trade cooperation being evolved under the auspices of GATT and on the way they will be met and solved, perhaps depends the future of international trade cooperation.

— J R A

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Book Review

All a Matter of Pebble-gathering

A Survey of Contemporary Banking Trends by S K Basu. The Book Exchange, Calcutta. 1957. Pp 574. Price Rs 16.

IT is perhaps a truism to say that a social science has to adapt itself to changes in the social system in which it has to be operationally meaningful. A change, whether it is one of decay or growth, modifies and, in some cases, alters the very basis of such a science. This is more so in the sphere of banking which is mainly empirical in nature. In the last few years, particularly the post-war years, though many of the underdeveloped countries like Ceylon, Burma, Korea, Pakistan and some of the South American countries have broadly fashioned their Central Banks and commercial banking Acts on the pattern of those in some of the more developed countries, there has been a substantial departure in the matter of quite a few details. However, the main corpus of banking theory does not seem to have changed in its more fundamental aspects, though it is in urgent need of a fresh interpretation in so far as its application to many practical problems that are faced by both developed and underdeveloped countries is concerned. Professor Basu has attempted in his recent book to review all these banking developments with a view to presenting them in a synthesised and systematised manner.

The setting in which the material is put forth is expansive, the range of outlook wide and the treatment is global. It takes within its orbit topics such as relationship between the Central Bank and the treasury, legal reserve requirements, the efficacy and operation of the Bank rate, open market operations and variable reserve ratios and what not. In the field of commercial banking, subjects like recent trends in commercial banking theory and practice, cash liquidity ratios, secondary reserve requirements, etc, have been touched upon. And in one chapter, certain estimates of bank credit to industries in India during the Second Five Year Plan period have also been given although it is arguable whether they are relevant in a work like this or not. In the process of discussing all these, banking developments in almost all the countries are referred to for what they are worth. When an attempt is made to cover a wide range of topics, there is always the risk of an author getting lost in details at some stage or other with the result that the main objective which actuates such a work is lost. One regrets to note that Prof Basu has, in this work of his, been a victim of details. The author has not succeeded in achieving his main objective "to synthesise a large number of separate indications into a systematised survey". The synthesis presupposed logical presentation of facts, interpretation and analysis In this book, however, summary of various view-points has been mistaken for interpretation and description for analysis. The result is a catalogue of many banking developments but without underlying unity—a quality which distinguishes a scientific work from mere newspaper reportage.

Some comments seem to be called for on the approach which the author has adopted in writing this volume. In making simple statements on any subject, the veritable authorities have been invoked instead of going to the root of the problems at hand and judging them on their own merits. To take a few examples, Keynes has been quoted to support the point that effectiveness of open market operations depends upon 'ammunition' in the shape of open market securities. Similarly, in the discussion on responsiveness of investment to interest rate changes, a galaxy of economists like Robertson, Henderson, Musgrave, etc, has been brought into service. It is one thing to quote an authority when one's contribution on a particular aspect of the problem reorients the discussion of that problem; it is quite another thing to dress up every argument with a never-ending string of quotations. It is a pity that even Prof Basu has not been as yet able to break away from this typical Indian Shastry-type scholarship that dominated in the past.

The chapter on "the Revival of Bank rate Policy" is rather disappointing. Most of this chapter has been devoted to the now commonplace discussion on interest elasticity of investment without indicating why the Bank rate has changed its character. No doubt, reference has been made to the growth of public debt as limiting the flexible operation of Bank rate but the importance of this has been ignored when British experience in this field in the post-Korean war period is analysed. As a result, the history of the British Bank rate policy becomes just a narration in the hands of Prof Basu. Nor does the author show sufficient insight into the conditions in underdeveloped economies which have restricted the scope for the effective operation of the Bank rate. The growth of nationalised sector in commercial banking has



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★

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endowed many a Central Bank in such economies with a direct control over lending. At least its implications should have been pointed out in a work like this. Even in a descriptive account in this chapter, one comes across a curious statement like "The technique (of Bank rate) adopted by the two countries (i e, U K and India) in 1951 was identical but the economic conditions which called for that technique were somewhat different". The author traces "the cause of rise in Bank rate in India in 1951 in Reserve Bank's apprehensions of difficult days, during the busy season ahead." This means we have to relearn history right over again. The fact is that there was no difference whatever in the economic conditions in both U K and India in 1951 which necessitated a rise in the Bank rate.

In his discussion on variable reserve ratio, Prof Basu misses one important point. He accepts without demure or doubt the usual argument put forth by Plumptre and some others that the technique of variable reserve is ineffective under conditions where commercial banks are not used to maintaining any fixed cash reserves. What is forgotten here is that it does not affect in any way the efficacy of the technique though it necessitates widening of the range within which reserve ratios should vary. If there is any weapon in the panoply of the Central Bank which can be perhaps most efficacious in an underdeveloped money market, it is the variable reserve ratios in view of their direct impact on banks. But this has not been the conclusion of the learned professor.

Prof. Basu's analysis of Selective Credit Control is in terms of conventional arguments and no reference has been made to the special problems of underdeveloped economies. Particularly in a country like India, where planning is accepted as a datum, Selective Credit Control can operate more effectively and expeditiously only if closer coordination is maintained between the planning body, Central Bank and the commercial policy. This would enable the Central Bank to direct credit to those industries which are high on the priority list of the planning body. Besides, the author seems to ignore that Selective Credit Control is of limited use if it is not strengthened simultaneously by other general quantitative measures.

The book no doubt testifies to the wide reading of the author; but it has helped only to expand the size of the book. But that has only served to detract from the usefulness of the book because the author fails to maintain unity of thought, logic of argument and compactness of presentation.

— *D S*

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The Fixation of Agricultural Wages

Small Farms an Obstacle

Prafulla C Sarkar

THE question of the regulation of agricultural wages in India embraces no less than 17.6 million rural families out of a total of 58 million in her rural sector. If, however, agricultural wages are defined exactly in the same manner in which we define wages in industry we are in a position to effect a significant reduction of this number. But Indian agriculture is generous enough, as it were, to permit almost countless connivances and contrivances now being resorted to by a vast landless labour force with a view to earning some 'wage' even though in all cases workers do not receive returns to their labour at a time or piece rate. On the one end there are the labourers who seek to employ themselves in agricultural operations purely on daily wage basis. On the other the landless agricultural labourers who do not themselves own any land but cultivate the lands owned by others on a share-cropping basis under the close or casual supervision of the owners are in fact workers with no or a few bullock or buffalo drawn ploughs. Between these two categories one finds an immense variety of piece-rate workers, attached workers and contract labourers. Besides these two categories of workers, there are owners of small bits of land who take up work on others' lands on a wage or share-cropping basis.

The point is that these categories cannot be held as mutually exclusive. Persons who work as share-croppers or cultivate the small holdings of owned land supplement their income in many cases by working on wage basis in other farms as frequently as opportunities permit. Contract labourers and attached workers who are not as free to engage themselves on a daily wage basis are also known to employ themselves likewise to the extent possible. The work of the contract labourers, attached workers and share-croppers is apparently mutually exclusive. But these specific occupations also are inter-changeable over a span of years. All these different kinds of workers should, therefore, be classed together if the purpose is to locate the class of workers who sell their services to farms owned by others no matter how different are the methods they employ to get their wage equivalents.

Inadequate Employment

This vast part of our population live in utmost poverty* partly because their wage rate is too low and partly because the period of employment they enjoy is inadequate. On an average an Indian agricultural labourer is without any employment for at least three months in a year†. From his point of view immediate relief could be given to him by providing him with an additional employment of three months annually. But the creation of employment opportunities on this scale can almost be ruled out in the context of our circumstances at least within a span of one full generation. The other course left to improve the plight of agricultural labourers is to increase their wage-rate.

In advocating increase in wage-rates of, for example, casual workers who make up a vast majority of the agricultural labour class one assumes nonetheless that they will be able to save a part of their earnings with a view to spending on consumption during the unemployed days. The relevant question then is: Will they be able to distribute their savings for expenditure among all the unemployed days? It would be quite realistic to assume, under our circumstances, that the most unfavourably placed group of the agricultural labourers may regularly face what may be called a cycle of just enough consumption and severe under-consumption. In such cases the possibility of keeping to a more or less stable level of consumption following increased earning during the employed days is bound to be limited*. Nevertheless there can be little question that increased earnings will give the workers greater freedom to provide for unemployed days.

Wage-rise and Production

The decisive consideration to decide whether or not an increase in wage can be recommended is to foreknow the repercussions in agricultural production as well as in the farm-investment incomes† of the agricultural producers. It is a peculiarity of agriculture that it is not possible to distinguish between low-wage paying units and high-wage paying units, or between 'able' units and 'unable' units with the result that selective regulation of wages is not capable of being enforced. Regulation of wages in agriculture, therefore, has to be aimed at raising the wage rate in general.

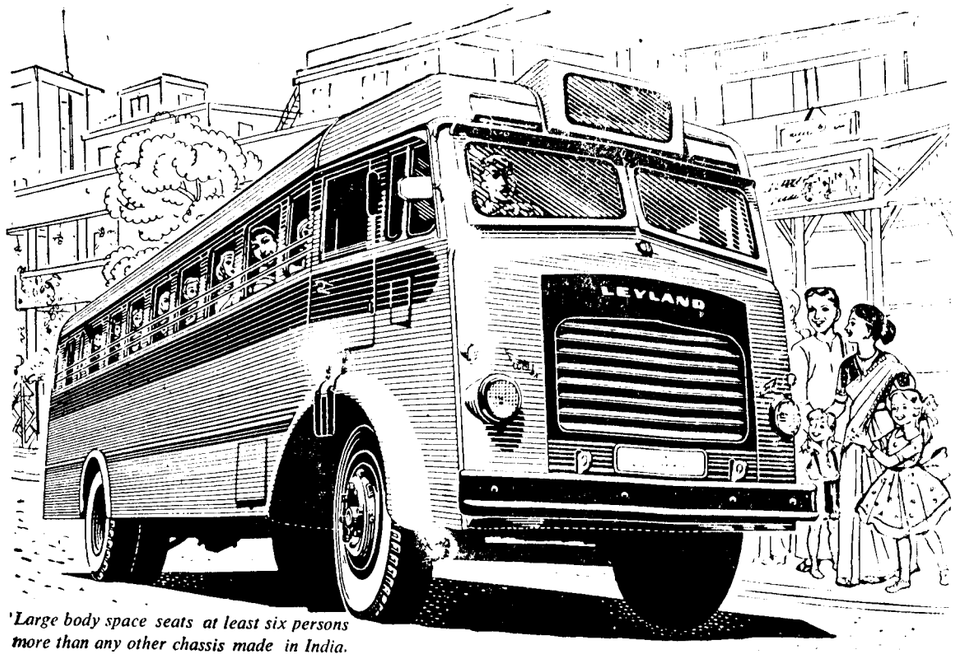
One likely effect of the increase in the general wage rate will be

* The Agricultural Labour Enquiry revealed that 26.4 per cent of these families can spend annually upto Rs 100 per consumption unit. Within this group of families who cannot make available to their members more than Rs 100 per consumption unit there must be a large number of families whose available funds per consumption unit are much lower than Rs 100. In any case none of 81.8 per cent of the agricultural labour families can spend for its members more than Rs 200 a year per consumption unit. What is more, expenditure even of this level is financed not solely out of their earnings. Not less than 44.5 per cent of the agricultural labour families finance a part of their consumption expenditures by borrowings and the average debt per indebted consumption unit was roughly Rs 30 at the time of the Enquiry.

† Based on a scrutiny of the results rather than on the actual results of the Agricultural Labour Enquiry.

* There is a view that the uneven distribution of income over different parts of the year is a source of some amount of permanent frustration among agricultural workers and consequently responsible for avoidable expenses on drink and intoxicants etc during the better earning period.

† The assumption is that at the present level of the initiative of the rural investors non-farm investment is not thought over.



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that the farm-investment income of small farms which is already very small will be smaller in the wake of a rise in the wages of labour. One silver lining in the matter is that the percentage of hired labour to the total labour employed in these farms is very small. Hence a slightly upward revision of the wages will only nominally reduce the already small farm-investment income of these farms. Moreover, a part of the family labour of these farms also earn as workers in other farms and is likely to benefit by an increased wage income. At any rate it is of first importance to know on a very reliable basis the extent of farm-investment income of farms of different sizes and especially of the smaller ones. Because if at least the sum of the farm-investment income and the total labour income of our small farm-owning families does not exceed by a sufficient margin what the same amount of labour earns as purely labour income and if an upward revision of the wage-rate further aggravates the income situation of these farm families there is absolutely no justification to speak of an upward revision of the agricultural wages.

Farm Management Studies

The precariousness of our farming conditions becomes glaringly evident by some facts revealed in a number of farm management studies conducted in different parts of the country in 1954-55*. In all these regions an overwhelmingly large number of farms are incurring losses! In Amritsar and Ferozepur in the Punjab the average loss per acre in crop production is found to be Rs 8; losses are absent only in the largest holding group (i e, 50 acres and above). In Hooghly and 24 Parganas in West Bengal nearly 60 per cent of the farms are losing concerns, the average loss of these farms being Rs 154. Profit on the remaining 40 per cent of the farms comes to an average of Rs 205 per farm. The results of the Meerut and Muzaffarnagar survey in U P tell us that about one in every three of the holdings was farming at a loss, while the study in Coimbatore and Salem in Madras discloses an even worse condition —as many as 71 per cent of the farms are unable to cover the complete costs of production.

The concept of cost used for the above studies included the following items :

1) human labour, hired as well as imputed values of family labour;
2) owned and hired bullock labour;
3) seed (both produced and purchased);
4) manures (farm produced and purchased);
5) interest paid on loans for crop and also on owned fixed capital;
6) land revenue and other taxes;
7) depreciation of implements and other implement charges;
8) rent paid on land taken on lease and rental value of owned land; and
9) miscellaneous expenditure.

Clearly, this is a very exhaustive list. But even when we narrow down the concept of cost so as to cover only the following items, viz, hired human labour, owned and hired bullock labour, seed (both farm produced and purchased), manures (both farm produced and purchased), interest actually paid, depreciation of implements and other implement charges, land revenue and other taxes and miscellaneous expenditure, (i e, if we do not include rent paid on land taken on lease, rental value of the owned land, interest on owned fixed capital and imputed value of family labour) not less than 41 per cent of Salem and Coimbatore farms failed to meet the costs of production in 1954-55. It is quite possible that non-sampling errors from one or the other source entered relatively heavily into the final figures in case of these two districts or that the weather in the said crop year was particularly unfavourable for agriculture there or that some very special circumstances prevail in these two districts.

During the same year, we are told that, in spite of the presence of more or less overall losses in entire agriculture in Amritsar and Ferozepore in Punjab, some farm-investment income was left in these districts for all the size groups as can be seen from the following table.

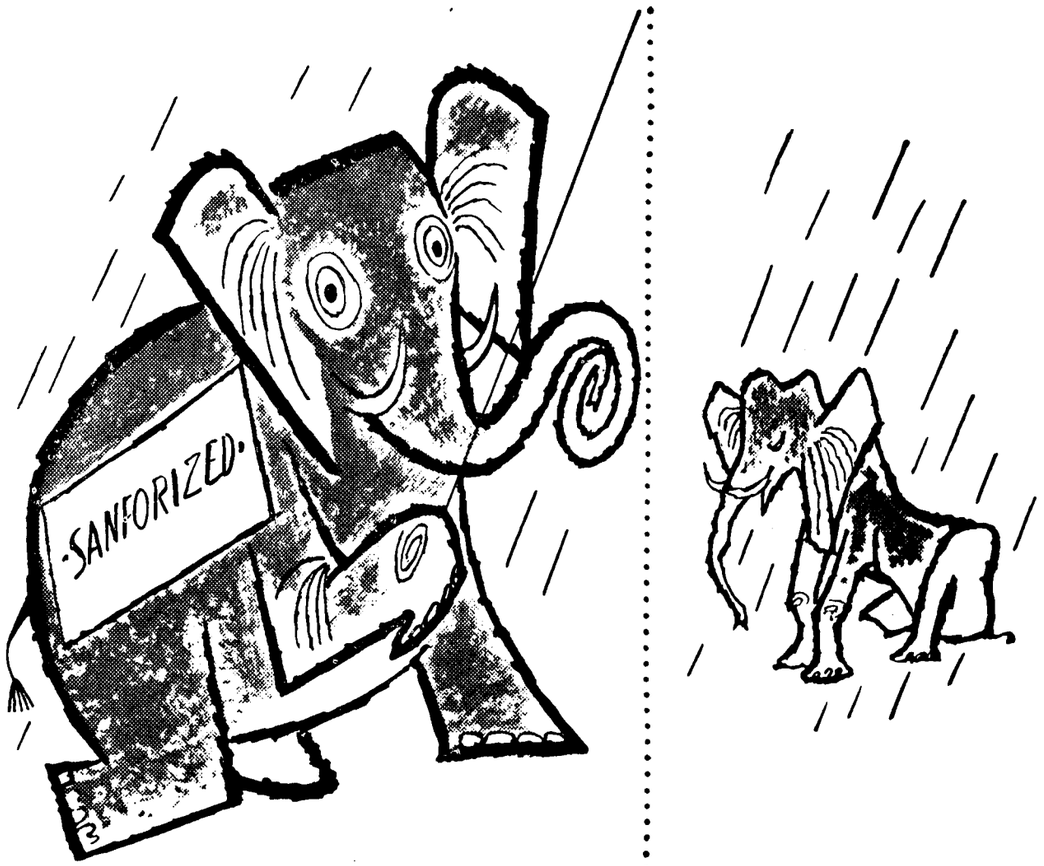
Group (acres)	Farm investment income per acre from crop production (in Rs)
0 - 5	4
5 - 10	28
10 - 20	28
20 - 50	26
50 & above	47
Overall average	30

Small Farmers and Wage Rise

Although full reports of these studies giving the detailed tables of the cost components by the size groups and the net area covered as well as the extent of the non-sampling errors contained in them are not yet available the picture revealed so far does one thing very relevant for our purpose. It restricts the enthusiasm to search for principles for the fixation of agricultural wages for the simple reason that, even if wage fixation is desirable from the point of view of labourers, much cannot be extracted from our small farms through an incease in wage-rate. It is evident that the fixation of wages in agriculture could not be based on the principle of covering adequately the cost of living of the workers because a good part of the lower size farms are unable to offer wages at a level which is considered adequate to meet the workers' cost of living. Pending further development of our economy, which might make the small farms more remunerative by themselves or in joint working, if there takes place a movement towards cooperative farming, the appropriate guiding principle for the fixation of wages in agriculture should, therefore, be to ensure that the sum of the farm-investment income and the imputed and the actual labour income of the farm family of smaller group remains on the whole higher than what the family is free to earn as labour income for the time now being given to farming and labour.

This principle is obviously different from the one that can possibly be recommended in the field of industries. Because in the sphere of industries when labour becomes dearer inefficient firms will either endeavour to remove the causes of their inefficiency or else disappear from the field of production, and when they disappear the loss to production is recouped by a corresponding increase in production by the efficient firms. The reason why such

* See Bulletin of the Agro-Economic and Farm Management Research, Vol 1, No 1, July 1957 (issued for restricted circulation only).

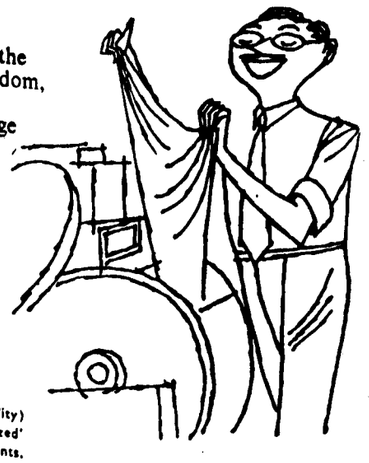


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a possibility does not exist in our agriculture is simple. Due to the ever-increasing pressure of population in the rural sector and the extreme lack of commensurate development of our industries and the shattered condition of the non-agricultural rural industries, a piece of land is regarded as the only source of living to the rural Indian. Under such a situation it is only reasonable to expect that in the face of a rise in the cost of labour input the smaller sized farms will further reduce the employment of wage-labour in their bid to squeeze out some earnings from the land, with the result that agricultural production may fall.

Conclusion

It has been emphasized above that the main obstacle for an upward revision of the agricultural wages in this country lies at present in the inefficiency of our lower-size farms. The efficiency of these small farms can possibly be raised by the right type of re-organization. But it is only when these small farms are put on a sound footing that the question of giving a better deal to agricultural workers will acquire a real meaning.

A Short Note on the Ambar Charkha

A Comment

D Shenoy

THOUGH Shri A K Sen has not furnished any new information on the economics of Ambar Charkha*, he has done well in putting forth all available information about the subject in a meaningful terminology. Conclusions, of course, emerge; but they follow not so much from the manner in which the data are presented as Shri Sen thinks as from the assumptions which are implicit in his analysis. The purpose of this note is first to see what these assumptions are and then to examine in the light of these assumptions whether the definitiveness of his conclusions still remains.

His conclusion is that the recurring cost of producing yarn on Ambar Charkha exceeds the value of net output added. The Ambar Charkha, thus, would not create any surplus which may be available for re-investment, and, in fact, its contribution to capital accumulation would be definitely negative. From the manner in which Shri Sen has derived the deficit to prove his case, it is obvious that he is taking the wage (i e, 9 annas in his case) of employing a worker on Ambar Charkha as reflecting an additional real cost to the community. This may or may not be the case, depending upon so many other factors, when labour is drawn from the pool of the previously disguised unemployed who consumed without producing. Actually there can be three possible cases as follows :-

(a) The additional consumption of a labourer employed on Ambar Charkha may be equal to the wage rate. This is conceivable, particularly when there is a joint family system. In these conditions, whatever the labourer would earn in new employment created by Ambar Charkha would help his family to raise its consumption by an equivalent amount.

(b) Rise in consumption that is made possible by new employment may be equal to the difference between his old consumption and a new wage rate. Though in this case the amount of additional consumption would be less, it may yet be higher than the net value added.

(c) Additional consumption may be less than or equal to the marginal increment in output, even though the new wage rate is higher than the net value added.

It is obvious that it is the first case that Shri Sen is dealing with. The second case is also similar to the first but the recurring deficit would be of a smaller order than in the first case. Both these cases would require subsidisation. But even here the conclusion of Shri Sen may not remain valid, as it is possible to meet the cost of subsidy by taxing the meretricious consumption of other classes of the society. His conclusion has acquired definitiveness only because he has implicitly assumed that additional consumption of the workers employed in Ambar Charkha would be a draft on the savings of the community. This may or may not be, depending upon whether the subsidy is financed by taxing consumption or savings of the other sections of the community.

Mere comparison between the recurring cost and the flow of output will be misleading in the third case because the wage rate offered there will not represent the real cost to the society involved in using Ambar Charkha and in fact it would be much less. In these conditions, therefore, the excess of wage costs as reflected in the money wages paid in Ambar Charkha production over net value added will not be injurious to the process of capital accumulation.

Shri Sen further compares the negative surplus in the production of Ambar Charkha with the positive surplus in factory production. This comparison also is not really called for. The use of Ambar Charkha in production of yarn is an admittedly inferior technique as compared to the factory techniques but it is not necessarily an absurd proposition. Ambar Charkha production does not involve any diversion of capital from factory production. In fact, Ambar Charkha itself can be produced by labour without any use of capital.

Besides in an economy where capital is a very scarce factor and labour is in glut, it is sound economic policy to put idle labour on the job to produce something or the other instead of allowing it to be sterile. This being so, is it not advisable for labour to produce something, even though it may mean an increase in his consumption, more than in proportion to his contribution to the flow of output?

There would be, in this case, a real conflict between the maximisation of income and employment and the maximisation of the rate of growth. By employing an inferior technique, one may aim at higher

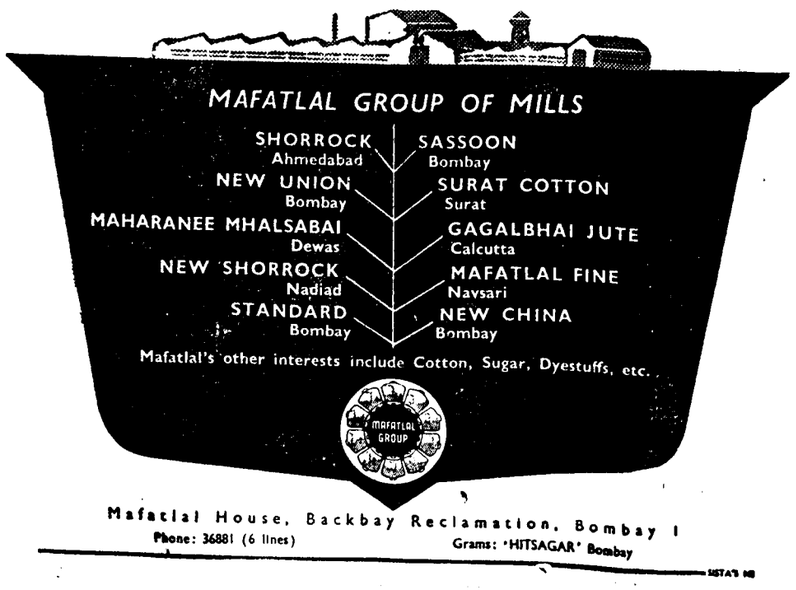
*"A Short Note on the Ambar Charkha", by Amartya Kumar Sen. Economic Weekly, October 16, 1957.



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output and employment at present with the slower rate of growth in future or at lower output and employment now but higher rate of growth in future. In an economy like ours, characterised by a persistent pressure of population on resources and a low standard of living, which of these is to be chosen depends on our social and political objectives and it is difficult to be dogmatic about either of them. If it is desired to improve the sub-normal standard of living of a large mass of people immediately, one cannot say purely on economic grounds that this would not be a sound objective. Of course, it can be argued, as Shri Sen does, that this would mean a smaller rate of growth. A society, however, has a right to choose what it wants. All that an individual can say is that his preference is different. When a conscious choice is made, an economist qua economist cannot sit in judgment over it.

Around Bombay Markets

Bullish Activity Likely

Thursday, Morning

THE share market has continued to move within narrow grooves in the absence of fresh incentives. Dalal Street has been awaiting confirmation of T T K's version of his tour impressions, since it was not willing to take risks either way till something like a clear picture of the modified Plan emerges from New Delhi. There is a lurking fear that some new excise duties might be levied though, in the aggregate, the burden of company taxation may be eased somewhat. Now that the Finance Minister has struck a hopeful note in regard to the prospects of a sizeable assistance particularly from the U S A, West Germany and the World Bank, the share market is likely to experience a bullish impact for the optimistic would pitch their expectations on Plan outlays at the more or less existing pace without any significant rise in taxation.

In the meanwhile, the favourable influence of increasing cloth exports on Textiles has been offset to a considerable extent by the steep rise in the prices of foodgrains, particularly rice, which will affect the wage bill adversely. Sugar and Shipping have remained in demand on account of favourable company reports and dividends. Bonus issues are expected from India Steam, Scindias and Phaltan sugar.

The outlook for shares in the immediate future appears to be basically favourable. At worst, Government policy cannot be any stiffer than it has been in the recent past. The Governor of the Reserve Bank has expressed his satisfaction over the banks' achievement of lower credit levels. No abnormal credit difficulties are, therefore, expected to arise during the current busy season. With the exception of Textiles, the calendar year is closing with excellent company reports and these should by and large be improved upon next year. A regular inflow of Rs 2 to 3 crores is practically assured from the Life Insurance Corporation, and even this figure may be improved upon if its business maintains its present pace. Only a little push, in short, is required to lift the market to a higher level.

Bank Advances Decline

Scheduled bank credit has contracted by Rs 11 crores to Rs 866 crores during the week ending November 1; the State Bank has been responsible for Rs 5 crores out of this figure. Simultaneously, net deposits have expanded by Rs 7 crores inclusive of Rs 3 crores at the State Bank. In the case of cash balances, while banks in the aggregate gathered Rs 1.5 crores more, the State Bank lost Rs 6 crores. The rise of Rs 10 crores in gilt-edged investments, however, is attributable entirely to the latter, which has, moreover, borrowed for the first time since May 17 from 'other banking companies, etc' a sum of Rs 3 crores. The State Bank's 'other assets' have gone up by Rs 3.5 crores, which portends some impending changes. Easier money conditions are reflected in the rise of Rs 3 crores under call and short loans, the State Bank contributing less than half a crore.

Note Circulation Rises

The deficit in our balance of payments during the week ending November 8 amounted to nearly Rs 6.5 crores, consisting of a decline of Rs 10 crores under Foreign securities, partially offset by a rise of nearly Rs 3.5 crores in 'Balances held abroad.' Central Government deposits expanded slightly by Rs 1 crore but those of other Governments contracted by Rs 3.5 crores, while ways and means advances recorded a rise of Rs 2 crores. Government borrowing from the Reserve Bank went up by Rs 10 crores in the Issue Department to offset an equivalent depletion of Foreign securities, but declined by Rs 2 crores in the Banking Department. Note circulation expanded by Rs 20.5 crores at the expense of notes held in the Banking Department. Bankers' deposits have contracted by Rs 14 crores and loans to them are lower by Rs 1.5 crores, all of which is accounted for by advances against usance bills.

Alternate Bouts

Kalbadevi has witnessed alternate bouts of buying and selling over the last week. Despite reports of heavy arrivals at terminal markets and slack buying by mills, bulls took advantage of storm weather forecasts and rumours of early announcement of an export quota for Bengal Deshi to assert themselves for a short while before a selling wave hit the market. The extent of fluctuations during the week can be gauged from the fact that the highest and lowest quotations of Jarilla March were Rs 703.25 and Rs 687.75, respectively. Daily turnover varied between 7,000 and 12,000 bales.

During the cotton year 1956-57, consumption of domestic cotton by mills rose to 46.7 lakhs bales from 43.7 lakh bales during the previous year, and that of American cotton rose from less than 33,000 bales to more than 2.1 lakh bales. Egyptians and Sudans declined from 3.1 lakh bales to 1.78 lakh bales and Ugandas from 2.5 lakh bales to 1.7 lakh bales. Total consumption of all foreign cotton went down from 6,03,000 bales to 5,67,000 bales. Though cotton imports under P L 480 have helped us save a consider-

able amount of foreign exchange, it cannot be denied that they have infringed the assurance given by the U S Government that export programmes under this Law will not trespass on the 'normal' exports of competing countries.

F M C Imposes Margins

Towards the close of the week, the Forward Markets Commission at last put its foot down on the unhealthy speculation that has been going on in groundnut futures for more than a month. The immediate cause for provocation was the rise of Groundnut February to Rs 168 on the kerb last Thursday, after the announcement of an export quota of 25,000 tons for groundnut oilcake. The abolition of the export duty of Rs 230 per ton had shortly preceded this announcement. The Commission's order imposes a special margin of Rs 25 per candy on all net purchases above Rs 165, and carries the warning that any tendency towards large scale diversion from hedge to delivery contracts with a view to avoid the special margins would be appropriately checked, if and when necessary. The Government of India's simultaneous announcement that it had no intention of giving export quotas except out of the exportable surplus of the country also had a curbing effect.

In spite of this imposition, Groundnut February has continued to ride consistently above the margin level of Rs 165, though a slight recession was visible towards the end of the week. The reasons for this obstinate firmness are rising home demand and the strong expectation of a higher export quota. The margin may thin down the turnover but it is unlikely to bring down the price level to any significant extent.

Indian Iron Extensions

LAST week, when Sir Biren Mookerjee lighted the Coke Oven Battery No 8 at Burnpur, the Indian Iron and Steel Company completed the first stage of its 1953 extension programme for expanding steel production at Burnpur from the present 0.5 million tons to 1 million tons a year. To finance this programme of extensions a loan of $ 31.5 million was granted to the company by the World Bank, this being the first loan by the Bank to the private sector in India. The Government of India has also loaned Rs 7.9 crores and the company has contributed Rs 7.5 crores.

The Coke Oven Battery No 8, constructed at a cost of Rs 7 crores, is a continuation of the existing Simon-Carves' No 7 Battery at Burnpur, which was built in 1950. Of course the ovens of the No 8 Battery are of an improved design; every oven wall is carried down to the concrete of the nozzle decking and the intermediate regeneration division walls are situated vertically below the oven chamber. The Battery comprises 78 ovens in two blocks of 39 ovens each. These ovens have a total daily input capacity of 1,735 tons of coal and the expected output is 1.300 tons of blast furnace coke per day.

Another Coke Oven Battery, No 9, is under construction and together with the production of No 8 will go towards meeting the requirements of the two new blast furnaces which are now being erected at Burnpur. Each of these furnaces will be the biggest of their kind in Asia and are designed to produce 1,200 tons of pig iron per day.

The major items covered by the 1953 Extension Programme of IISCO are the two new Coke Oven Battaries, No 8 and 9, two new Blast Furnaces and major expansions of the Steel Melting Shop and Boiler and Power houses. According to Sir Biren Mookerjee, of the two new blast furnaces, one will be completed this year, the second by September next and the whole plan would be implemented by March, 1959. If this schedule is kept up IISCO can be expected to fulfil its programme much ahead of the time limit set under the Second Five Year Plan.

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Around Calcutta Markets

Steady-to-Firm

Wednesday, Evening

PROFIT-TAKING has, at the time of this writing, erased some of the gains recorded by equities in the last few days. But Lyons Range remains steady. Professional "bears" are not aggressive. "Bulls" have been tactful in booking profits. In speculative scrips, outside interest is still small. It is a welcome market feature. For, speculative operators can be relied upon to take care of themselves. This is one of the reasons why the technical position of the market remains satisfactory, if not sound.

At current levels, equities in general are not over-valued. There is some justification behind the steady trend in equities. There has been a spurt in equities in recent weeks, but it has not been sudden. At all "bulges", there has been reaction. But a peculiarity of recent behaviour of equities may be noted. Lyons Range seems more optimistic than Dalal Street. Time alone will reveal whether Lyons Range's optimism about a change in the Government's economic policy is justified. But, unlike Dalal Street, Lyons Range is not adversely affected by events such as the Government's decision not to lower the cloth excise duty.

Lower Taxes?

On earlier occasions, the grounds of Lyons Range's optimism have been discussed. Some of the assumptions have some basis. TTK seems hopeful about private American investment in this country. New Delhi has shown its eagerness to foster a climate for increased investment by private foreign capital. Lyons Range infers that the concessions contemplated by the Government must also be applicable, to some extent, to domestic private capital.

Lyons Range may be far off the mark so far as the wider issue is concerned. But it may not be hasty in some of its anticipations. There is a growing feeling that some tax reliefs are not unlikely. It is widely believed that the system of compulsory deposit of corporate reserves will be abolished in the next budget. There are hopes that the Wealth Tax on companies may be withdrawn or reduced. Lyons Range is thick with rumours that the tax on bonus shares may also be lowered. These expectations about lower taxation explain, if not justify, Lyons Range's current optimism.

IISCO's Performance

Lyons Range cannot be blamed for pushing Indian Iron up during and since last Wednesday's kerb dealings. It was on that day, a week ago, that IISCO's new coke oven battery at the Burnpur Works was lighted. It is supposed to be one of the largest of its kind in the world. During the ceremony at Burnpur, Sir Biren Mookerjee disclosed that IISCO's 1953 Extension Programme will be completed two years ahead of schedule so far as output targets were concerned. These are certainly welcome events and developments which justify some enthusiasm for Indian Iron.

Before this enthusiasm could die down, news emanating from New Delhi indicated that Pandit Nehru was optimistic in his assessment of the outlook for foreign aid. A substantial long-term dollar loan may not be forthcoming. But the Prime Minister's talk to the Congress Parliamentary Party indicated that New Delhi was hopeful about other forms of American aid in time, if not in the required volume. There has always been moderate optimism about aid from West Germany. And the announcement of the Rs 60 crore credit arrangement with Russia for financing some of the vital Plan projects in the public sector helped further to impart strength to equities. At this writing, equities seem hesitant on the realisation that, despite these silver linings, the foreign exchange horizon remains sufficiently cloudy.

While the improvement in the demand and price of common teas during this week's tea auctions justify the steady trend in Tea shares, Jute shares continue to be neglected. There are reasons why jute shares are comparatively inactive. Data released by IJMA indicate a slight reduction in stocks of jute goods with mills over October. But trade circles expected a heavier reduction in mills' stocks. Poor shipping statistics are having a depressing effect on jute goods.

United Nations

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1490.98	1470.44	1493.50	1452.96
2. Rupee Coin	133.18	134.31	133.66	119.94
3. Deposits				
a) Central Government's	54.86	53.81	53.84	63.00
b) Banks'	94.80	108.77	90.61	52.47
c) Other Government's	6.16	9.60	3.61	20.06
d) Others'	110.93	111.36	111.25	13.21
4. Foreign Securities	301.77	311.71	321.65	462.21
5. Balances held abroad	19.42	16.07	20.55	93.17
6. Rupee Securities	960.72	950.78	940.84	760.50
7. Investments	228.95	239.76	215.90	74.29
8. Loans and advances to Governments	51.32	49.51	51.28	0.84
9. Other loans and advances	61.75	63.08	73.50	90.09
Scheduled Banks				
1. Demand liabilities (net)	754.61	755.41	723.18	641.56
2. Time Liabilities	645.63	640.53	626.50	455.55
3. Cash on hand	39.86	41.02	42.55	33.74
4. Borrowings from Reserve Bank	24.52	29.77	42.11	68.8
of which against Usance Bills	23.15	27.63	32.42	43.43
5. Advances and Bills discounted	800.79	810.19	796.20	716.43
of which State Bank's	161.09	165.64	161.38	130.71
6. Invst. in Govt. Sec.	403.88	393.95	386.93	367.32
of which State Bank's	164.02	154.19	151.97	107.10
Cheque Clearance	263.05	61.98	57.60	135.20

† For Reserve Bank week ended 8-11-57. Scheduled Banks and Cheque Clearance week ended 1-11-57.

Bombay Money Rates

	Call Money	From banks	From public	Three Months	Six Months
1-11-57		$3\frac{3}{4}$-$4\frac{7}{16}$	$3\frac{3}{4}$-$4\frac{9}{16}$	$2\frac{1}{2}$-$4\frac{11}{16}$	2-$4\frac{7}{16}$
25-10-57		$3\frac{9}{16}$-$4\frac{7}{16}$	$3\frac{1}{2}$-$4\frac{9}{16}$	$2\frac{3}{4}$-$4\frac{1}{2}$	2-$4\frac{7}{16}$
4-10-57		$2\frac{1}{4}$-$4\frac{7}{16}$	$3\frac{1}{2}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{11}{16}$	2-$4\frac{7}{16}$
2-8-57		$3\frac{3}{16}$-$4\frac{3}{16}$	$3\frac{3}{4}$-$4\frac{7}{16}$	$2\frac{1}{2}$-$4\frac{7}{16}$	2-$4\frac{5}{16}$

Bombay Bullion (In Rupee and nP)

	14-11-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	108.75	108.22	107.59	105.25
Forward	108.75	108.22	107.78	105.16
Silver (per 100 tolas)				
Spot	183.50	182.06	182.44	173.31
Forward	184.25	183.06	183.19	174.00

JUTE STATISTICS

	June	August	July	July '56 to June '57
Production ('000 tons)				
Hessian	33.7	33.9	35.6	428.8
Sacking	47.3	43.1	45.0	526.8
Others	5.0	4.9	5.3	70.1
TOTAL	86.0	81.9	85.9	1,025.2
Total production in the Corresponding months of:				
1956	84.5	89.6	94.1	1,095.0
1955	87.4	81.4	84.1	994.8
Stocks at the end of the month ('000 tons)				
Hessian	30.1	34.8	38.3	—
Sacking	39.0	51.1	63.5	—
Others	7.6	6.6	6.6	—
TOTAL	76.7	92.5	108.4	—
Stocks at the end of the Corresponding months of:				
1956	125.2	122.1	137.9	—
1955	69.7	79.2	81.5	—
Despatches : † ('000 tons)				
Hessian	38.3	37.4	39.1	424.5
Sacking	59.0	56.4	46.8	547.0
Others	3.5	4.3	6.8	60.4
TOTAL	100.8	98.1	92.7	1,031.9
Total despatches in the Corresponding months of:				
1956	81.9	105.6	84.2	1,047.2
1955	95.8	82.7	91.6	988.4
Raw jute consumption: (lakh bales of 400 lbs each)				
1957	5.06	4.78	5.08	60.15
1956	5.11	5.18	5.44	63.40
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	91	76	54	509
In corresponding periods of:				
1956	49	84	44	1,191
1955	110	159	190	1,178
Indian	540	391	286	5,856
In corresponding periods of:				
1956	535	524	363	5,190
1955	406	265	284	5,196

† Despatches include exports and sales for internal consumption.

Source: Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 26-10-57	19-10-57	28-9-57	27-10-56
Food Articles	**107.6**	**107.8**	**107.1**	**104.6**
Cereals	102	103	102	99
Pulses	83	83	82	79
Fruits & Veg.	113	108	106	121
Milk and Ghee	102	105	107	100
Edible Oils	128	129	129	127
Fish, Eggs & Meat	98	97	99	98
Sugar & Gur	111	112	111	102
Others	133	131	128	132
Liquor and Tobacco	**96.5**	**95.8**	**94.3**	**86.2**
Tobacco	95	94	93	85
Fuel, Power Light & Lubricants	**114.6**	**114.6**	**114.5**	**106.0**
Industrial Raw Materials	**115.4**	**114.5**	**114.9**	**114.8**
Fibres	112	113	115	113
Oilseeds	123	120	120	120
Minerals	109	109	109	103
Others	108	107	106	110
Manufactures	**109.0**	**109.0**	**108.7**	**107.8**
Intermediate Products	**106.6**	**105.9**	**107.5**	**109.9**
Finished Products	**109.4**	**109.5**	**108.9**	**107.4**
Textiles	109	109	108	110
Cotton	117	117	117	120
Jute	100	101	99	96
Woollen	103	103	103	97
Silk & Rayon	83	83	83	85
Metal Products	141	141	141	131
Chemicals	99	99	99	93
Oilcakes	121	120	116	114
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**108.9**	**109.1**	**108.7**	**106.8**

CLOTH PRODUCTION IN INDIA

	Mill-made Yarn mn lbs	Cloth mn lbs	Cloth mn yds
1954	1,561.0	1,161.3	4,997.7
1955	1,630.4	1,180.9	5,094.5
1956	1,671.2	1,200.1	5,306.6
1955: April	130.9	94.2	419.2
May	129.4	92.2	406.4
June	132.3	95.5	415.0
July	142.6	105.0	447.8
Aug	137.2	98.4	415.0
Sept	141.4	103.3	435.0
Oct	144.0	104.0	437.3
Nov	133.5	95.4	401.6
Dec	150.7	109.0	466.3
1956: Jan	132.5	94.1	413.8
Feb	133.6	96.0	425.5
Mar	132.6	92.0	418.8
Apr	131.0	93.2	420.8
May	135.4	99.4	452.7
June	137.0	100.5	451.4
July	145.3	105.5	467.0
Aug	140.3	100.5	438.3
Sept	146.2	106.6	465.6
Oct	142.5	101.0	443.4
Nov	139.5	99.0	430.1
Dec	155.2	111.4	479.3
1957: Jan	156.4	111.8	483.7
Feb	143.2	100.8	435.1
Mar	150.5	105.3	453.3
April	153.7	108.3	464.4
May	150.0	105.4	453.1
June	137.0	96.8	419.6
July	150.2	106.6	458.9
Aug*	139.2	99.9	410.6

* Provisional

Source: Textile Commissioner.

WORKING CLASS COST OF LIVING INDEX

(Monthly Average or Calendar Months)

	Bombay 1934 = 100	Madras 1936 = 100	Calcutta 1939 = 100	Kanpur	Delhi	Ahmedabad	Kharagpur 1949 = 100	Ludhiana	Cuttack	Jharia
1952	337	330	351	441	108	104	97	92	109	110
1953	363	351	349	453	106	111	101	90	107	104
1954	359	341	327	408	105	98	93	90	100	82
1955	338	321	321	371	99	87	92	84	99	77
1956	352	358	347	424	109	97	102	92	106	87
1955: July	340	316	325	371	99	90	96	82	101	77
Aug	341	318	329	375	101	92	95	83	103	78
Sept	333	322	327	373	101	90	94	84	106	79
Oct	331	323	334	385	101	91	95	85	100	80
Nov	330	327	339	392	103	92	96	88	100	79
Dec	332	334	329	393	106	93	96	90	99	77
1956: Jan	334	334	319	404	105	92	93	90	98	77
Feb	337	333	315	394	104	90	93	89	97	78
Mar	350	340	325	398	105	93	96	90	99	80
Apr	358	354	338	409	106	96	101	92	105	86
May	357	356	342	408	106	95	102	91	110	87
June	358	365	350	419	107	97	104	92	112	86
July	354	369	365	436	109	98	105	93	114	89
Aug	361	372	368	445	111	102	106	94	116	91
Sept	352	368	366	445	112	103	107	92	112	92
Oct	358	362	364	448	116	105	107	93	103	92
Nov	356	369	361	446	117	105	107	96	104	93
Dec	355	370	356	436	115	98	105	93	114	89
1957: Jan	355	372	354	436	113	102	104	96	103	89
Feb	357	369	350	438	114	102	104	96	105	93
Mar	356	367	348	433	114	102	104	95	108	90
Apr	356	369	354	427	112	103	107	98	105	91
May	362	369	352	441	114	104	108	96	109	96
June	371	373	..	445	115	104	110	97	115	98
July	374	375	..	459	115	106	112	97	115	100
Aug	377	372	..	468	118					

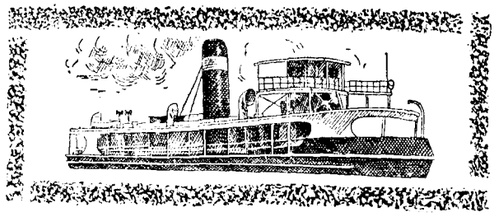
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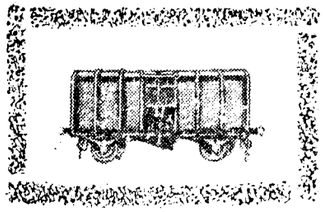
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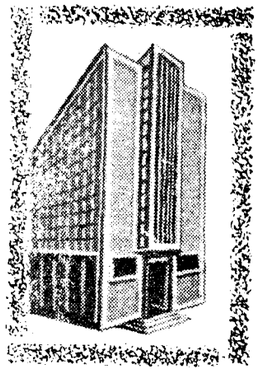
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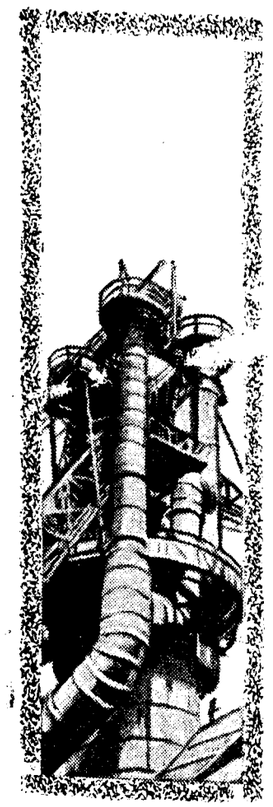
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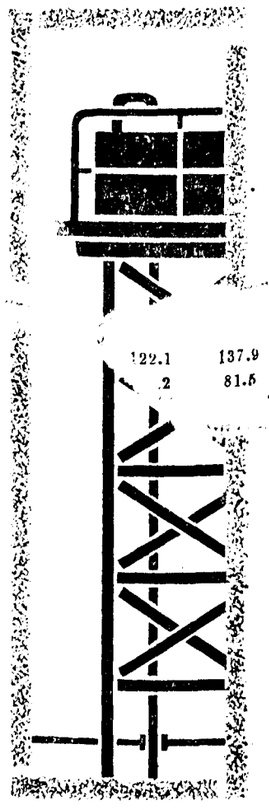
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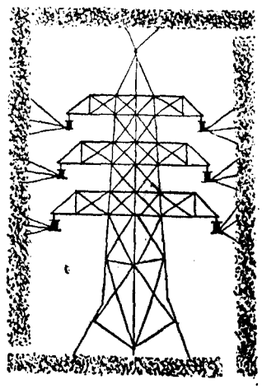












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Regulatory, Not Full, Control

ONE point that the Asoka Mehta Foodgrain Enquiry Committee is at pains to emphasise throughout its report, released this week, is that "the food problem is likely to remain with us for a long time to come". It is all right for us to aim at making the country self sufficient in food as in many other basic commodities; it is in fact commendable if concerted efforts are made towards the attainment of this laudable objective. But this desire to become self sufficient, it has been observed, tends to delude us whenever there is an occasional deceptive spurt in production of foodgrains. Because the country registered a phenomenally big crop in 1953-54, the control machinery in the country was dismantled without taking suitable precautionary measures for meeting a less buoyant food position in subsequent years. In fact, there was actual talk of the country becoming a net exporter of foodgrain. Not that the wise men who could see beyond the immediate were not there to advise the Government not to see beyond the then cheerful food situation but because of the general lack of proper long-term perspective at the top that such advice did not cut much ice.

The Central Food Ministry proposed in 1954 when controls were being completely abolished that as precautionary measures (a) a minimum reserve stock of 15 lakh tons should always be maintained; (b) a skeleton of food administration should be continued in every State; and (c) the Government should make purchases in the open market at reasonable prices with a view to building up buffer stocks. The first two proposals were accepted in principle, though in a number of States even food departments were completely disbanded on grounds of economy and there was also a feeling in some quarters that a reserve stock of 15 lakh tons was too high.

As for the proposal for setting up buffer stocks, it was not accepted. The Central Food Ministry's argument in favour of the creation of buffer stocks was that it would function largely to counter speculation in the commodity markets and thereby keep commodity prices more or less stable. Since the proposal for buffer stocks was not accepted and also since we had already a reserve stock of about 15 lakh tons, the Government was not keen on undertaking further purchases of foodgrains. The result was prices were allowed to fall sharply in 1954, a fact which must be responsible, to some extent at least, for the fall in output in subsequent years. Also an opportunity was lost thereby to build up a buffer stock which could have been of great avail to the country today when we are faced with a sizeable shortage.

It is in the above context that the most important proposals of the Asoka Mehta Committee have to be viewed. Emphasising the need for a long-term foodgrain policy on the assumption of a continuing shortage of about 2 million tons a year, the Committee recommends the establishment of (a) a high powered authority for the formulation of the policy for price stabilisation in general and determining the programme of enforcing that policy from time to time according to the authority's appraisal of the position; and (b) the establishment of a suitable organisation to execute the purchase and sale operation in foodgrain, of course, in accordance with the policy and programme framed by the high-powered authority referred to above.

Weekly Notes

Kashmir and Power Politics

DEBATES on Kashmir in the Security Council since the beginning of this year deepen the suspicion that some major powers are interested in exploiting this issue as "cold war" tactics. There is much to be said for a negotiated settlement of disputes. But it is time for the Security Council to realise that expert draftsmanship or an open debate alone cannot solve issues in dispute unless there is a proper appreciation of the basic problems involved. The Anglo-American resolution on Kashmir is an attempt to take the problem back to where it was in 1949. Much has happened since then. Mr Gunnar Jarring, who investigated the problem only recently at the initiative of the Security Council, reached the conclusion that internal as well as international events had changed the nature of the problem. This is also New Delhi's view. Dr Graham, who is being directed in the present Anglo-American resolution to try again to investigate the problem, shares this opinion. Indeed, in his final report, submitted some years ago, he questions the wisdom of the Security Council's attempts to dictate a solution of the Kashmir problem. He was prophetic in his assumption that a United Nations Representative is likely to go on "continuing to report differences to the Security Council." He was equally wise in his warning to the Security Council against any outside solution of the dispute "by force of arms or the attrition of years, with their attendant international bitterness and their running sores drawing off the higher interests and energies of two peoples."

To emphasise these obvious limitations of the Anglo-American resolution is not to deny, or minimise the consequences of, the continuing deadlock on the Kashmir problem. Pakistan insists that a plebiscite must and can still be held. India maintains that Pakistan must first fulfil the pledge to withdraw from parts of Kashmir in illegal occupation by the latter. Sponsors of the resolution on Kashmir seem only anxious to keep the Kashmir issue active so that it can be exploited in the Security Council to suit their designs. If the Security Council's attempts have failed so far, it is more than time for it as well as the two parties directly involved to accept Dr Graham's considered conclusion of the problem. Five years ago, he expressed the hope in his final recommendation that "may the leadership of over 400,000,000 people, with the goodwill and assistance of the United Nations, join in negotiating and reporting an agreement on Kashmir and thereby light a torch along the difficult path of the people's pilgrimage towards peace." There is much to be said for reviving this suggestion for direct negotiations. It was as a gesture to Dr Graham's earlier recommendation for direct negotiations that Pandit Nehru repeated his offer of a No-War Pact in order to foster a congenial climate for direct talks. Pakistan has yet to reciprocrate that gesture. There can be no solution to the Kashmir problem as long as Pakistan insists on a plebiscite while still in illegal occupation of parts of Kashmir and while Karachi continues to expand her military strength through external aid. Experience is strongly in favour of direct negotiations. But is Pakistan willing to hold direct talks?

Uneasy Nepal

IT would be rash to blame politicians or the King or the administrative system alone for Nepal's political instability. There are political parties in Nepal. But the party system of government has yet to take its roots. There have been suspicions that the King may have occasionally shown inclinations to bypass, if not to violate, the principles and conventions of constitutional monarchy. But these suspicions lack any firm evidence or confirmation. It is inevitable that, in a country like Nepal, the administrative structure will be weak as well as without initiative. But events have occasionally indicated a hidden hostility between the political parties and the tradition-ridden administrative system. Dr K I Singh's resignation is reported to be due partly to his differences with the King on certain basic administrative issues. There are some royal nominees and associates of the old Rana Regime in key positions in the administration. It is natural that Dr Singh or any other party leader will resent this class. But this is a problem which can be settled easily once the relations between the King and the political parties are firmly based on normal, democratic conventions.

Dr Singh is out of office. But the King has not yet made any move to initiate the formation of a new Ministry. Could it be that the King is unwilling to invite Dr Singh's political opponents to form a Ministry as the latter will again try to restrict the King's powers? For too long, a general election has been postponed. There is a popular agitation, backed by Dr Singh's political rivals, for hastening the general elections. This is the main political trouble in Nepal. Only after a general election can it be known which political party has the maximum support of the people. Like the administration, Nepal's political parties are not yet mature or cohesive. But democracy can only thrive through trials and errors. General elections are the only means by which these experiments can be made. No doubt, the King has reasons for suspicion about the integrity or stability of the country's politicians and political parties. But the underlying animosity between the King and the political parties will have to be eliminated if Nepal is to march on the democratic path. Each must accommodate the other so that democracy, under a constitutional monarchy, may be securely based. Both owe a responsibility to the people to cooperate with each other so that the country and the people can enjoy the benefits of a stable, progressive, democracy.

Britain's Delaying Tactics

TWO years ago Malta declared her willingness to integrate with the United Kingdom provided the islanders were assured of the full rights of citizenship and provided also that Britain undertook to provide the social services in Malta on the same level as in the present British Isles. The British Parliament accepted the principle of Malta's integration with the United Kingdom. At the round table conference held in London in December, 1955 an integration plan was drawn up. This plan envisaged the sending of three representatives from Malta to the Parliament at Westminster; a new constitution for the island of Malta; and also new long-term financial arrangements. The plan was debated in the House of Commons.

Since then negotiations have gone on and on, and the latest series of talks ended in London only on November 8. Before the latest series of talks began, Mr Dom Mintoff, the Maltese Prime Minister had expressed his deep sense of dissatisfaction with the pace of integration talks and hinted that Maltese patience might soon be exhausted and they might have to reconsider their two-year old offer of integration.

The Maltese insist that as part of the integration plan they must be guaranteed 'economic equivalence' with Britain. The British stand is that while they accept 'economic equivalence' as an ultimate aim, it could not agree to the proposal that equivalence should be guaranteed within a stated period. The refusal on the part of the Britisth Government to agree to a date-line for the attainment of economic integration naturally breeds suspicion in the Maltese mind, especially now when in terms of the latest global defence strategy of the Western world Malta does not figure so prominently as she did two years ago, or even until much later when Malta was used as the base for the Suez operations. In fact a suspicion is entertained in some quarters that Britain today is not very keen on integration and is marking time for an opportunity when the idea of integration can be wholly abandoned.

Industrial Production

THE experience of the past few years indicates that the general index of industrial production in the country reaches a peak in the month of June and then there is a sharp fall in the general index. But this year the general index has not fallen as abruptly as it used to in the past few years. This fall in production in the months of July and August was mainly due to the seasonal pattern of production of some of the industries. Last year the general index fell sharply from 100.3 (1951 = 100) in June to 153.1 in July. This decline was accounted for to a large extent by a fall in sugar output which declined by nearly 1075 points in one month. Vegetable oil products and soap were some of the other industries in whose case production declined considerably in July 1956.

This year we observe that the peak reached in June was not so high as that reached last year. And therefore the drop in the general index in July, 1957 was not at all abrupt. The index fell from 168.4 in June to 161.5 in July. Sugar production while in June, 1956 recorded an index number of 1664.4 could register an index of only 1090.2 in June, 1957. And while the decline between June and July 1956, was of 1075 points, that between June and July, 1957 was of 290 points only. This only means that the sugar-production period this year got extended. In the case of vegetable oil products (vanaspati) although as in 1956 there was a fall in production in July 1957 compared to June, 1957 the actual level of production in both June and July 1957 was higher than last year during these months.

The other important industries whose production in July, 1957 declined compared to June, 1957 are: coal (3.7 points), iron ore (20.2 points), salt (26.4 points) paints and varnishes (18 points) and ceramics (15.5 points). At the same time, improvement in production indices was registered in industries such as cotton textiles (7.2 points), jute textiles (4.2 points) rubber products (11.7 points), chemicals and chemical products (12.5 points) and iron and steel (3.2 points).

A Century of Progress

THE future of private enterprise in India can be considered bright so long as it can count within its ranks dynamic and forward-looking individuals and business houses. There is no doubt that the House of Killick which is celebrating its centenary this week belongs to this class. The existence of the House dates back to hundred years ago when it started as a purely British enterprise. Now, the majority of shares in the concerns owned by the House of Killick is held by Indians, but the British participation does remain to some extent—and to good purpose.

The interests of the House of Killick extend over a fairly large number of diverse industries like cotton and silk textiles, electricity generation and supply, manganese ore, coal, cement, and light engineering. This is apart from the fields such as shipping, import and service of machinery and consumer articles, lubricants etc in which subsidiaries of the House of Killick are operating.

The wide field which the House covers today was not attained in a day. It is the result of a continuing attempt to advance in whatever field there was found scope. The two spheres to which the House of Killick seems to have devoted particular attention are electricity generation and light engineering. At its industrial estate at Chandivli, near Bombay, which bids fair to become an important industrial nucleus, the Company is already manufacturing steel files, while manufacture of varied products such as nuts and bolts, dogspikes and coach screws is being planned. The record of the House of Killick so far clearly indicates that it will continue to play an important role in the industrial expansion of the country.

Leave it to Eve

IN the course of the debate on the Navy Bill in Parliament last week, there was a lively discussion on the question of whether women should be admitted to the armed services and particularly the Navy. A spokesman of the Communist Party, which had suggested that there should be no bar whatever to members of the fair sex joining any branch of the active service, said that the presence of Eve was likely to foster greater efficiency and discipline without causing 'any disturbance'. To this, Shri Jaipal Singh, of the Jharkhand Party, retorted, "The men of our Navy will certainly welcome the fair sex. But it won't add to the efficiency of the Indian Navy, certainly not on the high seas."

Anyway, the fact remains that though women have successfully stormed and seized bastion after bastion of male privilege in recent years, they have not yet cast their eyes on the soldier's or navy man's uniform except perhaps in a purely matrimonial sense. Being the shrewder of the two sexes, they ought to know better than mere men why they should have stopped short of the armed forces in their inexorable march to complete equality. All one can venture to say at present is that it is perhaps good that they have done so—good both for themselves and men, and, more than all, for the preservation of the human race, which, even without women getting into the uniform and brandishing anything more lethal than an occasional hair-brush or rolling-pin, is in enough danger.

The House of Killick Bombay 1857-1957

A Calcutta Diary

So Many Oliver Twists !

TWO blows in a week, and West Bengal is very very unhappy at the moment. In spite of inspired "feelers" sent down earlier from Darjeeling, the Prime Minister's Lok Sabha announcement that India could not receive refugees from East Bengal for all ages to come, came harshly. What had hitherto been regarded as an exploratory move has now acquired a measure of unbearable finality, although the Prime Minister's statement was far from decisive; at least, he did not name a date after which there would be no more refugees. This question has been dealt with earlier in this diary, and there is little to add, except that the ten years old whine has become a little more strident with every promise to be shriller as the Government moves towards a decision. It is a painful problem, and no decision is going to be painless.

If the dissolution of the refugee problem—for a solution seems impossible—is only a possibility, the award of the Finance Commission is a matter of fact here and now. The objections of West Bengal to the award are not all invalid: since the Santhanam Commission was guided by a multiplicity of principles rather than by one, the report was bound to be vulnerable. Before undertaking an examination of the West Bengal case it had better be stated rightaway that it was not given to the Commission to produce a report which would make every State happy. West Bengal's unhappiness has by now reached a chronic stage, and everything serves to make it acute at intervals. Dr Roy held hurried consultations with his secretaries—meaning, with himself—and is already on record with the view that West Bengal is profoundly dissatisfied with the award. He then took off for New Delhi to make himself heard. He will be, without necessarily effecting a change in anything.

* * *

A recital of West Bengal's woes (many and real) always prefaces and concludes every representation to the Centre from Calcutta. But let us go on to the objections in principle which have been raised by West Bengal. Allocations from the divisible pool of income-tax have been made more on the basis of population than on that of derivation. That this hurts West Bengal may not be regarded by everybody as the final and irrefutable condemnation of the principle, although the fact that it hurts is not to be denied. That the principle of derivation would mean deprivation of the industrially backward areas of all funds for development is not to be doubted for a moment but, when West Bengal itself is none too solvent, the State is to be forgiven for not being more generous to the others. There is the final argument that, if West Bengal is to get less because of its being relatively less populated, surely, it is being punished for that for which it ought to be rewarded.

The dispute over West Bengal's grant-in-aid in lieu of the jute export duty is an old one, and here too the complaint proceeds from the fact stated above: West Bengal hasn't enough, and so can afford to spare nothing. There is a great deal of truth in the contention, but it does not begin to answer the question just who is going to pay the Centre and who is going to sacrifice a part of the present for investing in the future. Sitting in Calcutta, where prodigious poverty is in a posture of perpetual striptease, one does not even ask the questions. One's own misery can be a full-time obsession, always is, leaving very little time for thinking about others.

* * *

Of course the very dichotomy between oneself and "others" is a false one in the context of India's economic effort. Has not the Prime Minister said more than once that nobody lives if India dies? How true! But Bengal is not left without an answer. Very well, Bengal can say, what is needed is India's economic advancement in the shortest possible time with meagre resources—and to h—l with regional claims. If that were the only consideration, there would be very good reasons for taking the fullest advantage of the existing industrial resources of the Calcutta area. And it can be shown that a steel plant, or what have you, can be established more cheaply and quickly in an area already urbanised and industrialised than in a backward State. (That bogey of overconcentration of industries in particular areas is so much nonsense: no area in this country has yet reached anything like over-concentration.) Why then punish West Bengal and Bombay? Why make steel plants where there are no rails, oil refineries and where there are no roads or a port?

The reason, Nehru knows, is that no State, repeat no State, has yet developed that all-India attitude which, at intervals, this or that State is accused of not possessing. What Nehru may or may not know is that his own Government is in part responsible for the rampancy of regionalism. The Centre has never been firm enough, even as firm as was possible in spite of the federal, democratic structure. Deficit budgets from the States have been accepted with pained resignation, the biggest industry in the country (agriculture, in case you don't remember) remains largely untaxed, and available revenue has been thrown away for fads like prohibition. Economic development has never been given the priority it deserves—not even by Nehru. It is no use pretending otherwise.

* * *

Everybody asks for more because everybody has too little. Everybody will go on having too little for a long long time to come because everybody is partly unable and wholly unwilling to think of the country as a whole. It may be convenient to blame West Bengal or Assam or Orissa or Uttar Pradesh by turns, but it gets us nowhere. The infirmity of the Centre is at the root, and we may soon have to admit that the dyarchy which now rules development has not worked too well. (In the case of the Damodar Valley Corporation it is triarchy, and no wonder no further work is done.)

Political odds may be too great, even for Nehru to face, but if there is going to be rapid industrialisation there will have to be a single agency for it and with unlimited authority. The Americans are now talking of a Czar for missiles and a "crash program" for moons. The moon we are trying to get to—a little more

food, a little more cloth and a roof overhead—will remain unreached until we make as determined an approach. The question whether this means the abandonment of democracy has already been answered in the American use of the term "Czar" which has been quoted above.

—Flibbertigibbet

November 20.

Boeing 707 Jet Stratoliner

THE first of Boeing 707 Jet Stratoliners was completed last week. Preparations are now under way for the first flight of this plane, which its manufacturers, Boeing Airplane Company, claim to be the largest and fastest airliner in the world. The Stratoliner, which is of the same type as the 707's ordered by Air-India International, can take upto 150 passengers and cover a distance from Bombay to Rome in a little more than seven hours as against nearly 13 hours on other planes!

The Boeing 707 Jet Stratoliner, weighs 2.48 lakh lbs fully loaded. To date, 151 Boeing 707's have been ordered by 13 leading world airlines—an achievement of which the company is justly proud.



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From the London End

Africa's Crisis Centre

THE South Africa of Mr J Strydom now sits heavily on the time-bomb of tension. The lessons of history have been wholly ignored. General J C Smuts, a somewhat sophisticated apostle of white supremacy, had in his last days come to regret "the creation of the South African race question" after he himself had pursued for a whole generation a combination of policies aimed at placing four-fifths of South Africa's population in a state of permanent inferiority. He had, at last, come to see the consequences of those policies—the race tensions it generated and the prospects it gave for a major social and political conflict in which the whole edifice of race segregation would crumble with an appalling loss of life. These prospects are now certain. The doctrine of apartheid has now been applied to every sphere of South African life—it governs the whole fabric of South African society and the African masses now find that to improve their lot they have no option but to bend their efforts towards destroying the fabric itself.

Apartheid in Law

The act which has given South Africa a new critical turn is the Government's instruction to the clothing industry to henceforth employ only white or "European" workers in all manipulative and mechanical work. This is the first of an intended programme of expelling African employment in secondary industry with a view to reserving all industrial occupations for white workers. Immediately prior to the issue of this instruction, the Government mobilised aircraft to disperse a crowd of African women who were protesting against the law requiring them to carry identity cards —a law supplementing others, all designed to remove the African population from the urban areas, and to drive them into finding employment on the European owned plantations and in the gold mines. There already stands on the South African statute books the following pieces of race legislation:

The Group Areas Act which zones South Africa in residential areas for each of the races and which excludes African and Indian residence directly in the towns and other manufacturing and trading centres.

The Bantu Education Act which brings the whole purview of African education within a restricted syllabus of instruction designed to inculcate in the African child an understanding of innate inferiority and of "living a life of service to his superiors."

The Industrial Conciliation Act which debars African trade unions from the wage negotiating machinery set up for European trade unions and which makes African trade unions illegal in certain industries.

The Suppression of Communism Act which gives such an impossible definition to the term "communism" that even clergymen who have the courage to preach their Christian principles stand to be "banned" and tried for treason.

The University Education Act which excludes African students from attending the two remaining universities which have hitherto been admitting them.

The Native Laws Amendment Act which makes illegal mixed racial gatherings whether in church or elsewhere.

The Mixed Marriages Act which aims at maintaining the "race purity of the European."

This is by no means all. There are laws providing arbitrary powers to Ministers of the Government to deport, expel or imprison persons, to declare martial law, to remove whole communities from one area to another, to raid and confiscate the property of political organisations and trade unions, to remove and appoint judges, to ban newspapers and a whole variety of laws in the field of human control. Indeed, it can be said with confidence that South Africa has committed more legislative monstrosities in matters of human persecution, control and direction than any other country in the world. It is also true to say that South Africa, without parallel again, treats its racial laws very seriously; in a word they are implemented with a zeal that makes the Nazi preoccupation with these matters pale into insignificance.

Economic Strangulation

The current instruction to the clothing industry possesses a meaning all of its own. The South African clothing and textile industry is relatively large. It employs over 200,000 workers in an industrial working population of less than 3 million. By virtue of the "white labour policy" pursued by successive Governments since 1910 when the Union of South Africa was founded, employers in all industries were obliged to maintain a wage differential as between their European and African employees. This differential directed at favouring the white worker was aimed at enabling the European to enjoy an economic status and a standard of living which would sufficiently project a gap in the relative political and social stations of these two main racial groups. In this way "white supremacy" was ensured, or so it was hoped. Certain industries, particularly those capable of rapid technical development and automation, found such a requirement rather expensive. These industries, and clothing has been in the forefront, therefore tended to reduce their intake of white labour and increasingly employed African workers who at a lower wage rate were found to be about as adept and productive as any other class of workers. Thus while in pre-war years no more than about 30 per cent of the total labour employed in the clothing industry was non-European, the proportion today is about 75 per cent. Taking the whole of privately owned secondary industry, the non-white component of the labour force today is about 74 per cent compared to 58 per cent in 1945. This trend is, of course, wholly explained by the differentials in wage rates of the two racial groups. In 1955 the per capita (annual) earning of the white worker in South African industry amounted to £ 640. That of the non-white worker was £ 140.

The tendency towards urbanisation in any community is an index of the rate of economic development. In South Africa this tendency has been inhibited by a purposeful policy of racial segregation and of stifling the growth in the living standards of four-fifths of the total population. And yet the African influx into the towns has continued steadily. The desire to find factory employment, to be associated, both in an economic and social sense with more advanced forms of pro-

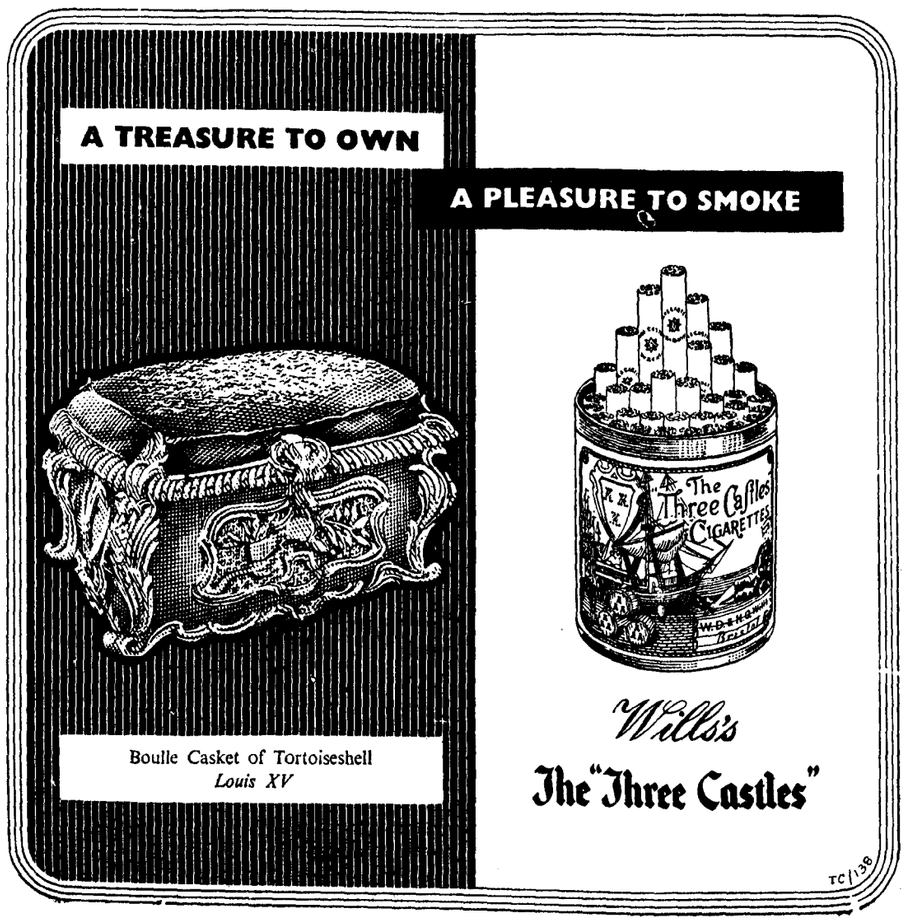
duction has gone on in spite of desperate pieces of legislation that were being pushed in the statute books by an all-white Parliament. This urbanisation has been assisted by another factor which explains more than anything else the utterly ludicrous mentality of the European rulers. The Europeans themselves cannot live—and live at their present income levels—without the African. It is the values created by the exertion of African labour that the European consumes, or which enables him to earn on average some five times as much as the average African. Thus, willy-nilly the wants of the two million Europeans are forcing through the urbanisation of the African. The South African paradox is therefore explained, in large part, by the schizophrenic complex that pervades the outlook of the European.

Treason Trials

The background to the present crisis is amply demonstrated by the great "Treason Trials" which are taking place in South Africa. Some 156 African, Indian and European citizens of South Africa have been on trial in a specially constituted court of law on the charge of high treason. It is difficult to refrain from commenting on the course of the trial. Those charged are officials or members of various non-white organisations and trade unions who have made attempts in an all-too difficult environment to make the lot of the Africans and other coloured peoples a less onerous one. The charge against them is one of conspiracy to subvert the established state; and the first six months of the trial were spent in the collection of evidence or the submission to the Court by the Crown of thousands of documents seized from the offices of various organisations and found in the possession of the accused. These documents were collected in a series of police raids over a period of years.

More recently, the prosecution called upon their witness, an "expert on communism", a certain Professor Andrew Murray, Professor of Philosophy at the University of Cape Town, to examine a number of documents and speeches of the accused and to say whether these indicated "communist tendencies". To Professor Murray, words like "exploitation" "oppression", "colonial", "liberation" etc, were usually indicative of communist leanings. In the course of cross examination by the defence counsel for the accused, this expert when asked to identify several passages from two ex-presidents of the United States, the poets Shelley and Milton, and from a book written by the expert himself, charged all these passages as being of a "communist character"!

It is on the evidence of such doubtful value that the supreme charge of high treason is being employed. The objective very clearly is to destroy the popular movements of African people.



Boulle Casket of Tortoiseshell
Louis XV

Letter from Paris

Parties and Classes in France

THE multiplicity of political parties in France is a source of despair to anyone who wants to take interest in French politics; it is therefore fair to the readers of the present series of letters that some information be given about them. This can be done only in one meaningful way, namely in terms of the class interests that the parties represent. If anyone wants to deny the importance of class struggle in the day to day political developments in France he may be invited to attempt any other intelligible explanation of French politics, of even such a short term period as, say, a month: it is a very safe bet to predict a complete failure. Any attempt to explain the governmental instability in France in terms of the rivalry of personal ambitions, any tendency to compare the fluidity of the French political scene with that in Pakistan or that in the Latin American states is bound to lead to fatally erroneous results

What is the peculiarity of the socio-economic situation in France that makes its politics apparently so much more instable than that of the Anglo-Saxon countries, and yet, according to our affirmation, different essentially from the politics of such countries, as that of Latin America? It is as follows. On the one hand, France is on the socio-economic plane more evolved than the Latin American countries, but less so than the Anglo-Saxon countries; on the other, political consciousness is very much more developed in France than in either of the two groups. Because French society is less evolved socio-politically, there still exist in it many more distinct and sizeable classes and subclasses with heterogenous interests than in the Anglo-saxon countries. Because the individuals belonging to the different classes are extremely politically conscious, they know better than elsewhere to defend their economic interests with the help of political weapons. In so far as they succeed in doing so, they in their turn further retard the process which steamrollers over the differences between the several classes and sub-classes and produces sharp polarisation in the society with a few large and well-defined classes. If the game of party politics in Great Britain takes the smooth appearance of a game of cricket, that is firstly because the society being more evolved, polarisation has proceeded faster; and secondly, because of the very fact that politics in Britain are really considered to be a game of cricket even the notion of class struggle is considered un-British. This, of course, has permitted in its turn a smoother passage to the process of polarisation itself. On the other hand, both political consciousness and socio-economic evolution being less evolved in countries of Latin America, multiplicity of classes continue to exist and yet class war does not play as important a part in politics there as in France, governmental instability arising mainly from personal opportunism and clashes of interests among different sections of the same ruling class.

Class War—a Pre-Marx Concept

Clashes indeed exist everywhere, but the mere existence of class differences do not give rise to class struggle. The Indian society with its caste system provides an example of privilege differentiation incomparable in history in its unfairness; yet for centuries there was hardly any "class struggle" (or rather "caste struggle") in our idyllically peaceful village communities. It is not sufficient that there are class differences; it is also necessary that the individuals belonging to the different classes be class-conscious. For good or bad, the French people are highly class-conscious and recognise class war as a everyday reality. And it is not a new thing, nor does it date from Marx. For, contrary to popular notions, 'class-war' is not an idea invented by Marx, though undoubtedly he sharpened it and developed it. The notions have existed in France from very much before Marx and, at present, form an important part of many schools of French historians and sociologists, by no means Marxist. Why political ideas as well as political consciousness of the masses in terms of classes should grow faster in France than in Great Britain where society has evolved at a faster rate is, however, difficult to answer in a simple way—it remains one of the most interesting questions of history. (The interested reader can form an idea as to how much the development of political thought owes to France from the fact that such well known words of everyday usage as Socialism, Socialist, Communism, Communist, Red —to designate revolutionary—, leftist, rightwinger, etc, originated all in France and all in pre-Marxist days.)

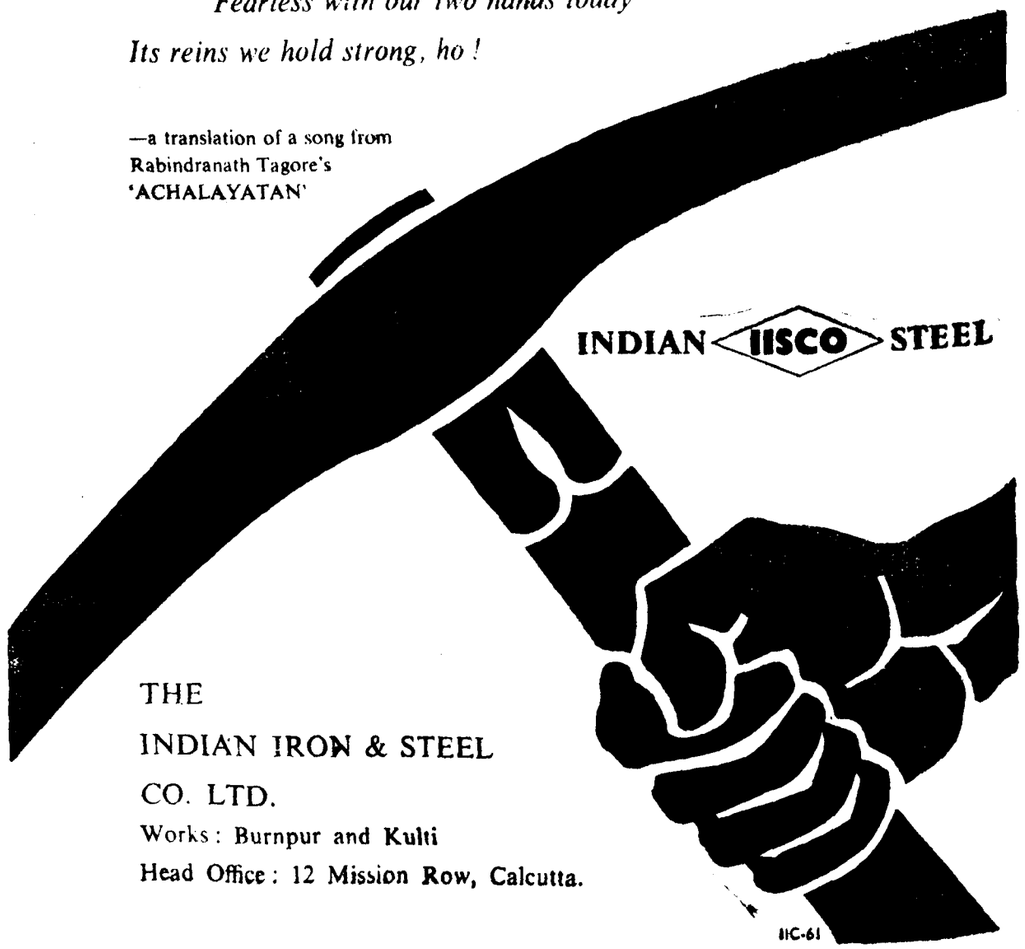
Accepting that political developments are to be viewed most fruitfully in terms of class struggle, we have to treat party politics in a politically conscious society as a reflection of this struggle. An analytical study of parties from this point of view is, however, rendered difficult by lack of appropriate statistics as well as of methodological tools. Treated as a respectable subject for academic research in very few countries, there is very little material to work on. One can take two approaches. One can collect and analyse numerical data as to the composition of voters, members, supporters, etc, of the different parties. This will give certain indications, but by itself cannot go very far. For excepting the parties which openly declare themselves to stand for certain class interests (e g, the Communists and the Poujadists in France), it is difficult to estimate the class character of the interests a party stands for from the class character of its supporters. Naturally the parties try to get as many votes as possible and represent themselves as standing for the true national cause; and naturally also they manage to dupe a substantial number of people who are not conscious of their own class interests. A surer and more objective method is to study minutely the politics that have been pursued by each party over several years and try to see what particular class or alliance of classes have benefited from them. This, of course, requires very long and careful research.

The analysis contained in this dispatch uses, as far as possible, both the approaches; it goes without saying that it is not based on any really thorough-going research work. It is further pointed out that it is not possible, except in very detailed studies, to take into account all the factors that might make individuals and classes act differently from what would strictly conform to their interests. Thus one such important factor in France is the negative one

162697

The hard iron lay dead in slumber deep
And we stirred it to life, ho !
In the dark depths of a million years it lay hid
And we stirred it to life, ho !
Tamed by our strong hands
It sings to the tune we call.
Its silence of long years have we broken, ho !
The dead doth stir with new life today
And rushes forth the wide world to conquer.
Fearless with our two hands today
Its reins we hold strong, ho !

—a translation of a song from
Rabindranath Tagore's
'ACHALAYATAN'



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of fear of communism. This does not play any part either in India or in Britain (excepting, in the second case in foreign political matters) but is very important in France. Thus, big capitalists, the petits bourgeois and the white-collared workers might make large mutual concessions to ward off the common danger of communism. Then again religion plays a very important part in French life, and this inevitably clouds the class character of the parties.

We are not in a position to give a complete analysis of the class composition of the French society. We shall assume without discussion that the most powerful class economically is the one of the monopoly capitalists with international links. It is they who set the trend, so to say, of national politics. The interaction of all the other classes produce what may be called fluctuations about this trend. Of these other classes we shall mention only two which play rather special roles in the French society—peasantry and the petits bourgeois.

Peasantry and the Petits Bourgeois

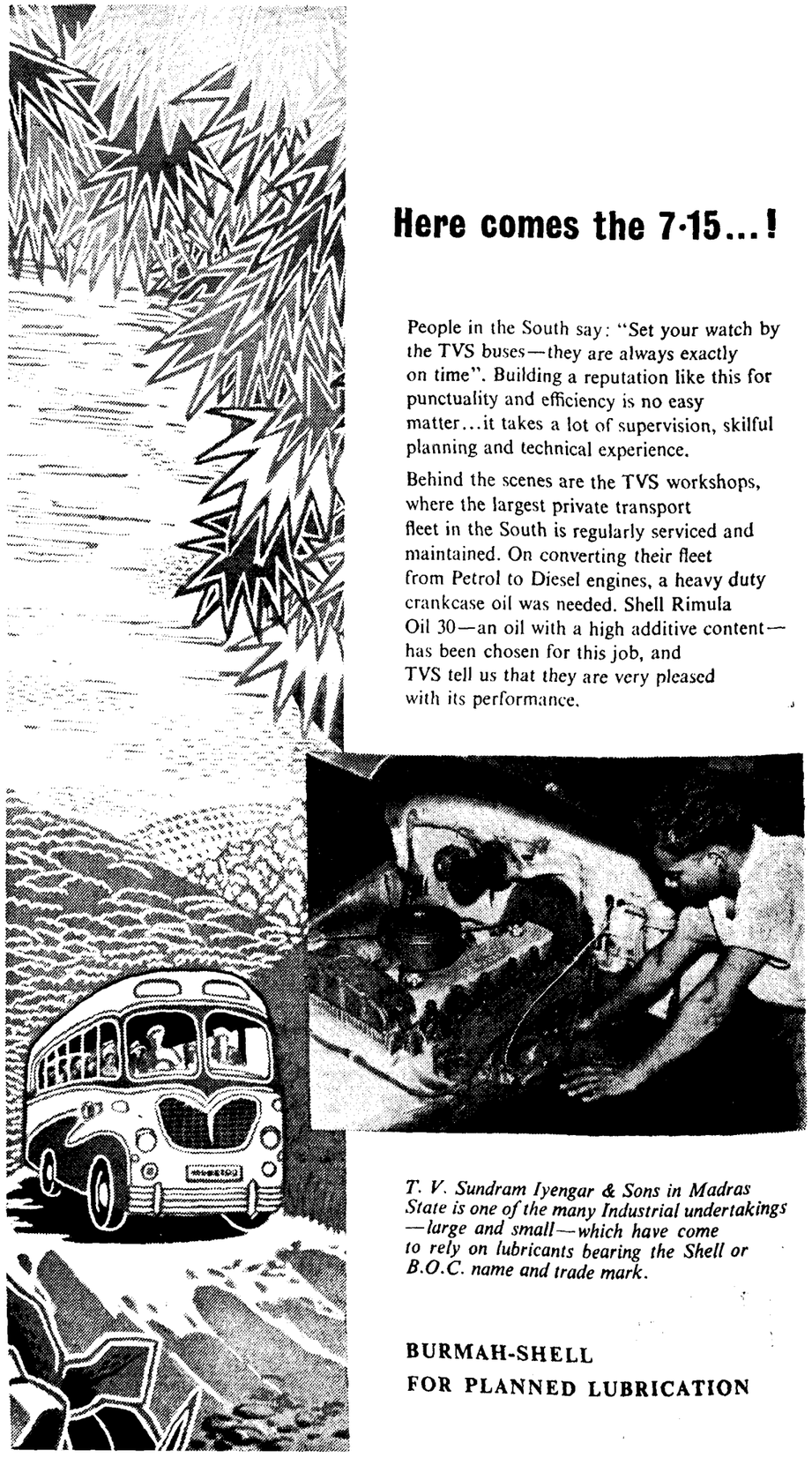
France is still a very important agricultural country; 35 per cent of the working force and 21 per cent of the national income are accounted for by agriculture. The peasantry was totally freed from feudal obligations at the time of the French Revolution which also proclaimed the principle of universal suffrage. Landlordism was thus abolished at one blow and at the same time the peasantry acquired political means of assertion. Universal suffrage was suppressed and revived several times during the course of the 19th century and became really effective during the Third Republic. A very important fact remains, however, that while the nobility had not done much by way of concentrating land and starting large-scale farming—as it did in England through enclosures and other measures—before the Revolution after it the peasants zealously guarded their newly won land and freedom so that the process of concentration could not take place on any significant scale. Herein lies one of the chief internal causes of the backwardness of French capitalism in comparison with British capitalism; the chief external cause being the defeat of France in the competition with Britain in colonial expansion.

France today is a country predominantly of middle-sized peasant proprietors, really big farms being comparatively rare. Leasing out of land plays a considerable part but is not a dominant feature. There is considerable communist influence among the agricultural labourers and, to some extent, among the smaller proprietors. Not much is, however, to be expected from the middle-sized owners for very obvious reasons: amongst no other class is the love of property so deeply entrenched as among peasants and this is true all over the world. If the peasants could organise themselves into a single party they could wield a dominating power over the national life; they are, however, incapable of doing it, partly because there are class differences within their own ranks and partly because they are probably sociologically and psychologically unfit for such a role. Traditionally narrowminded and shortsighted, they are not interested in national questions not affecting them directly. While there are indeed some direct peasant representatives in the Parliament, they usually make their influence felt indirectly through other rightwing parties. They might be accused of being quite unscrupulous as to what party they support as long as the party concedes to it their limited claims. In this, however, the peasantry does not act as a class. The peasants of a particular region might vote for a right wing candidate of any party whatsoever as long as he promises to satisfy them on some of their local grievances. This permits the national parties of the right wing to obtain a large number of votes on the basis of separate regional deals.

Another class, classically reactionary, that continues to exert a great influence on French politics is that of the petits bourgeois. As a class they are negligible in Britain and their political weight there is nil. In France, however, they continue to be an important class economically, because, as has been said earlier, they had the political means of slowing down the process of monopoly concentration; and since their survival depends on their political and not economic power, they continue to be very vigilant and very jealous of their position—which is perpetually precarious. Participants in the French Revolution, with political power as well as political education coming to it as a sequel to the Revolution, this class cherishes in its bosom only one of the liberties promised by the Revolution—that of property. This class, not too feeble numerically, is perhaps the most anti-communist section of the population, and like the peasantry, constitutes an obstacle in the paths both of the growth of monopoly capitalism as well as of the progress of the society towards socialism; for on the one hand it handicaps faster accumulation of capital, and on the other it retards the proletarianisation of the population. It must, however, be noted here in parenthesis that this state of affairs, however backward from the overall social point of view, accounts for much of the charm that there is in French life. If French food, French crafts, French services and French taste in every thing is a source of joy and admiration to foreigners, that is because they still carry the marks of careful and skilfull individual attention. Retail trade, laundry, bakery, restaurant services, even entertainment trades like the cinema, which have long undergone centralisation in most of the advanced capitalist countries, are run in France in very small units, often on a family basis.

The Communists

The Communist Party, being the largest single party, is customarily treated first. It is, of course, not necessary to discuss its ideological aspect. It is generally recognised as the only party representing exclusively the working class. According to a sample survey, however, it received only about 48 per cent of the working class votes in the 1951 elections. The remaining working class votes were distributed among the different parties in an unsystematic way, so that no other party can be credited with any particular working class support. Thus the Socialist Party received only 15 per cent of the working class votes. If, however, the Communist Party were to depend only on working class votes, it would not be such a big party. As a matter of fact, of all the votes it received only 38 per cent was from the working class (defined so as to exclude white collared workers as well as Government servants including workers of nationalised factories); 8 per cent of the votes received came from agricultural labourers and 5 per cent from peasant proprietors. It naturally receives also a sizeable pro-



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portion of the "middle class" vote, though there it is highly dependent on the socio-professional groupings of the middle class. Thus, the teaching profession is traditionally leftist, while the liberal professions are, equally traditionally, on the Right.

The influence of the Communist Party is, however, very much more than the above figures would suggest. It controls the working class movement through the trade union organisation, C G T. This is the largest trade union of the working class, and is supported by the great majority of the workers. The workers who subscribe to this organisation are not all followers of the Communist Party. There are several rival trade unions, but they are not of comparable strength. In the 1956 elections 25 per cent of the total votes were gained by the C P.

The Socialists

The Socialist Party's ideological characteristics also do not require any introduction, knowing that it is the party which was in power during the Suez mis-adventure as well as the greater part of the life to date of the war in Algeria. Like many other so-called Socialist parties of Western Europe it has no programme for nationalisation. Some institutional reforms, some social services is about all it stands for. Historically the party dates from the time of the Second Workers' International. It became very weak after the secession of the Communists. It gradually recovered strength, so much so that a Socialist leader, Leon Blum, headed the National Front Government in 1936. It came out of the war relatively strengthened but has been losing supporters ever since. It has now only 40 per cent of its voters since the war, and enjoys 15 per cent of the working class votes—it depends only to the extent of 21 per cent on them for the remaining 76 per cent of its voters come mainly from the middle class.

Its influence on the agricultural population is not very strong. It is predominantly urban. That the party presents more the middle class than the working class is shown clearly through its trade union activities. Its trade union organisation, F O, tries hard to break the communist hold on the working class, but has succeeded until now only to entrench itself among white collared workers and Government employees. Apart from Mollet, Pineau, Lacoste, Moch and Ramadier are the big names of the party.

In fairness to it, and in view of its record in the recent past, it should be mentioned that there is a growing opposition inside the party against its official policies. In the last election the party gained 15.5 per cent of the total votes.

The Radicals and Other Centrists

There are a large number of deputies in Parliament who find themselves loosely in centrist positions and who play a very important part in French politics without being under the discipline of any single party. They play an important part firstly because there are to be found among them many of the most important as well as popular personalities, and secondly because their very centrist position makes them strategically important in the parliamentary arithmetic. Right now the ministry that is in power, that of Gaillard, is headed by the Radicals. Radicals constitute the most important section of this amorphous grouping. The Radical party is the oldest amongst the existing parties—(counting among its ranks such notabilities as Mendes-France, Daladier, Herriot,—now dead—,Bourges-Manoury, the latest ex-prime minister, etc); it is, however, hardly a party any more. Like the other groups of the centre, the members are really linked together by a common tradition and by a common attitude; the individual members vote and behave in an absolutely independent manner.

The other groups are even more diffused, though no less influential in terms of personalities. (Thus the little group UDSR includes two important politicians, Pleven and Mitterand.) None of these groupings have any mass basis at all. The Radicals may be described as representing the interest of the middle and to some extent the petits bourgeois. It enjoys the votes of peasant proprietors in the villages and of the liberal professions in the towns.

Its supporters are on the average older than those of other parties and there is a strong proportion of rentiers and pensioners among them. It is difficult to speak of the programme of the party for it represents only an attitude—comparable, in a way, to British liberalism.

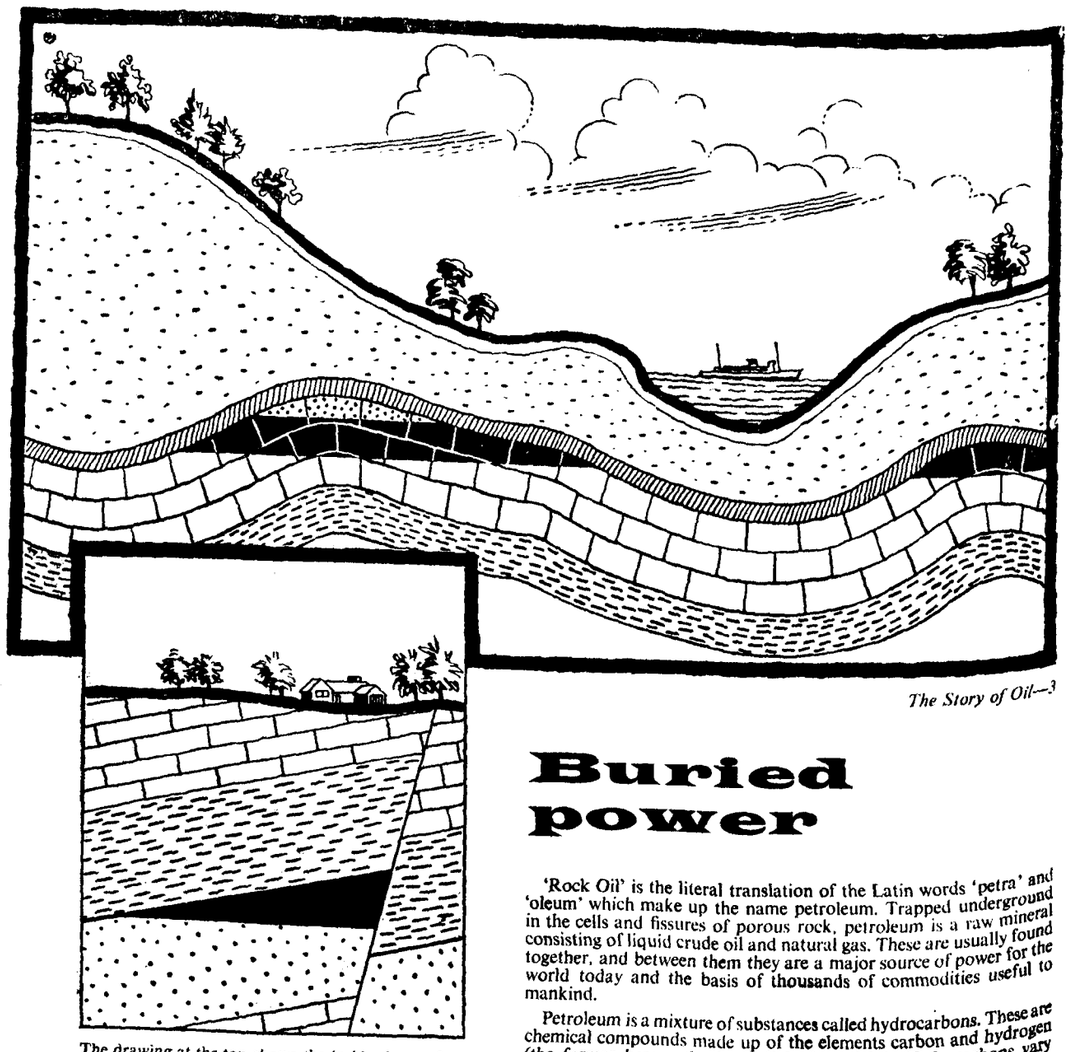
The M R P

The Mouvement Republicaine Populaire is a party dating only from the war. The older Right wing parties being all discredited during the war, there was immediately after it a political vacuum in France to the right of the Communist and the Socialist parties. The M R P benefited from this situation and emergeed as the single largest right-wing party. In course of time however it became more and more reduced, being unable (as it is a disciplined party as understood elsewhere) to accommodate all the diverse tendencies that began to reappear. It is again difficult to describe the class interests it stands for; for, of course, it denies to be at all a class party and its supporters and voters are a very mixed lot indeed. This is particularly so for a special reason: it is also a Catholic party. As a matter of fact it may be more or less right to say that it represents the same classes as the Radicals excepting that while the Radicals enjoy the votes of the anti-clericals, it gathers round it those who belong to the Church. In the last election the M R P received 10.6 per cent of the total votes.

Moderates and Independents

The "Independents" is the name of a party, now third biggest, which was formed only before the last election from a large number of deputies who were called the Moderates and who were, like the Centrists, grouped in a very diffused way to the right of the M R P. The 'Moderates' are as a matter of fact even less a party than the Radicals, for they do not have any membership at all. It is a purely parliamentary organisation. That does not however mean that it is also diffused in its cohesion or the interests it stands for. It frankly proclaims itself to be a conservative party, and from its policy declarations as well as its politics it can be deduced that it is the party that represents the interests of the big bourgeois, the monopoly capitalist. The class character, however, is not purely and simply so: it also represents an alliance between the big bourgeois and the the highest rung of the peasantry.

As a matter of fact there is a group among the Independents who call themselves Independent Peasants. The basis of the alliance to some extent is the extreme reaction the two classes feel with regard to



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Despite popular belief, this petroleum does not collect in large underground pools. If it did, exploration and discovery would be comparatively easy. Instead it lies, usually with a quantity of salt water, in layers of solid looking porous rocks closed in by walls or caps of non-porous rocks which prevent it escaping. There are three main types of oil trap—the 'anticline', an arch-shaped upward fold in the earth's rock layers; the 'fault', or fracture in the earth's crust whereby a non-porous layer has slipped to cut off a porous layer; and the 'stratigraphic' trap, where because of changes in the type of rock a porous layer becomes sealed off by non-porous rocks.

Thus, when geologists begin their search for oil, they start with the knowledge that certain types of rock formation are more likely to yield oil than others.

The drawing at the top shows the inside shape of an *anticline*. Compression has buckled up the earth's crust, squeezed it into these folds. The other illustration is of a *fault*, a dislocation in rocks. Two sections of the earth have been forced in different directions until they cracked, slipped out of position, and upset the alignment of all the rock strata involved. The black section indicates oil-bearing rock.



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all leftist and even liberal ideas and it is further cemented by economic links between them as suppliers and consumers of agricultural raw materials.

One of the most interesting questions to ask with regard to this party is: Who are its voters? For numerically the people belonging to the classes represented must be small. The answer is not easy to give. There are those belonging to all levels of the society who are conservative in outlook by upbringing and who would like to see a solid conservative party ensuring the ancient foundations of the society and the Christian values they embody; over and above them the Independents go about their vote-catching business in a shrewd, systematic and practical way. While it has not as a party any mass membership at all, it assures itself in each district the support among the local "notables", e g, people occupying influential administrative or other positions through separate deals with each of them. It is through these local 'notables' that the party reaches its electorate. It is the influence of the local upholder of the conservative values added to economic concessions made to sections of the local population negotiated through the same notable that brings votes to the party. The party naturally includes many of France's best known politicians, e g, Laniel and Pinay. In the last election the party gained 97 seats in Parliament.

The Poujadists

Last but not least, the party of Poujade. From out of nowhere it emerged in the last elections as one of the most important factors in French political life with 44 seats in Parliament. Very little need be said about its programme: it is all demagogy with no positive content. It is the political expression of the most reactionary social classes, the petits bourgeois on the one hand, and on the other, certain sections of the middle peasantry—classes which have to bear the brunt of the relentless process of polarisation that tends perpetually to obliterate them. Equally hostile to big bourgeois and the proletariat, and yet powerless, they express themselves in desperate manners and easily fall prey to fascistic ideas.

Fascism as a political force, however, requires more than this. While it bases itself on the exasperated petits bourgeois, the lumpen-proletariat section of the working class and the disillusioned sections of the other middle classes, and always has to rely on an army of adventurous and brainless goonda or Teddy-Boy-type of youth, it becomes really effective as a force when the Big Bourgeois decide in their own interest to finance it. Herein lies the crucial point with regard to the future of Fascism in France; while the forces and the agents who might carry the movement are all ready (and they have been ready for a long time, since the war at least), Finance Capital on the whole has not as yet decided to back it. The relations between the Independents and the Poujadists are not bad but they have not yet come to the point of amalgamation. Whether this will take place soon or not is a matter for conjecture. It should, however, be pointed out that Finance Capital will not make use of the fascist elements just for fun; it will do so only if it is likely to be of advantage to it. Now Fascism has very little chance of being nationally popular in France as it was in Germany and Italy. Apart from the force of traditions, one thing that cannot be ignored is that Fascism has become discredited in the eyes of the population since the war. A mental attitude, if sufficiently widespread, also becomes a part of the material environment and should be taken into account in any social analysis in terms of objective forces.

I C I Research

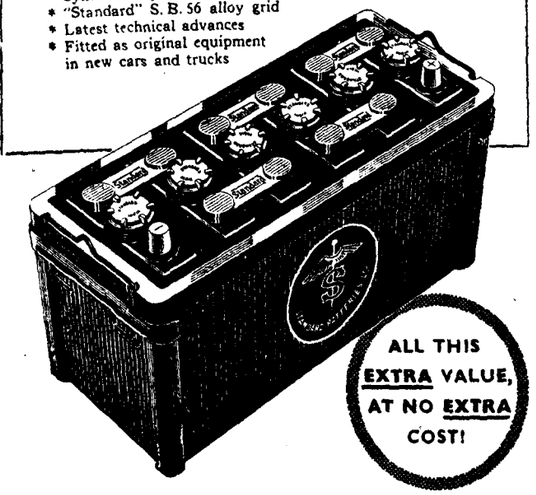
LAST month the new Pharmaceutical Laboratory of the Imperial Chemical Industires was opened at Alderley Park, Cheshire, U K. Costing nearly Rs 2 crores, it is perhaps the most advanced of its kind in the world. An interesting feature of the new laboratory is an isolated animal house which cost over Rs 32 lakhs. Here animals are bred free from natural disease, a constant source of trouble in research.

I C I research has already produced many drugs to combat disease; 'Paludrine' is the most well-known. But there are others: 'Sulphamezathine' an antibacterial 'sulpha', 'Antrycide for animal sleeping sickness, 'Mysoline' for epilepsy, 'Hibitane' an antiseptic, and recently an anaesthetic 'fluothane'—to mention only a few. Some 2,500 compounds are synthesised anually, but possibly only two pass into use each year after satisfying only the most rigid trial and experiment. Today, work is in progress on tuberculosis, 'polio' and cancer.

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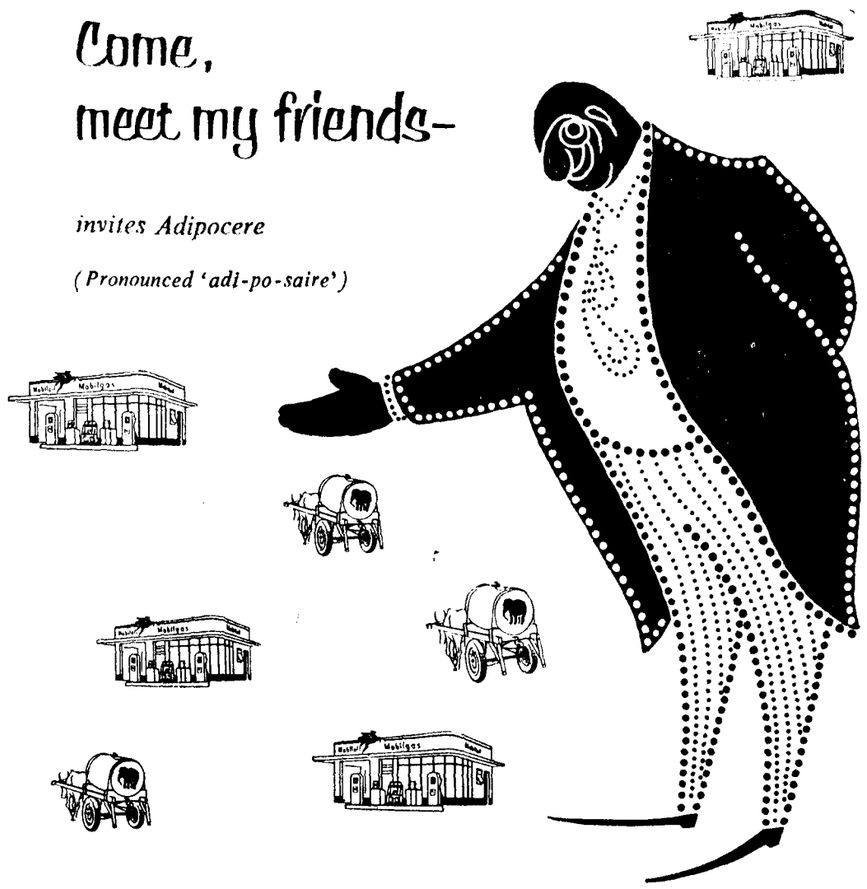
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PSSVOC—54/57

More on the Ambar Charkha

Amartya Kumar Sen

I READ with interest "A Note on Surpluses and Forms of Production" by Shri Amlan Datta (*Economic Weekly*, November 2, 1957) and "A Short Note on the Ambar Charkha—A Comment" by Shri D Shenoy (*Economic Weekly*, November 16, 1957). I shall try to examine in this note whether Shri Datta's and Shri Shenoy's comments on my treatment of the Ambar Charkha (*Economic Weekly*, October 19, 1957) are acceptable.

Amlan Datta's Objections

Shri Datta argues that "the marginal cost of employing labour in a family-based industry is next to nil: under the joint-family system, a family member has to be fed even when he sits idle, and does not have to be fed very much more when he is set to work." This seems to involve the assumption that the marginal propensity to consume of the joint family is negligible, so that even when its income goes up, thanks to the earning from the new family-based industry, it does not increase its consumption appreciably. I do not quite see on what grounds Shri Datta suggests this. I am even less sure how this assumption is reconciled with his suggestion that when a part of the rural unemployed population finds other productive work (not family-based), the consumption of the joint family may go up by the full amount of their additional income. "When such people find more productive employment, it is not uncommon for the consumption of the basic social unit, viz, the joint family, to go up by the whole, or nearly the whole, amount of the newly accruing income". This assumption of the propensity to consume of the joint family being nearly one, seems to contradict his assumption that it is nearly nil in the case of the additional income accruing to the joint family from cottage industrial occupations. Actually one would expect that the additional consumption resulting from the Ambar Charkha operations should be nearly equal to the additional earning of the Ambar Charkha workers.

Earning and the Subsidies

The question therefore is what is the additional earning of the Ambar Charkha workers. One would think from Shri Datta's remarks on the Ambar Charkha that he is assuming that the additional purchasing power created in the rural area as a result of running the Ambar Charkha is equal to the value added by it and not more. This obviously excludes the large amount of subsidies that have to be paid to the Ambar Charkha workers. It is because he neglects these subsidies needed for running the small scale enterprises that Shri Datta can make the general observation that "while under the factory system the employment of more labour per unit of capital will only be justified from an accumulation point of view so long as the marginal productivity of labour is not below the current wage rate, in a family-centred production unit almost any level of marginal productivity justifies employment so long as it is a positive level." This is so only if there are no subsidies. And in the case of the Ambar Charkha, the importance of the subsidies is not unknown.

The Necessity of Subsidization

At this point Shri Datta may well ask why must we pay subsidies to the Ambar Charkha workers? The answer seems to be simple. If my calculations are correct, given the market prices, the net value added per worker per day (8 hours) is less than two annas. As I tried to suggest in my note, even in a country as poor as India, it is doubtful whether any one would put in 8 hours of hard work (and Ambar Charkha operation is hard work) to earn less than two annas. The Ambar Charkha programme originators were quite correct in deciding that if you want to have the Ambar Charkha you must pay the workers subsidies. And of course when subsidies are paid, the problem of negative surplus comes in. We found in our note that the Charkha workers had to be paid subsidies (direct or indirect) of more than seven annas per day to make them enjoy a wage of nine annas per day (i e, one and a half annas per hank of yarn, six hanks being the daily output). This term "wage", I agree with Shri Datta, may be a bit confusing in this connection as there may not be any wage payment proper, if Ambar Charkha operations are organized in family-based units. I followed, however, the **Report of the Ambar Charkha Enquiry Committee** in using the term *wages* to mean the monetary earning of the Charkha workers through the value produced and the subsidies received. Leaving out the question of terminology, the economic point is that in order to provide nine annas of money income to Charkha workers per day we have to pay them enough subsidies (direct or indirect) to lead to a rate of surplus per unit of capital of **minus 276** per cent. This calculation may of course be defective, but its defect does not seem to be the one Shri Amlan Datta has pointed out.

D Shenoy's Objections

Shri D Shenoy has made three main points. First, if the rural population saves a part of the extra purchasing power they get, the excess of the marginal induced consumption over marginal production may be less than I suggested; in fact there may not even be any such excess. With this proposition put in this conditional form I have no quarrel, though I doubt, as I have already mentioned, whether much will in fact be saved by the rural population. Actually the need for subsidizing the income of the rural population would have been less if we thought that they were going to save the extra income anyway. Besides, there will be no excess of extra consumption over extra production only if the rural population consumes no more than 1 anna and 8 pies (= value added) out of their extra income of 9 annas, which involves the assumption of a very low propensity to consume indeed.

Shri Shenoy's second point is that even if the Ambar Charkha produces this gap of consumption over production, "the conclusion of Shri Sen may not remain valid, as it is possible to meet the cost of subsidy by taxing the meretricious consumption of other classes of the society". My conclusion however was not that the deficit produced by the Ambar Charkha cannot be met, but that it did produce some deficit which has to be met. Even if the subsidies are met by taxation, we have to remember that the resources released through those taxes could have otherwise been used for investment purposes had there not been the Ambar Charkha gap to meet.

Finally, Shri Shenoy argues that while the Ambar Charkha workers may be employed in an inefficient manner they are contributing something to the flow of output. "Is it not advisable for labour to produce something, even though it may mean increase in his consumption more than in proportion to his contribution to the flow of output?" Shri Shenoy's last point is that over a conscious choice like this, "an economist qua economist cannot sit in judgement".

Whether we should have Ambar Charkha production even if it leads to an inflationary gap of marginal demand over marginal supply is, I agree, a matter of value judgement. And while I often feel that to make too much of the distinction between an economist qua economist and an economist qua owner of value judgements is being somewhat schizophrenic, in my note on the Ambar Charkha I took particular care not to make any value judgements. Shri Shenoy will find, if he looks again at my note, that I concluded my study not by suggesting that the Ambar Charkha programme should be abandoned but by mentioning only that the net value added per worker per day (8 hours) was less than two annas, that it would create a considerable inflationary gap and that it would affect capital accumulation adversely, in fact tend to lead to capital contraction rather than capital accumulation. If from this someone comes to the conclusion that the Ambar Charkha is a bad thing, may I suggest that it is a matter of his value judgements, not mine?

Mysore Steel

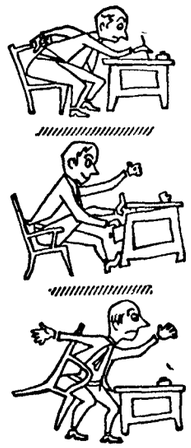
THE production of cast iron pipes at the Mysore Iron and Steel Works, Bhadravati, which stood at about 9,000 tons per annum by the vertical process, has been raised to 26,000 tons with the establishment of a cast iron spun pipe plant, under the Second Five Year Plan.

The erection work of this plant is over and the process employed is called the "centrifugal process". The production capacity is about 500 pipes per day from 3" to 12" and the length of each pipe is about 16 feet.

The scarcity of cast iron pipes for various water supply schemes both within and outside the State would thus be met, and this plant would consume the major portion of the pig iron produced in the newly installed two electric pig iron furnaces.

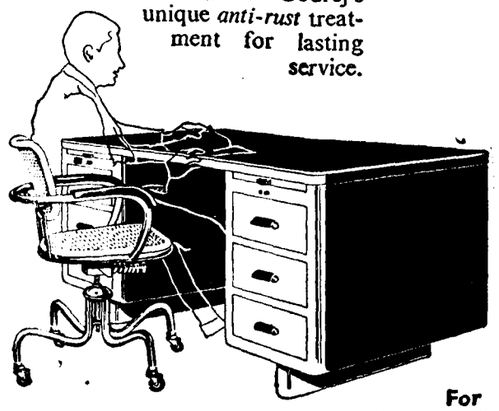
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Koyna: Some Impressions

R P Aiyar

THE critics of Koyna have always assailed the project on the ground that the water harnessed for power supply will no more be available to the regions in the downstream in the East, in that the tail race by diverting the water towards the West Coast could not lend itself for further beneficial use. The Inter-State Conference held in November 1951, by which Bombay, gave the final indication of the Krishna waters cleared the ground, and there was also realisation all round that the water diverted to the Arabian Sea by the Koyna Hydro Electric Project is something which in any case ran unused into the Bay of Bengal.

The impressive foundation ceremony performed in January, 1954, by the then Chief Minister of Bombay, gave the final indication of the Koyna Hydro Electric Project becoming a reality. From January, 1954, to November, 1957, the Project has advanced in many directions. Apart from the construction of the colony, the offices and the Power House there has been satisfactory progress in the Works connected with the electrical side although Civil Works—in relation to the construction of the dam to impound the water—are somewhat behind schedule. The construction authorities do not appear to be worried by this slight delay and they seem hopeful to catch up, once concreting begins in January, 1958.

Spectacular Features

The Koyna Hydro Electric Project has a number of spectacular features. A power channel cutting through a cave, the adit and ventilation tunnels, the approach tunnel to the underground power house and the tail race, also passing through an exit tunnel, all make for an impressive volume of drilling, and the rubble extracted from the mountains and littered on the slopes give one the impression of a genie at work. The power channel taking off from the reservoir will have to pass but a short distance of over 12,000 ft through a high cliff to gorge its waters down a head of 1600 ft to turn the giant water wheels, but the same distance to be reached over surface by a road which winds its way through a heavily wooded ghat section of about 20 miles involves a journey of over an hour by car!

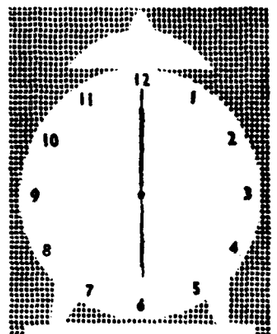
Throughout this ride one is struck by the beauty of the landscape but one could not also help contrasting how Kerala with a similar topography in most parts had been able to force the hills to yield cash crops like coconut, arecanut, pepper, etc. May be the pressure on land in Maharashtra is not so acute as in Kerala, but nevertheless Maharashtra could hardly afford to get out of its hills nothing but firewood!

Some Doubts

After a strenuous tour of the whole project within a few hours, there was a sort of satisfaction at having been a witness to the coming up of one of the modern temples, as our Prime Minister once described these power projects, designed to transform the way of life in a whole region. Nevertheless the discerning eye could not fail to observe that there are chances of the project not being completed in time. All activities in a project are intended to serve the main goal, i e, to complete the job according to schedule and without seriously transgressing the estimates. In a developing and dynamic economy, with its inherent inflation, original estimates lose their sanctity to some extent—the Koyna Hydro Electric Project originally conceived at a cost of Rs 33 crores will now cost Rs 40 crores—but the time factor is a serious matter. Other power schemes in the region depend on the schedule of the Koyna Hydro Project and upsetting the schedule of the latter might well mean postponement of the former and thereby retard progress all along the line.

Power planning in the Tata Hydro-Central Railway interconnected System is, for the present, based on some power being made available from Koyna by 1960. Even with the time-lag in the Civil Works, the project authorities at Koyna appeared to be thinking in terms of the first block of power being made available by "October 1960". This may be feasible if the dam reaches by that year's monsoon a height sufficient to store enough water for diversion through the power channel to set the turbines on the other side of the hill humming. But this would necessarily mean working at a faster tempo with the need sometimes to short-circuit the finance officers posted at the site in all their strength.

The top echelon of the technical personnel at the construction site is all poised for action, and one can only hope that their enthusiasm will spur others all along the line to dedicated work. In emphasising the need for dedicated work, one could not but see a danger signal at the Koyna Project site. The other major multi-purpose river valley projects have had their share of troubles, and the Koyna project no doubt will have to face a fair amount of tribulation. But in other areas like the D V C and Hirakud the encouraging factor



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has been that among the personnel there has been a strong core of enthusiasts who dreamt and breathed of nothing else but the projects—a strength which ultimately led to victory without serious loss. Such starry eyed enthusiasts did not appear to be yet in being in sufficient numbers at Koyna.

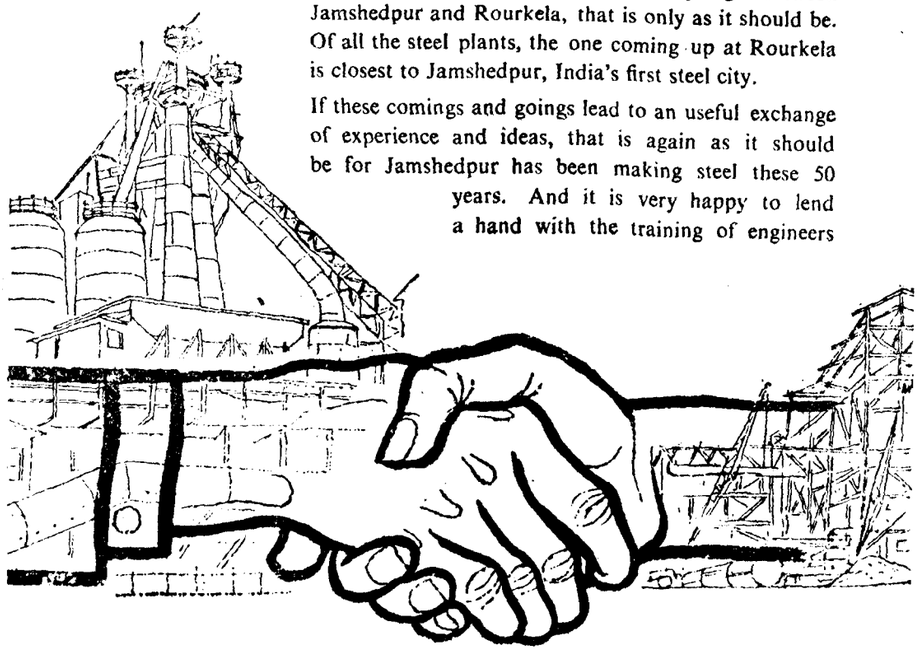
Utilization

Completion of a project is but a beginning towards development and the process cannot be complete without full utilisation of the power. The Koyna Hydro Electric Project is to generate 244,000 kW in the first stage and the bulk of the power will find its way into the present Bombay-Poona interconnected Grid. The areas of Maharashtra near the Project itself can only use a small block of power, and it is towards redressing this imbalance that greater attention will have to be given in the coming years. This is a task awaiting the best in the local leadership.

From a Neighbour

If there is a lot of comings and goings between Jamshedpur and Rourkela, that is only as it should be. Of all the steel plants, the one coming up at Rourkela is closest to Jamshedpur, India's first steel city.

If these comings and goings lead to an useful exchange of experience and ideas, that is again as it should be for Jamshedpur has been making steel these 50 years. And it is very happy to lend a hand with the training of engineers



and technicians for Rourkela. There are nearly 150 of them at Jamshedpur—from key personnel to artisans.

Good Wishes to Rourkela

Strengthening these ties of friendship are the surprisingly large number of old Jamshedpur faces that one sees at Rourkela. To them and their colleagues, Jamshedpur sends neighbourly greetings and good wishes.

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Around Bombay Markets

Lurking Fear of Uncertainty

Thursday, Morning

As anticipated in these columns, Dalal Street has witnessed hectic bull activity, which lifted Tata Steel among others by Rs 3 to Rs 168, and kept it steady around that level through the week. This upward movement was inspired, at first, by reports of U S aid and the reduction of Bank Rate by some Federal Reserve Banks in the U S, and later by expectation of several bonus issues. Shri G D Birla's speeches in Bombay confirmed the market's feeling of cautious optimism. The firm proposal to replace the State sales taxes on cloth by a central excise duty has aroused some hope for Textiles which are likely to benefit through somewhat quicker turnover of stocks and also perhaps through some relief in taxation. Towards the end of the week, profit-taking led to some paring down of values.

Though the improvement recorded over the week is impressive, it does not justify the belief that the stock market has recovered to a state of healthy vigour. The greater portion of the recovery is actually attributable to expected bonus issues for which the market had been virtually pining for nearly two years. The absorption, with the help of the Life Insurance Corporation, of private sales offers by several industrial magnates, who have been disinvesting to reduce the burden of the wealth tax, has also imparted confidence. But underlying all these developments is the still lurking fear of uncertainty. The transfer of a large block of resources from the Centre to the States as a result of the devolution recommended by the Finance Commission as from the beginning of the current year, has led to suspicions that new excise duties may be levied to recoup at least some portion of the amount transferred. These, however, have been long overdue and should not reverse the process of recovery. Another fear—which perhaps has a stronger foundation—is the likely reaction of T T K to under-fulfilment of the revenue estimates of his new direct levies. The Finance Minister's discreet silence since his return from abroad has given some satisfaction, morbid as well as otherwise, to operators frequently upset in the past by his rather exuberant and scare-mongering statements. This satisfaction is bound to remain incomplete from the market's viewpoint till it gets a clearer picture of the availability of foreign as well as internal resources, and the new shape of the revised Plan. Hence the pause in Dalal Street after a short spell of buoyancy.

Heavy Deficit Financing

Foreign securities held in the Issue Department of the Reserve Bank have declined below the former statutory minimum of Rs 300 crores to Rs 291.83 crores, during the week ending November 15, from Rs 301.77 crores as at the end of the previous week. Balances held abroad have, however, risen by Rs 5 crores indicating an external drain of Rs 5 crores only. Deficit financing by the Central Government has risen steeply from Rs 7 crores last week to Rs 21 crores, without making allowance for changes in State Government deposits and ways and means advances. Bankers' deposits have risen by Rs 7 crores while the note circulation has contracted by Rs 4 crores.

During the week ending November 8, the cash ratio of scheduled banks declined to 9.82 per cent from 10.61 per cent in the previous week; also of the State Bank's, which fell to 12.2 per cent from 14.2 per cent. In absolute figures, the contraction of cash has been Rs 11 crores and Rs 8 crores respectively. The Rs 3 crore reduction in the cash balances of scheduled banks other than the State Bank has been made up by a nearly equivalent expansion in their giltedged portfolio. Net deposit liabilities are lower by Rs 1 crore only, despite a decline of Rs 4 crores at the State Bank, but this actually conceals a transfer of nearly Rs 6 crores from demand to time liabilities. The State Bank's 'Other assets' have risen, for the second consecutive week, by Rs 4 crores, once again at the expense of its cash balance.

Total scheduled bank credit has contracted by Rs 2 crores, consisting of a Rs 5 crore expansion in advances offset by a Rs 3 crore decline in bills discounted and purchased. The contraction in total bank credit over the fortnight ending November 8 is perhaps largely attributable to cancellation of overdrafts following the reopening of clearing facilities at Calcutta. During the week ending November 1, the value of cheques cleared at Calcutta amounted to Rs 162.30 crores against nil during the previous five weeks and a normal weekly figure of Rs 50-60 crores.

End-week Cotton Rally

The cotton market during the week has been under the opposing influences of heavy arrivals in terminal markets and the extension of support by leading speculative interests. Bulls, however, asserted themselves towards the end of the week and succeeded in lifting Jarilla March to around Rs 703. According to well-informed trade sources, a crop of 49-50 lakh bales should be a distinct possibility, with a safe minimum of 48-49 lakh bales. While rainy weather in October last year did considerable damage to the crop, the relative absence of rain this year is not expected to affect the aggregate yield to any significant extent. Even in the drought-affected region of Bombay (Gujarat), the crop is said to be doing surprisingly well. Speculative buying at Kalbadevi is based, therefore, not on unfavourable crop prospects but hopes of larger exports of cotton as well as cloth.

During September, mills consumed more than 399,000 bales of domestic and 49,000 bales of foreign cotton, against 378,000 and 54,000 bales, respectively, in September 1956. Stocks of domestic cotton are lower at 949,000 bales against 1,253,000 bales, but those of foreign cotton have risen to 213,000 bales from 152,000 bales, entirely due to larger imports of U S cotton, the stock of which has expanded from 7,000 to 100,000 bales.

Castor Eases

While groundnut has on the whole remained firm due to spot demand, castor has eased by Rs 7 during the week owing to practical absence of export inquiries and buying interest. The imposition of a special margin on groundnut has barely succeeded in stabilising the February contract around Rs 165,

there is no doubt that it has ght down speculative fever in market to within tolerable ts.

Smuggling Revives

SMUGGLING of gold appears to have returned to moral proportions, with the consequence that prices have declined by nearly a rupee at Sheikh Memon Street despite a mid-week modest rally. Silver correspondingly declined in sympathy.

FORUM OF FREE ENTERPRISE

An Appeal

The economic difficulties confronting the country have been accentuated by the recent failure of food crops in several States. This has created a critical state of affairs, which is reflected in inflationary pressures and a serious rise in the basic cost of living. This has brought with it hardship and suffering to many of our people.

The situation is such that the Government and the country need the support of all who can help, and particularly do we see a challenge to Free Enterprise to rally to the aid of the Nation.

This can be done in several ways. By a vigorous and resourceful determination to overcome the many difficulties which have arisen to retard our plans for industrialisation; by maintenance of the highest standards of integrity and fair dealing in the conduct of our business; by scrupulously eschewing any tendency to exploit a shortage of consumer goods; and by such realistic adjustment of Government's economic and financial policies as would enable the Nation to meet the situation effectively.

The Code of Conduct enunciated by the Forum is a model for Free Enterprise to follow. It is for each one of us, whether industrialists, businessmen or traders, to measure up to this Code in the steadfast and sustained determination to see the country through the troublous times which now beset her.

Forum of Free Enterprise

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Join this non-political organisation to educate public opinion on Free Enterprise.

Annual Membership fee is Rs. 10/-

Around Calcutta Markets

Technical Set-back?

Wednesday, Evening

EQUITIES continued to move up in the current week, though technical factors caused a mild set-back at the time of this writing. There has been fair "bull" support to speculative scrips in the last few weeks. It is, therefore, not without significance, nor surprising, that shares have tended to register a slight fall at the time of the settlement. That was what happened a fortnight ago. The experience is being repeated now. Wild rumours may have caused the immediate set-back. But the antics of speculators cannot obscure the basic technical reason for the small decline in equity prices as the settlement time approaches.

This is a desirable development on technical grounds. But this is not as significant a market factor as the relatively quiet trend in cash scrips in the last few days. It was the low, but steady improvement in cash shares which initiated the recent spurt in speculative counters. It is the other way about at the moment. Speculative scrips continue to forge ahead. But the upward trend in cash shares seems to have been halted. This phenomenon should not be over-emphasised. But it should not be completely ignored, either.

State Taxation

Though the upward trend in equities is evident, the immediate reasons for the spurt in shares are less evident. Stock markets have welcomed the Government's acceptance of the Finance Commission's report. The argument is that, as the States will have a larger share of the divisible pool, there will be less need for them to raise taxes. There were fears that the States also will have to increase their tax resources. Despite the Finance Commission's report these plans should persist. Indeed the Finance Commission itself stresses the need for higher taxation in the States for financing the Plan.

Stock markets may not be far wrong in hoping that the States will be as unwilling to mobilise tax resources in the future as in the past. But investors are certainly hasty in assuming that the Union can afford to distribute more resources to the States without any adverse effect on it. Implementation of the Finance Commission's recommendation may mean that the Union Finance Minister may not be able to fulfil his promise to lower taxation in the next budget. Readjustments in the taxes on bonus issues and on dividends may still be possible. The case for exempting companies from the wealth tax may be treated with sympathy. The system of compulsory deposit of industrial reserves may be abolished. But hopes of a cut in the standard rate of income-tax will now have to be abandoned. It is difficult to appreciate the reasons behind the spurt in equities as a sequel to the Finance Commission's recommendations.

Dollar Loan

Before the enthusiasm arising out of a bullish interpretation of the Finance Commission's recommendation could die down, equities received another fillip from Shri G D Birla's assessment of the outlook for foreign aid. He is hopeful that India may receive 250 million dollars from America. This amount is well below India's needs. That is what stock markets are ignoring at the moment. But Shri Birla was assuring in his analysis that the amount of American aid, estimated by him, could be had without any special Congressional legislation. That encourages the hope that his estimated American aid will be available.

Incidentally, Tuesday's set-back in equities reflected stock markets' fears that political events may upset these aid calculations. Stock markets endorse the political view that Kashmir has become an issue in international power politics. In "kerb" dealings on Tuesday, speculative scrips lost ground on apprehensions that India's rejection of the Anglo-American resolution on Kashmir may prejudice America's assistance to India. Political aspects of America's foreign aid policy can be over-emphasised, but these considerations cannot be ignored altogether.

Consider, now, the basic conclusions of the Birla Mission, which are not as optimistic as markets would like to believe. Shri Birla does not deny that foreign exchange scarcity will affect the Plan, despite hopes that current estimates of increased foreign help will materialise. But stock markets seem to have misinterpreted Shri Birla's statement that foreign exchange scarcity will affect mainly the Plan projects in the public sector. Shri Birla is right in emphasising this aspect of the foreign exchange crisis. But markets are wrong in jumping to the conclusion that the foreign exchange crisis will have no effect on the private sector.

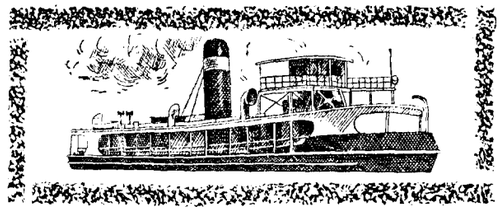
Private Sector

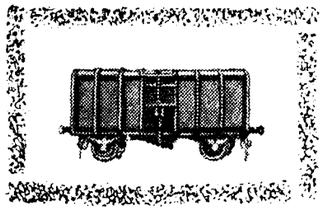
Shri Birla was equally doubtful about the private sector. Here, foreign exchange scarcity posed no serious problem. Shri Birla gave the impression that his Mission discovered that private foreign capital could be had by the private sector in this country. But the problem was lack of internal resources. To invite participation by private foreign capital, the domestic private industry has to secure its own contribution in rupee resources. Shri Birla is not unduly pessimistic in his doubts about the ability of the private sector to secure the needed rupee finance because of the inactive capital market. In their jubilant mood, stock markets ignored these points made by Shri Birla in summing up the results of his Mission.

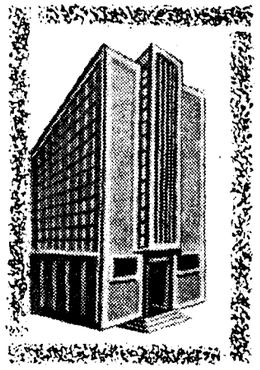
Despite much interested canvassing about prospects, Tea shares remain rather quiet. There is occasional investment support, but it is rather weak. Auction prices may be moving up. Russia may be buying Ceylon tea. Northern Indian output may be below estimates. But the fact remains that tea exports from India have been, and continue to be, poor during the current season. Nor are Jute shares looking up. Burlap consumption in America is unsatisfactory. Reports of the hunt for jute substitutes in Europe are having a psychologically "bearish" effect on these shares.

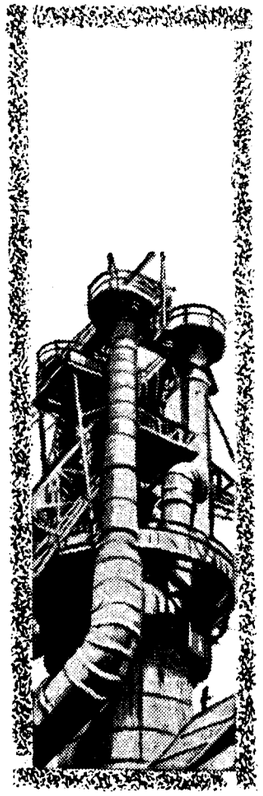
The Industrial Finance Commission is expected to raise a loan of Rs 4 crores at 4½ per cent. The 10 year old loan will be issued at Rs 99.

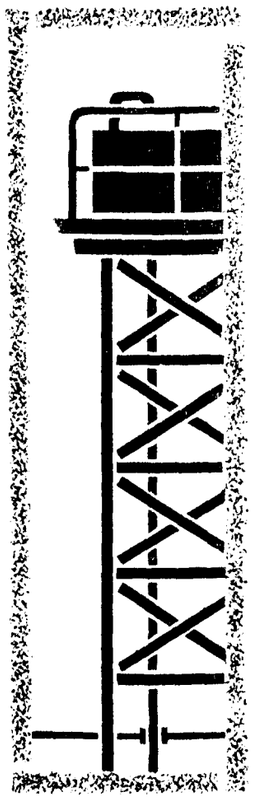
AIDING INDIA'S PROGRESS











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BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1487.04	1490.98	1483.81	1448.66
2. Rupee Coin	133.75	133.18	134.10	121.33
3. Deposits				
a) Central Government's	51.63	54.86	50.02	51.42
b) Banks'	102.15	94.80	100.47	63.21
c) Other Government's	8.19	6.16	6.35	12.18
d) Others'	111.00	110.93	111.54	12.97
4. Foreign Securities	291.83	301.77	311.71	462.21
5. Balances held abroad	24.37	19.12	18.79	91.46
6. Rupee Securities	970.65	980.72	950.78	760.50
7. Investments	239.91	228.95	219.80	59.22
8. Loans and advances to Governments	48.56	51.32	51.08	1.46
9. Other loans and advances	59.24	61.75	68.83	82.76
Scheduled Banks				
1. Demand liabilities (net)	747.18	754.61	729.07	644.62
2. Time Liabilities	651.47	645.63	624.50	454.78
3. Cash on hand	38.88	39.86	42.67	39.04
4. Borrowings from Reserve Bank	22.91	24.52	36.57	64.26
of which against Usance Bills	21.03	23.15	28.71	42.41
5. Advances and Bills discounted	798.68	800.79	800.55	711.83
of which State Bank's	161.40	161.09	161.14	128.11
6. Invst. in Govt. Sec.	407.57	405.90	386.15	365.76
of which State Bank's	164.08	164.02	151.83	106.95
Cheque Clearance	179.72	243.05	76.34	141.43

† For Reserve Bank week ended 15-11-57. Scheduled Banks and Cheque Clearance week ended 8-11-57.

Bombay Money Rates

	8-11-57	1-11-57	11-10-57	9-8-57
Call Money	3-4 7/8	3 5/8-4 7/8	2 3/4-4 7/8	3 1/4-4 5/8
From banks	3 3/4-4 7/8	3 1/2-4 5/8	3 1/2-4 5/8	3-4 7/8
From public	2 1/2-4 3/4	2 1/4-4 1/2	2 1/4-4 1/2	2 1/4-4 7/8
Three Months	2-4 7/8	2-4 7/8	2-4 7/8	2-4 7/8
Six Months				

Bombay Bullion

(In Rupee and nP)

	21-11-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	108.37	108.75	108.62	105.59
Forward	108.44	108.75	106.81	105.84
Silver (per 100 tolas)				
Spot	182.62	183.50	181.75	174.81
Forward	184.06	184.25	182.87	175.56

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 2-11-57	26-10-57	5-10-57	3-11-56
Food Articles	**107.7**	**107.0**	**107.1**	**105.5**
Cereals	102	102	102	99
Pulses	83	83	82	81
Fruits & Veg.	111	113	108	119
Milk and Ghee	105	102	108	104
Edible Oils	131	128	128	129
Fish, Eggs & Meat	97	97	96	98
Sugar & Gur	110	111	111	107
Others	132	133	128	128
Liquor and Tobacco	**96.5**	**96.5**	**94.3**	**86.9**
Tobacco	95	95	93	86
Fuel, Power Light & Lubricants	**114.6**	**114.6**	**114.6**	**106.3**
Industrial Raw Materials	**114.3**	**115.4**	**114.2**	**116.0**
Fibres	111	112	113	116
Oilseeds	121	123	120	120
Minerals	109	109	109	103
Others	107	108	107	109
Manufactures	**108.9**	**109.0**	**108.7**	**108.2**
Intermediate Products	**105.8**	**106.6**	**106.7**	**110.7**
Finished Products	**109.4**	**109.4**	**109.0**	**107.8**
Textiles	108	109	108	110
Cotton	117	117	117	120
Jute	99	100	..	99
Woollen	103	103	103	97
Silk & Rayon	82	83	83	85
Metal Products	141	141	141	131
Chemicals	99	99	99	93
Oilcakes	126	121	118	113
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**109.0**	**108.9**	**108.6**	**107.6**

FOREIGN TRADE OF INDIA

(Rs lakhs)

Year/Month	Imports (incl re-exports)	Exports	Balance* + or —
1952-53	669,95	577,37	—92,58
1953-54	572,01	530,62	—41,39
1954-55	656,32	593,57	—62,75
1955-56	704,91	609,41	—95,50
1956 :			
Jan	60,69	46,93	—13,76
Feb	71,19	51,99	—19,21
Mar	70,97	65,62	— 5,34
April	59,86	39,69	—20,17
May	67,70	45,06	—22,65
June	64,17	46,81	—17,35
July	59,40	42,21	—17,19
Aug	66,55	50,04	—16,51
Sept	84,19	50,05	—34,14
Oct	70,89	53,49	—17,40
Nov	69,95	56,07	—13,88
Dec	69,28	56,25	—13,03
1957 :			
Jan	78,76	55,28	—23,49
Feb	71,32	54,55	—16,77
Mar	79,51	51,01	—28,50
April	90,35	47,85	—42,52
May	85,41	52,80	—32,64
June	85,60	48,29	—37,32
July	81,04	55,79	—25.27

* Adjusted upto December

Source: D C I S.

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First Year of State Trading

THE first year of the State Trading Corporation's existence has been one of controversy. When the State Trading Corporation was ushered in, the idea was that the Corporation would be concerned primarily with the development of trade relations with countries where foreign trade is in the hands of state monopolies, and that it would be to the benefit of the country if bargains with such monopoly institutions were settled by an equally strong institution on the Indian side. Also, that it would be possible to work out with such countries such arrangements of mutual trading as would reduce strain on India's balance of payments.

Of course, the scope of activities outlined for the Corporation in its Memorandum of Association was much wider. According to the Memorandum, the Corporation was established "to organise and effect exports from and import into India of all such goods and commodities as the Company may from time to time determine and to do all such other things as are incidental or conducive" thereto. But the Government did try to persuade private trading interests that it was not its intention that the Corporation should make inroads into trading spheres which were already being adequately handled by the private trade. On the other hand, the Corporation was supposed to seek out new opportunities with a view to building up the country's foreign trade in new markets and in items not adequately traded so far.

Soon after the establishment of the Corporation, however, it was decided by Government that the export of manganese and iron ores should be progressivly canalised through the State Trading Corporation because the Government considered the existing trading mechanism quite inadequate to cope with certain important developments relating to the export of ores, and that it was necessary for the Government to play a more positive role to overcome the obstacles in the way of augmenting foreign exchange earnings from the export of ores. Still, the private trading interests were assured that the Corporation would, in fulfilling its responsibilities, rely mainly on the mining interests in the country and use the existing trading mechanism to the extent practicable.

This announcement of the Government regarding state trading in ores and also the one immediately following—that entrusting the Corporation with the task of acquiring cement from manufacturers, importing it from abroad, and distributing within the country the entire indigenous and imported cement at an equalised price—did raise serious doubts about the ultimate intentions of the Government regarding the role of private trade in the economy. Fears were generally expressed that the State Trading Corporation was intended to take over the entire foreign trade, and, in some cases, even the distributive functions within the country, in spite of the professed policy of the Government to supplement, wherever possible, but not to supplant existing enterprises. While these fears were no doubt exaggerated, there can be little argument about the fact that the State Trading Corporation has, within the very first year of its existence, come to assume a role which was, perhaps, not conceived for it by the Government itself when the idea of setting up this Corporation was first broached or even when it actually matured.

According to its first Annual Report, the Corporation has, as far as possible, been using the existing channels and agencies of the trade.

Direct trading, says the Report, has been restricted to only some transactions. For instance, the ores sold to foreign buyers were procured, stocked and shipped by the Corporation itself, and soda ash and caustic soda were bought and imported by the Corporation for sale through its own selling agents. Even in this restricted area, the approach was pragmatic rather than doctrinaire. In the case of manganese ore, for example, joint sales programmes are stated to have been worked out with principal producers.

In a number of cases, the Corporation entered into contracts for purchase or sale but deliveries of consignments for export, and the handling and distribution of imported goods were looked after by the Corporation's business associates. In fact, the Corporation claims to have even brought together buyers and sellers and assisted them in entering into and implementing business contracts and also used its good offices to settle disputes amicably.

Also the Corporation has assisted Government Departments and industrial entrepreneurs to procure essential plant and machinery on economical terms and producers of shoes and woollen fabrics have been enabled to organise production for exports.

A welcome feature of the Corporation's achievements in the past one year was the conclusion of **link** arrangements whereby imports of essential items are linked with exports of Indian manufactures with East Germany, Viet Nam, Hungary and Egypt. Such arrangements are beneficial to the country because thereby the country is assured of the supply of essential items of import like textile machinery from East Germany, and rice from Viet Nam in return for new exports. Also, these arrangements not only do not go against the businessmen and business organisations in the country, on the contrary, as is rightly claimed by the Corporation, reasonable new opportunities would become available to them for participation in linked transactions.

As for the Corporation's success in exploring new markets for Indian goods, its achievement has not at all been disappointing. Besides entering into firm contracts for sale last year of 2.8 million tons of iron ore, the Corporation has also entered into a long term arrangement with the Japanese steel mills providing for the sale of 7.2 million tons of iron ore spread over a period of 5 years.

Recent talks with the Japanese purchase mission were reported to have indicated scope for further expansion of iron ore exports to Japan over the next few years. Substantial quantities of iron ore have also been contracted for with Czechoslovakia, Poland, Yugoslavia and Hungary, in addition to the contract for the sale of 175,000 tons to Italy. Iron ore exports to the above East European countries have not figured prominently in the past and as far as Italy is concerned it is virtually a new market for iron ore.

A small beginning is also stated to have been made in respect of chrome ore by concluding a contract for the sale of 6,400 tons to China. Negotiations for the sale of larger quantities to traditional and non-traditional buyers are said to be in progress. As for the exports of manufactured goods, the Corporation does not claim to have achieved more than "only a limited measure of success". But it has been able to create a market for Indian handicrafts in U S S R and Czechoslovakia and sell salt to Indonesia, gunnies and sann hemp to Viet Nam, tea to East Germany and coffee to Soviet Union as well as East Germany. New markets have also been found for shoes and woollen fabrics.

Lately, however, the Corporation has come in for severe criticism on the part of the manganese ore trade. Movement and export restrictions which came in the wake of the Corporation's entry in the field are stated to have not only affected adversely the export of the ore by the private sector but also caused accumulation of stocks at the pit heads and railway sidings. It is a fact that exports of manganese ore slumped in the months immediately following the Corporation's entry in this field. But if anyone cares to look at the monthly figures of exports in the period immediately preceding, one will immediately observe that the

shortfalls after June, 1956 were only a continuation of the trend established earlier.

In 1956-57, exports of manganese ore amounted to 877 thousand tons as compared to 921 thousand tons in 1955-56. But export figures for April and May 1957 (the latest figures available so far relate to May) compare very favourably with export figures or the corresponding months in 1956 or in 1955, which means that the position this year is not going to be so bad as it was last year. It might, in fact, be better. Still, one would suggest, if it is correct that exports have again slumped in subsequent months because of restrictions on movement of private consignments, complaints ought to be looked into and rectified.

The other important criticism of the Corporation concerns its distribution of cement at a price which enabled it to accumulate a surplus of Rs 5 crores at the expense of the consumer. How far is this criticism justified? The Corporation's explanation of the surplus is that the price of cement was fixed at a higher level on the basis of the estimate of the quantity of cement to be imported and the price payable thereon. However, the quantity of cement actually imported was far less and hence the surplus of the aforesaid order.

The higher price charged can be justified on another score as well. If the price of cement were lower than what was actually charged, that would have either forced the Corporation to import more and therefore spend more of foreign exchange, or else compelled the Government to introduce some sort of rationing of the existing supplies of cement. It was perhaps as well that the Corporation fixed a higher price.

All in all, the performance of the State Trading Corporation appears satisfactory. No doubt, it could do so well, as it has, because of the active Government patronage. In fact all its directors are high officials of the Central Government. But that fact could as well have made it another 'white elephant'. That the Corporation has set itself to its job in right earnest gives one hope that all need not be bad with public concerns.

Shadows on Interdependence

PRESIDENT EISENHOWER's new ailment introduces additional doubts and complications about the forthcoming NATO "summit conference" in Paris. Since the proposal for a Grand Global Alliance was mooted during the Washington talks between the American President and the British Prime Minister, much has happened to deepen doubts as to whether there is any common basis for creating such a Grand Alliance. These doubts and uncertainties are not new. Within NATO, there have always been hidden conflicts of interests. **Sputniks** have only sharpened these conflicts, even as Russia's technological and scientific achievements have prompted the Western powers not only to strengthen the NATO bond, but also to exploit NATO as the basic foundation for a Grand Global Alliance. ICBM's first impact on the Western powers was to frighten them to come closer together in, and within, NATO. But, on second thoughts, some of these powers have been puzzled and shocked to discover the serious implications of interdependence.

Certain major assumptions lie behind the main agenda for discussion by the forthcoming NATO "summit conference" in Paris. It is conceded by the Western powers that the Soviet Union is ahead of them in rocketry and in long distance missiles. Even in medium range missiles, the Soviet Union is probably ahead. This is the basic calculation on which the immediate American strategy is based. To counteract the military threat from ICBM, the American proposal is that, with full cooperation of the powers concerned, bases for launching medium range missiles should be set up in Western Europe. This strategy envisages establishment of similar launching sites in Asia and Africa. But, for the moment, the proposed strategy is confined to creating such bases in western Europe. Establishment of such sites within easy reach of the Russian territory, will, it is hoped, act as a deterrent to the Soviet Union against any ICBM warfare or any attempt to launch medium range missiles against any of the NATO countries.

On the assumption that America possesses enough IRBMs to equip the proposed NATO bases in Western Europe and in Turkey with medium range missiles, this strategic plan is logical. But apprehensions expressed by some West European NATO members against this strategy raise two questions. One is whether America already has enough supplies of medium range missiles to implement this strategic plan in the event of any Russian aggression in the very near future. That some of the West European powers have doubts on this issue is reflected in their frightened reaction to such a plan of strategy. Their growing reluctance to permit the formation of such launching sites in their countries can only mean that either they fear that America is not yet in a position to equip and fortify such bases in Europe, or that, and this is more pertinent, such a plan of action may provoke the Soviet Union to immediate aggression so as to foil the attempts of the Western powers as well as to exploit her temporary superiority in these war weapons.

Such fears prevail not only in some countries on the Continent, but even in Britain. **Sputniks** have, it would seem, frightened NATO powers not into NATO, but to a serious consideration of a policy to get out of NATO. No less significant is the other disturbing trend of thought among some of the West European members of NATO. Strong suspicions prevail in France about motives and intentions behind the Anglo-American plan for reorganisation of NATO. There is resentment in Western Europe, and particularly in France, against the Anglo-American plan's implied attempt to create different categories of NATO membership. Under the proposed new NATO set-up, America and Britain will have special privileges which will be denied to other NATO members. France suspects as well as resents the joint attempts by America and Britain to transform NATO into a Anglo-American "condominium". Developments relating to Tunisia underline France's violent reaction to any such attempt at Anglo-American domination of the Grand Global Alliance.

This raises the wider implications of sacrifices of sovereignty which the Grand Global Alliance involves. So far as Western Europe is concerned, NATO may work, although latest developments and reactions indicate the misgivings of some Western powers. It may be taken for granted that, in the event of any open Russian aggression in Europe, NATO powers will combine to execute a common policy to resist such aggression. In such circumstances, interdependence and the implied loss of sovereignty will pose no serious problem. But the Western powers are not always likely to pursue a common policy on issues and events outside NATO.

This is where interdependence will create conflicts and tensions. Tunisia is the latest symptom of such inherent clashes of interests. But there are many other points and issues relating to Asia and Africa on which there are vital differences among the Western powers. America's policy on Red China is not supported by Britain and some other NATO powers. France's policy on Algeria and North Africa is not liked by America and Britain. America is opposed to the Anglo-French policy on West Asia. On these and many other issues, there are conflicts among America and her NATO allies. As the NATO powers concerned are likely to be adamant about their respective policies on these separate issues in conflict, no common policy is possible. These are the obvious limitations to the attempts to dovetail the NATO powers' non-European interests and alliances into NATO so as to form a Grand Global Alliance.

These underlying conflicts are, as is only to be expected, fully exploited by the Soviet Union. Nor is Russia unaware of the misgivings among West European powers of the Anglo-American plan for setting up medium range missile bases in Europe. On purely tactical and strategic grounds, the Soviet Union may be tempted to forestall the Western powers' frantic efforts to catch up with her by some rash action before the military initiative is wrested from her. That would be a fatal mistake. But Moscow is certainly entitled to expect that the Western powers will even now be ready to talk terms with Russia.

Regd. No. B. 5489

Weekly Notes

Yugoslav National Day

YUGOSLAVIA celebrates her national day on November 29th. On this historic day in 1943 the foundations of the new State were laid at the second session of the AVNOJ (Anti Fascist Peoples Liberation Council of Yugoslavia).

Developments in Yugoslavia are of special interest to us in India for a number of reasons. The most important reason for this interest is that Yugoslavia and India have been on the friendliest terms since the very birth of new India. Also, both the countries have pledged themselves to evolve a socialist pattern of society, although Yugoslavia is perhaps already committed, more or less firmly, towards a particular course of action in the political and economic spheres. The approach in India is experimental and it is not considered essential for the achievement of socialist goal to commit ourselves firmly to communist, capitalist or mixed economy courses of action. On the political plane however, India too is committed to a particular form of Government, viz, Parliamentary democracy.

What makes Yugoslavia different from other communist countries is that in spite of her avowal of broad communist principles the emphasis on centralised direction which almost typifies communist economic policies is not only not adhered to in Yugoslavia but the Yugoslavs are particularly averse to centralised direction. In fact, centralised direction in the earlier years is stated to have been responsible for lopsided development of the country's economy, and one of the problems that Yugoslavia's Plan for the period 1957 to 1961 seeks to tackle is to mitigate disparities in the development of various regions.

We in India would watch with particular interest the Yugoslav experiment in balanced regional development as also their experiment in the de-centralisation of administration and economy under which the management of factories and other enterprises has been transferred to the workers. The forms of management evolved in such factories, which ensure both active participation of the workers in management as also satisfactory productive results, would be worth studying on the part of enthusiasts in India for greater workers' participation in industrial management.

Soviet Veto on Kashmir

MALIK FEROZ KHAN NOON's outburst over the announced decision of the Soviet delegate to the United Nations to veto the Anglo-American resolution on Kashmir is easily understandable. But it may not be a premature inference that the Soviet threat of veto seems to have forced the main sponsors of the resolution to concede, by implication, the realities of the situation. It is yet too early to reach any firm conclusion. But the fact that the Security Council has adjourned without taking a vote on the Kashmir resolution suggests that the main sponsors may have, on second thoughts, realised the futility of their policy. Their reluctance to pursue the issue, in the face of the Soviet threat to veto the resolution, is in contrast to their persistent policy in February last. Then also the Kashmir resolution was vetoed by Russia. But the sponsors of the original resolution immediately introduced another resolution for sending the Jarring Mission, which was adopted by the Security Council, with the Soviet Union abstaining. Could it be that the present hesitant policy of the main sponsors of the Kashmir resolution reflects a possible shift in their attitude to the Kashmir issue?

Some might deplore that there had to be a Soviet threat of the veto to shock the main sponsors of the Kashmir resolution into a sense of proportion. But that cannot obscure the logic behind the arguments advanced by Russia for threatening to veto the resolution In his report, Mr Jarring had warned the Security Council that "implementation of international agreements of an ad hoc character which has not been achieved fairly speedily may become progressively more difficult because the situation with which they had to cope has tended to change". And yet, the Russian delegate argued, the Council is "being asked to embark on a course of action which reality has demonstrated to be useless—that is, to carry out the recommendation of the UNCIP." No less logical was the Soviet delegate's other main argument that, as India had not accepted the proposal, it could not be called a compromise formula. This is a point which needs to be stressed. As India had declared that the resolution was unacceptable, it would have been unjust for the Security Council to insist on a solution which militates against the Charter principle of peaceful settlement of issues in dispute. It cannot be too strongly emphasised that even the Security Council has no legal or moral authority to impose a solution on any one of the parties in the dispute.

A solution of the Kashmir dispute is of course desirable. However, those interested in an amicable settlement of the Kashmir issue should not try to impose any solution, but should seek to foster conditions in which the two parties in the dispute can directly negotiate and reach an agreement.

'Dravidian' Day-Dream

THAT the crazy fringe of society, however small, can, if not checked in time, be a source of considerable embarrassment all round, is being proved in the south. There an organisation called the Dravida Kazhagam, basing its ideology and even action on ill-digested history, delusion and even downright fantasy, has been bobbing up ever and anon with one piece of tomfoolery after another to the annoyance of some and the bewilderment of others. If it were farce pure and simple it might have been wholly ignored or left to the normal attention of the police; but it is farce that is mixed up with politics and with racial myths. The assumption of some of the Kazhagam leaders has been that India, dominated once by the Aryans, which term is interchangeable with Brahmins in the Kazhagam view, is again coming, or is already, under their sway. The Aryans are supposed to be species confined largely to the north with a few representatives in the shape of upper caste men in the south, which part of the country is believed to be a sort of untouched, unspoilt island of Dravidians pursuing a way of life that is altogether its own.

This theory has to be only stated to show how ludicrous it can be

in these days of general enlightenment, based on the unassailable evidence of advanced historical research or even of plain common sense. But these sources of instruction have evidently no value to the so-called Dravidian crusaders who, starting with a fallacy, have been proceeding from one error of judgment to another, and what is worse, from one ill-advised course of action to another. First, we had the burning of the epics and the like, castigated as instruments of Aryan influence, and also the breaking of idols, necessarily traced to Aryan inspiration and craftsmanship. Then as an offshoot of the old, old agitation against Hindi, deprecated as a sign of advancing Aryan imperialism, we had a tar-and brush assault on railway signboards, commercial name-plates or any manifestation whatsoever of the Devangari characters in public. Thereafter, the urge for Dravidian self-expression took a blatantly anti-Brahmin turn, directing itself against the use of the word "Brahmin" on hotel signboards, again through the artillery of tar and brush. In between, there have been minor antics too numerous to mention and too trifling to waste precious newspaper space on. The latest and perhaps the most objectionable aberration has been instigation of disrespect towards the memory of Gandhiji, possibly as the architect of Indian freedom which, in the Kazhagam view, has been the starting-point of Aryan resurgence, and disrespect also towards the National Flag and the Constitution.

Nursery Measure

THE extent of this new impertinence may be gauged by the fact that the Madras Government was impelled to bring in an almost unprecedented piece of legislation, called the "Prevention of Insults to the National Honour Act", which many legislators frankly disliked. The Home Minister, who sponsored the Bill, was equally frank in his reply: "We have to resort to an eccentric piece of legislation when we are confronted with eccentric men indulging in eccentric agitation." Few could have imagined that a day would come in free India when the honour due to the National Flag, the symbol of our freedom and dignity, and to the Constitution, the very framework of our independent existence, could be ensured, at least in parts of the land, only through a legislative enactment holding out the threat of a deterrent punishment. But that is how things are in certain quarters in the country; and however much one may dislike the enforcement of reverence through an act of legislation, which has perhaps a touch of nursery-class discipline about it, there is no blinking the fact that a nursery-class situation cannot possibly do without nursery-class measures, particularly in a country where people are still in various stages of political evolution, subject also to sudden outbursts of near-primeval emotion.

But the best hope is, of course, in the growth of robust, responsible public opinion which can confidently take into account the fact that no nation can pssibly manage to be without a crazy fringe and which can also react to the latter's exploits with that air of mild amusement that can be truly chastening in its effect. No pose, no delusion and no myth can stand the blast of wise, healthy laughter; but where, instead of such laughter, there is likely to be a sense of injury or grievance felt in reaction, the trend of expression or action causing the reaction cannot but thrive. That is perhaps why a number of ill-grounded or even ridiculous campaigns and movements, which should normally stultify themselves through their very ineptitude, retain their nuisance value for long or even attain the proportions of a menace here. India is surely not humourless nor so lacking in those qualities of discrimination and scpticism which mark a sound, sensible, seasoned mind and which are also so necessary for the safe functioning of democracy and for orderly progress. But somehow the play of such humour and scepticism, confined often to private discussion, is yet to make a satisfactory impact on the flux of public affairs. That is a pity.

Success in Tramp Shipping

ENCOURAGING news has come from the Chairman of the Great Eastern Shipping Company, Shri Bhiwandiwala, that the Government now realises that its rigid attitude to the time-chartering of Indian ships has prevented the country from earning additional foreign exchange. In his annual speech, Shri Bhiwandiwala points out that if the Government had not imposed a ban on time-chartering, the company's ship, "Jag Laxmi", could have been time-chartered out for one or two years at the very favourable rates prevailing in the first half of 1957. This vessel alone would have earned for the company, as well as the country, net foreign exchange of the order of Rs 50 lakhs in one year, thereby enabling the company to recover the whole cost of the vessel in about two and half years' time.

On the vessels which the company was allowed by Government to time-charter out, the company is stated to have earned nearly 50 per cent more in freight earnings, after meeting the expenditure by way of charter-hire on the ships chartered for coastal trade, than what these vessels would have earned if they had been employed only on coastal shipping. The company hopes to be able to purchase two cheap second-hand vessels with the additional foreign exchange earned in the past one year and nine months as a consequence of the diversion of its own vessels to tramp buiness. If we go by the experience of the Great Eastern, the country stands to benefit in terms of foreign exchange if tramp operators are allowed to time-charter out their better quality ships on favourable rates and, instead, charter older foreign ships for coastal trade.

Allocation of Cargo

WHILE pleading with the Government for the allocation of cargoes of tramp nature on a fair basis between the Government shipping corporations and public limited companies, Shri Bhiwandiwala disclosed an instance where the Government Corporation was allotted railway cargo from Japan, although the Corporation had to time-charter a foreign ship, while one of the ships owned by the Great Eastern was ready to load the cargo in Japan and an offer to that effect was actually made.

This may not be taken as typical of Government bias against private operators but this instance does indicate how decisions continue to be taken in Government departments which do not show sufficient awareness of the country's precarious foreign exchange position. In the words of the Chairman of the Great Eastern, "Even the unnecessary foreign exchange expenditure that was involved in needlessly chartering a foreign ship was ignored and our owned ship had to suffer on the return voyage".

U S Liberty Ships

IN his annual speech last year, Shri Bhiwandiwala had referred to the efforts being made by his company to canvas with the U S authorities for the release of a number of Liberty ships from the U S mothball fleet. He had expressed the hope that the necessary legislation would be passed shortly thereafter and that at least 12 Liberties would be released to our country. That was about a year back. Prime Minister Nehru was planning a visit to the U S at the invitation of President Eisenhower and big hopes were being entertained in India about the outcome of the Nehru-Ike talks. It was in that atmosphere of general optimism that both in Government and private circles, the hope was entertained that the release of Liberty ships would be easily arranged.

Today, on the other hand, the very cautious reference by Shri Bhiwandiwala to the efforts made for acquiring the Liberty ships is typical of the overall atmosphere of pessimism that seems to pervade Indo-U S relationship inspite of the recent hopeful reports by Shri T T Krishnamachari and the Birla Delegation. We hope that the Government as well as the private shipping interests will keep the question of acquiring U S Liberty ships alive, because that seems to be the only means of fulfilling the tonnage target laid down in the Second Plan.

Special Export Rebate

AN interesting point in regard to the promotion of exports was made by Shri Manubhai Amin in the course of his presidential address to the 39th annual session of the Federation of Gujarat Mills and Industries—an address which bears the hall mark of practical wisdom. He seems to advocate giving of special export rebates to individuals and firms exporting Indian goods on the same lines as is done in Germany. Even though the grant of a special export rebate will entail some expenditure on the part of the Government, Shri Amin is confident that, it will certainly be more profitable than borrowing money at heavy interest under the deferred payments scheme. It has been observed that in recent discussions on the deferred payments scheme there is a tendency to ignore the cost involved to the country in this scheme. Not that one could visualise immediate payments for imports in times of exchange shortage like the one the country is experiencing now but an unthinking advocacy of this particular mode of payments for imports seems to have become the fashion of the day. It is in this context that we would do well to pay heed to Shri Amin's advice that "in the long run India will stand to gain more by creation of the export trade which will earn valuable foreign exchange directly, instead of merely putting off payment in foreign currency, as is sought by deferred payment system for capital goods".

Shri Amin is not, however, on very firm grounds when he suggests that vegetable oils alone can earn foreign exchange worth about Rs 80—90 crores a year. Expansion of exports of vegetable oils is linked up with our production of oilseeds and expansion of the latter can only be achieved at the expense of foodgrains. Before one thinks in terms of expanding exports of vegetable oils one has to calculate the loss to the country on foreign exchange if as a result of the expansion of vegetable oil production output of foodgrains suffers and the country is forced to import foodgrains from abroad.

Import Duty Refund

ONE of the measures which the Export Promotion Committee (1957) recommended for the encouragement of exports was that the existing system whereby the exporters are allowed refund of import and excise duties on raw materials used in the manufacture of the products exported by them should be effectively simplified. The Committee had suggested that the refund should be allowed on a flat rate basis. The Committee had taken note of the fact that such flat rate refunds were already being authorised by the Government in the case of batching oil used by the jute industry and on imported soda ash on exports of glass and glassware. It was recommended to the Government that this practice should be extended to all manufactures exported from India.

A notification of the Government of India, issued this week, extends the flat rate system of refund to 22 different items of exports including radio batteries and radio receivers. Also, the Government is examining the question of fixing uniform rebate rates for the products of about 18 other industries prominent among them being motor vehicles, electric fans, and diesel engines. The Government has also announced that it is prepared to consider the cases of any other commodities in the same manner and that manufacturers and exporters who are interested in getting rates of rebates fixed for their products should contact the authorities concerned.

Actually the Government seems to have gone a step further than what the Export Promotion Committee recommended, in that it has been decided to allow full rebate of import duties paid on raw materials as against ⅞th of the duty allowed so far. In other words, not only has the system of refund itself been simplified by the adoption of flat rate basis of rebate but the rebate admissible will now be at a higher rate than in the past.

Textile Industries Fair

A TEXTILE industries fair will be held in Bombay from 7th December, 1957, to 6th January, 1958 with the object of stimulating a wider public interest in the growth of the nation's premier industry, comprising as it does cotton, silk, rayon, jute mills, etc., and enabling textile producers to assess the progress made by the country in the manufacture of textile machinery.

The fair is also expected to demonstrate how far or near the country is to the goal of self-sufficiency in regard to the various requirements of the industry, including textile machinery.

Besides the organised sector, hand and household enterprises will also be fully represented at the exhibition. A special pavilion is stated to have been reserved for handloom fabrics. Khadi and other handicrafts will also be represented at the fair

Errata

Regulatory, Not Full, Control

Issue of November 23. Page 1491.

Para 1, line 15. For "Government not to see beyond the then cheerful food situation ..." read "Government to see beyond the then cheerful food situation....".

Industrial Production

Issue of November 23. Weekly Notes, p 1495.

Para 1, line 15. For "100.3 (1951 =100) in June to 153.1..." read "200.3 (1951=100) in June to 153.1...".

A Calcutta Diary

The Bipartisanism of Bidhan Roy

FRIENDSHIP and cooperation are sacred words today, underwritten by the misty concept of co-existence. That there are areas to which these principles of compromise, often a specious thing, should not be applied is seldom mentioned. It was refreshing, therefore, to read Mr Walter Lippmann recently on the appointment of Adlai Stevenson as an adviser to the State Department. "Mr Stevenson," he wrote, "will not undertake to formulate the Administration proposals for the NATO meeting in December. How could he? He is a private citizen ....Nobody can formulate these proposals who is not in the inner circle of the Administration, indeed who is not vested with the authority of the President himself.... We shall mislead ourselves, I believe, if we suppose that our situation is like that in war time when in order to have unity in action it is necessary to forgo debate and dissent. The real issues in our present situation....turn upon our own capacity to make the efforts to meet the challenge of Soviet competition. This involves a truly agonising reappraisal of our policies and of our attitudes at home and abroad ...In such a reappraisal the loyal opposition has a great function to perform. It is not to do the work of the Administration. It cannot do it. It is not to be the lobbyist or the salesman of the official line. It is to analyse fairly generously but firmly, the official policies and actions and to offer alternatives so that there can be choices and an enlightened debate .....We shall have to hammer out such views on the anvil of debate."

The point of the lengthy quotation is that here we have a clear definition of the role of a democratic opposition, and the relevance of the question is provided by two actions of Bidhan Roy, Chief Minister, and Jyoti Basu, Leader of the Opposition in the West Bengal Assembly. One: the latter will be paid a monthly salary a la, we were told, the practice of the House of Commons. Two: there has been formed a Food and Relief Advisory Committee, consisting of Ministers and members of the Opposition—and two editors of popular dailies—who will assist the administration in formulating policies. A possible effect of these may be the departure of dissent, not hammering out views on the anvil of debate but hammering the anvil itself into a soft latex pillow.

* * *

The difficulties of the Communists are real enough. With Moscow so kind and courteous to New Delhi, it is indeed difficult to think of a policy that would look remotely Communist or militant. Then there is the Government in Kerala, which can, things being what they are, implement very few of its promises. The Communists in opposition have to conform not only to the politeness of Moscow but also to the virtual impotence of Trivandrum. Limited power in the latter makes it inevitable that opposition elsewhere be limited too, at least for the time being. All this is conceded readily, although it is an unanswered question whether the consequent tactics are strengthening the prospects of Communism—or otherwise.

There are reasons to think that Comrade Jyoti Basu has gone a little further to meet Dr Roy than he need have done. This must be a matter of opinion, and the motives currently being attributed to Basu may be largely unfair. But, in a democracy, what is is often no more important than what many think is.

* * *

The same principle may explain popular objections to the West Bengal Leader of the Opposition being paid. Labour is worthy of its hire, and so is a leader of the opposition. Popular opinions, however, are hard to put into reverse gear at will. Over the years the Congress of Gandhi has preached the value of sacrifice, the unimportance of reward for labour. Congress Ministers have tried hard since to break the 500-rupee barrier, but the odium remains because the pretence remains. The pretence has not been courageously broken by the Communists either, and so Jyoti Basu should not be surprised if hidden, possibly untrue, meanings are read in his apparent acceptance of the Government's proposal to pay the Leader of the Opposition. Suspicions tend to gain confirmation from the tameness of the opposition in recent months.

The opposition will be tamer when the so-called advisory committee gets going, and this is not because there have been "deals"—there may have been none—but because the thing is wrong in principle, this bipartisanism. To take part in the process is to accept part of the responsibility for the product, and there is no getting away from that.



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As Lippmann has pointed out, the Opposition comes to terms with the Government, except in a war emergency, only at its peril. Something more is at stake than the future of a party. It is the structure of democracy itself which gets distorted by the suspension, if not abandonment, of public debate in favour of private discussion. Principles remain unmentioned, fundamental clashes remain unfought out, compromises are reached by the secret surrender of ideals hawked in public, and imperfections of practice are condoned because theory is on holiday. These abstract objections apart, there is always the possibility that the corruption of the administration would only increase in quantity by the spoils being shared with the Opposition; it has happened afore, and here.

The danger deepens when editors of popular newspapers get the infectious itch of "participation." The Calcutta Press has been discussed before on this page, but the latest move of Dr Roy's may well be the final push. Not only has the Opposition been lured into his parlour, the editors are now invited for the embrace of death. They will now sit on committees, orally deliver the editorials they would otherwise have written. What's wrong with that? Nothing much, except that the people will know nothing about what they have said. The very fact that they have spoken their editorials, which may or may not be answered by the administration after a fashion, will preclude their subsequent publication. There is a price, Mr Dulles once said, to be paid for neutrality. The editors will soon find out, there is a price to be paid for participation too.

West Bengal's problems will remain as they are, unless they get worse. Mr Lippmann has shown that the wisdom outsiders can contribute to an administration is very limited indeed. What will happen is that dissent will have disappeared, and the people—by whom all political parties swear—will know nothing of what the politicians are doing. "Govern or get out" is a familiar slogan. I suggest this to Jyoti Basu & Co: Oppose and keep out. A good opposition is necessary for good government.

—Flibbertigibbet

November 26.

World Bank Loan for Tata Steel

THE World Bank loan of $32.5 million to The Tata Iron and Steel Company Limited, announced last week, was made jointly with nine United States and Canadian commercial banks to help complete an expansion programme aimed at doubling the company's steel ingot producing capacity.

The $15 million provided by the banks is the largest participation yet taken in a World Bank loan. It was arranged by The First Boston Corporation, acting as agent for the Tata company. The participants are: The Bank of America N T & S A, The Chase Manhattan Bank, The First National City Bank of New York, The Royal Bank of Canada, Chemical Corn Exchange Bank, Manufacturers Trust Company, The Northern Trust Company, The Philadelphia National Bank, and The National Bank of Washington, D C.

Tata's expansion programmes call for total investment, in the five-year period ending March 1960, equivalent to approximately $250 million, more than half in foreign exchange.

The loan to the Tata Company brings to $356 million the amount the Bank has lent to private enterprises and Government agencies in India. Earlier lending was for railway improvements, electric power, agricultural machinery, jet passenger aircraft, the iron and steel industry, and the establishment of the Industrial Credit and Investment Corporation of India.

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From U N Headquarters

The Cold War

FROM across the East River, a chill winter wind is blowing. The cherry blossoms in the United Nations garden have long been dead. The branches and trees are bare. And the ground is strewn with leaves, once green and red and golden. Winter is here.

As with the seasons, so with politics. Inside the glass walls of the United Nations building it is getting colder and colder. And not for want of airconditioning. The air is so thick one could cut it with a schoolboy's penknife. The chill political winds have bared the hearts of men. Their golden hopes lie dead on the ground for all to trample.

For days now the General Assembly has debated disarmament. What we now have by way of an agreement—if agreement it may be called—is distressing. The fact is that behind the show that is put up in the spacious hall of the Assembly building, is the shadow of fear. It is fear that the Soviet Union has inspired in the West and notably in the United States, by the sudden revelation of its technological excellence. The goings on at the United Nations have relevance only in the context of what is going on in the United States. And anyone who understands the pulse of this country will record its wild heartbeats as the first news of the Sputnik 1 rent the headlines. Despite the immense superiority of the United States in matters technical, the reactions of the people and the Press, not to speak of eminent leaders has been anything but happy.

U S Defence

Already, the President of the United States has seen it fit to go twice before his people on nation-wide television shows, to explain how strongly defended is the country. His listing of American might makes impressive reading and the world ought to know the changes that have taken place since World War II, that make the weapons used in those days as outdated as bows and arrows.

In his first broadcast to the nation, this is what Mr Eisenhower said: "In our diversified family of missiles, we have weapons adapted to every kind of distance, launching and use. There are now thirty-eight different types either in operation or under development. And almost one third of these are in actual operation."

President Eisenhower added: "All combat vessels of the navy built since 1955 have guided missiles in place of or to supplement, guns. The navy has, in both oceans, submarines which can rise to the surface and launch, in a matter of minutes, a missile carrying a nuclear warhead and submerge immediately while the missile itse'f is guided to a target hundreds of miles away.

"The navy possesses atomic depth bombs.

"Since Korea, both the army's and navy's anti-aircraft guns have been largely replaced by surface-to-air missiles. All of our new interceptor aircraft are armed with air-to-air missiles.

"Many of the traditional functions of the army's artillery and support have been taken over by guided missiles. For example, we have already produced, in various distant ranges, hundreds of Matador Honest John and Corporal missiles. To give you some idea of what this means in terms of explosive power, four battalions of Corporal missiles alone are equivalent in fire power to all the artillery used in World War II on all fronts.

"Some of these missiles have their own built-in mechanisms for seeking out and destroying a target many miles away. Thus the other day, a Bomarc missile by itself sought out a fast moving unmanned airplane forty-five miles at sea and actually met it head-on.

"Except for a dwindling number of B 36s, there is hardly an airplane in the combat units of the airforce that was in them even as late as the Korean War.

"The B-52 jet bomber, supported by its jet tankers, is standard in our strategic air command. Again, to show you what this means in terms of power: one B-52 can carry as much destructive capacity as was delivered by all bombers in all the years of World War II combined. But the B-52 will, in turn, be succeeded by the B-58, a supersonic bomber.

"Atomic submarines have been developed. One ran almost sixteen days recently without surfacing; another cruised under the Polar ice cap for five days.

"A number of huge, naval carriers are in operation, supplied with the most powerful nuclear weapons and bombers of great range to deliver them. Construction has started which will produce a carrier to be driven by atomic power.

"In numbers, our stock of nuclear weapons is so large and so rapidly growing that we have been able safely to disperse it to positions assuring its instant availability against attack, and still keep strong reserves. Our scientists assure me that we are well ahead of the Soviets in the nuclear field, both in quantity and quality. We intend to stay ahead.

"We have already shown that we can, with the precision to make it a useful military weapon, fire a large ballistic missile well over a thousand miles. Ballistic test missiles have had successful flights to as much as 3,500 miles.

"An intercontinental missile is required, and we have some of them in an advanced state of development. But because of our many forward positions, some of them in the land of our allies, an Intermediate Range Missile is for some purposes as good for us as an intercontinental one.

"Now a different kind of missile, the air-breathing Snark, really travelled over a guided course for 5,000 miles and was accurately placed on the target.

"We have fired three rockets to heights of between two and four thousand miles and have received back much valuable information about outer space.

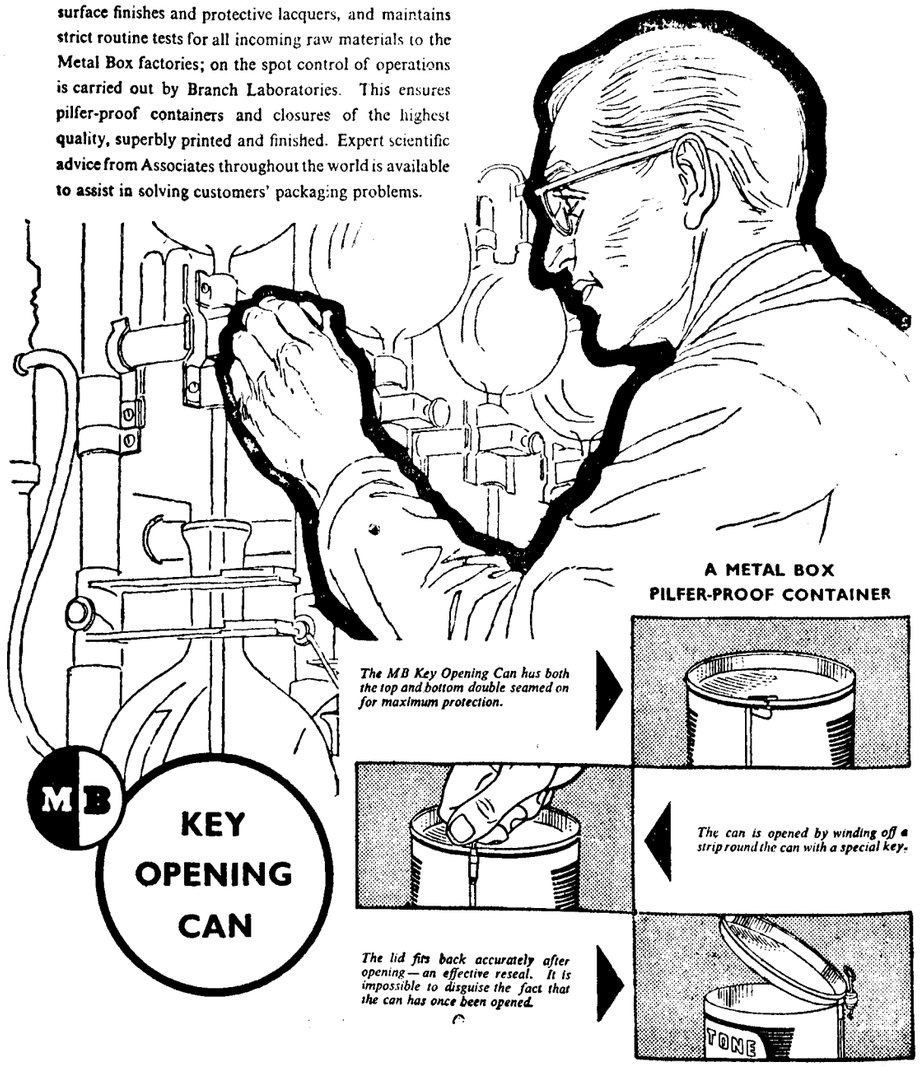
"These illustrations, which are, of course, only a small sample of our scientists' accomplishments, I give you merely to show that our strength is not static, but is constantly moving forward with technological improvement.

"Long-range ballistic missiles, as they exist today, do not cancel the destructive and deterrent power of our strategic air force . . ."

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Mr Eisenhower is a modest man and has no flair for drama or else after this and some additional information about the superiority of U S ground forces he might have turned round and asked: "Now is there anybody who is against us?"

Sino-Soviet Strength

If this massive strength was one-sided, then, of course, there would be little to argue about. But the disturbing fact is that another colossus has been growing in Europe, which is the Soviet colossus. Its strength was recently computed by a team of reporters of the **Wall Street Journal**, a paper which is not given to exaggeration. In a report published last week, the journal, which claims that it interviewed "highly-informed sources in the United States, Germany, Britain, Japan and Hong Kong', gave a terrifying picture of the build of the Sino-Soviet forces, as they are known to the West. "In sheer military manpower", the report said, "the Sino-Soviet empire retains, despite highly-published reduction in troop forces, a tremendous edge over the U S and its allies".

The report continued: "In logistics, the communists would enter any war in Europe or Asia with the advantage of much shorter lines of supply and these would be land lines. At the same time, they are compounding America's logistic problem by developing a major naval capacity. By cutting our sea lines, especially through submarine warfare, they could reduce greatly the U S ability to fight on the Eurasian continent." The report said that according to U S military men, "the Russian army is the only major force in the world today predominantly equipped with a new post-war arsenal of weapons". After giving details about Soviet superiority over the West in manpower, the report said that for air support of ground troops, the Soviet air force has more jet fighters and light bombers in operational units than does the U S. The Red air force, the report said, numbers about 20,000 planes and the Red navy has built more warships of all types since the end of World War II "than all the rest of the world combined", outbidding the West.

Growing Apprehensions

That many thoughtful Americans are concerned with atomic goings-on in the world is no secret. And only this week, in a full-page advertisement in the **New York Times**,—a costly business this—a group of people who call themselves the "National Committee for a Sane Nuclear Policy' called upon President Eisenhower to go before the United Nations to propose cessation of nuclear tests. This Committee—its roll call indicates some of the best known and best-loved names in education, science, church and industry—in what it called the "first of a series of statements for Americans in a nuclear age" said that "we are facing a danger unlike any danger that has ever existed. "The earth is too small for Intercontinental Ballistic Missiles and nuclear bombs and the first order of business for the world is to bring both under control" said the Committee in its statement. "The development of satellites or rocket stations and the exploration of outer space must be carried on in the interests of the entire human community through a pooling of world science". And it added: "Because of the grave unanswered questions with respect to nuclear test explosions, especially as it concerns the contamination of air, water and food, and the injury to man himself—we are calling upon all nations to suspend such explosions at once: while the abolition of testing will not by itself solve the problem of peace or the problem of armaments, it enables the world to eliminate immediately at least one real and specific danger. Also, the abolition of testing gives us a place to begin on the larger question of armaments control, for the problems in monitoring such tests are relatively uncomplicated.." "None of the differences separating the Governments of the world are as important as the membership of all peoples in the human family" the statement said and added, "the big challenge of the age is to develop the concept of a higher loyalty—loyalty by man to the human community".

I R M Bases

The Brave New World is not likely to be ushered in however, from indications available here. Discussions, so far, have been on subjects peripheral, and not touching upon the real problem. In Washington, Mr Dulles was heard to say that much thought had to be given to the possibility of unifying the various systems of collective security—the Atlantic Pact, the Baghdad Pact, the SEATO, the Rio de Janiero Treaty and a variety of bilateral treaties.

The United States attitude was still one of "containing communism'. At a press conference Mr Dulles was asked: "Mr Secretary, at your last press conference you talked about the importance of increasing the knowledge of other people in the free world of the defence capabilities of the West. In that connection are we planning, or do you favour, the establishment of intermediate range Missiles bases in Europe as fast as they become available to us, to help drive home this knowledge?" Said Mr Dulles: "We already have, as you know, the arrangements made in Bermuda, for the establishment of an intermediate Missile unit in the United Kingdom. I would think it would be desirable to have them elsewhere".

That was some plain speaking, but in the face of it what were the peaceable small powers to think of American intentions?

And what did the Soviet Union have to say about it? Speaking on the 24 Power Resolution on Disarmament, Mr V V Kuznetsov said—and they were uncomfortable words to hear: "Are we not witnessing now that here, in the United States, as well as in Britain and France, the political and military leaders are using the greatest peaceful discovery, such as the launching of two earth satellites into outer space, for fanning war hysteria, for appeals to further increase military budgets and for new threats against the USSR?"

Bitter words, but bitter words have been said by delegates from all sections. At the United Nations bitterness is the prevailing sentiment. And fear is the ruling motive. And two powers stand face to face, though they come from the ends of the earth. It is by no means a pleasant sight. Already the counting of the heads has begun. Those who are not with us are against us is the contemporary philosophy. Will sanity ever come to prevail? It will be a brave man who hazards a guess.

During June, 1957, 799 public utility supply undertakings generated 896.1 million kilowatt hours (kwh) of which 726.1 million kwh were sold to ultimate consumers. The output in May, 1957, was 930.2 million kwh.

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To take salary/wages first, compare these figures of ten years:

	1945-46	1955-56
No. of employees	17,500	29,000
Salary/wages & amenities	Rs. 127.3 lakhs	Rs. 421.5 lakhs

Thus while the increase in the number of employees was 66%, the increase in the salary/wages, etc. for the same period was over 230%!

As for welfare activities, employees of the ACC's 17 factories and two collieries have for a long time been enjoying a large number of amenities for their security and social welfare, namely: provident fund and gratuity; schools, hospitals and dispensaries, creches, canteens, cinemas, clubs, playing grounds; welfare and benefit fund, and co-operative societies.

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Book Review

The Bases of Bharat

Kinship Organisation in India by Irawati Karve. Deccan College Post-graduate and Research Institute, Poona, 1953. Pp. 304. Price Rs. 15.

Evelyn Wood

THE temerity required of a layman in reviewing a scientific study has its advantages. Social scientists in the field of human behaviour would have a totally different approach to this work. The anthropologists and sociologists, both of whom it will interest, are likely to be put to some disadvantage by the content and method of the study, unless they happen to be Indians, or have spent some years absorbing some of the fundamental matter of Indian philosophy. In fact, this reviewer thinks it likely that most foreign experts in these fields will react violently against Dr Karve's study.

An apology is also due for the review of a book published in 1953, at so late a date as the end of 1957. The excuse is that now is the time to consider and to apply the lessons which Dr Karve has to indicate in her study. Here we are in India, forging ahead with vast plans for a new society, and a new set of values, some of which are to be refurbished from what is called "our ancient heritage". Yet, while this vast reconstructive work is undertaken to reshape human behaviour, our actual knowledge of the existing social patterns and of the cultures of India as traced from their origins, has always appeared to be very scanty.

This review is written from New Delhi. It hardly needs saying that the most superficial and scanty of all knowledge about what goes on in orthodox India is in evidence here. Otherwise all this talk about "Indian culture"—as if it were one homogeneity—and "our ancient heritage"—as if it were singular and regionally unvaried—could not be so common. Yet it is here, in Delhi, that the knowledge of human diversity in India is most needed; since it is here that the greatest efforts have to be made to construct a framework for the future of India's unity out of her rich diversity.

The finest of all unities can only grow from the richest of diversities, if we assume that the Upanishads and the Gita offer some clue to human affairs, in the broadest sense. To enable this growth to take place within a national framework, the architects of that structure will first have to see a realistic pattern. Kinship, which means marriage systems, which means genetic and social organisation, is literally the most vital of all materials available for pattern-making in human affairs. Dr Karve's study for the first time presents a pattern, in which the total vastness of the whole of human India can be seen. Everyone concerned with the social future of India should therefore devote some study to Dr Karve's pattern.

She may be right in her delineation; or she may be wrong. Since no one else in India has been able to sketch out the pattern of "what is" in all the social and culture-groups of India, it seems to be the plain duty of, for example, legislators to read this book, even if it be superficially.

There is no question about the author's scientific qualifications, nor of their rigorous application in this study. The knowledge assembled in her book consists thus for the most part of undeniable facts. But there are, as is natural in so vast a field, areas of speculation as well as facts. Some of these unfactual areas have been indicated by Dr Karve, particularly from page 294 to the end of the volume, as requiring further investigation. One would suppose that the Planning Commission's Research Division would be concerned with such necessary exploration of these areas where we do not have adequate knowledge. But some other areas where fact is scarce have been filled in by Dr Karve herself, using most unorthodox methods—unorthodox, that is, from the Western social scientists' standpoint.

It is this aspect of Dr Karve's study which most fascinates this reviewer, who is himself inclined to a different doxy from the present arithmetical love of the Western behavioural scientists. Dr Karve uses her insight as well as her analytical powers to explore the origins of kinship principles through the classical texts of India. Unforgivably, from the point of view of a scientist in statistical blinkers, she begins, on page 25, with a plunge into the Vedas, *et hoc genus omne*. Worse—and may Carl Pearson pardon her!—she uses the Mahabharata as source-material, and dares to draw inferences regarding marriage custom, motive and ethical values from the case of the much-married Draupadi (Page 32).

This reviewer's fear is dual. On the one hand, he foresees a wail of outrage ascending from other Hindu interpreters of this classical story, to say nothing of orthodox reaction to Dr Karve's feminine commentary on the **Srutis** themselves. On the other hand, the bounds of factual propriety will seem to many statistical scientists to have been grossly exceeded. In the case of the latter complaints, this reviewer would suggest that a certain envy of Dr Karve's ability to read the originals and have a feeling for the classical texts and traditions of India may enter the criticism. It is to be hoped that neither form of criticism of Dr Karve's work causes it to be disregarded as a starting point for fresh social action now.

So far as a layman can judge, the major thesis which Dr Karve's study successfully, if partially, demonstrates is about as follows:

Kinship patterns, which are of course determined by the selection of marriage partners, fall, on examination, into two main Hindu systems, plus a third series of systems which are mutually fairly similar, among tribal people. In fact, the tribals are evidence for the existence of the two distinctive patterns, since tribes can be seen to have adopted elements from one or the other of the main patterns.

The two main patterns could be called North and South Indian. They divide with a remarkable coincidence along the lines of linguistic cleavage; the Southern marriage systems apply to people speaking the Dravidian languages: Tamil,

alayalam, Tulu, Kannada and lugu; while the contrasting sys-ns are followed by the speakers the other non-tribal languages. aharashtra acts as a sort of buffer ate in kinship patterns, since aharashtrians organize their mar-ge systems according to some ements from the Northern and me from the Southern pattern. is reviewer will not attempt to stract here the careful definitions both main patterns which emerge om Dr Karve's many careful pages record and comment. The South-n pattern is described on pages 3 ff, and the Northern between ges 93 and 137. The Central ttern, which is mainly Mahara-trian, is amply described between ges 137 and 174. This is perhaps e key to the whole of Dr Karve's udy; and it may be an important ctor that she herself belongs to the rahmins of the region.

The reviewer would like to make appeal to two classes of readers. dians who suppose that they know about caste, gotra and marriage stoms, culminating in family orga-sation, should read this volume to e how much they do not know. her Indians and foreigners in-rested in India, who admit their anty information on these literally tal subjects, should read this lume to see a dispassionate deve-pment of the emotional ideas which e current about "our ancient heri-ge", "our sacred customs", and the e. In either group of possible aders there may of course be those o claim to have a hand in forging e new, progressive society of ited India; these pundits should ad Dr Karve's work for all the asons previously given in this ragraph.

Amendments to Estate Duty Rules, 1953

N exercise of powers conferred by the Estate Duty Act, 1953, the ntral Board of Revenue have ended the Estate Duty Rules, 53, to include two new rules, mely, rules 39 and 40. The new es prescribe the procedure to be lowed when any question of valu-on of property, which is the sub-t of an appeal, is referred to the bitration of two valuers under the tate Duty Act. The Act itself ovides that in the event of the o valuers failing to reach an reed decision, the matter should referred to a third valuer.

According to the new rules, the appellant who wishes to make such a reference has to submit an appli-cation, in the prescribed form, nominating one of the two valuers to be appointed for the purpose. He has also to deposit in the Treasury the costs of arbitration within one month from the date of such appli-cation. The rules require the valuers to give a hearing to the appellant as well as to the department before they decide the question of valua-tion. The final decision of the valuers will be communicated to the Central Board of Revenue and to the appellant.

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A Rigmarole on Wage-Goods

Ashok Mitra

IT is an interesting, even if minor, reflection that of Marx's three famous categories, only 'v', ie, variable capital, has not figur-ed as denominator in any type of expressions. It is almost the cast off symbol, and neither Marx nor any of his annotators have cared to express it as a proportion of some aggregate. The inference would be that such an expression was considered as devoid of any operational significance.

Constant vs Variable Capital

This can be an enigma. For, after all, in the Marxian scheme of reproduction, constant capital only carries forward its own value to the further product, while it is variable capital—the wherewithal for pro-curing labour-power—that generates surplus. Why is it then that while defining the organic composi-tion of capital, Marx decided to give the pride of place to constant capital? It is obvious that with the hectic pace of mechanization dominating the contemporary scene, the overwhelming significance of machinery and equipment in overall capital formation, and, therefore, in the structure of reproduction, could scarcely be neglected. But could not Marx have met such an argument with a contemptuous caveat? For, in his world, even when accumulation of constant capital is gathering sharp momen-tum and is motivated by the desire to raise the level of surplus, the actual task of raising surplus is still the prerogative of variable capital. Nor can it be seriously suggested that any of the Marxian conclusions, for example, the falling rate of profit, the capitalist crisis, the theories of innovations, mono-polies and trade cycles, etc, would have been affected in any way even if the organic composition of capital were defined as the ratio of variable capital to total accumulation.

On the contrary, perhaps a greater elegance would have been our heri-tage. Take the somewhat cum-brous Marxian function relating the rate of surplus value (s') and the organic composition of capital (q) to the rate of profit (p) : $p = \frac{s'}{(1-q)}$. If only the organic compo-sition of capital had been meant to define the relation between variable capital and total capital, the rate of profit would then have emerged as the straightforward product of the rate of surplus value and the organic composition of capital. And we would have the capitalist crisis descending on us in the form of an ascendant rate of surplus value being frustrated by a sharper rate of decline in the organic composi-tion of capital! (This point is noted in Paul Sweezy's **The Theory of Capitalist Development**, (p. 102).

However that may be, and even when one feels uncommitted to go all the way with Marx in regarding 'v' as the sole source of 's', the fact that variable capital in the form of wage-bill is an essential component of accumulation cannot really be refuted. In early classi-cal analysis, capital in entirety consisted of wage capital and hence the rather convenient and facile wage-fund doctrine. With growing mechanization, technolo-gical capital emerges as a separate category—and an increasingly vital one—in classical formulation. Still, wage capital was not and could not be wished away. It stayed as one allocation parameter of investment. Marx's accumulation categories are, therefore, in strict classical tradi-tion. In case Marx had given a symbol for $\frac{V}{C+V}$, we would then have a declining range of value for this magnitude starting from unity, but which will certainly never reach zero. Even in the extreme instance of automation, this could not be so.

Investment Allocation

In the Marxian model the 's' of one period constitutes the c+v of the succeeding period. The problem of investment allocation is thought to consist of two separate processes, but both pertaining to constant capital. Initially, there is the pro-blem of setting the maximum rea-lisable volume for 'c', since this directly relates to the maximiza-tion of surplus value. Then comes the further problem of allocating the aggregate supply of 'c', among different departments and sectors. The latter is, so to say, an internal problem of optimization given the total availability of constant capital. The only place where variable capital is referred to in the formulation of reproduction models is in the enunciation of the boundary condi-tion that the output in the consump-tion goods sector must match the total stream of variable capital from all sectors taken together. But the allocation problem of vari-able capital is not quite posited independently. Two alternative assumptions can then be made about the disposition of variable capital: either that it is residually obtained once constant capital has been earmarked out of the total funds available for accumulation, or that, given the decision as regards the volume of constant capital, the quantum of 'v' is subsequently deduc-ed from the total requirements of labour-power and the level of sub-sistence wages. The difficulty with the latter assumption, however, is the indeterminacy whether the volume of variable capital estimat-ed in this fashion would precisely be equal to what is left over from aggregate accumulation funds after the demands for 'c' have been met.

Explanation of Imbalance

Perhaps it is largely because this question of allocation of variable capital could not be clearly seen through that Marxian theory has to refer to the possibility of crisis arising from under-consumption. If accumulation of constant capital proceeds at the expense of variable capital, there may be either over-production of consumption goods unmatched by the current provision of wage-bill, or a continuous build-ing of surplus capacity. If one considers the categories as accre-tions at the margin, it would then appear that a certain outlay on constant capital ought to carry with it a corresponding commit-ment about outlay on variable capital.

Of course, the imbalance can be in the opposite direction and may take a form with which we are generally familiar. Crisis can also arise from the additional supply of consumption goods lagging behind the volume of variable capital released during a particular period. This we generally denote as an inflationary situation. In an eco-nomy where accent is placed on a rapid expansion of the capital goods sector, a short-period excess of variable capital over the additional supply of consumption goods can often be regarded as germane to the process of development.

A further point deserves mention. The large asymmetry between the outlays on constant capital and on variable capital is that accumulation channelled in the former category results immediately in the accretion of physical stock, while variable capital assumes the form of wages paid out which are only subsequently exchanged—or sought to be exchanged—against wage-goods. The accumulation of variable capital is thus once removed from actual transactions of goods. This is, of course, a development in the post-monetised society. In the early classical model, workers directly came to wage-goods and so the problem of supply shortage could not become overt. The main tenet of the wage-fund doctrine is just that, given a certain wage-level, production activity could be carried out only as far as the funds advanced by entrepreneurs in the form of wage-goods could last for employing an additional number of labourers. There could at any rate therefore be no possibility of an imbalance between the demand for and supply of wage-goods. Disequilibria, if any, were assumed to be either in the supply of labour or in the wage-level.

Parameter of Accumulation

Shorn of all jargon, this only reiterates that the process of accumulation is a composite of outlay on capital goods as well as on wage-goods and a marginal allocation on the former should imply a corresponding allocation on the latter. No doubt the proportion in which the total outlay is to be distributed between the two categories will vary with sector and with industry. Also, within the same sector or industry, it should, in many instances, be possible to choose between alternative production functions. But whatever the final ratio reached between capital goods outlay and wage-goods outlay may be, there is no running away from the fact that the two together form the aggregate parameter of accumulation.

Allocation of Foreign Assistance

Assume an economy where domestic savings are non-existent and the supply elasticities are totally worked out. Investments at the margin will hence be possible only if external resources are forthcoming. If any foreign accommodation is made available, the propensity on the part of the authorities will usually be to spend the entire amount on machinery and equipment. The latter are supposed to be strategic commodities, and their acquisition will be looked upon as the best possible utilisation of the external resources in short supply.

But what about the provision of wage-goods? The erection and operation of the imported plant and machinery will result in an additional flow of wage-bill in the economy. Since, in the absence of expansion of capacity, domestic availability will not stretch any further, there will obviously be a disequilibrium in the short period. In the national accounts, the outlay on capital-goods will be evenly matched by the resources drawn upon abroad. No similar flow will however be available to be shown against the newly-generated stream of wage-bill.

In order that the investment operations may be executed smoothly, it would hence appear as a virtue in such circumstances not to spend the total availability of foreign resources on capital-goods, but to allocate a part for the import of wage-goods.

The rigmarole in the preceding paragraphs, let it be admitted, leads up to a very small truth. But perhaps the point at issue deserves some stressing in view of India's foreign exchange debacle and the consequent re-thinking going on regarding the import programmes for the next few years. To economise on food imports so as to provide for the 'core' of the Plan can well be a false slogan, and it may prove an illusion to turn to the theory of investment allocation for trappings to dress it up.

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Award of the Finance Commission—I

Review of State Finances

UNDER the provisions of the Constitution, a Finance Commission has to be appointed on the expiry of every five years, or earlier if the President so desires. The task of the second Finance Commission was, in the Commission's own words, in many ways made easy by the work that had been done by the first Finance Commission. But certain developments had taken place since the first Commission reported, which made the task of the second Commission somewhat less easy. The most important development in this connection was the reorganization of the States. Another development was the financial integration of Jammu and Kashmir with the Union. Also the scope of the task entrusted to the second Finance Commission was somewhat wider than that entrusted to the first Commission because of the three additional references made by Government.

Firstly, the Commission was asked to advise on the principles to be embodied in a legislative measure regarding the distribution of the net proceeds of the estate duty on property other than agricultural land and the taxes on railway fares. Secondly, Government invited the Commission to make recommendations regarding the principles of distribution of the additional excise duties proposed to be levied by the Union in replacement of the sales taxes levied by the States on mill-made textiles, sugar and tobacco, and the amount to be guaranteed to the States as their present income from these sales taxes. The third reference made to the Commission was regarding modification, which may be found necessary or desirable, in the rate of interest in the terms of repayment of loans made by the Union to the State Governments between August 15, 1947 and March 31, 1956.

As regards grants-in-aid, the Commission was asked to make recommendations after giving due regard to the requirements of the Second Five Year Plan. Although the First Five Year Plan was in operation when the first Commission deliberated on the States' finances, it did not make any specific recommendation bearing on the implementation of the Plan. According to the second Commission, since the Five Year Plan has now become an integral part of the budget of the Union and the States, the basic needs of the States cannot be considered in isolation from the needs for development as embodied in the Plan. Since the sums involved in the Second Plan are much larger than in the First Plan, the Commission felt that it would be inappropriate on its part to treat them outside its scheme of devolution. The Commission, therefore, decided that in its assessment of the needs of the States it should take into account their basic as well as developmental needs. The Commission, however, declined to go into the question of adequacy or inadequacy of the approved Plans of different States and based its conclusions on the allocations as finally indicated by the Planning Commission.

I

Error in States' Estimates

In assessing the financial needs of the States, the Finance Commission obviously took into account the estimates on the basis of which the financial scheme for the States' Plans was drawn up by the Planning Commission. But the Finance Commission discovered in the course of its investigations that in arriving at the estimates of their existing resources and committed expenditures "many States had over-estimated the yield from existing sources of revenue and under-estimated committed expenditure". According to the Commission "not only were the contributions from existing revenues, which were assumed for financing the Plan, not available but also that, in some States, the committed expenditure would absorb part of the resources which they were expected to raise for the Plan through additional taxation".

Finance vis-a-vis Planning Commission

In the very first few pages of the Report there appears a small but significant paragraph wherein the Commission comments on the functions of the Finance Commission vis-a-vis the Planning Commission The Commission does not clearly give its view whether it is in favour of or against the appointment of these two separate bodies. But it is not difficult to make out that the Finance Commission was aware of the anomaly of having two separate bodies covering almost the same ground within one year of each other. It is in this context that the commission's recommendation "that so long as both these Commissions have to function, there appears to be a real need for effectively coordinating their work" and that "it will be an advantage if, in future, the period covered by the recommendations of a Finance Commission coincides with that of the Five Year Plan". Of course, it is desirable to eliminate the necessity of making two separate assessments of the needs of the States, and to avoid duplication the Government could vest the statutory powers for the devolution of Central divisible taxes in the Planning Commission itself. That would enable the Planning Commission to base its financial estimates on firmer grounds.

II

States' Poor Showing

The second Commission's review of the trends in State Finances was restricted to reviewing the expenditure of the State Governments since the last Commission reported. Its review disclosed that although the scheme of devolution recommended by the last Commission did not make any direct provision for the implementation of the First Plan, it turned out to be quite liberal in relation to the normal expenditure of the States and, for most of them, left a substantial margin which helped them in implementing the Plan. Because of this liberal devolution; the States did not find it necessary during the period of the First Plan to hold up any scheme for lack of funds although some of them ran into sizeable deficits. Still, the Commission did observe that the tax effort of many States, during this period, fell far short of the expectations of the Planning Commission. In the view of the Commission, if the States had raised the resources expected of them, some of them which ran into deficit might not have done so. The First Plan assumed that the States taken together would raise through additional taxation a sum of Rs 230 crores for

financing their Plans. But the States actually raised only Rs 80 crores in additional taxation during that period; i e, their performance was only 35 per cent of what the State Governments had themselves agreed to when the First Plan was drawn. It must, however, be added that performance in this respect was not uniformly bad. Bombay had the distinction of over-reaching the target, though by a very small margin. Assam and Punjab also did fairly well. The State which lagged behind the most was PEPSU; followed by West Bengal, Hyderabad, Madras, Orissa, Madhya Pradesh and Uttar Pradesh; their performance was below or around 20 per cent of the targets fixed for them.

The Commission's review also disclosed a deterioration in the net receipts from irrigation and electricity undertakings. Only two States, Punjab and U P, are able to obtain a net return from productive irrigation works. Also, in more than one State, there has been accumulation of losses in the working of transport, industrial and commercial undertakings. Another disturbing aspect of State finances, pointed out by the Commission, is that in a number of States there has been a steady increase in recent years in the accumulated arrears of revenue. The Commission concedes, however, that, to some extent, particularly in the case of arrears of land revenue and irrigation, these arrears might have been due to failure of crops. The Commission still felt that sufficient attention was not always paid to the recovery of arrears. A similar position appears to prevail in the case of loans. The Commission emphasizes the need for reducing these overdue arrears, recovery of which will materially assist the States in implementing their development Plans. It also observes that the public debt of the States is increasing rapidly on account of the implementation of the Plans but that a considerable part of this debt might turn out to be deadweight debt and the cost of its servicing might fall on the general revenues.

Assessment of Needs

In assessing the needs of the respective States, the main objective which the Finance Commission kept before itself was to ensure that the States had sufficient revenue to meet not only their normal expenditure but also their demands in respect of the Plan on revenue account. In order to arrive at what may be regarded as a reasonable level of normal expenditure, the Commission made certain adjustments in the estimates submitted to them. The more important adjustments were: (a) All items of capital nature, if they appeared in the estimates for revenue account, were omitted.

(b) No provision was allowed for payments from revenue accounts towards the capital cost of abolition of zamindari. (The existing practice of meeting the capital cost of abolition of zamindari out of additional land revenue throws, in the opinion of the Commission, an excessive burden on the revenue budgets. In the Commission's view, the cost of compensation for zamindari abolition should be met from outside the revenue account.)

(c) No provision was allowed for amortisation of debt. In the present circumstances, says the Commission, when the public debt of the States is increasing and the States depend, in a substantial measure, on devolution of Central revenue for meeting even their committed expenditures, it is unrealistic to provide for amortisation of debt from revenue; as such provision has, in effect, to come from further devolution of Central revenues.

(d) Transfers to special funds meant for financing capital outlays were also excluded.

(e) On the revenue side, the Commission proceeded on the assumption that the cost of any extention of prohibition will be met by special taxation, and also that the tax revenues expected to be raised by the States under the Second Plan will be forthcoming.

(f) The Commission assumed that specific grants to be made by the Centre will be of the same order as indicated in the Second Plan.

Import Requirements of Small Industries

APPLICATIONS from small scale industries for import of essential raw materials, machinery and components will be considered by the licensing authorities on an ad hoc basis. To assist these industries, the form of the Essentiality Certificate, to be obtained from the State Director of Industries concerned, has been simplified and published in the current Red Book.

Applications from small scale industries, duly supported by the Essentiality Certificate, should be made to the licensing authority concerned through the Regional Joint Development Commissioner for Small Scale Industries. Applications should not be submitted to the licensing authorities direct.

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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 Ninth Annual General Meeting held on 28th November 1957:

Gentlemen,

It is indeed a great pleasure for me to meet you each year and discuss your company's affairs as well as the problems of the shipping industry in general.

Review of Progress

Last year I had indicated to you that the company would be faring well in the Financial Year 1956-57 and had expressed the hope that the company's freight earnings would reach the target of Rs. 3 crores. You will find that we have done even better than what I could forecast at that time. Our freight earnings have totalled Rs 3.63 crores as compared with Rs. 2.11 crores in the previous year. The total cargo liftings which stood in the previous year at 461,987 tons went up to 743,216 tons. The net profit recorded a rise from Rs 24.95 lakhs in the previous year to Rs. 67.61 lakhs. The management's careful planning of voyages and exercise of vigilance to ensure the best possible results for each voyage, keen devotion of shore as well as ships' staff to their work and duties and loyal co-operation from the agents at various ports contributed to these excellent results. We could derive some, although limited, advantage of the flourishing international freight market by employment of our more efficient owned ships in the overseas trade and operation of cheap chartered ships in their place in the coastal trade.

Theory in Practice

As I mentioned in my previous annual speeches to you, there was a great deal of prejudice against and opposition to taking out of owned ships from the coast to the overseas tramp trades. With great difficulty we had been able to persuade our shipowner friends and the Government and obtain their agreement to a scheme under which we diverted some of our better coasters to overseas trade and substituted them by cheap old time-chartered ships on the coast for carriage of bulk commodities, namely, coal and salt. Although we explained the advantages that would accrue to Indian shipping and the country, our shipowner friends and the Government were not fully convinced of the implications of our theory. We were granted permission to try out our scheme for a period of two years in the first instance. This permission was granted on the basis of certain conditions mutually agreed between the Government and ourselves. One of the main conditions was that the coasters once taken out of the coast would become overseas trampers and within two years new ships would be bought by us in their place for coastal trading. If I lay the facts before you as to how this theory has worked in practice and benefited your company as well as the country, I am sure, the last vestiges of prejudice will disappear and there will be a proper appreciation of the concept of "freedom of operation".

More Foreign Exchange

Gentlemen, I can reveal that your entire fleet excepting "Jag Laxmi" was primarily intended for coastal trading. If we had accepted the widely held but erroneous notion that, come what may, only Indian-flag ships should participate in the coastal trade and had not displayed the enthusiasm of taking out our owned coasters to the overseas trade, what would have been the result? Our six big ships including the tanker "Jag Jyoti" would have earned on the coast Rs. 1.50 crores as freight. Our two small coasters would have earned Rs. 30 lakhs as annual freight on the coast. With m.s. "Jag Laxmi's" freight earnings of Rs. 20 lakhs in her 4-month trading, the total freight earnings of our fleet would have amounted to Rs. 2 crores. By taking out owned ships out of the coast and substituting them by cheap charters, we have achieved the far higher freight earnings of Rs. 3.63 crores at an additional expenditure of Rs. 64 lakhs by way of charter hire on the charters in the coastal trade. This step has benefited not only your company but also the country by ensuring additional foreign exchange earnings. Recently, we made a careful assessment of the extra foreign exchange earnings arising out of our scheme. It was found that in one year and nine months the net foreign exchange earnings after deducting charter hire on coastal charters and disbursements at foreign ports, amounted to almost £500,000. It is hoped that now there would not be any prejudice against our scheme which has secured substantial marginal foreign exchange earnings for the country.

The foreign exchange earnings on account of shipping services are called "invisible earnings" and these earnings can play a vital role in maintaining a favourable or reducing an unfavourable balance of payments position of the country. The marginal exchange earnings accruing to our country under this scheme of ours are perhaps more "invisible" than the usual "invisible earnings" from shipping. We are proud of this unique character because we are perhaps the only company making contribution of marginal foreign exchange earnings to the national exchequer in this way.

Tramping Activity and Wisdom Behind Freedom of Operation

The company would have achieved still better results if it had enjoyed unrestricted freedom of operation. Right from the beginning, we had been urging on the Government to recognise the importance and special problems of tramp shipping. In spite of the all-round ignorance of and consequent prejudice against the requirements of tramp shipping, we not only pioneered but also persevered in this branch of shipping. As the liner interests and prejudices influenced and dominated the Government decisions, our path was strewn with many difficulties and obstacles. I am, however, glad to say that subject to our Government keeping up their commitment made in 1956 and permitting purchase of two cheap second-hand vessels for our coast we would establish a small nucleus of three

large tramp ships. With the operation of such a tramp fleet the Government is also realising its peculiar problems and lends a sympathetic ear to the requirements of tramp shipping.

Complete freedom of operation is enjoyed by tramp shipowners all the world over, and has been responsible for the rapid and spectacular growth of shipping in countries such as Norway and Greece. Two years ago, from this very forum I had made the following observations:

> "Two-way timechartering is an integral part of shipping, especially of the tramp trade; at times this is particularly useful in covering business risks; besides, long-term chartering out of ships at favourable rates can directly stimulate tonnage expansion since it widens the opportunities for gainful employment of vessels and also enables a shipowner to plough back booked profits on a planned basis rather than depend on anticipated profits from trading which may or may not come true".

If these words had been heeded and if the ban on time-chartering out of Indian ships had been lifted, our "Jag Laxmi" could have been time-chartered out for one or two years at the very favourable rates prevailing in the first half of 1957. This vessel alone would then have earned net foreign exchange annually of the order of £375,000. Your company would have earned back the whole cost of the ship viz., Rs. 1.20 crores in about 2½ years. The company's net earnings and the country's net foreign exchange earnings in 2½ years on this vessel would have been sufficient to purchase another ship costing as much as "Jag Laxmi". The foreign exchange famine has jeopardised the success of our Five-Year Plan itself and it saddens my heart that owing to the dogmatic approach on the part of the Government, such splendid opportunities for earning foreign exchange were missed.

My observations are not intended to lament the past but to draw the pointed attention of the authorities to the correct approach to this problem in future. The fallacy of the Government attitude can be further evidenced by the fact that whilst we can time-charter foreign ships for overseas trading, we cannot time-charter out Indian ships to foreigners. This means that whilst we can buy freight wholesale, we are not allowed to sell it wholesale. When the freight markets are likely to fall, the tramp operator must sell wholesale part of his shipping space at the prevailing favourable rates. If he is not permitted to do so, he is bound to sustain losses in retailing freight voyage by voyage at the progressively declining rates. Lately this subject has been discussed personally with the high Government officials and I am glad to say that the Government is realising that its rigid attitude in the past prevented the country from earning foreign exchange. May I express the hope that in future, whenever opportunities present themselves again, the Government will permit the tramp operators to time-charter out some of their ships for a period of trading at the favourable rates and help book the profits for the company and foreign exchange for the country?

Discrimination in the Allotment of Government Cargoes

The Government is the largest single importer of goods into the country. With the activities of the State Trading Corporation, the Government is acquiring a larger share in the export and import trade of the country also. In view of the control of the Government over large quantities of cargo moving into and out of the country, it is most important for the Government not only to allot these cargoes for shipment to Indian ships on a preferential basis, but also to allocate them on a fair and equitable basis whenever the ships operated by the Government Shipping Corporations and those operated by the public limited companies are competing for these cargoes. The Government spokesmen have announced from time to time that it is not their intention to foster the development of Government Shipping Corporations at the cost of the shipping companies in the private sector. Many a time we find that these intentions do not get translated into practice and the Government Shipping Corporations are favoured to the detriment of the companies in the private sector.

Illustratively I may say that we have a contract with Japanese importers for the carriage of ore from India to Japan. Our ships which discharge ore cargoes in Japan require to return with cargoes from Japan to India. Considerable railway cargoes are moving from Japan to India on the account of the Government. These cargoes are of a tramp nature inasmuch as they are imported for development of Indian railways and do not constitute regular liner movement. In view of the tramp nature of these cargoes, the least that we could have expected was an equitable distribution of these cargoes between the ships of the Government Corporation which operates ships on a liner basis and your company which employs ships on a tramp basis. However, to our great regret, we found that when our owned ship was ready recently to load this cargo in Japan and was offered to the Government accordingly, the Government Shipping Corporation was allowed to time-charter a ship and carry the entire available cargo to the exclusion of our ship. Even the unnecessary foreign exchange expenditure that was involved in needlessly chartering a foreign ship was ignored and our owned ship had to suffer on the return voyage! I am sure, the Government's aim is to foster the development of Indian Shipping and any discrimination between Government corporations and shipping companies in the private sector is bound to retard the development of Indian Shipping. I understand that further Indian railway and other cargoes have been purchased from the Far Eastern countries. May I appeal to the Government to ensure equitable distribution of these cargoes between the Government Corporation ships and our ships that require return employment from Japan?

Burma-India Rice Trade

It was in the second half of 1956 that the Government invited us and we co-operated in ensuring entire carriage of this movement by Indian Shipping companies. At that time 300,000 tons of rice had to be moved quickly within six months from Burma to India. The shipping companies discussed between themselves and worked out the capacity of each company to transport these cargoes. Your company was assigned a quota of 23.3 per cent of the entire movement. However, in fact we carried about 26 per cent of the cargo. In the calendar year 1957 about 500,000 tons of rice was to be imported from Burma. After the rates and terms of this carriage were fixed, the Director General of Shipping had to arbitrate as to what percentage of cargo each

company was to carry because there was no agreement between Indian Shipping Companies on this point. Your company legitimately asked for a 25 per cent share in this trade. However, it accepted the small quota of 19 per cent without any protest in deference to the wishes of the Director General of Shipping who endeavoured to bring about an agreement between the shipping companies. We could also afford to be generous because our ships were being fixed in the overseas markets at handsome rates.

For the ensuing year, however, we must insist on our legitimate share as the second highest carrier especially because, among other things, we have added 22,000 d.w. tons of shipping to Indian Registry after our carriage of 26 per cent of Burma rice shipments. Your company has proved its worth historically and the expansion of tonnage and activities already implemented by it deserve recognition and encouragement. Next year I hope to report to you on the new high that your company would be reaching in the carriage of rice from Burma to India.

Coastal Target

The Rail-Sea Co-ordination Committee has estimated that by the completion of the Second Five-Year Plan the coastal ships will have to carry about five million tons of cargo annually as compared with less than three million tons carried at present. This would involve a tremendous expansion programme for companies operating on the coast and your company's tonnage position on the coast would have to be augmented considerably. In fact, we foresaw this long ago and started adding tonnage at a fast pace. It is your company that took the initiative and put in considerable efforts for the release of U. S. moth-ball Liberties for our coastal trading—as a stop-gap arrangement. These efforts have not borne fruit yet. In any case with the increasing cargo movement on the coast, the scramble for cargo between coastal shipping companies is bound to disappear and give place to healthy competition between shipping companies as to how fast they can expand their tonnage. It appears to me that companies like yours with a smaller share, as compared with larger companies, will carry more of the additional cargo movement that will arise. I hope that by 1961 your company would carry 25 per cent of the total coastal cargo and this will be possible without in any way disturbing the existing tonnage of bigger companies.

Tonnage Expansion

Gentlemen, you are aware that under the Second Five-Year Plan the target of 900,000 g. r. t. is to be achieved by 1961. This is apart from the acquisition of tonnage for replacement of old and obsolete units. The inadequate funds that were earmarked under the Plan for tonnage expansion both in the public and private sectors have been exhausted and we have still to acquire about 200,000 g. r. t. to reach the target. There is general agreement that the present is the opportune time for acquisition of tonnage. The tonnage prices have registered a considerable decline and the country should avail of the favourable tonnage market in time and acquire the required tonnage. If both the rupee funds and foreign exchange are not made available in time, we may miss the bus this time also.

Your company in fact has a commitment with the Government under which two coasters must be acquired in the near future to replace the two ships that were taken out of the Coast for overseas tramping by us nearly two years ago. As pointed out earlier, under this arrangement your company has earned almost £ 500,000 as marginal foreign exchange. This is a contribution in a unique way which would enable us not only to cover the cost of acquisition of the two coasters in foreign exchange but also to establish permanently an exchange-earning nucleus of tramp ships by providing their permanent replacement in the coastal trade.

Apart from this long-standing and special commitment which applies only to your company, we also propose to participate wholeheartedly in the general tonnage expansion programme for the Indian shipping industry. The shipping industry is already earning foreign exchange for the country and release of foreign exchange for acquisition of ships will result in continuous enlargement of the country's foreign exchange pool. I would earnestly request the Government to grant top priority to the shipping industry in the allocation of the limited foreign resources that are available and thus enable the shipowners to seize the present opportunity for addition of tonnage.

Expansion and Development Of Ports and Port Facilities

A good deal has been said on the urgent necessity and the great importance of the expansion and development of ports and port facilities and the Government seems to be seized with the matter. I would therefore only draw attention to one important aspect of the matter.

The drawing up and execution of our immediate plans for expansion must be done in such a way that they should be capable of being dovetailed easily into the port development plans under the successive Five-Year Plans. In a growing economy we must have regard to the "peak handling" that will result after the successful completion of a number of Five-Year plans. Immediate development or expansion must not adversely affect the scope for ever-continuing expansion in the future.

I also feel that due to very large quantities of foodgrains that are going to be imported, provision for mechanical handling of foodgrains must be made at the ports of Calcutta and Bombay. Similarly in Madras mechanical equipment for discharging of coal should be installed. This is essential not only for ensuring quick despatch of these cargoes but also for keeping these ports free for the expeditious handling of other cargoes. The mechanisation should not scare dock labour because in the set-up of the growing sea-borne trade, the skilled dock labour released by mechanisation can be gainfully absorbed elsewhere on the water-front.

Future Prospects

I have always subscribed to the theory that shareholders are entitled to a reasonable share of any increase in surplus earnings. However, there are many considerations involved in deciding what the distribution should be in any given circumstances. Among these considerations is the current outlook and the desire, if at all possible, to avoid violent fluctuations from year to year. Unfortunately, shipping does, notoriously, have to face fluctuations not only those which are common to any industry, which are subject to the ordinary laws of

supply and demand, but also such as arise from changes, some times sudden and unexpected, in national and international relations and in the economic and financial field. Since the close of our financial year, there has been a sharp fall in the freight market: tonnage is plentiful and open market freight rates are on a much lower level. Business itself seems to have contracted. However, as far as we are concerned our interests are in four directions. First, we are interested in the coastal trade, where terms better than those prevalent some time ago have been granted by the Government in accordance with the recommendation of the Rail-Sea Co-ordination Committee and a small increase in freight rates has been given to us. Our second interest is in the Burma/India rice trade. The freight rates fixed by the Government up to the end of 1957 are attractive in comparison with the coastal freight rates. The Government is however seeking a revision of the terms effective from 1st January 1958 and these terms are still to be finalised. Our third interest is the employment of the tanker which has been fixed for a period of five years at a lucrative charter hire rate. The fourth interest is in the international trade, where we have to face competition and where the markets have slumped. We are, however, in a fairly fortunate position of having contracted for the carriage of ore from India to Japan at favourable rates of freight.

The gross freight earnings during the first five months of the current financial year have exceeded Rs. 1.60 crores. There are still almost seven months to go and the results therefore cannot be forecast accurately. As against the adverse freight market, we are fortunate in having additional owned tonnage, namely, Jag Laxmi and Jag Janani, under our operation and the advantageous freight cover in respect of ore shipments to Japan. It would be reasonable, therefore, to expect that, subject to unexpected or unforeseen developments, this year's results will be in line with those achieved during the last year.

I have now come to the end of my speech and wish to thank you for the patient hearing accorded to me. You will no doubt wish me to thank the Transport Minister, the Transport Secretary, the Director General of Shipping and other officers of the Transport Ministry and Directorate General of Shipping for their assistance. I shall also place on record sincere appreciation of the devoted services of the members of staff both afloat as well as ashore.

May I now move for the adoption of the Annual Report and Accounts for the year ended 30th June 1957?

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

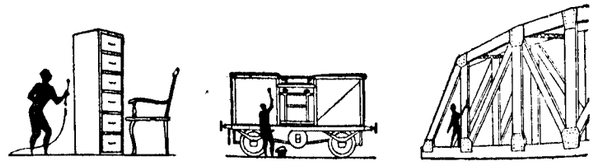
Sugar Production

THE production of sugar amounted to 0.56 lakh tons up to November 15, 1957 of the current season, which began on November 1, as against 0.45 lakh tons in the corresponding period of the last year.

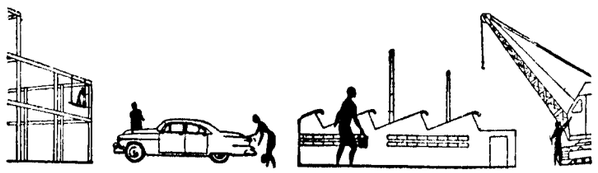
The total off-take, including quantities despatched for exports, was 0.72 lakh tons. The stocks with the factories on November 15, 1957, stood at 4.13 lakh tons.



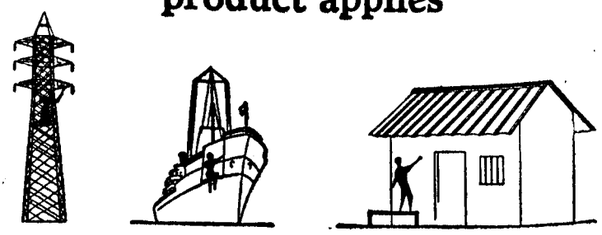
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Around Bombay Markets

Investors Regain Confidence

Thursday, Morning

IN spite of a slight reaction against earlier buoyancy, Dalal Street gives visible evidence of a revival of genuine investment inquiry. The Life Insurance Corporation's operations have helped investors recover their confidence in the capital values of most leading scrips. It is widely—and almost convincingly—felt now that shares will not decline to any significant extent below existing levels. On the contrary, the continuance of high industrial production and earnings is expected to raise capital values, and perhaps even dividends. Investors' orders to brokers, therefore, are now tending to improve. Several first class offerings from rentier magnates in large lots at Calcutta as well as Bombay have failed to depress either market. Actually, brokers are eagerly canvassing to secure some of these lots to fulfil, and in anticipation of, their clients' demands. Shipping and Sugar shares, particularly the former, remain top favourities in response to their excellent results and prospects. Sentiment during the week has also been aided by the firmness of Plantings at Madras, where investors appear to be keen to buy in anticipation of capital appreciation in the near future.

An indication of revival in investors' confidence is provided in the budla rates for the settlement last Friday, which tended to be rather on the high side, implying an over-bought position. The clearing list for the settlement is not available at the time of writing, but it is expected, nevertheless, to show a substantial expansion in turnover.

L I C Funds

Since November and December are traditionally prosperous months for life insurance business, the L I C is expected to have a larger amount of investible funds at its disposal over the next three months or so. This should exercise a further invigorating influence on Dalal Street. The only snag in the L I C's support is the rather unpredictable manner of the Corporation's selection of scrips for investment. So far its major operative principle seemed to be to enter the market whenever it could secure first rate scrips at low prices. Now that the stock market has recovered, however, this ad hoc principle can, no longer be applied. It would have to be replaced with somewhat more satisfactory criteria of choice, which not merely safeguard the policyholders' funds but also enjoy the market's confidence.

Time Deposits Rise Further

During the week ending November 15, time deposits of scheduled banks continued to rise at the expense of demand deposits, the respective figures being (+) Rs 6 crores and (—) Rs 13 crores, against last week's (+) Rs 5 crores and (—) Rs 7 crores. During the same week, the State Bank's total deposits declined by another Rs 4 crores, and its 'Other assets' came down to normal through a contraction of Rs 9 crores. Total bank advances are lower by Rs 9 crores, of which State Bank's share is Rs 3 crores. The entire expansion of Rs 4 crores in cash balances is attributable to the State Bank, which, however, is responsible to extent of barely Rs 0.5 crore in the contraction of Rs 5 crores under call and short loans—a contraction, which has occurred on such a scale for the first time since the first half of August. There is no change in gilt-edged investments. On the whole, it is obvious that the seasonal influence has yet to make an impression on banking statistics.

What appears at first sight a record amount of deficit financing to the tune of Rs 32 crores, during the week ending November 22, is actually attributable in large part to a transfer of Rs 21 crores from Ways and Means advances to Investments within the Banking Department. Foreign securities have declined during the week by Rs 12 crores to Rs 280 crores but this has been partially offset by a rise of Rs 8 crores under 'Balances held abroad'. Bankers' deposits have expanded by another Rs 7 crores while loans to them are lower by Rs 4 crores. Note circulation has contracted by Rs 6 crores.

Heavy Buying at Sewri

While Kalbadevi has witnessed alternate bouts of speculative buying and selling with daily turnover moving between 8,000 and 10,000 bales, Sewri has been the scene of heavy buying by mill interests during the week. Domestic as well as foreign varieties were in great demand and prices in general rose by about 5 points; daily turnover exceeded 4,000 bales for the greater portion of the week. Towards the end, firmness in the spot market inspired consistent buying at Kalbadevi, raising Jarilla March from around Rs 701 to nearly Rs 713 before news of Eisenhower's stroke and heavy arrivals at terminal markets brought about all round liquidation with a turnover on Wednesday of 17,000 bales.

The release of an export quota is eagerly awaited at Kalbadevi but reports of its imminence have proved premature.

Oilseeds Ease

Oilseeds have tended to ease during the week on reports of rains in Gujarat and heavy arrivals in Madras and other growing areas. Groundnut, however, firmed up after a mid-week decline on support from spot buying.

Rally in Silver

After several weeks of bear regime, silver turned firm last week on account of dwindling arrivals and recovery of spot demand. Gold, on the other hand, tended to ease somewhat in the course of narrow movements.

Foreign Shipping Companies

The estimated freight payments to foreign shipping interests on account of our imports and exports (on private and Government accounts) during the years 1954, 1955 and 1956 were Rs 55 crores, Rs 67 crores and Rs 74 crores respectively. The total freight payments on food imports were as follows: 1954-55—Rs 6.17 crores (including Rs 3.58 crores for sugar); 1955-56—Rs 3.02 crores (including Rs 0.42 crore for sugar); and 1956-57—Rs 18.31 crores.

This was revealed by Shri B R Bhagat, Deputy Minister for Finance, in the Lok Sabha last week.

Around Calcutta Markets

Hesitant Trend

EQUITIES have recovered a portion of the lost ground at the time of this writing. But Lyons Range remains hesitant. There are many reasons for this hesitancy. Reasons for the set-back and the subsequent partial recovery are discussed below. But the market would seem to be healthier for the set-back. It started last Wednesday because of settlement considerations. Later events aggravated the decline. At lower levels, there has been some replacement buying. As a result, equities are now steady at the lower level.

Even "bulls" should welcome such set-backs occasionally. In the drop in equity values in the last few days, weak "bulls" have been eliminated. That is, technically, a desirable development. If the present steady trend in equities is to persist, there must be such occasional set-backs so that the market is never burdened by an "over-bought" position. On technical grounds, therefore, these is nothing wrong with the recent set-back and the gradual recovery in the first two days of the current week.

Plan Debate

What of the immediate outlook? Immediately, the drop in equities was due to the Lok Sabha debate on the Second Plan. No clear picture has emerged out of the debate. By the time of the next budget, the situation is likely to be clarified. But it is even now clear that the Plan will have to be slashed. As TTK informed the Lok Sabha the expenditure target has now been again revised downward to the original target of Rs 4,8000 crores. This is an indirect way of saying that the Plan has been cut down.

Since the original estimates, prices have risen. Some Plan projects had been added. But both the Prime Minister and the Finance Minister repeatedly assured the Lok Sabha that "the hard core" of the Plan will be implemented. Some power and fertilizer projects may have to be abandoned. But the basic structure of the Plan will remain in tact. Without beating about the bush, the plain truth is that the Plan has been slashed. Whether the pruning of the Plan will affect the tempo of economic development depends on whether the pruning will be done with calculated precision. Some members of the Lok Sabha were right in expressing concern over this aspect of the Plan debate.

Higher Taxation

Stock markets do not yet seem to be worried about the posible effects of a smaller Plan on the economy. But investors as well as speculators expressed their reaction to TTK's emphasis on further mobilisation of internal resources by liquidating their holdings. Belatedly, stock markets corrected their earlier hasty reaction to the Finance Commission's recommendations. As the Union will have to distribute more to the States, the possibility of any major tax relief at the Centre is now remote. But that is not the main theme of TTK's reply to the debate on the Plan in the Lok Sabha.

Both TTK and the Prime Minister emphasised that, in the long run, the Plan will depend upon mobilisation of internal resources. This contention will not be seriously disputed, even though the immediate repercussions of the foreign exchange crisis are only too evident. TTK made it clear that the States will have to raise taxation further. Fears of a heavier tax load was the main reason for last week's fall in equities. Such fears are not without basis. That being so, the drop in equities was not without justification. But it must be conceded that stock markets were prompt in rectifying their earlier optimism.

Dollar Aid

Another factor which aggravated the fall in equities was the Washington report that President Eisenhower had decided not to approach Congress for a big loan to India. That Washington would not seek special Congressional legislation, was not unknown or unexpected. But the Washington report also indicated that, in the circumstances, American aid to India may not exceed 150 million dollars. Equities fell as realisation dawned that this reported dollar aid would be insufficient to meet India's prevailing foreign exchange crisis.

Wednesday, Evening

Stock markets were caught unawares by this reported estimate of dollar aid. Only a couple of days ago, Shri G D Birla, leader of the Industrial Mission, expressed his opinion in his statements in Bombay that dollar aid would be at least 250 million dollars. TTK also assured Lok Sabha that the expected dollar loan would not be inadequate though it might not be available in time. There have been attempts, in the last few days, to discredit the Washington report. But stock markets are inclined to the view that, as the Washington report indicates, American aid will not be adequate. This is not a wrong inference in the light of the latest intensification of the "cold war".

Foreign exchange scarcity will affect Plan projects in the public sector. But the private sector, Shri Birla explained in his Bombay statements, has no foreign exchange problem. It is assured of export credits and of private foreign investment. That is the experience of Shri Birla and his Industrial Mission. T T K also seems hopeful about private foreign investment. More than once, doubts have been expressed in these columns about the extent of such aid. Though Shri Birla does not refer to these doubts and the arguments on which these doubts are based, he has furnished another explanation why foreign private investment may not be forthcoming in the needed volume.

Private foreign capital may be interested in participation in rupee ventures. But before domestic capital can seek such help and cooperation, it must be able to raise enough rupee finance to back its industrial plans and projects. Shri Birla's main complaint is that, in the prevailing conditions in the money and capital markets, the private sector is unable to raise capital. That being so, private industry in this country is unable to benefit from the willingness of private freign capital to participate in the economic development of this country. It is not, therefore, surprising that equities are hesitant. Foreign exchange scarcity and lack of internal finance are the two shadows which hang over stock markets.

Company Notes

India Steam

INDIA STEAMSHIP, our second largest shipping company, shows excellent results for the year ended March 31, 1957. Freight earnings have increased from Rs 526 lakhs to Rs 600 lakhs in spite of the Suez crisis, while the profit margin on freight has risen still more impressively from 7.4 per cent to 17.9 per cent. Net block has gone up in value by 37 per cent to more than Rs 10 crores, and liquid assets including investments, cash and current assets have risen from Rs 239 lakhs to Rs 335 lakhs. Loans from the Government of India secured by mortgage of the Company's ships now aggregate to Rs 798 lakhs as against Rs 550 lakhs last year.

The Company earned net profit of Rs 107 lakhs during the year against less than Rs 39 lakhs in the previous year, raising the net earnings per equity share of Rs 10 each from Rs 1.70 to Rs 4.80. Of this amount, Rs 15 lakhs have been transferred to taxation reserve which now stands at Rs 23 lakhs; Rs 35 lakhs go into the general reserve to raise it to a total of Rs 100 lakhs; and the newly opened dividend equalisation reserve and fleet replacement reserve receive Rs 23.75 lakhs and Rs 7.27 lakhs, respectively. After paying Rs 1.25 lakhs as dividend on the 5 per cent C R preference shares, a dividend of 10 per cent, the same as last year's, is recommended on equity shares. The latter will absorb Rs 22.50 lakhs, leaving Rs 2.71 lakhs against Rs 26,000 to be carried forward. The distribution thus amounts to hardly more than 22 per cent of the year's profits. The aggregate reserves and surplus have consequently risen from Rs 73.26 lakhs to Rs 175.46 lakhs. The share premium account of Rs 24.99 lakhs is proposed to be utilised to issue bonus shares, subject to the consent of the Controller of Capital Issues. Since the authorised and paid-up equity capital at present is Rs 225 lakhs a bonus issue of one share for every nine held may be considered likely. This would necessitate increasing the authorised equity capital, for which purpose a special resolution is proposed to be moved to raise it to Rs 425 lakhs, which together with the authorised preference capital would make the total Rs 5 crores. If and when it is decided to raise the extra amount, a rights issue of around two shares for every three held may therefore be expected.

Considering its excellent working results, strong reserve position, and a current net yield of Rs 8.5 per cent on its stock, it is not surprising that India Steam has been a hot favourite in every stock market in the country in recent days.

Indian Airlines

THE fourth annual report of Indian Airlines Corporation indicates that the nationalised undertaking is still in the throes of reorganisation. Whether it is the type of aircraft or their maintenance, the finalisation of employees' pay scales or the training of pilots, the terms of Government loans or operational efficiency, the Corporation's latest report has the same story to tell though it must be admitted that things seems to be getting better.

Compared to the previous year, there has been a rise of 14.8 per cent and 8.3 per cent in passenger and mail revenue, respectively. Cargo revenue has declined by 2.3 per cent; but total scheduled service revenue has gone up by 9.5 per cent. The revenue earned per ton-mile of traffic increased slightly from Rs 2.18 due to more remunerative traffic but the cost per revenue ton-mile of traffic amounted to Rs 2.56, revealing a gap of Rs 0.38 per revenue ton-mile which aggregated to a total loss of Rs 109 lakhs against Rs 119 lakhs in the previous year. Reorganisation of the rate structure now awaits the Government's decision on the Air Transport Council's recommendations.

The basic trouble, however, lies not in rates, which though low by international standards are on the whole well aligned with Indian conditions, but in the Corporation's difficulty in cutting down its expenditure. Of the total increase of Rs 42 lakhs in its expenditure, Rs 21.85 lakhs was on account of higher staff emoluments which, incidentally, have failed to satisfy the staff so far, while Rs 8.93 lakhs was attributable to higher depreciation charges, consequent on the introduction of new and more expensive aircraft. Of the remainder, fuel and oil accounted for as much as Rs 24.05 lakhs. After this, the Corporation has been left to derive what satisfaction it can from the fact that its total contribution of more than Rs 113 lakhs to public revenues by way of excise duty, sales tax, customs, etc, exceeded its accounting loss for the first time.

The increase of losses from an estimated Rs 75 lakhs before nationalisation to Rs 109 lakhs now cannot, in fairness, be attributed to nationalisation as such. The villains of the piece, so to say, are the employees' appetite for higher emoluments and the Corporation's eagerness to have new, up-to-date aircraft—both of which cannot simply be avoided. Since everywhere else, too, austerity is merely for the pulpit, Indian Airlines can hardly be blamed for being conspicuously prodigal-catering excepted.

Ahmedabad Electricity

UNDER the Indian Electricity Rules, 1956, electricity companies are obliged to compile their accounts upto 31st March of each year. This has necessitated the adoption by the Ahmedabad Electricity Company of accounts for a short period of six months—October, 1956 to March, 1957. The Chairman, Mr K G Milne, in his speech assured the shareholders of the company that there was no prospect of another fall in the company's equity value. He was confident of the company's future capacity to maintain a level of dividend that would set its fortunes on an even keel. He also expressed the hope that as a consequence of the recent legislative changes reinforced by Case Laws established by the rulings of the Central Electricity Authority, the investor's confidence will be restored in the electricity industry and that there would be a steady flow of capital to the industry in future.

Although the directors proposed a dividend of Rs 3-25nP for the six months, the company was faced with a short-fall of Rs 6¼ lakhs in the "reasonable return"; this is stated to have been due to the provision of Rs 4.8 lakhs made for wealth tax.

Killick Industries

Working results of Killick Industries for the year ending June 30, 1957, have been adversely affected by tax arrears for previous years and heavier taxation this year. A sum of Rs 2 lakhs has had to be transferred from the dividend equalisation reserve to maintain the dividend at 11 per cent.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1480.90	1487.04	1486.20	1439.61
2. Rupee Coin	134.72	133.75	133.72	122.32
3. Deposits				
a) Central Government's	53.19	51.63	52.55	54.69
b) Banks'	109.23	102.15	106.91	52.04
c) Other Government's	9.44	8.19	11.02	12.72
d) Others'	110.95	111.00	111.73	13.66
4. Foreign Securities	280.19	291.83	311.71	457.24
5. Balances held abroad	32.67	24.37	15.39	84.63
6. Rupee Securities	982.29	970.65	950.78	765.47
7. Investments	261.48	239.91	241.84	61.13
8. Loans and advances to Governments	27.75	48.56	49.92	1.80
9. Other loans and advances	54.88	59.24	67.87	83.48
Scheduled Banks				
1. Demand liabilities (net)	732.91	747.18	730.15	653.40
2. Time Liabilities	657.15	651.47	627.44	457.92
3. Cash on hand	39.10	38.88	42.04	37.01
4. Borrowings from Reserve Bank	20.84	22.91	31.19	56.65
of which against Usance Bills	19.68	21.03	26.81	40.80
5. Advances and Bills discounted	791.52	798.68	800.24	711.64
of which State Bank's	158.94	161.40	162.64	127.43
6. Invst. in Govt. Sec.	407.32	407.37	384.96	365.56
of which State Bank's	163.89	164.08	151.83	106.62
Cheque Clearance	164.58	179.72	93.66	149.91

† For Reserve Bank week ended 22-11-57. Scheduled Banks and Cheque Clearance week ended 15-11-57.

Bombay Money Rates

	15-11-57	8-11-57	18-10-57	16-8-57
Call Money				
From banks	3-4 7/16	3-4 7/16	2 3/4-4 7/16	3 1/2-4 8/16
From public	3 8/16-4 8/16	3 4/16-4 7/16	3 8/16-4 8/16	3 4/16-4 7/16
Three Months	2 1/2-4 11/16	2 1/2-4 11/16	2 1/2-4 11/16	2 1/2-4 11/16
Six Months	2-4 7/16	2-4 7/16	2-4 8/16	2-4 7/16

Bombay Bullion (In Rupees and nP)

	28-11-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	108.31	108.37	106.62	105.59
Forward	108.31	108.44	106.81	105.84
Silver (per 100 tolas)				
Spot	182.75	182.62	181.75	174.81
Forward	182.75	184.06	182.37	175.56

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 9-11-57	2-11-57	12-10-57	10-11-56
Food Articles	**108.3**	**107.6**	**107.1**	**106.2**
Cereals	102	102	102	99
Pulses	84	83	82	83
Fruits & Veg.	113	112	107	118
Milk and Ghee	104	105	106	99
Edible Oils	132	131	129	132
Fish, Eggs & Meat	98	96	98	97
Sugar & Gur	113	110	110	113
Others	134	132	128	132
Liquor and Tobacco	**96.5**	**96.5**	**94.3**	**86.2**
Tobacco	95	95	93	85
Fuel, Power, Light & Lubricants	**114.6**	**114.6**	**114.6**	**106.5**
Industrial Raw Materials	**116.3**	**114.3**	**115.0**	**116.7**
Fibres	113	111	113	115
Oilseeds	125	121	121	123
Minerals	107	109	109	103
Others	107	107	107	110
Manufactures	**108.7**	**108.7**	**108.7**	**108.4**
Intermediate Products	**106.0**	**105.8**	**106.6**	**111.7**
Finished Products	**109.1**	**109.2**	**109.0**	**107.9**
Textiles	108	108	108	110
Cotton	116	116	117	120
Jute	98	99	99	100
Woollen	103	103	103	97
Silk & Rayon	82	82	83	85
Metal Products	141	141	141	131
Chemicals	99	99	99	93
Oilcakes	126	125	117	116
Machinery and Trans Equipment	102	102	102	99
Others	111	111	111	103
All Commodities	**109.6**	**108.9**	**108.7**	**108.1**

INDUSTRIAL DISPUTES IN INDIA

Year/Month	Disputes	Workers involved	Working days lost
1953	772	466,607	3,382,608
1954	840	477,138	3,372,630
1955	1,166	527,767	5,697,848
1955:			
Aug	236	90,218	533,999
Sept	251	92,619	580,031
Oct	134	47,600	214,214
Nov	99	48,609	178,112
Dec	129	45,277	239,550
1956:			
Jan	107	61,050	349,655
Feb	122	69,450	786,768
Mar	146	133,188	678,716
April	140	83,524	569,087
May	137	65,037	549,582
June	153	71,047	484,439
July	150	100,335	529,151
Aug	138	64,767	2,173
Sept	184	130,667	922,685
Oct	150	113,404	819,619
Nov	138	59,451	499,636
Dec	145	65,851	407,166
1957:			
Jan	154	128,896	395,003
Feb	135	103,288	260,794
Mar	116	42,700	277,013
Apr	144	59,309	353,245
May	164	64,546	434,879
June	131	85,124	649,314
July	139	54,822	723,854
August‡	109	60,960	556,699

‡Provisional

Sources: Deputy Labour Commissioner, Govt of Bombay.
Labour Bureau, Delhi.

INDUSTRIAL PRODUCTION

		1957 August	July	June	May	Apr.	Mar.	Monthly Average 1956	1955	1954
I	**Consumer Goods :**									
1)	Cotton textiles mn yds	420.5	458.9	419.6	453.0	464.4	453.1	442.3	424.5	416.5
2)	Woollen and worsted fabrics "	1.4	1.4	1.2	1.2	1.1	1.1	1.4	1.2	1.1
3)	Matches 000 cases	—	47.1	38.7	45.8	56.4	52.0	49.1	51.3	44.1
4)	Soap 000 tons	—	9.4	8.7	9.0	10.1	9.4	9.1	8.2	7.3
5)	Electric lamps mn	2.7	3.0	2.7	2.8	2.9	2.9	2.1	1.6	1.6
6)	Hurricane lanterns 000	—	316.2	382.9	363.8	362.2	524.2	431.6	457.3	415.6
7)	Razor blades mn	—	23.0	23.8	35.7	38.8	32.0	22.1	14.6	11.0
8)	Sewing machines 000	13.0	12.5	12.3	14.4	15.1	14.7	10.9	8.4	6.7
9)	Vegetable oil products 000 tons	—	22.9	25.7	26.8	25.4	27.9	24.9	21.3	21.7
10)	Electric Fans 000	43.7	44.5	40.0	45.3	46.7	43.8	28.2	23.5	19.9
11)	Radio Receivers 000	15.1	15.7	15.3	14.6	20.1	14.7	12.6	6.8	4.7
II	**Raw Materials or Intermediate Goods**									
1)	Cement 000 tons	454.5	425.1	393.1	448.4	456.4	491.6	410.7	373.9	366.1
2)	Coal mn tons	3.4	3.3	3.3	3.8	3.7	3.7	3.3	3.2	3.1
3)	Jute manufactures 000 tons	81.9	85.9	80.1	87.3	86.8	84.7	91.1	85.6	77.3
4)	Cotton yarn mn lbs	144.1	150.2	137.0	150.0	153.7	150.5	139.3	135.9	130.1
5)	Paper & paper board 000 tons	—	17.5	16.8	17.3	16.9	17.3	16.1	15.4	12.9
6)	Asbestos cement sheets "	13.3	12.9	11.2	12.4	12.5	13.2	10.0	8.7	6.6
7)	Chemicals:									
	i) Sulphuric acid 000 tons	—	18.5	17.9	15.8	13.0	15.5	13.8	13.8	12.6
	ii) Caustic soda "	—	3.1	3.3	3.3	3.6	3.8	3.3	2.9	2.4
	iii) Soda Ash "	7.5	6.9	7.8	7.3	7.5	8.5	7.0	6.4	4.0
	iv) Chlorine liquid tons	—	1,172	1,246	1,243	1,246	1,446	1,256	965	815
	v) Power Alcohol 000 gals	—	789.8	847.1	910.7	973.8	976.1	855.9	869.4	667.3
	vi) Rectified Spirit "	—	360.7	378.2	310.1	442.2	496.1	350.8	429.7	385.9
	vii) Denatured Spirit "	—	252.6	215.3	331.1	321.2	269.5	281.9	249.1	236.3
8)	Paints & Varnishes tons	—	2,847	3,252	3,603	3,612	3,295	3,467	3,253	3,068
9)	Rubber Products									
	i) Footwear lakh pairs	28.3	32.2	23.3	25.0	30.9	28.4	30.1	29.1	26.0
	ii) Tyres									
	a) automobile 000	83.3	84.4	77.5	84.7	90.8	82.3	78.2	73.5	69.4
	b) cycle "	605.0	612.6	589.2	614.5	668.3	580.2	526.7	479.0	435.5
	iii) Tubes									
	a) automobile "	76.4	86.4	81.2	84.7	84.8	82.0	76.5	65.5	62.4
	b) cycle "	592.2	574.2	568.0	611.7	651.4	550.6	531.1	466.1	464.8
10)	Non-ferrous Metals:									
	i) Copper (virgin) tons	620.0	670.0	680.0	700.0	700.0	735.0	635.7	606.8	596.8
	ii) Aluminium "	677.7	664.7	615.3	646.9	627.7	670.9	541.7	602.1	407.2
	iii) Lead (virgin) "	245.2	264.4	280.5	181.7	276.2	253.5	208.1	186.2	149.0
	iv) Antimony "	50.0	53.0	56.0	20.0	23.0	33.0	49.1	42.0	44.9
11)	Iron & Steel:									
	i) Pig iron 000 tons	—	142.0	133.7	145.1	145.8	158.3	150.6	146.4	149.4
	ii) Steel ingots & castings "	—	133.7	129.4	136.4	145.1	149.8	144.8	142.0	140.4
	iii) Semifinished steel "	—	117.8	102.8	118.4	121.1	130.7	123.7	121.4	121.0
	iv) Finished steel "	—	110.3	101.4	110.8	111.7	116.9	109.7	105.0	103.6
III	**Capital Goods**									
1)	Diesel engines nos	—	1,439	1,230	1,352	1,393	1,119	998	852	721
2)	Power driven pumps 000	—	5.0	4.9	4.9	5.4	5.2	3.9	2.9	2.4
3)	Machine tools 000 Rs	—	2,044.3	1,765.0	2,461.8	1,268.6	1,679.9	839.7	620.0	416.9
4)	Twist drills 000	241.8	270.8	194.5	216.7	35.1	84.3	129.1	64.9	44.9
5)	Calico looms nos	261	219	217	259	255	239	239	228	157
6)	Ring frames "	132	105	101	115	124	118	93	72	30
7)	Carding engines nos	111	101	79	48	63	92	61	50	36
8)	Grinding wheels 000 lbs	269.7	290.0	229.2	305.9	292.3	293.0	207.6	119.9	94.5
9)	Arc welding electrodes lakh ft	—	180.5	164.2	212.1	201.9	180.4	156.3	100.8	72.5
10)	Dry cells lakhs	158.2	165.9	133.0	122.7	143.0	141.6	151.2	134.2	123.9
11)	Storage batteries 000	25.8	27.6	26.6	25.9	26.5	27.6	26.2	19.6	15.7
12)	Electric motors 000 HP	39.6	43.4	30.5	38.8	38.6	36.0	29.9	21.0	15.6
13)	Power transformers 000 KVA	—	113.0	80.1	93.1	97.3	111.7	75.9	47.1	33.3
IV	**Transport Equipment**									
1)	Automobiles (total) nos	2,273	2,882	2,317	2,299	2,664	3,176	2,678	1,924	1,205
	of which:									
	i) Cars "	877	1,136	772	871	998	990	1,082	791	—
	ii) Jeeps "	415	574	256	195	461	577	345	278	—
	iii) Trucks & Buses:									
	a) Petrol "	265	111	116	366	278	337	366	406	—
	b) Diesel "	637	968	1,102	807	842	1,227	828	385	—
2)	Bicycles 000	—	52.8	58.8	68.7	63.1	64.0	55.3	40.9	31.0

Source: Directorate of Industrial Statistics.

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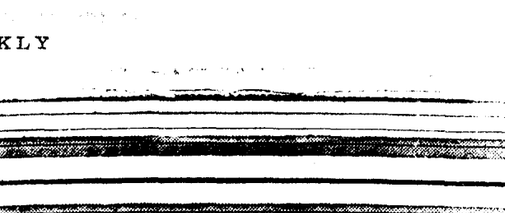
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The Commonwealth

SO often has the intangible substance, the undefinable common link, of the Commonwealth been stressed that there is a danger that the growing stresses and strains among the members, or changing political trends and ideals may tend to be minimised and obscured to the prejudice of the Commonwealth concept. Developing dissonances are no longer ignored or denied. Doubts prevail about the continued existence or the usefulness of the Commonwealth in the changing world conditions and circumstances. But it is generally assumed that, despite divergences, in spite of the changes in the complexion and the composition, the Commonwealth remains a valuable and desirable common bond. If imitation be the sincerest form of flattery, the Commonwealth can feel flattered that it has inspired not only America and colonial powers like France and Holland, but even the Soviet Union to attempts to create similar groupings of nations. And the Commonwealth can take pride and solace that these attempts have yet to be solidified, while it survives all fresh onslaughts.

It would be unfair to belittle the resilience of the Commonwealth. It is a product of the British genius. Like many other manifestations of that genius and tradition, it is neither logical nor the best evolutionary process that could be conceived. What is the common link that binds the Commonwealth? It was only to be expected that, at the inaugural meeting of the Commonwealth Parliamentary Conference in New Delhi, Pandit Nehru would stress that "all of us have a democratic functioning of parliamentary institutions." A parliamentary democratic form of government is, then, the quintessence of the Commonwealth. It will be conceded that Democracy may have many limitations, but it is the best form of government yet devised. But there are countries outside the Commonwealth, which also swear by Democracy. Washington or Paris would claim that America or France is as much a democracy as Britain or any other Commonwealth country. Democracy is the most distinguishing characteristic of Scandinavian countries. It is the main claim, right or wrong, of the Soviet Union that it and other Communist countries alone are striving for democratic Socialism.

Nor is the Commonwealth the only embodiment of the parliamentary system of government. It is the recognised form of government in all non-Communist countries. It is not arguable that the parliamentary system of government thrives only in Commonwealth countries. America, France, some other west European and Scandinavian countries have the same parliamentary form of government. So far as the technique of this form of government is concerned, the system of checks and balances, the British or the Commonwealth form is not necessarily superior or more effective than other varieties of the parliamentary system of government. Besides, even those who concede the claims of Democracy are not necessarily agreed on the equation between Democracy and a parliamentary system of government. Two questions arise. One relates to the ideological claim of Communism that it provides a better guarantee for Democracy than parliamentary institutions. Theoretical arguments behind this claim are not all false, though its practical results so far are against it. Legislation must be by consent. But it is now conceded that rule of law and the parliamentary system of government are not the only, or the best possible, means of ensuring Democracy.

Weekly Notes

Without Trial

BECAUSE the Congress-dominated Lok Sabha has passed the Bill to extend the life of the Preventive Detention Act, it would be wrong of the Government to assume that the principle and practice of detention or imprisonment without trial have the people's approval. Shri Dange's criticism that the Act has been exploited by the Government to suppress its political opponents may be without foundation. But it was significant that even some Congress members of the Lok Sabha argued against any extension of the Act. Amendments incorporated in the original Act since 1950 have succeeded in providing adequate checks against any arbitrary use of the power of detention. But the fact that the Congress Government has not abused its powers under this Act does not, by itself, justify the continued presence of this piece of legislation on the Statute Book.

If some of the criticisms against the Bill are untenable, the Home Minister's defence is no less thin. Shri Pant cited the Punjab agitation, Ramanathapuram disturbances and the Dravida Kazhagam campaign as instances and events which justified the Preventive Detention Act. These campaigns and disturbances can be adequately dealt with under and by the ordinary law of the realm, and do not call for any exercise of extra-judicial powers as preventive detention. Preventive detention may be necessary to combat secret, subversive activities. But the Government has not furnished any proof that such elements are active in this country.

New Delhi must not raise bogies to justify continued use of such an undemocratic process as preventive detention.

Transport Conference

IT is not clear either from the Chairman's speech or from the communique issued by the sponsors, namely, the Federation of Indian Chambers of Commerce and Industry, what was the immediate provocation to call a transport conference. The transport problem has been with us for quite some time and the Government is fully seized of it. This is clear from the inaugural address delivered by the Minister for Transport. It is doubtful whether the 150 delegates from all over the country assembled in the overcrowded capital had anything more to add to what has been already known to Government. Nor could the conference give a fresh lead to the solution of the problems which it raised.

We should say that Shri Chinai, President of the Conference, not a transport man himself, had not been briefed properly. When our Constitution is under fire in the South his insinuation that by and large the framers of our Constitution have drawn upon the 1935 Act and that the position has substantially changed was quite uncalled for. Our Constitution is not so cheap as all that to make public criticism of it a fashion. Is Shri Chinai convinced that an amendment to the Constitution is absolutely essential to solve our transport problems?

One of the solutions suggested by the Conference to reduce the overall insufficiency of railway wagons is to improve the operational efficiency of the railways by 10 to 15 per cent. This has already been accepted by the railways and our railways are striving to attain it. But two factors which keep the operational efficiency low are (a) the general morale of the staff and workers and (b) corruption. The first aspect Government should tackle. To stop corruption the cooperation of the industry and trade is equally essential. In this regard if an ardent Congressman like Shri Chinai had given a lead to his colleagues in industry and trade it would have gone a long way in solving the problem. When corruption is accepted as an evil why can't a powerful organisation like the Federation restrain the members of industry and trade from resorting to it?

The suggestion of the Transport Minister that railways should have an ancillary goods service by road for the transportation of surplus booking requires careful consideration. It appears that this idea originated from an impression that in some other countries such arrangements already exist. In respect of these matters it is not always safe to go by experience of other countries. Till now the role of railways in allowing other modes of transport to develop in the country has been negative. In the changed circumstances the railways may agree to develop ancillary goods service by road. Any idea which is econocally feasible and which will enable to carry surplus bookings should be welcome. Before the railways are encouraged to do it, economics of it will have to be worked out more carefully. It is also doubtful whether the States will agree to this idea.

Russian Economic Aid

SO far Russia was providing credit only to its satellite countries; this credit has been of the order of about £2 billion. However, now, Russia has entered the export credit business with the non-communist countries, and that too on a grand scale. By the end of 1956, arrangements for four major credit operations involving a sum of £130 million had been completed—£33 million to Afghanistan, £36 million to India and £24 million to Yugoslavia. During 1957, India has been granted a credit of £46.5 million, Egypt, of £60 million and Syria, of about £35—50 million. The 1957 total thus would exceed the 1956 level.

This annual rate of loans of about £130 million is slightly higher than the rate at which the World Bank is lending for development purposes. And the motivation behind these large loan operations is not simply political. The economic factors also seem to be quite important. Since Russia has specialised in producing capital goods, it is a worthwhile proposition for her to exchange her capital goods for the much needed consumers' goods, which other countries can produce more cheaply than her.

Annual Number 1958

The Annual Number of **The Economic Weekly** will be out in the last week of January.

Contributions for this Number should reach the Editor by January 10, 1958.

Advertisers who have booked space in this Number are requested to send in their materials by January 15, 1958.



The Story of Oil—4

Exploring for oil

It is impossible for anyone to say exactly where petroleum will be found. It accumulates in isolated subterranean traps, and these are what the oil-explorers seek, rather than the oil itself.

It must first be decided where conditions in past geological time have favoured the formation of oil. This is usually land which was once the site of an ancient sea. Having selected a likely area, the next step is to survey the surface, mapping exposed rocks and searching for any oil which has seeped to the surface.

The geologist is all the time patiently searching for signs that could point to the existence of underground rock traps. Traps suitable for an accumulation of oil consist of porous rocks in which the oil (if any is there) is hemmed in on all sides by non-porous rock. Clues to such buried structures may be found in the banks of rivers and streams, for here the earth's rock layers are often exposed to view, enabling the geologist to calculate their age and measure the directions in which they slope beneath the surface. The rocks may contain the fossilised remains of plants and animals that lived millions of years ago, when crude oil was being formed.

Aerial photographs help the geologist too. They reveal a surprising amount of geological evidence, even in densely wooded country, enabling him to map the differences in rock structure.

When all surface sources of information have been exhausted, the next step in the search for oil is to explore deep beneath the surface of the earth. The science which makes this possible is known as geophysics.



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Problem for Educationists

THE Union Public Service Commission, taking note of the remarks of examiners on the performance of candidates in written tests of the Commission, states in its eleventh report that 'the present system of education leaves much to be desired so far as the development and attitudes (of the candidates) is concerned'. The complaint is that the answers are based mainly on cramming, with no real grasp of subjects shown. The Commission does not refer so much to candidates appearing for higher services like the Indian Administrative Service, the Indian Police Service or the Indian Foreign Service as to those of a lower age-group who seek entry into other services. But even in regard to the higher examinations, the Commission takes care to point out that it is only a few hundreds that come to be selected ultimately out of 6,000 or more who take the test. As for the other services, the results have been very disappointing, the Commission states and adds that in interviews with the selection boards and in physical endurance tests, a distressingly large number of candidates from among those successful at the written examination have to be rejected. This poses a problem for our educationists, the Commission hints.

As if in partial answer to this, secondary grade teachers of Greater Bombay, meeting under the auspices of the Bombay North and Suburban Secondary Teachers' Association in the City last week, declared that the present heavy curriculum, overcrowding of classes and long hours of work had led to serious deterioration in discipline, learning and relations between teachers and the taught. The simple fact is that chaos reigns supreme in the educational field, with everyone who can claim acquaintance with the three R's and who attains a position of decisive influence, be it ever so temporarily, considering it his bounden duty to tamper with the curriculum, burden it with his fads or impose on it his half-baked ideas or fleeting fancies. Children are looked upon not so much as sensitive, impressionable recipients of knowledge, requiring gentle treatment, as guinea-pigs for airy experimentation or just so many beasts of burden, obliged to carry an ever-increasing burden of text-books to school or a crushing load of hastily-swallowed and inadequately-digested knowledge on their minds.

When even to go through these text-books and pick up the barest requirements for a pass in the examination would take all the time that a child could snatch from its long preoccupation with lessons in the class-room and its need of recreation and rest, how can there be any chance of its acquiring mastery over, or even a reasonable grasp of, its subjects? And with crowded, noisy class-rooms, teeming with restless pupils, how is the harassed teacher to give any individual attention or direct a child along the path of getting at the essence of knowledge rather than gobbling up a mass of facts and figures with an eye to the examination? The problem of reducing the present overcrowding in classes or increasing the proportion of teachers to the taught may have financial implications, not easily amenable to solution straightaway. But what is the difficulty in cutting down the curriculum to the minimum indispensable and particularly the number of languages being taught, which seem to be increasing merrily year after year; and what is the difficulty again in pruning down the school hours, so that children may have a little time of their own not only for recreation, but also for a little adventure of their own in the realm of knowledge and a little scope too for the free flowering of mind and personality in association with good companions, especially in the form of spontaneously chosen books?

Bugbears to Young

THE mere mass of knowledge in the world, particularly in the present atomic age, is swelling so fast that no single mind, unless it be extraordinarily gifted, can be expected to contain it all; nor is it so necessary, considering the vast number of reference books that are available for easy consultation. What is needed is an overall idea of things, a thirst for knowledge and along with it a capacity to get at facts and figures when needed and also the training to make use of them effectively. If schools could take care of children to this extent, then the latter could well be expected to take care of themselves thereafter. As the position is at present, most schools seem to attend practically to everything except this most important function of a training centre, with the result that most of the young ones, sick of cramming a multitude of useless subjects unrelated to one another, unrelated to life and often even unrelated to their life-work, get a life-long distaste for learning even if they do not lapse into near illiteracy on the rebound.

Instead of making books and their contents appear interesting and valuable to pupils and thereby awakening in them a desire to go beyond them and wander at will in the expanding universe of thought, not so much for passing a scholastic examination or two as for facing the real tests instead of attempting this, a majority of our schools do the exact opposite. They succeed in making all books seem like so many bugbears to the young, almost extinguishing in the process the yearning for knowledge. No wonder that public service examiners testing candidates for a variety of posts requiring exceptional ability find in most of those appearing before them only a well-developed capacity for cramming and no grasp whatsoever of the subjects so mechanically crammed.

The Kashmir Deadlock

BY proposing amendments to the initial resolution, Sweden may have helped the Security Council to save its face. Though it has, thus, averted the threat of the Russian veto, it is difficult to appreciate what else Sweden's face-saving efforts have achieved. As the Kashmir resolution has finally emerged, it has given Dr Graham a fresh mandate to resume discussions with India and Pakistan on the basis of the UNCIP resolutions of 1948-49. India has been firm in rejecting the resolution, but she has let it be known that Dr Graham will be treated as an honoured guest when he comes to this country. India's rejection of the amended resolution is based on the argument that Pakistan must first vacate aggression before the question of implementing UNCIP resolutions can arise or be discussed. India's status in Kashmir cannot be equated with that of Pakistan. As long as the Security Council does not recognise this elementary fact, its efforts to solve the Kashmir problem will be in vain. There is no evidence that the Security Council, as it is now composed, will ever make this realistic approach to the problem. Nor is it likely that some of the sponsors of the numerous Kashmir resolutions will accept the need for a different treatment of the problem in view of the changed situation. That being so, it is clear that the Kashmir deadlock cannot be resolved by the Security Council's efforts to have discussions on past resolutions.

Risky Venture

NEW DELHI would do well to use its good offices with Djakarta. India, along with other friends of Indonesia, supports Djakarta's claims over West Irian. But there is a danger that Djakarta may lose sympathy and moral support for its just rights and claims by pursuing a policy of violent revenge. It is clear that the actions now being taken in Indonesia have the sanction of the Government.

"If the United Nations fail us, we will resort to methods which will startle the world", President Sukarno issued a warning at the time the West Irian issue was under discussion by the United Nations. Because Djakarta had warned the world in advance, it does not mean that mob violence is justified, or should be condoned. Such hasty action may have dangerous repercussions. In London, the Indonesian Foreign Minister gave the assurance that "the Army is in charge and will protect Dutch nationals and property." There has as yet been no physical violence against Dutch nationals. But Dutch properties have been seized by the Indonesian workers and the people, and reports indicate that even the Army is not in full control of the situation. Both the Government and the Army must realise that unless the explosive situation is kept under control, the consequences may be disastrous.

It is clear that reprisal measures taken by Djakarta are aimed at crippling the Dutch economic hold and domination over Indonesia. It will not be denied that, even after the transfer of political power, the Dutch have been enjoying special rights and privileges in the major sectors of the Indonesian economy. This continuing economic domination is strongly resented by the Indonesian people. The Government has, evidently, the support of the people in pursuing a policy of economic retaliation in protest against the Dutch refusal to negotiate on the future status of West Irian. Such a policy of violent economic retaliation will, no doubt, temporarily paralyse Dutch economic activity in Indonesia. Djakarta's policy of pushing the Dutch out of the strategic economic points in Indonesia is not difficult to appreciate. Even so, the accompanying violence and undue use of force will be deplored. This is where India and other Afro-Asian friends can come to Indonesia's help by advising Djakarta to pursue a constructive policy to achieve the agreed aim of incorporating West Irian with Indonesian territory.

Letter to the Editor

Memorandum on Foodgrains

Use of Income Elasticities of Demand

IN the memorandum submitted by Dr K N Raj to the Asoka Mehta Committee, (Economic Weekly, October, 26 and November, 2), he remarks that the use of income elasticities of demand for commodities applied to projected increase in real income to estimate increase in demands for consumer goods is "based on wrong premises and fallacious reasoning".

I believe Dr Raj's judgment is a bit too severe. The use of elasticities for the purpose under discussion is of course subject to many grave difficulties and dangers and can be justified only on the basis of a good number of heroic statistical as well as economic assumptions (as indeed that of almost any other tool in econometrics!). Dr Raj, however, bases his criticism only on one point, namely, the fact that the consumer's behaviour depends not on his real income but on his money income. The distinction is indeed important and relevant, and when there is actually a difference between the two it is naturally to the money income that demand in quantitative terms should be related. However, in applying elasticities to projected increases in real consumption, (incidentally, it is projected increase in consumption and not projected increase in income that should be used and the elasticity that should be utilised is one referring to total consumption expenditure and not total income), I believe one implicity assumes that:

(i) It is one of the aims of planning to so control supply of money as to make equal, year by year, the increase in real terms in the supply of consumer goods and the increase in monetary terms of the income in the hands of consumers.

(ii) One of the necessary conditions (though not sufficient) for the prices of consumer goods remaining stable throughout the Plan period at their initial levels is that the composition of the increased supply of consumer goods should be such as to correspond to the increased demands in quantitative terms that would arise from the increased monetary income of the consumers, these demands being calculated at their initial prices.

The use of elasticities in conjunction with the projected increase in real consumption is validated by assumption (i), and it receives its **raison d'etre** from assumption (ii). It may of course be objected, and with reason, that under the present conditions in India it is unthinkable that money supply could be controlled in the manner envisaged in assumption (i). That however comes down to saying that under the present conditions in India there cannot be any rational means of so setting the production targets of consumer goods as to ensure the stability of their prices.

November 30, 1957. **A R**

Errata

The Order of Shortage

Issue of December 7, Weekly Notes, p 1550

Para 2, lines 24-25. For "it yielded two maunds as against the local estimate of nine maunds" **read** "it yielded nine maunds as against the local estimate of two maunds."

A Rigmarole on Wage-Goods

—Ashok Mitra

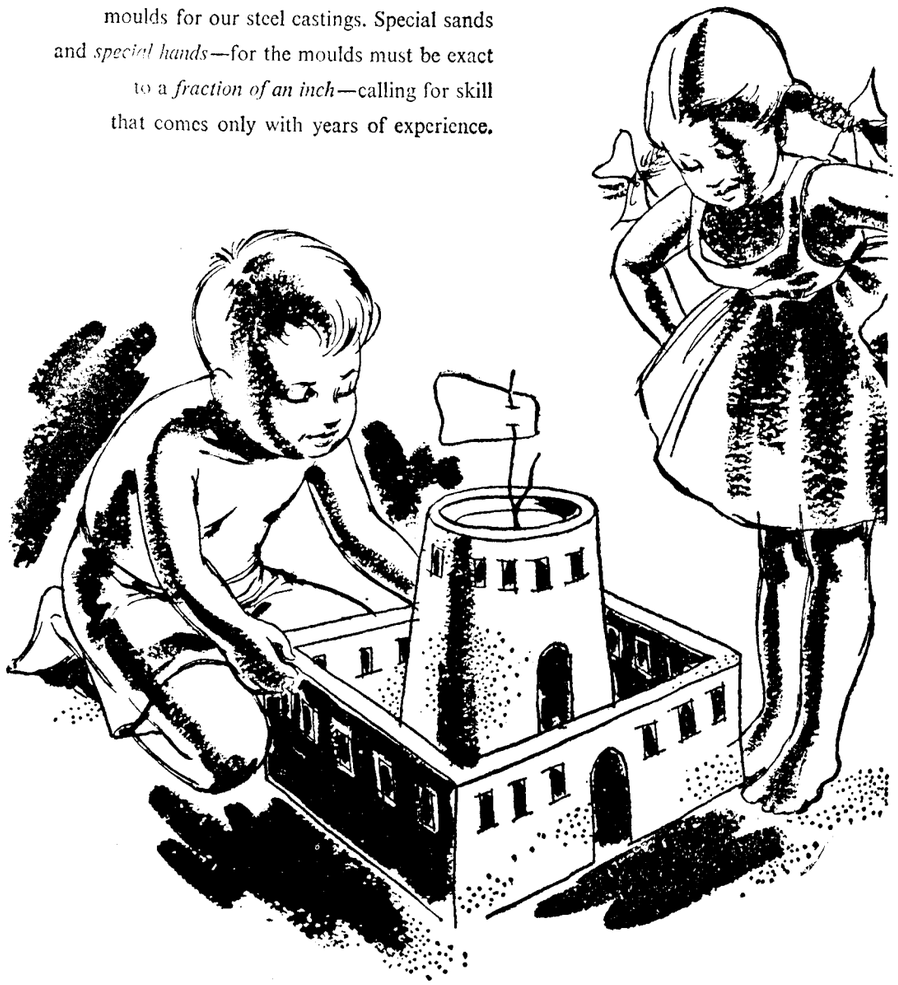
Issue of November 30, Page 1533

Para 1, lines 4-6. For ". . . not figured as denominator in any type of expressions" **read** "not figured as numerator in any type of expressions".

Chubby hands pat into place the last spadefuls of sand...creating a castle on Juhu Beach. And a few miles away, at Kurla, Bombay, other hands are also creating with sand--making the

a castle on juhu beach...

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From the London End

Sterling and Britain's Capital Crisis

WHEN the Bank of England's discount rate was increased to 7 per cent, your correspondent indicated in these columns that the true nature of the economic crisis resulting from the then pressure on sterling was not so much concerned with any major disequilibrium within the British economy or for that matter in the current account of the U K balance of payments; it was shown to be essentially in the nature of a deepseated inability on the part of the U K to finance its short-term liabilities to foreign countries on the basis of the available gold and dollar reserves. Today, inspite of the contentment with which the British Prime Minister interprets the improvement in the sterling exchanges as being the result of the increase in Bank rate, many other and equally informed persons are attempting a somewhat deeper analysis of the malaise into which Britain's external finances regularly drift and, having regard to the pressures which the outstanding sterling balances bring on the reserves, whether the sterling area mechanism is all that worth while.

The quantitative character of the capital crisis which Britain faces is seen from the table alongside (the figures are largely culled from the **District Bank Review**, December 1957, and the Balance of Payment White Papers).

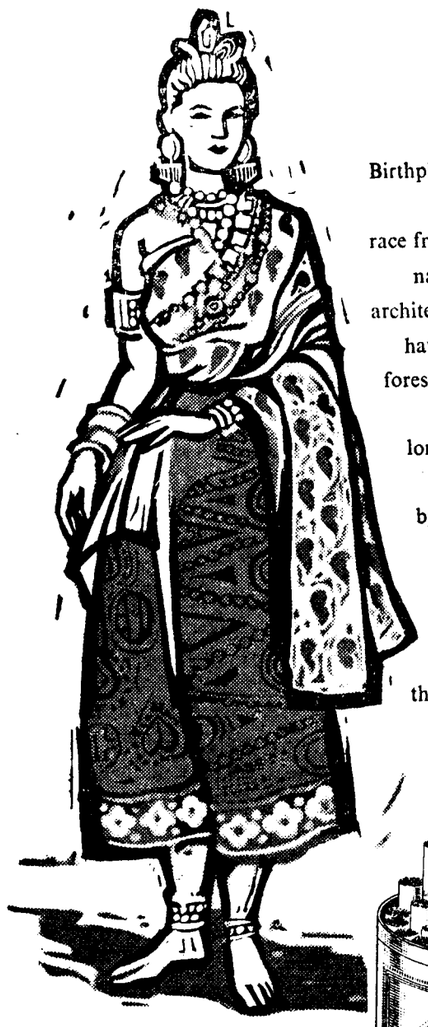
The British capital crisis takes some three important aspects, each of which possesses some bearing on the future of the sterling area. The first concerns the degree to which the overseas sterling countries, in particular those emerging from colonial status, will moderate their demands on the central gold and dollar pool. After the experience of the heavy Indian drawings on their sterling accumulations in London, the gravest anxieties in Britain persist lest the fever of industrialisation soon engulf Ghana, Nigeria and Malaya, and there is certainly very little doubt that each of these territories will in their own self interest seek to employ their sterling holdings or what they aptly term "our past savings", to finance their imports of equipment and machinery necessary for their own economic development. Apart from this, certain of the independent sterling countries, especially Australia and Ceylon, have been gradually increasing their own reserves of gold and dollars rather than wholly surrender their foreign exchange holdings to the London pool. By far the most important problem has been the tendency for the independent overseas sterling area to draw on their London balances to finance their balance of payments deficit, which in some cases has been the result of their development plans. In the past these drawings have largely been cushioned by the sterling accumulations of the colonies. This is now coming to an end and a serious new burden on Britain's external capital account is in the offing.

Another no less important influence which is impinging upon the British ratio of short term assets to liquid liabilities is the manner in which the U K surplus on the current account of the balance of payments has been used. The gradual relaxation of British exchange control over certain types of capital transactions coupled with the fact that not all the sterling area countries apply their controls with equal stringency, has tended to bring about a freer movement of private British capital to all parts of the world and not least the dollar area. Insofar as can be judged from the U K Balance of Payments White Papers, the gross outflow of long-term capital from the U K has been of the order of £200m a year. Out of this total, repayment by the U K Government of the capital on the U S and Canadian loans has accounted for £30m a year. The largest proportion of the £200m has, however, been in respect of direct overseas investments by British firms—these investments have been concentrated in the international oil industry and in other extractive industries. It would, therefore, appear that little of the outflow of British capital has gone to meet the real development needs of the overseas sterling area and that this has made it all the more necessary for the overseas sterling countries to depend on their London balances to finance their development schemes. There exists as well the conscious attempt of various financial interests in the City of London to pay little regard to the pressures on sterling and to engage in the transfer of British resident funds through such free centres as Kuwait and Hong Kong to the dollar area and for such funds to take refuge in dollar securities. The British Government has now attempted to clamp down on this practice, but from the data available it would appear that this attempt is meeting with little success. According to the U S **Federal Reserve Bulletin** for September, 1957, U K residents acquired some $55m of U S securities in June, 1957, compared to $8m in the whole of 1956.

U K Gold & Dollar Reserves and Overseas Sterling Liabilities
(£ mn)

	Gold & Dollar Reserves	Overseas Sterling Liabilities			
		Non-Sterling Countries	Independent Ster Area	Colonies	Total
Aug 1939	605	—	—	—	476
Dec 1945	610	1232	2007	454	3695
Dec 1951	834	1018	1863	928	3809
Dec 1956	762	565	1575	1281	3421
June 1957	850	569	1616	1309	3494

The third aspect concerns the economic policies of the United Kingdom and the commitments within the British economy. The pursuit by the British Government of the allocation of something like £1,500m of resources annually towards an armaments programme, which in itself is proving to be of little use, to the political and defensive policies of the country, coupled with the new found freedoms which the average British entrepreneur is coming to enjoy for making vast expenditure on unnecessary investments, is beginning to tell upon the real industrial capacity of the country. These policies have at the same time provided the opportunity for money incomes within the country to rise without reference to productivity or to the need for the achievement of sufficient surplus which ultimately may be used to bolster up the gold and dollar reserves and so present for the United Kingdom a prospect not of potential bankruptcy but of being able to pay its way and ultimately to fulfil its function as a solvent banker.



Cambodia

Birthplace of the ancient empire of Khmer. This empire, founded by a race from India, grew into prominence as a nation in the early 5th century A.D. Many fine architectural examples of this highly civilized race have been rescued from the ever-encroaching forests. With the exception of some magnificent monuments, all traces of this great empire have long since vanished and the Cambodians today are more akin to the Siamese as can be seen by the style of their national costume. This consists of a piece of material which is gathered at the waist forming a trouser-like-skirt. An embroidered jacket or coloured draping covers the bodice, leaving the shoulders and arms bare.

There is no end to the variety of costumes all over the world.



Wherever you go —*they're good*

GF/594

A Calcutta Diary

Primary Controls on Secondary Education

KERALA, India's solitary Communist State, is a target easily hit. It is still something of a mystery how its Education Bill attracted such sustained and wide attention, since most of the objections were based on wholly pretentious assumptions which obtain nowhere. First, the State should not regiment education. Answer: that is just what just about every State in India does and, if anything, West Bengal has gone further in the control of education than Nambudiripad would ever dare. Second political ideologies should not be brought into education. Answer: they are, and must be; liberal education has its own political philosophy, although it is admittedly different from the Communist one. As for keeping education free from politics, it has never been so—not in Bengal at any rate. What change has then come over since Independence? Only this that there are other pressure groups now, and the weaker groups are crying for the insulation of education against political contamination.

Last week there was a procession of teachers demanding an interview with the peace-loving, easy-going Education Minister—a true child of Permanent Settlement. Their demands were many, of which the two most pressing were increased aid to private schools so that they can pay their staff larger dearness allowances, and the constitution of a democratic secondary education board. Neither demand is unreasonable inasmuch as the cost of living has in fact gone up and the recent proposals in regard to West Bengal's secondary education board showed very scant respect indeed for democracy.

* * *

Thanks to Sir Asutosh Mookerjee and a number of other very forceful personalities, the University of Calcutta used to enjoy in fact a large measure of autonomy. Which is not to say that the autonomy was always used for the furtherance of secondary education. The latter was, however, the chief source of revenue, which used to come in the form of examination fees. The more examinees the merrier, therefore, was the order of the day. Then came provincial autonomy, with Fazlul Huq as the first Chief Minister, who lost very little time in taking the fullest advantage of the weaknesses (to put it no more strongly) in the University administration. His, thus, was the first opportunity of "reforming" secondary education in Bengal. His motives were frankly communal; the Mookerjees' opposition to the State interfering with education must have been inspired as much by genuine concern for the future of education as by some anxiety as to what might happen to their control, all but in name, of the institution.

Power withers away no faster around College Square than around the Red Square. There has since been a change in personnel in Writers' Building, but any temptation to return secondary education to the University of Calcutta, if it ever rose in any breast, has been resisted successfully, for which no blame attaches to the Government. It is not seriously denied by anyone that the University took more out of secondary education than it ever gave. At the top of the University had settled a gerontocracy, and the young in power seemed, had to be, older than the old.

* * *

To be fair to the Government of West Bengal, it did indeed experiment with democracy in secondary education. A board was created, and on it were representatives of teachers and others, popularly elected. Politics was no late-comer. The Leftist parties canvassed hard, as though they were fighting a general election or something. Congressmen came too, some of them with a murky past. Secondary education must have been discussed now and then, but the lobbyists devoted most of their attention to seeing that their friends' books were approved as text books, that such and such school got a bigger subsidy than some other, and so it went on. It is impossible to apportion blame for this sorry end of democracy, and the Government cannot have been the only guilty party.

What brought about the final breakdown of the board, however, was its inefficiency. Question papers came out before their time, answer papers got lost in the post. Examinations had to be postponed more than once, and there were stories galore that question papers could be bought for a few annas (This was before **naye paise.**) Scandals regarding text books were whispered by the dozen, and not all of them may have been untrue. There was a time when the board came into the publishing business, and the result was an endless queue before the Secretariat for weeks. Chaos would not be an exaggerated description of the situation those days.

* * *

And then came supersession, the West Bengal Government's favourite weapon for dealing with delinquent municipalities and autonomous boards. The Education Secretary, a man who loves power as much as anyone you can think of, took over secondary education under his wing, and—forget democracy—things were not much worse. When there is very little to be done it scarcely matters who does or does not do it. There was a little more red tape, a little less of something else perhaps, but few knew the difference otherwise. The board had so discredited itself that anything, even D M Sen, the Secretary, seemed an improvement. And, of course, there are those who will always come to terms with whoever is in authority at a given moment.

There will now be another board, but it will be so dominated by officials and nominated gentlemen—those delightful butts of pre-1947 jokes in the Assemblies— that the suspension of democracy must be regarded as continuing. Will it mean that secondary education will suffer in any manner? Unlikely, and the teachers who were out in procession the other day know it. Why then do they demand it? Because democracy sounds a respectable sort of slogan, and its record in the administration of education in the State is not very widely known, far less remembered.

Call it a board, call it a Government department—it's all the work of men, us. And what warrant is there for thinking that our behaviour on a board would be significantly or materially different from that in a Government department? Neither efficiency nor honesty is induced by a system. It is in us. What I mean is, it isn't.

—Flibbertigibbet

December 10.

Leipzig Spring Fair

THIS spring Leipzig will once again spotlight the various developments in engineering and industry that have taken place in the West and North-European countries. Covering a total area of 31 lakh square feet, the Leipzig Spring Fair, which opens on March 2, 1958, will for ten days display the products of nearly 10,000 exhibitors from forty countries—Great Britain, the U S S R, France, Norway and Belgium, to mention only a few of the participating nations. The products will be classified under fifty-five trade groups.

Indian manufacturers will also participate in the fair. It is also reported that Indian exporting organisations, in cooperation with the Government, are likely to put up a collective show in a special Indian Pavilion.

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From U N Headquarters

Wanted: New Faces

THE Twelfth General Assembly is coming to an end. By mid-December the major problems would have been talked over, shelved or otherwise disposed off. It is unlikely that any world-shaking decision would have been taken by the Assembly. Clearly the time is not ripe for such decisions to be taken.

When the Assembly opened with the customary fanfare, there was much talk and not a little hope of the disarmament problem being satisfactorily tackled. Correspondents referred—somewhat optimistically it seems in retrospect—to the General Assembly as the Disarmament Assembly. The **Sputniks**, of course, had not yet been shot in the questioning skies. The beep-beeps of the Soviet transmitters had yet to be regisered by an amazed scientific world. There were whispers that the Soviets had fired their Intercontinental Ballistic Missiles, but there were still sceptics in the United States who could not imagine a Soviet Union in advance of the United States in the field of science and technology. When the Assembly opened, therefore, there was no hint that the disarmament problem would dissolve in a flurry of dust. The Western powers must have hoped that, with just the necessary firmness, the situation could be adequately dealt with. In the next few weeks these illusions were due to be shattered.

As at the moment, no one knows what exactly is going to be the fate of the Disarmament Commission and its Sub-committee. By a resolution, the General Assembly has set up a twenty five member Commission which will presumably make of the Sub-committee a supernumerary body. But the Soviet Union has also gone on record as saying that it will not participate in its activities. In a statement issued, the Soviet delegation said that it has been authorised "to declare that the Soviet Union will not participate in the work of the Commission, the majority of whose members are at the same time participants of the aggressive military blocs".

What, then, is to become of the Commission, if a powerful member refuses to do business with it? No one yet has an answer. There is reason to believe that the Soviet Union is aspiring to force the hands of the Western powers for a summit conference. But the chances of such a conference being held in the immediate future seem as remote as ever. In the first place, the Western powers can hardly be expected to talk business with the Soviet Union unless they are definite that they too have their Intercontinental Ballistic Missiles. In the second place, with President Eisenhower again on the sick list, a summit meeting seems improbable, at least for some time to come. Will the Soviets be content to discuss high policy matters on a foreign ministers' level? That, obviously, would render the talks useless. Would the Soviets be content to accept Vice-President Nixon as a substitute? Hardly, since the Vice-President cannot speak with the same authority as the President, who, because of the peculiar Governmental system prevailing in this country, is the only man who can make decisions. The Commission's fate, therefore, is anybody's guess. With 'disarmament' thus disposed of, the Cold War issues remain with us, perhaps in a heightened form. In all the discussions, the Western powers have so far come out a cropper. They have taken a terrific propaganda beating from the Russians, and they know it fully well.

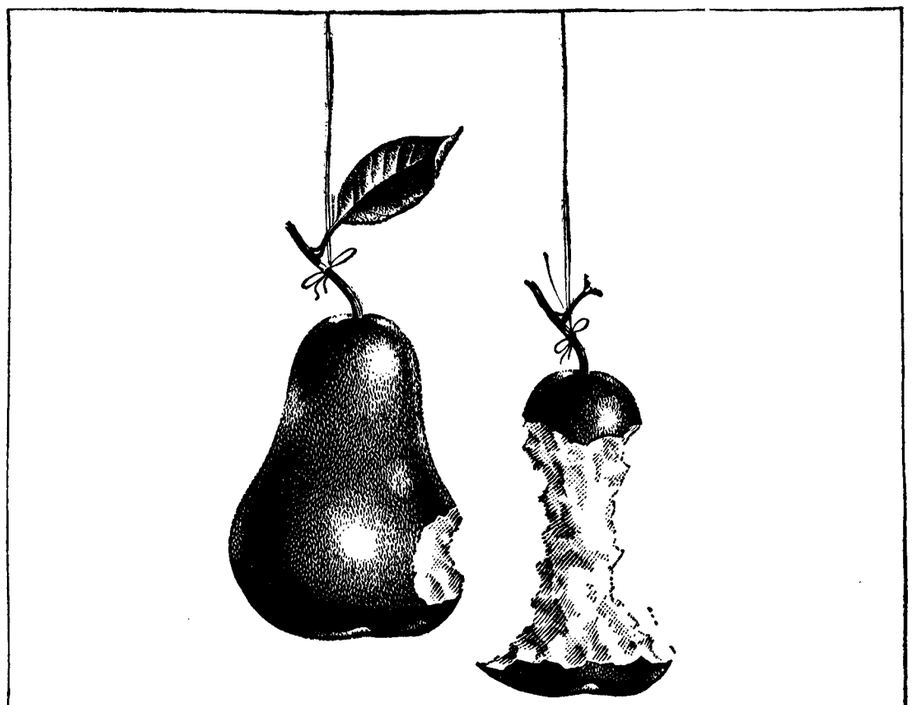
Efforts are now being made to marshal forces, to regain the confidence of the Asian African nations. But the Western nations keep blundering. On the one hand, the United States, as natural leader of the Western nations, tries to maintain its pose of friendship with the Asian African world; on the other, the same country has to mollify its Western allies to the point of Asian African exasperation. Whatever the United States does or does not do, it is damned.

The clamour from the colonial countries meanwhile steadily grows apace. The Algerian problem shows no signs of resolution. Even supplying small arms to a friendly country, Tunisia, became a source of friction between the United States and the United Kingdom on the one hand and France on the other. Soon the question of Cyprus will come up before the General Assembly. This again, presents an extremely thorny situation for the United States. Whom should it mollify? The rulers or the ruled? What is the lesser evil?

Or again, take the simple case of giving aid to underdeveloped countries. For the last five years now, this has been discussed with not a little generation of heat. The underdeveloped countries have been clamouring for economic assistance, but as everybody is fully aware, only the United States can meet the major burden of assistance. When the idea was first mooted, it was generally accepted that this aid was to be rendered out of savings from disarmament. But today the picture is one of feverish armament. More money is being spent in the United States, for instance, today than even during the height of the Korean war.

It is little wonder to most observers here that the United States is unwilling to subscribe to SUNFED. But that, as United States leaders know, is taking a negative attitude. The United States would like to be of service to the world, whatever the reason. This, the U S representatives state, is best done not by establishing SUNFED but by increasing contributions to the U N Expanded Programme for Technical Assistance. If SUNFED had been established, the United States might have been called to fork out at least 100 million dollars. Under the present scheme, which the United States says it will support, it will be called upon to subscribe not more than 15 million dollars—which is quite a different matter. But there is method in the U S proposals.

As the United States sees it, scores of newly-independent countries have as yet no idea of their respective potentialities. Most of them, like Libya, for instance, or the Sudan, or Laos, or Cambodia, have little trained staff to plan their economic future. The United States would have first things done first. For instance, they would like to see each country survey its potentialities in a thorough fashion. Such surveys, it is well-known, often take years. The United States position is that there is no point in



Appearances...and a pair of pears

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But testing by tasting gets you nowhere if, for instance, you are buying soap. For that (and most packaged goods, too), sensible shoppers have a surer guide to quality: they go by a *name* they can trust, a *brand* they have used and found reliable.

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building castles in the air, when many nations have neither the know-how, nor the staff, nor the capacity to take giant steps. One step at a time, the United States maintains, is indeed a very good rule to follow.

As a substitute for SUNFED, therefore, the United States has proposed what is called a Special Projects Fund. In commending it to the United Nations, the U S representative solemnly said that it was "no substitute" for SUNFED. He said: "It is not an alternative to SUNFED. It is not a substitute for SUNFED. It is not an attempt to exclude the future development of SUNFED. What happens to SUNFED depends on future circumstances which we cannot foresee or control. We make our proposal on its own merits, in the belief that it offers reasonable hope of making an effective contribution now to economic development". There is reason to believe that the United States does not want to make the SUNFED slogan a 'mantra' for economic betterment. If one understands the United States Representatives aright, what they want is a gradual de-emphasis on United Nations aid to underdeveloped countries. Speaking on the debate on SUNFED, the U S representative, Senator Walter S Judd said: "One of the primary aims of the United States proposal is to facilitate in the years to come new capital investments of all types, private and public, national and international. In our view, the optimum development of the less developed countries will be promoted by encouraging and using all of these types of investment, not just one of them."

This, of course, is the crux of the matter. The United States favours gradualism in the economic development of less developed countries. The United States favours, in other words, the following steps for any country that wants to see economic progress made. First, the country will make a survey of its resources, through grants made from the special projects fund favoured by the U S. Second, the country will draw blueprints for specific projects it feels should have priority. Third, country will then methodically move towards translating these blueprints into action. Over the period the country would strengthen its infrastructure, increase its purchasing power and in general make progress something which can be absorbed.

But economically underdeveloped countries see in this attitude a tactic of dilatoriness. In preaching this attitude, the underdeveloped countries feel, the United States is merely trying to wriggle out of largescale financial commitments. The less fortunate countries want to see fast action; they are not in favour of gradualism. In effect this is a crisis of confidence. The United States has said time and again that it will not participate in SUNFED, if it is established. And without active U S participation, SUNFED at best will remain a dream. The situation is analogous to Soviet refusal to participate in Disarmament Commission discussions.

India's efforts to strike a balance, to get the big powers into a conciliatory mood, have so far failed. Indeed, India has been, significantly enough, less active in the United Nations than in yesteryears.

There are several reasons for this state of affairs. In the first place, most of the decisions, it would seem, are now being taken more and more in Washington and Moscow and London—with increasing harshness. This makes diplomatic work at the United Nations of less significance. This, in a sense, could be the reason why, most delegations this year are of medium-to-low calibre. Though Miss Irene Dunne, of the United States delegation, for instance, is quite a notable person in her own right, observers tend to compare her with Mrs Eleanor Roosevelt who used, at one time, to speak for her country in the Trusteeship Committee. Indeed, only a few years ago, representing their respective countries in the Trusteeship Committee were such stalwarts as John Foster Dulles, Ambassador Novikov (who became Soviet ambassador to India) and V K Krishna Menon. Today no such luminaries fight their countries' battles in the committee chamber. More and more, it would seem, nations are willing to send second-stringers to the United Nations.

If civil servants and glorified contributors to political funds were to work at the United Nations, how could it function with distinction? Is this a period of gathering strength for the United Nations, of taking a second breath? Or have politicians and statesmen finally arrived at a point when they know the limitations of the United Nations? There is no knowing as of this moment, but it would be safe to say that the present General Assembly has shown remarkably little resilience. The U N seems to have fallen in a groove. It obviously calls for some fast thinking in the capitals of the world.

It would be disastrous were the United Nations to end up as a glorified debating society. Now more than ever, it would appear, is the United Nations in need of a dynamic spirit to lift it from its ruts. Is Mr Dag Hammarskjold the right man to give the U N just that shot in the arm it now seems to need? Does he have the daring, the imagination, and the courage to make of the United Nations a live organ? Mr Hammarskjold is a quiet diplomat, and according to those who know him best, an ideal administrator, an excellent international civil servant. But the times call for a man of action, of great imagination and power of persuasion. Is Mr Hammarskjold the right man for the job?

There are those who hold the theory that not even the most persuasive diplomat could possibly fight against the spirit of the time. There is undoubtedly a germ of truth in this, but to accept such a state of affairs would be to accept defeat—and defeatism has never taken a nation far. But there can be no doubt that new faces are needed at the United Nations—and not on the secretariat scene only. The United Nations needs new men to represent old nations, for the old men have fallen into emotional ruts, have spent themselves. India herself would perhaps be wise in sending a new leader and a new delegation to the United Nations next year. There is something to be said for a change of faces in the U N corridors. There is no saying what new minds, howsoever inexperienced, can do in bringing the United Nations millenium closer for all peoples.

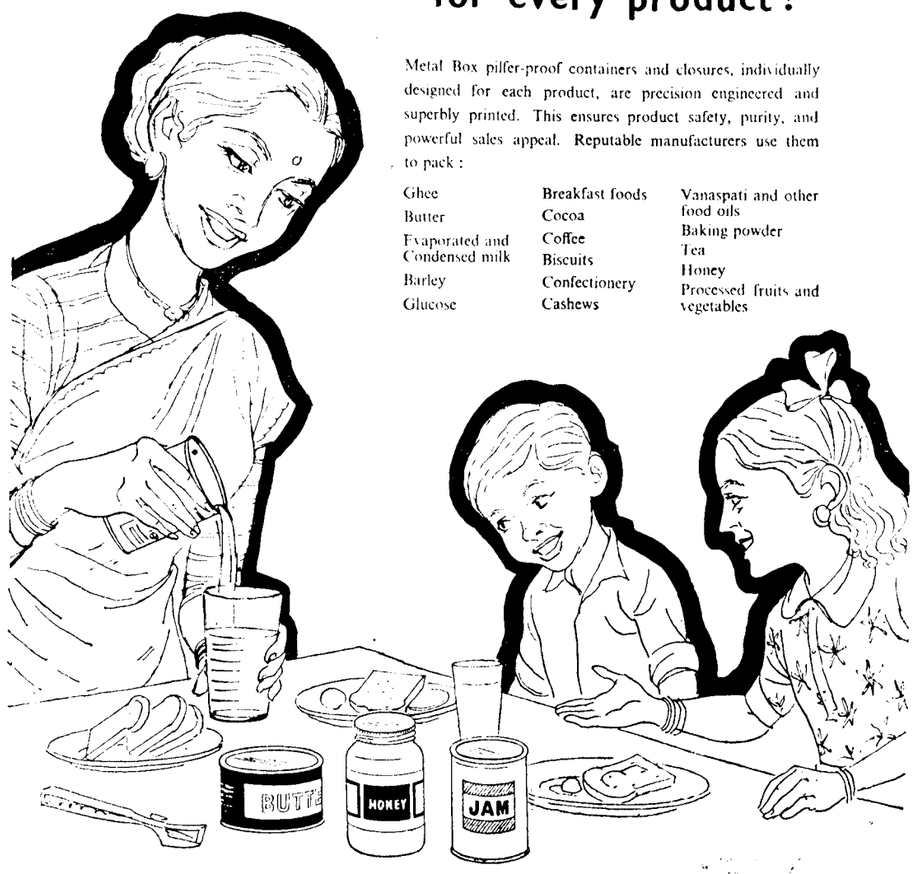
State Bank Branches

Fifty eight branches of the State Bank of India were opened in 1956-57 and 68 till November 1957. Of these 126 branches, 92 have been opened in places having a population of 30,000 or less.

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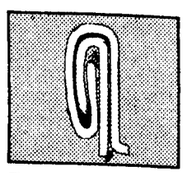
Ghee	Breakfast foods	Vanaspati and other food oils
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Glucose	Confectionery	Processed fruits and vegetables
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ME 1910

Rephasing the Plan

Some Considerations

D Shenoy

THE foreign exchange requirements of the Second Plan, it is now admitted, were originally underestimated. Further, some valuable foreign exchange was undoubtedly wasted in importing not very necessary consumers' goods owing to the lack of co-ordination between the policies of various Governmental organs. Then there were unforeseen contingencies like the requirements of food and defence imports, which have aggravated the foreign exchange crisis. Because of all these reasons, foreign exchange resources have proved a bottleneck to the Plan.

In these circumstances, the Plan has to be rephased or even pruned down in the light of the available and expected foreign exchange resources. The size of the Plan, it is clear from the various pronouncements of the Finance Minister, will have to be reduced. My contention is that there is nothing much to worry about this reduction in the Plan size. For, as I will try to show, it would still be possible to realise the basic Plan objectives **provided the reduction of the size is combined with an appropriate change in investment pattern.** If the Plan investment pattern is suitably modified, we could still realise during the Second Plan period the five per cent rate of growth of income and at the same time provide much greater employment than was originally visualised.

Let us start with the arguments of those who are against the reduction in the Plan size.

Volume & Pattern of Investment

Pruning the Plan is being opposed, as it is considered to be an escapist solution which is not a strong defence against the challenge of the economic situation. In an economy with a very low standard of living and a high rate of population growth, the volume of investment should be large enough to ensure a flow of income which would not only prevent any further fall in the standard of living but also ensure a sufficient margin for a feed back so that a steadily rising rate of investment could be maintained. This argument usually runs in terms of the Rostowian analogy of the 'take off' of an aeroplane, which underscores the need for an initial momentum if the economy is to cut through the cordon of stagnation and inertia. The assumption implicit in this manner of argument is that an economically most desirable 'growth route' is uniquely given by a certain size of the Plan so that any downward change in the latter gives a less desirable 'growth route' for an economy and thus weakens the 'take off'. This throws up some important questions which need to be answered before any informed judgment could be formed on these issues. Does the 'take off' necessarily depend upon the volume of investment? Is it not possible to envisage an equally desirable 'growth route' through a smaller size of investment? Can considerations of the pattern of investment be abstracted from the magnitude of investment?

That a high rate of population growth is a deterrent factor is generally accepted and to assuage its impact, the rate of growth of income should be considerably higher. But equally important is the fact that there is an excess of population over that which is producing current flow of production. This means that a certain proportion of population is supported by other people who are productively employed out of their incomes. It therefore, follows that any programme of economic development must reckon with 'excess population' no less than with the 'rate of population growth'. In other words, the 'take off' of the economy depends as much upon maintaining the rate of growth income higher than the rate of population growth as on the urgency of utilising the excess population, if ever it is practical and economically sound, in productive effort.

Growth of Real Income

The size of the Plan represents a certain pattern of investment; the bigger the size probably the more capital intensive are the projects selected and vice versa. Thus the change in the size of the Plan may mean a different pattern of investment. But this does not necessarily make the "growth route" any less desirable economically. It is conceivable to attain the objective of rapid progress of the economy with a reduced outlay on investment albeit with a different investment pattern oriented towards more labour intensive projects. What we are primarily interested in is not therefore the magnitude of investment expenditure per se, not even the capital intensity of industries but the desirability of the rate of rise in real income overtaking the rate of population increase. So long as this can be assured, the size as also the pattern of investment are of secondary importance.

It, however, does not follow from the above that the rate of growth is unaffected at all by the considerations of pattern of investment. The more labour intensive projects bring in a larger flow of output per unit of capital and thus raise the rate of real income at the start of the process of economic development; but this advantage is neutralised largely by the ratio of savings to national income which tends to operate in an opposite direction. On the other hand, in the case of more capital intensive pattern of investment, the initial rise in income is lower because of higher capital output ratio but the income rise at the later stages is higher as a result of more favourable savings-income ratio which offsets the initial handicap.

Utilise Domestic Resources

The economy has at present already undertaken some highly capital intensive projects like steel plants, large irrigation projects, transport, etc, which involve a high foreign exchange expenditure. There can be no question of giving up these projects; it would be wasteful to let them remain half completed. However, certain other projects which have not been started so far will have to be given up in view of the inadequacy of foreign exchange resources. But such elimination should and could be supplemented by taking over other projects, which may be less capital as well as import intensive. The available domestic resources—men as well material—should be utilised to the fullest extent possible. Such a rephasing of the Plan would

bring about a change in the total investment pattern, such that in spite of the postponement of some capital and import intensive projects, the main objectives of the Plan with regard to income and employment would still be realised.

Alternative Time Pattern

The alteration of the pattern of investment on the lines suggested above would, no doubt, lower the rate of growth of the economy in future via its impact on the savings ratio of the economy because the wages would form an increasing proportion of the newly created income and consequently the propensity to spend would be higher. But it would at the same time ensure a higher income initially than under the present investment pattern with a large proportion of the capital intensive projects. Thus the choice is between higher income now and slower rate of growth later as under the labour intensive pattern and the lower rate of income now and the higher growth rate later as under the capital intensive pattern, and choice between the two cannot be determined by purely economic considerations. We have our political and economic goals—of raising the standard of living of the people and equitable distribution of the national product. And the alternative pattern of investment which gives larger increase in income immediately is quite consistent with them.

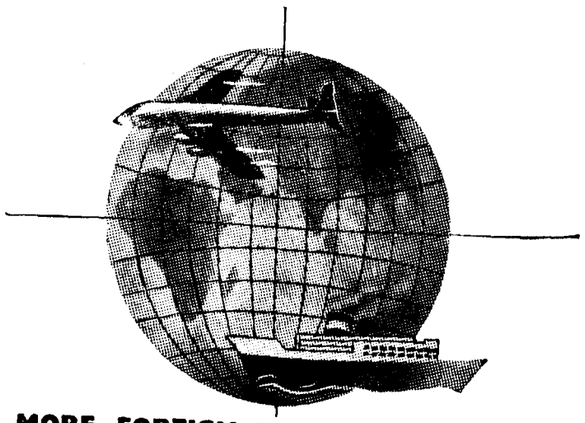
The conclusion that emerges from the above analysis is somewhat different from the one that is usually associated with the size of the Plan. Whittling down the Plan does not necessarily suggest a slower 'take off' and there is an alternative time pattern of growth under smaller volume of investment equally desirable and economically sound.

Rupee Traveller's Cheques

THE State Bank of India deserves to be complimented on its decision to introduce rupee traveller's cheques with effect from January 1, 1958. The inspiration for this scheme to issue rupee traveller's cheques was derived from the report based on a pilot survey conducted in 1955 by the statistical section of the Ministry of Transport on the pattern of tourism in India. The survey revealed that not infrequently foreign tourists preferred to convert a portion of their travel funds into rupees and would be glad to spend more in India if they felt sure that they could get unspent rupee funds converted back into their own currency on their departure. The State Bank's enquiries in various quarters are stated to have indicated that although the fact that the rupee is not an international currency will detract in some measure from the popularity of the bank's cheques in foreign countries, there is still sufficient scope for its traveller's cheques because the Bank has nearly 600 offices of its own and a wide net-work of correspondents embracing every country and town of importance in the world.

The traveller's cheques would be useful not only to foreign tourists in India and Indian tourists abroad but also to travellers within the country, for example, to hill stations, conferences, fairs, festivals etc. The use of traveller's cheques within the country combines the advantages of cash with the safety of a bank draft.

The success of the measure will, however, be judged by the extent to which it attracts foreign tourists in India and Indians travelling abroad, and not merely by its popularity within the country. Within the country, the scheme may have the effect of adding to the liquidity in the economy which might have an inflationary impact. It is hoped that the State Bank will organise its propaganda campaign accordingly.



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Portugal *versus* India

The Rights of Passage

Basanti Mitra

THE International Court of Justice has claimed jurisdiction of the case Portugal has brought against India, in its application of December 22, 1955, over the rights of passage, both for officials and armed forces, across Indian territory from coastal Daman which Portugal governs and the two tiny inland enclaves, Dadra and Nagar Haveli, of which she has lost control. The first round is over, for India was initially contending the jurisdicton of the Court and the case will now be heard on its merits.

While Portugal, in accepting the compulsory jurisdiction of the Court, reserved to herself the right to exclude from the scope of the declaration, at any time, any given category or categories of disputes by notifying the United Nations Secretary-General; and with effect from the moment of such notification, she pleaded for the benefit of the so-called optional clause of the Statute of the International Court of Justice which confers on the parties 'compulsory **ipso facto** and without special agreement, in relation to any other state accepting the same obligation, the jurisdiction of the Court in all legal disputes . . .' to claim jurisdiction of the Court in this case. This is a little baffling to common sense; and the judgement of the Court may only be understood in accordance with the legal differences that arise between the optional clause and the clause compromissoire or the arbitration clause in particular treaties.

The optional clause, as it originated, was a compromise between ideas of conferring compulsory jurisdiction on an international court, similar to the practice under municipal law, or, leaving the disputing States free to consent to take their case before the Court. The nature of the compromise lay in the option which each State was given in Article 36, paragraph 2 of the Statute of the International Court of Justice—the so-called 'optional clause'—to accept the compulsory jurisdiction of the Court by depositing a declaration to that effect. The declarations, thus deposited, contained reservations, the nature of which usually related to past disputes, matters arising within the domestic jurisdiction of the State, and disputes for which the methods of settlement were already in agreement. Implicit in the optional clause were ideas of equality, mutuality and reciprocity, so that compulsory jurisdiction could be claimed only in relation to those States which had signed a declaration accepting the optional clause.

According to paragraph 3 of Article 36 of the Statute, the declarations may be made 'on condition of reciprocity on the part of several or certain states, or for a certain time.' The legal nature of the idea of reciprocity is not too clear. Manley O Hudson in his monumental work on the Permanent Court of International Justice states that "all declarations, therefore, are subject to reciprocity and it adds nothing to a declaration to state this as a condition generally, though it is commonly so stated. The declarations of two States do not need to be identical for them to be bound **inter se;** but they must have recognized the Court's jurisdiction with reference to the same dispute. As the declarations made under Article 36 vary widely, this limitation may be the subject of controversy; . . . it is for the Court to appreciate the identity of the obligations accepted by two or more parties to the dispute (pp 397-398)".

The judgement of the Court in Portugal's case against India noted that the contractual relations of States, who, by their declarations, had accepted the system of the optional clause, are established **'ipso facto** and without special agreement' and therefore the Court's jurisdiction did apply to the case.

The emphasis in the judgement of the Court, therefore, seems to lie on the legal differences between the optional clause and the clause compromissoire rather than on the identity of obligations accepted by the two parties to the dispute. The clause compromissoire is an arbitration clause relating to an agreement to arbitrate differences arising from the interpretation or application of a treaty. The jurisdiction of the tribunal is here dependent on a compromise or special agreement not only on the facts of the dispute but also on the rules which have to be applied in order to arrive at an award. The jurisdiction of the tribunal is, therefore, not automatic as under the optional clause system.

India's arguments against the jurisdiction of the Court were on six points leading to the contention that Portugal, in filing its application on December 22, 1955, 'did not act in conformity with the provisions of the Statute.'

At least three of these arguments related to the 'condition of reciprocity' implicit in the Statute. In the first instance, the incompatibility of Portugal's reservations, namely, the right for herself to exclude from the scope of the declaration at any time, any given category or categories of disputes implied nothing but the smuggling of the veto into compulsory jurisdiction as Professor Waldeck, arguing the point, put it. Secondly, the conditions necessary for the Portuguese Government to invoke the optional clause were not present, as such brief interval of time did not elapse from the deposit of the declaration (December 19, 1955) to the filing of the application (December 22, 1955) for the United Nations Secretary-General to inform the other parties to the Statute. India's fourth objection dealt with the reciprocal rights conferred on her by the optional clause and her own declaration to invoke the same reservation as contained in the Portuguese declaration.

The third objection which was taken up after the fourth, in point of time, was that the right of passage had not been clearly defined, and that, therefore, the dispute was not legal and justifiable and, consequently, outside the jurisdiction of the Court. Sir Frank Soskice, arguing the point, referred to the general nature of the Portuguese claim where India was at a loss to determine what bodies of troops were to pass through her territory and whether they were limited to side arms or military tanks and artillery. There are also the important legal rights to be determined when India is at war or a neutral in time

of war. Usually, such disputes are the object of diplomatic negotiation, before the contending legal claims are placed before the Court. Keeping in view the difference between the automatic jurisdiction conferred by the optional clause as noted in the phrase 'compulsory ipso facto and without special agreement' and a necessary agreement implicit in the clause compromissoire, this was perhaps the most difficult point to defend, and voting on it was sixteen to one in the Court.

The last but one point dealt with the fact that by her declaration of February 28, 1940, India had excluded such disputes which by international law, were within her domestic jurisdiction and outside the scope of the optional clause. The rights of passage, specially of armed forces across a State's territory, is a matter, which in principle, is according to international law, within the jurisdiction of the territorial State. There would be something in the Portuguese claim only if it could be shown that such a right had been specifically granted in a formal treaty. The Portuguese claim that such treaty did exist with the Marathas in 1779 was denied by India. On this point the Court decided that a decision could only be taken on the merits of the case.

Finally, the sixth objection dealt with India's declaration of February 5, 1930, which excluded from the Court's jurisdiction all disputes previous to that date.

India has been at pains to point to wider issues. Portugal's claim of right of passage is an assertion of sovereignty over the administration of the enclaves which she has ceased to control as a result of local efforts. While the Court judges the legal merits of arguments on either side, the need for a balance between an established order and requirements of a peaceful change, so necessary to international equilibrium, runs like a thread for over a century and into this case even after a period of institutional development.

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Industrialisation and Culture

Amlan Datta

THE 'basic social capital' essential to economic development includes not merely things physical but the psychological climate in which developmental activities thrive. A society tends to develop what it values. Medieval society admired its warriors and saints. The best talents of medieval society were drawn towards a military career or the cloistered life. Economic development as a sustained process would have been hardly possible without the creation of new values which made economic activities look respectable and worthy of the attention of talented people. There are, that is to say, such things as development-oriented values, the presence or absence of which aids or impedes the process of economic growth. The theoretical objection to this position is that changes in values are never autonomous, but have to be explained by prior changes in 'material' conditions. This objection seems to overlook the patent fact that economic development, as experienced in history, is very little explained by autonomous changes in physical conditions and physical needs; and whenever the term 'material' is used to connote something more than 'physical' an ideal content is already being slipped into it.

Emergence of New Ethics

Regarded from this valuational point of view, the emergence of a new ethics in Western Europe in the formative centuries preceding and accompanying industrialisation appears interesting. The gradual change in the tone of religious approval of economic activities from Luther to the Puritans is well known to historians. Luther was a radical in his revolt against the ecclesiastical hierarchy. But in his attitude towards the medieval social hierarchy he was a conservative. He regarded with despise those economic activities, connected with trade, credit and capitalist enterprise, which were alien to the structure of medieval society. Already, by the time of Calvin, this attitude had changed. Calvinism is opposed to self-indulgence, but not to accumulation of riches. Indeed, accumulation came gradually to be regarded with positive approval, though personal extravagance was consistently decried. The Puritan theology recognises the temporal 'calling' of man, which is next only to his spiritual calling. The first duty of the Christian is to believe in God. But the conscientious discharge of secular obligations, including the duties of business, is itself a discipline through which the character of a man is moulded and ennobled; such discipline is in accord with the divine will.

In the Communist philosophy the will of God is replaced by materialistic dialectics. The essence of the unfoldment of civilisation is the development of the productive forces. To assist in this process is the historical mission and highest duty of the revolutionary. Thus, in a society wedded to the Marxist ideology, the sanction for industrialisation is sought in the impersonal forces of history, of which the great theme is the development of the mode of production. America builds statues to her great industrialists. The Soviet Union decorates those who set new records of output. Industrialisation must have its own standards by which greatness is measured. If the industrial achievements of France or Spain have not been nearly as spectacular, part of the explanation seems to be that these countries could not persuade themselves to accept these standards to quite the same extent.

Impersonal Relations

Nor is the new ethics expressed chiefly through the more glittering forms of social approbation. There are ordinary codes of conduct which, being unspectacular, are even more basic to the efficient working of an industrial society. Punctuality is only one of the more obvious of these codes. Conscientious fulfilment of contracts is another. It is the core of the capitalist code of honour. Commerce has its ethics. An individual may make profit out of a dishonest deal. He can hardly do it for long. Still less can a community build up a reputation for credit-worthiness without developing significant virtues of honesty and mutual trust. These virtues, practised by inconspicuous men in the everyday business of life, act as lubrication to the economic system and develop within it capacities whch it would otherwise lack. The idea that capitalism prospers through exploitation is never more than a half-truth, widely accepted in countries where capitalism is little developed. Capitalism, in order to prosper, must promote a set of positive virtues. Some of these transcend, in their utility, the particular system under which they were first developed: they are useful to economic development under any system.

A pre-industrial, rural society has its own code of honesty. But it is limited, for the most part, to people who are personally known to each other or related by ties of kinship. In an industrial society the area of impersonal relations, of definite obligations between people who have never met nor expect to meet in future, is much larger. So a new ethics to cover these relations becomes necessary, while some of the traditional obligations lose their force. The importance of developing such impersonal ethics can be easily illustrated. In a settled agricultural community no obligation is perhaps rated higher than that which one owes to one's family, and the family itself is commonly the joint family. In an industrial society, with its greater degree of mobility and its expanding area of impersonal relations, the traditional ethics of the joint family becomes patently inadequate to secure efficiency or even social cohesion. If the traditional ethics collapses too suddenly, it causes social dislocation and suffering; but if it shows itself too stubborn, it produces serious strains and much inefficiency. In this country one speaks with justifiable resentment of the practice of 'nepotism' prevalent in business and administration. But 'nepotism' is only an extension of the ethics of the joint family to a sphere where new standards of impersonal fairness wait to be built.

Importance of Inventiveness

Educational institutions enshrine old values or help create new ones. In medieval society memory counted for more than inventiveness. The stress was on familiarity with authoritative texts and scriptures and annotations thereon. In many of the underdeveloped countries,

educational institutions still function within this tradition. Indian students have a reputation for writing long answers, and the answers are long because they are stocked with quotations and references, much like a Marxist or a Vedantist dissertation. In a developing, dynamic society the more important thing is to apply one's mind directly to problems as they continuously arise and find solutions to them. Inventiveness and the experimental spirit are much more important than an ability to defend current practice with sanctified precedents. America exhibits more clearly the bare logic of an industrial civilisation than Europe, where this logic is modified by the much stronger pull of an ancient tradition. The movement towards philosophical and practical pragmatism may go too far in a particular case; but a country coming out of a medieval tradition must move to some extent in this direction.

Mass Communication and Literacy

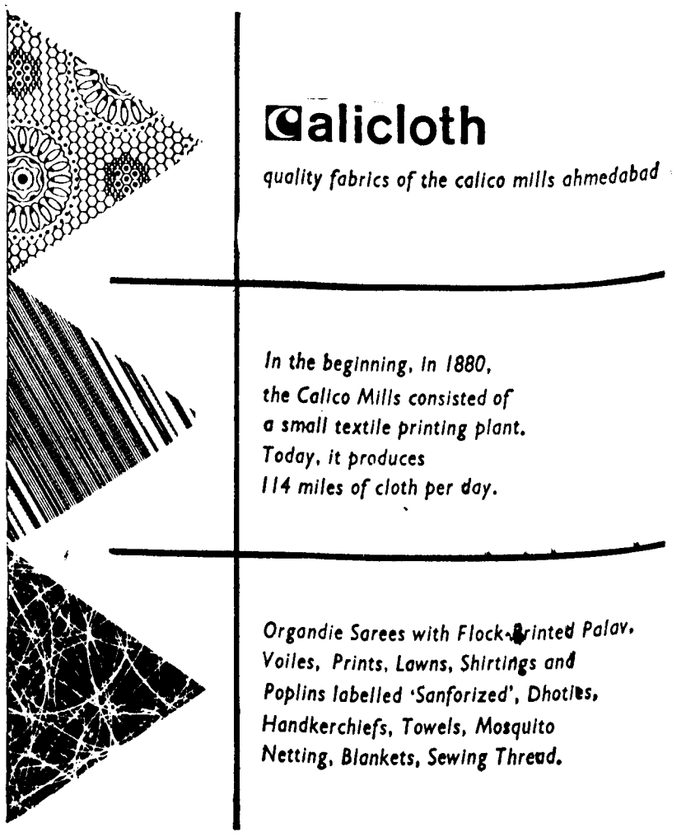
The emphasis on mass education and the facilities offered for technical training are a remarkable feature of all industrial societies. In medieval society skill was directly handed down from father to son or from employer to apprentices. This made unnecessary the interposition of a symbolic medium, the written word, for transmission of skill. But the old method does not work when new skills and techniques, originating in a small group, have to be passed on to a much larger number of ordinary workers in fields and factories. An industrial society cannot function without a system of mass communication of continuously developing knowledge. Such a system of mass communication can only rest on a foundation of mass literacy.

Literacy, in this sense, is an essential instrument of skill formation in an industrial society. The Soviet Government provides free training and maintenance to those who join the technical schools, while those who go in for what we understand by University education are required to pay a high tuition fee. The emphasis on technical training can be considered a cultural trait of an industrial society. It cuts across rival political and economic systems, and is nearly as marked in Japan and America as in the Soviet Union. The underdeveloped countries, on the threshold of industrialisation, find themselves in the unenviable position that they produce educated people of a sort for which there is not enough demand while, at the same time, there is a felt shortage of technical personnel for carrying through development programmes. In such a situation, a cynical attitude towards education, particularly among a section of the educated, is found to co-exist with the objective need to spread education. It is not enough, then, to speak of the need of education; it is important to specify the type.

A society may be technically advanced; it may have obliterated illiteracy; its members may possess discipline and a number of other civic virtues; it may lay high store by material progress and develop to a degree the necessary habits; and yet it may feel inwardly hollow, or be afflicted by a gnawing sense of aloneness or spiritual insignificance. The ethics of industrialisation is not a sufficient basis for whole living. Yet a satisfactory social philosophy in our time cannot by-pass this ethics, but must take it up and accommodate it within a larger view of life.

Securities Contracts (Regulation) Act, 1956

The Government of India have declared Section 13 of the Securities Contracts (Regulation) Act, 1956, to apply to the area comprising Greater Bombay with effect from November 30, 1957. As a result of this declaration every contract in securities in this area which is entered into after November 30, 1957, otherwise than between members of the Stock Exchange, Bombay, which has already been recognised by Government under Section 4 of the said Act, or through or with such members shall be illegal.



Decentralisation and Local Development

C V H

IN schemes for the reorganisation of the administrative system to promote development objectives, the principle of decentralisation has a recognised place. Rural development and community progress demand greater and closer association of the population with local development programmes. This need is further emphasised by the consideration that an effective foundation for democratic practice should be laid at the bottom-most level—or the level of the village. We had, during decades of British rule, a systematic dismantling of these foundations and a progressive centralisation of administration. That process has to be as systematically reversed, so that the democratic system, instead of operating from the top downwards, might do so from the base upwards.

The prevailing position presents a strange paradox, but it is actually due to historical factors. The paradox has to be resolved, and the process, which has been set in motion in that respect, has come to be described as 'democratic decentralisation.'

Primacy of Place

In this process the basic factor is the restoration of the village to its primacy of place in the administrative system and the re-establishment of the village panchayat as the foundation of local government. There is, of course, the consideration that the Indian village is in some respects too small and too constricted a unit for administrative purposes, and that, while it should be the basis for local government, it would be quite as well if, wherever necessary, a number of village units were integrated for administrative purposes into a single panchayat.

The purpose of creating this administrative unit at the village level is two-fold. Firstly, it is meant to be the agency for mobilising local talent and local enthusiasm for local development work. Secondly, it is to be the means of training the local population in democratic methods and ways of life and of promoting democratic action for the common good. This is an objective long neglected but long required, because Indian villages, after the decay of the panchayat system in many parts of the country, had become hotbeds of faction and of caste and sectional feud, besides being repositories of ill-health, insanitation and other evils.

Participation in Development

Community development work and national extension activity in the last few years have initially focussed attention on village development and have happily not been considered as being in conflict with development on the basis of modern, democratic needs and requirements. Development should be on a planned and systematic basis, so that it takes due note of, and derives due advantage from, improved communications, preventive and curative public health measures and the need for rural areas to establish and maintain a link with urban areas and centres of life.

The report of the Study Team, appointed by the Planning Commission to examine the scheme for democratic decentralisation, contains proposals which would bring local administration into line with these needs. The proposals for reform, though geared principally to the requirements of the development schemes of the Second Plan, have the merit of underscoring the permanent and indubitable need of local development being interlinked with, and inter-related to, effective democratic participation of the local population in that development on the one hand and also the provision of adequate financial resources, etc, and other administrative arrangements to ensure progress on the other.

Basic Unit

The basic unit in the scheme is the panchayat, which would be the representative organisation of a big village or a number of small villages, comprising for practical purposes, the area within a village level worker's jurisdiction. The panchayat would be an elected body, entrusted with specific administrative duties and responsibilities, some obligatory and some optional, and provided with specified sources of revenue to enable it to carry them out.

It has also been suggested—though not yet universally agreed —that the panchayat should invariably be entrusted with the collection of land revenue and permitted to retain a portion of it, varying, of course, with conditions in different States. Whether it should be entrusted with judicial powers also, is another issue on which opinions differ, though the objections pertain more to the present competence of these bodies to discharge judicial functions than to any theoretical repugnance to vesting them with such powers.

Role of Panchayats

Nevertheless, there is one vital consideration to be emphasised in respect of the role of panchayats in local administration as well as development. Obviously, the intention is to entrust them with this double function; in any case, the two overlap at different points at the village level. But from the practical standpoint, it would be advisable if panchayats devoted more attention to serving the fundamental and basic needs of the village or villages involved, leaving the strictly developmental aspects of activity to the next higher body, the Panchayat Samiti.

In course of time, the line of demarcation between administration and development is bound to get blurred, and then the panchayat would inevitably become an agency for both kinds of work. In this context, it would not be wholly satisfactory to elevate the village level worker to the position of development secretary of the panchayat—at least not immediately.

Panchayat Samiti

The keystone of the democratic decentralisation scheme is, however, the Panchayat Samiti, with a jurisdiction normally co-extensive with the existing community development block, covering an area of about 75 to 100 villages and a population of about 60,000. Mainly an elected body, comprising representatives of panchayats, it would also have some co-opted members to represent women, members of the scheduled castes and a few local residents with experience in public life or administration, and some representatives of cooperative organisations in the block. It would be in full control of all the developmental programmes in the field of education, agriculture,

industries, public health, irrigation, supply of drinking water, medical relief, relief of distress caused by floods, earthquakes, scarcity and so on, communications of local importance, the welfare of backward classes and, in fact, all those functions which are presently carried on under the community development programme, buttressed by the additional consideration that instead of being like the present block committee merely an advisory body, it would be a semi-autonomous statutory body.

To enable the Samiti to undertake the diverse responsibilities proposed to be devolved upon it, the need of adequate sources of revenue has been recognised, while additional grants-in-aid are proposed for the discharge of additional or special responsibilities which the State Government might consider placing upon any Samiti. Its freedom to spend the proceeds of the taxes it collects as it considers best is a valuable safeguard against responsibility being divorced from financial competence. Simultaneously the implementation of programmes would be facilitated by the creation of an adequate executive machinery, which, while functioning under the Samiti, would be part of the administrative machinery of the State Government.

Progress by Stages

The prospect of this scheme of statutory Panchayat Samitis, with elected members and elected chairmen, not functioning smoothly has not been absent from the mind of the Balwantrai Committee. It makes allowance for conditions in the country which would warrant or justify progress by stages and the taking of interim measures before the scheme is successfully implemented in all the States. For example, it envisages for at least the first two years of life of a panchayat samiti, the need of its having the sub-divisional officer, instead of an elected non-official, as chairman. It would also be necessary in some States at least, to spread the period of completion of its State-wide implementation beyond the Second Five Year Plan period.

While the scheme for administrative decentralisation and the delegation of powers to the Panchayat Samiti has been widely acclaimed, the question of how to interlink it with the district administration and what kind of machinery should be set up at the district level to leaven up development activity has not found a clear-cut reply. At that level, ordinarily speaking, there is no development work which can be undertaken **sui generis**. What is possible and necessary is helpful and friendly co-ordination of, and supervision over, work at the Samiti level.

District Level

The organisation at the district level, to which the Committee gives the name of Zilla Parishad, will have as members presidents of Panchayat Samitis, all M Ps and M L-As whose constituencies lie within the district and district level officers of various development departments with the collector as chairman. There is no doubt that the co-ordination and supervision of local samitis' work is an essential and indispensable need, not only in the interests of the efficient execution of schemes by the Samitis but also as a corrective to defects and drawbacks in their management of affairs which may manifest themselves in the initial stages. Conversely, the Zilla Parishad will have no executive functions, the main functions of the traditional district administration of maintaining law and order, collecting revenue and carrying out judicial functions continuing to vest in the Collector, the Police Superintendent and the District Judge. However, it would be advisable to work towards the goal of the parishad being entrusted with responsibility for the promotion of development activities throughout the district under the superintendence of its own elected president and with the fullest co-operation of the State Government machinery, the Collector's role being confined to running the ordinary administration and preserving peace and order. That consummation may take time, but it is the logical goal of the decentralisation process.

Soft Cotton Waste

In accordance with its policy of keeping export duties under constant review, Government has decided to reduce the export duty on soft cotton waste from 30 per cent **ad valorem** to 15 per cent **ad valorem** with effect from November 29, 1957.

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From the Chair

India Steamship Company Limited

Speech of the Chairman Sir A Ramaswami Mudaliar

THE following is the speech of the Chairman, Sir A Ramaswami Mudaliar, KCSI, DCL, (Oxon), delivered at the Annual General Meeting of the shareholders of the Company held on December 6, 1957:-

Gentlemen,

The Directors' Report shows that the freight earned during the year was Rs 6,00,17,168 as against Rs 5,26,1,831. The freight carried in the Liner trade was 4,88,266 freight tons as against 5,07,773 in 1956. The total number of round voyages made during the year was 22½ as against 26½ in the previous year. The less number of voyages is accounted for by the fact that owing to the closure of the Suez Canal the ships had to go round Africa instead of coming through the Mediterranean. The higher freight earned inspite of the fewer voyages is to be attributed in part to the fact that our modern ships are faster and partly to the surcharge on freight rates consequent on the longer voyage entailed. The delay at ports continued as in the previous year and the turn-round of the ships took a much longer time than should normally be the case. It must therefore, be a matter of satisfaction to you as it is to me that inspite of these handicaps the Company made a net profit of Rs 1,07,21,588 after providing for depreciation.

Progress

I referred last year to the two ships—'Indian Resolve' and 'Indian Resource' which had been added to our fleet, one in March, 1956 and the other in June, 1956. Since then another ship the 'Indian Splendour' which was delivered in May, 1957, has augmented the fleet. We have thus at present twelve ocean going vessels and one Coastal vessel. Another ship is being completed in the German shipyard and it is expected to be delivered towards the end of March, 1958. The Company has ordered a further four ships, two of which are expected to be delivered at the end of 1958 and two at the end of 1959. They will be built at the same German Shipyard. Besides these the Hindustan Shipyard Private Ltd., has an order from the Company to build a vessel of 5,500 tons, the keel of which is expected to be laid shortly.

Some Problems of Indian Shipping

(a) **Development Rebate** — The Shipping Industry of any country engaged in Overseas trade is subject to world-wide international competition. It cannot be protected or safeguarded by tariffs or quota limitations as the industries of a country can be. I have referred in previous speeches to the assistance given by several countries to their National Marine. This assistance takes various forms from downright operational subsidy to loans without interest and exemption from taxes. We are thankful for the loans that the Government of India have granted to Indian Shipping at a comparatively low rate of interest and the Development Rebate of 25% which has been sanctioned. The cost of obtaining new ships which can fairly stand comparison in speed, in cargo handling facilities and in other directions is increasing and bears no relationship to the cost only a decade back. If Indian Shipping interests represent to the Government of India that further consideration may be given to questions like Development Rebate, it is in no ungracious spirit that the request is made. The Government of the United Kingdom have in the last Finance Act raised the Investment Allowance (which corresponds to the Development Rebate) from 20% to 40% in order to maintain the Mercantile Marine of the country in the best possible state of adequacy and efficiency. I trust that taking a long range view of the position of Indian Mercantile Marine, our Government would give consideration to the question of equating the relief in this direction with at least that given to the most powerful National Marine of the world.

(b) **Expansion of Shipping**—Shipping companies all over the world have adopted as a basic policy of existence, the continued and phased programme of adding to their tonnage not merely to replace ships which have to be scrapped or sold as uneconomic units for their trade but also to meet the legitimate needs of shippers. Your Company has made a modest programme of phased expansion, to meet both these needs. There are difficulties of foreign exchange, which seem to come in the way of Government's consideration of assisting such expansion, notwithstanding its sympathy. Shipping companies have pointed out with considerable force that they earn foreign exchange far more rapidly than any other local industry and that such earnings—invisible income as it is called—form the hard core of the solution of the balance of payments in many countries. They have also suggested that for the time being the foreign exchange earned by Indian Shipping may be earmarked for the development of Indian Shipping both Coastal and Overseas.

(c) **State Trading Corporation and Shipping**—Indian Shipping companies have been very much concerned to learn, with what exactness it is difficult to state, that the State Trading Corporation contemplates entering into their field and has otherwise seriously jeopardised their interests. I offer no opinion on the policy of State trading though at the inception it related to inter-governmental trading only. I am concerned only with that aspect of the State Trading Corporation's activities which cuts across or impinges on the legitimate interests of Indian Shipping. Indian Shipping Companies have constantly addressed the Government to have their point of view represented before trade agreements involving shipping are concluded. It is a matter for regret that while shipping interests are closely kept in touch with various issues facing the Government like the Suez Canal crisis, in the United Kingdom, Holland, Italy, France and Germany and while their advice is sought on all occasions, Shipping interests in India are not taken into confidence by Government and not consulted on such issues as deeply affect them. It is most desirable that in tackling

these shipping problems Government Departments should take into confidence the Indian Shipping companies who have undoubtedly wide experience in these matters. It is understood that in some cases at least the State Trading Corporation has made contracts for the sale of bulk commodities such as ore on an f.o.b. basis which means that the importing country can completely shut out Indian Shipping in such trade. I trust that this subject will receive consideration by the Government at the highest level.

Another issue that has confronted the Shipping companies is the proposal stated to be receiving active consideration, of Government chartering ships to carry the export and import trade organised by the State Trading Corporation. That this cuts across the principle so clearly and emphatically laid down by the Transport Minister last year will be obvious. The Hon'ble Minister for Transport said 'I may state 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'. When it is added that these chartering activities of the State Trading Corporation may even cut across those of shipping in the public sector itself, the position becomes so Gilbertian that further comment seems to be needless.

It has been suggested that the rates charged by Conference Lines are greater than the rates obtainable through chartered tonnage. In the first place Indian Lines, it can be proved beyond dispute, have successfully fought for lower rates in the interest of the trade of the country and have brought about reductions in such rates. Secondly, it can be equally clearly demonstrated that till recently chartered tonnage was far more costly than tonnage carried by Conference Lines and Government or the shippers have been spared the payment of vast sums of money by entrusting the freight to Conference Lines. Thirdly, it is always possible to get a special quotation from Conference Lines if Government gives a guarantee of shipping only through Conference Lines their required quantities. Lastly, it must be clear to Government as a shipper of large tonnage over a long period that it cannot adopt the policy of some occasional shippers who take a short range view and try to obtain a small initial advantage by resorting to charters when charter rates are comparatively low.

Shipping companies have pleaded more than once that a co-ordinated and consistent policy may be adopted by all departments after full consultation and that shipping interests may have the opportunity of giving their experience and placing their knowledge at the disposal of the departments concerned at an inter-departmental conference. I hope fervently that such a conference will be held to the mutual advantage of both interests.

Foreign Shipping and Restrictive Practices

I have so far referred to internal factors and policies. These assume even a more grave aspect when they are considered in conjunction with the handicaps of Indian Shipping through the restrictive practices which foreign shipping adopt without logic to protect vested interests. The Indian trade is a happy hunting field for the foreign shipping of numerous countries. Neither their initial entry into the Indian trade nor the extent of shipping tonnage employed by some of them has any relationship to the trade subsisting between India and such countries. In fact some of them have hardly any interest in such trade and yet the fleet that they employ and their ever increasing demand for the employment of more tonnage is in inverse ratio to the interests that their nations have in the Indian trade. The problem has assumed serious proportions and the stage has come when it should be firmly tackled. The exclusion of Indian Shipping from the trade of of countries like Burma and Ceylon, from the trade from ports on the direct route to the United Kingdom and the Continent such as Aden, Port Sudan, Alexandria and onwards, has been mentioned more than once. The rejection of the application of Indian Lines for membership of these truncated conferences has been 'justified' on the ground that there is adequate tonnage serving these trades; yet when it comes to the Indian trade approval is readily granted to more and more Lines coming in or increasing their fleets notwithstanding the fact that there is often over tonnage in the trade. It is a situation that cannot and ought not to be tolerated further. If the policy of freedom of the seas is accepted it should be real and effective and should not be used for protecting vested interests.

Thanks

We owe a debt of gratitude to Shri Lal Bahadur, the Minister of Transport, whose re-entry into the Cabinet we heartily welcome and whose acceptance of the Transport portfolio we specially appreciate. His interest in Indian Shipping is deep and abiding and we are grateful for such interest. We also welcome Mr. Gupta the Secretary of the Department who has experience of shipbuilding and so of Shipping. We are thankful to other officers in the Secretariat to Dr. Nagendra Singh the Director General of Shipping, his deputies and assistants from whom we have continued to receive advice and assistance.



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★

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Around Calcutta Markets

Steady Trend

Wednesday, Evening

CONTRARY to the seasonal pattern, equities continue to be steady. This is the time of the year when equities generally develop a drooping tendency. That is what Lyons Range believes. This belief is based on the experience of the last few years only. In the last three years, equities have been quiet during the last month of the year. But, in the last three years, equities have also not responded to the customary New Year enthusiasm. There are reasons why equities have behaved like that since 1955. But that does not necessarily establish a periodical pattern of behaviour of equities.

There are, on the contrary, reasons why equities should steady-up at the time of the closing of the year. Banks, investment trusts and all those investors who depend on borrowed funds are, naturally, interested in higher equities at the time of the closing of the year. There are window-dressing reasons which should help a steadier trend in equities now. There is, however, the other side of th coin. Payers of super-tax and of income-tax will prefer a depreciation of the value of equities now for the purpose of evaluation of their assets for income-tax purposes. But that, be it noted, can wait a couple of months.

Mundhra Group

Various factors are helping to create a steadier trend in equities. Occasional purchases by the Life Insurance Corporation are one of them. Operations of LIC were discussed in these columns on earlier occasions. Recently, its activities have been under discussion in the Lok Sabha. Both Parliament and the investor will welcome some of the actions taken by LIC in the last few days. As a sequel, the so-called Mundhra group of shares have steadied-up. But it is necessary to tell the story from the beginning.

Some days ago, the Mundhra group of shares started falling on various reports relating to Shri Haridas Mundhra. This week it became known that Shri Dhiren Mitra had been appointed special officer of Richardson and Cruddas as a sequel to the ex-parte application filed in the Calcutta High Court by the Life Insurance Corporation. An interim injunction was also issued on Shri Haridas Mundhra, some other directors and the Company's managing agents restraining them from acting as directors and or managing agents of the Company. Shri Haridas Mundhra has also ceased to have any influence in the management of Jessop and Company, which has now two new directors, one of them being the President of the Calcutta Stock Exchange.

Market Gossip

Since these developments, the Mundhra group of shares has tended to steady-up. This has had a sustaining influence on Engineering shares. It was the slump in the Mundhra group of shares which was having a psychologically adverse effect not only on this section, but on the whole market. Steadiness in Indian Iron at the time of this writing is not entirely due to this factor. But the steadiness in the Mundhra group of shares has certainly acted as a contributory influence. As both clearing and Engineering shares have moved up, equities in general have tended to be steady.

Some rumours persist. There are expectations of higher steel retention prices. Rumours are current that some announcement relating to iron and steel is impending, which will have a "bullish" effect on Steel shares. Indian Iron are now being "talked" up. In sympathy, other clearing shares continue to be steady. There is a growing feeling among market circles that the worst is over, and that the immediate outlook is moderately "bullish"

Reasons

What are the main reasons behind the sudden change in the market sentiment? It should be noted at the outset, the change is not so sudden as it appears on first sight. Equities have been slowly steadying-up in the last few weeks. It all started with rumours of a change in the economic policy of the Government. The fact that the private sector will be allowed to start fertiliser projects is being cited in support of these anticipations. Whether or not these expectations will materialise, remains to be seen. But steadiness in equities on these expectations is not surprising.

Even those who do not believe in any change in the basic economic policy of the Government are hopeful of some tax relief in the next budget. This is a possibility which cannot be ruled out of consideration. It is true that the States will have to raise their tax resources. But the measures already announced by, or in contemplation of, the West Bengal Government indicate that higher taxation in the States will mean more indirect taxation. Whereas, expected tax relief by the Centre will be, if anticipations materialise, in relation to direct taxes. There is something in this line of reasoning.

Though the latest steadiness in, what is known as, the Mundhra group of shares has had a sustaining influence on Engineering shares, there are indications that investors are not as enthusiastic about these shares as they were two years ago. Exports of engineering goods are expanding, but the rate of growth of exports is well below optimistic expectations. Import restrictions are creating troubles for this industry. There is a growing home demand. But production costs of this industry are rising. These factors explain the somewhat hesitant trend in Engineering shares.

Tea Shares

For the third week in succession, tea auction prices have fallen. Tea prices this season are well below those of the last season. Thus, profits from tea exports are not as high as those of last year. Internally, too, lower prices are affecting earnings of tea companies. Reports of tea companies published recently reveal that latest dividend disbursements are higher. Even so, Tea shares are not popular with investors as the outlook is not considered bright.

Egypt has contracted to buy 1,500 tons of Indian tea. This raises the total quantity of Indian tea sold to Egypt in 1957 to 6,300 tons.



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Around Bombay Markets

Professional Buying

Thursday, Morning

THOUGH no fresh incentive has emanated from New Delhi, Dalal Street is buying up, albeit quietly, in expectation of something fine in the February Budget. Genuine investment support is still rather scarce but there is an unmistakable upsurge of professional buying in anticipation of post-Budget improvement. There is a widespread feeling that share values cannot be worse than they are and that, therefore, there is no undue risk in extending support at steadily rising levels. A fairly large number of good bargains around the market have attracted speculative support—the Mundhra group proving particularly attractive. Having decided to lift itself by its bootstraps, it is hardly surprising, then, that rumours of reduction in the cloth excise duty were conveniently reviewed. This tactic did not fail to help lift Textiles, which had so far remained in pretty bad shape while other groups were advancing modestly. The declaration of a 40 per cent dividend by a leading Madras Planting company provided good cheer, coming as it did after the staid maintenance of distribution by most Bombay Houses. As fears of nationalisation and heavier taxation recede, however, the market may tend to develop a healthier appreciation of sober dividend policies, especially in the plantation industries which actually need substantial funds to make up the arrears of replanting.

The rise in Textiles during the week is not attributable entirely to self-inspired rumours of reduction in excise duty. It is expected that cotton mills will not fare so badly during the current year as they did in the last. Offtake of piece-goods is relatively less sluggish, even if it still leaves much to be desired, while lower cotton prices will help widen the profit margin a little. Wage costs, too, may not rise significantly in view of the family food cards being distributed in Bombay. Moreover, the textile industry would stand to derive particular benefit from the relaxation of super tax on dividends and other taxes on companies, if and when the Finance Minister is, in the market's parlance, brought round in February. In the meanwhile, several Ahmedabad mills have enthused the market by capitalising their reserves.

The view held in some quarters that there is no need for the Life Insurance Corporation to enter the market at present levels appears to have originated in some misunderstanding regarding the Corporation's investment policy. While the criticism of its criteria of selection is fairly well-founded, there can hardly be any serious objection to the Corporation's desire to minimise its holding of idle funds. The LIC's official spokesmen have consistently asserted—though not always convincingly—that the Corporation's investments are determined primarily by the inflow of premium income and not by the general level of share prices. Since its new business is expanding quite rapidly, the Corporation obviously cannot wait for a slump to invest the policyholders' funds.

Bankers' Deposits Fall

Deposits of banks with the Reserve Bank have fallen suddenly by an almost record amount of Rs 31 crores during the week ending December 6, reflecting in all probability the effect of banks' subscriptions to the new Rs 30 crore bond issue. The extent of this subscription will be known only next week when scheduled bank returns for this week become available. 'Other loans and advances' have expanded by Rs 2 crores but loans against usance bills have contracted by a like amount. Central Government deposits are higher by Rs 6 crores but those of State Governments have declined by Rs 4.5 crores; "Deposits, others," however, are up by Rs 6 crores. Foreign assets have declined by Rs 1 crore only and that too in the Banking Department alone. Borrowing by Government is higher by Rs 4 crores (Investments + Rs 6.5 cr, Rupee coin—Rs 2.5 crore) excluding ways and means advances which have risen by Rs 6 crores. Notes in circulation have expanded by Rs 30 crores, largely at the expense of notes held in the Banking Department. The practical coincidence of this figure with the reduction in bankers' deposits indicates strengthening of cash in hand with banks.

During the week ending November 29, there has been practically no change in the net deposit liabilities and cash reserves of banks. Call and short loans have contracted by Rs 2 crores but gilt-edged investments are higher by Rs 0.5 crore. Total bank credit has contracted further by Rs 2 crores. At the State Bank, deposits have contracted by Rs 1 crore and call and short loans by Rs 0.40 cr; cash has expanded significantly by Rs 4 crores while the change in advances is negligible.

Heavy Selling

Alternate bouts of buying and selling at Kalbadevi yielded place during the fortnight to heavy bull unloading and bear pressure. It appeared to be agreed that there was little prospect of a reduction in the cloth excise duty and that the industry can, therefore, reduce its accumulation of cloth stocks only by making a determined effort to boost exports. On the supply side, the crop estimate has been revised upwards to more than 51 lakh bales, knocking out all bullish pretensions in the process, while imports of U S aid cotton are expected to make up the deficiencies in respect of medium staples.

Persistence of cautions lending by banks, the pressure of heavy and unexpectedly early arrivals, and the reported failure of a well known operator, consequently, unnerved Kalbadevi as well as Sewri. Jarilla March slumped over the fortnight from Rs 706 to around Rs 666 at which level short covering raised it to around Rs 676. Paring down of values at Sewri was no less drastic, Vijay losing more than Rs 20 per candy. The undertone at close remained nervous.

Sewri may steady up earlier than Kalbadevi, nevertheless, if an export quota for staples under 25/32" is announced soon. Domestic medium staples like Vijay are hardly likely to gather any substantial firmness, however.

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Demand for Linseed

The trend in oilseeds has been rather mixed during the last two weeks. Groundnut tended to ease for the greater part of the fortnight owing to pressure of arrivals; in the same period, castor declined on falsification of earlier speculative optimism about a reduction in the export duty on castor oil and absence of export inquiry. Towards the end, rumours of a fresh export quota for groundnut oilcake and revival of overseas inquiry for castor oil helped these two oilseeds recover some of their losses.

In contrast, linseed firmed up when the others were easing, on reports of extensive damage to crops in the U S, Canada and Argentine. Later, however, profit-taking prevented any strident rise, though the undertone remained firm at close.

Company Notes

Structural Engineering

THE 14th Annual Report of Structural Engineering Works for the year ending June 30, 1957 reveals an increase in sales and work done from Rs 113 lakhs to Rs 126 lakhs, but the gross profit margin has declined from 17.1 per cent to 12.7 per cent. The Directors have not elaborated the factors considered responsible for this fall in the profit margin, but analysis of the profit and loss account indicates that while sales turnover is higher by 12 per cent, the salary and wage bill has expanded even more by 17.5 per cent. Many other miscellaneous cost items, too, like power, freight, repairs, etc, are responsible for reducing the profit margin. Net block has risen from Rs 34 lakhs to Rs 39 lakhs; there is practically no change in current assets but unsecured loans and advances have gone up from Rs 33 lakhs to Rs 45 lakhs. For a concern of its size and extent of operations, the company works with a remarkably low cash balance of less than Rs 13,000.

Profits before tax during the year amounted to nearly Rs 16 lakhs against more than Rs 19 lakhs last year. Taxation is lower at Rs 9.5 lakhs against Rs 11 lakhs, despite the provision of Rs 1.25 lakhs in respect of previous years and Rs 45,000 for wealth tax for 1955-56 and 1956-57. Together with the increase of Rs 4,97,500 in the equity capital, this has reduced the net earning per ordinary share from Rs 83.40 to Rs 43.30. After paying Rs 5 per share as Preference dividend, which absorbs Rs 25,000, a dividend of Rs 18 is recommended on Ordinary shares. To fulfil the requirements of Section 23A of the Income Tax Act, an additional dividend of Rs 15 per ordinary share is also recommended for the shares issued prior to the year under review.

Out of the total amount of Rs 6.60 lakhs available for distribution, Rs 4.45 lakhs has been distributed, Rs 1 lakh carried to general reserve, and another Rs 1 lakh to other reserves, leaving nearly Rs 16,000 to be carried forward. Reserves and surplus now stand at nearly Rs 30 lakhs against the subscribed capital of less than Rs 20 lakhs. Due to under-capitalisation, the company relies heavily on bank and other loans aggregating more than Rs 25 lakhs, interest on which absorbs nearly Rs 1.5 lakhs. It is obviously considered more desirable to take loans on 6 per cent rather than invest larger sums by way of capital, which in addition to burdening the small circle of shareholders may also reduce the distribution per share. The Directors, nevertheless, acknowledge their awareness of the need to raise the necessary funds by means other than bank loans.

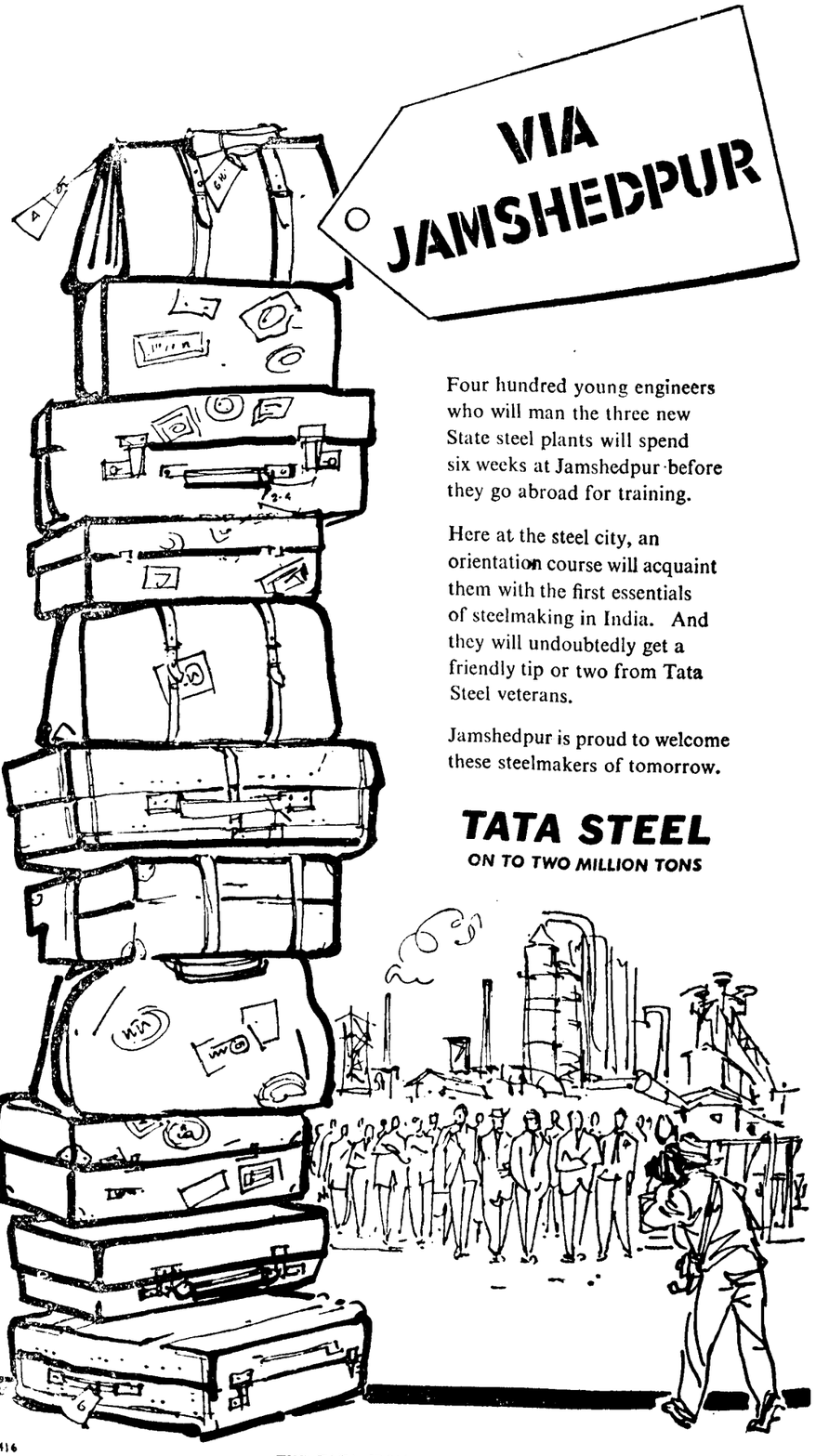
During the year, the company substantially completed the second stage of the Vaitarna-Tansa scheme and the fabrication of pipes for the Bombay City Inlet. Fabrication work for Bhilai and Rourkela is in progress at the Mulund Establishment. A new factory, for which Government sanction has been obtained, will shortly be set up near Calcutta to fabricate a 30-mile pipe line to augment that city's water supply.

Orient Paper

THOUGH the net sales of Orient Paper Mills rose from Rs 364 lakhs to Rs 414 lakhs during the year ending March 31, 1957, the gross profit margin declined from around 30 per cent to less than 23 per cent, on account of higher manufacturing cost and the setting aside of Rs 30 lakhs as depreciation against Rs 12 lakhs in the previous year. The Directors chose to absorb these higher production costs rather than pass them on to the consumer. Net block has risen from Rs 351 lakhs to Rs 467 lakhs, the mortgage on fixed assets remaining unchanged at Rs 100 lakhs. While current assets have risen slightly by Rs 3 lakhs, loans and advances, mostly to subsidiary companies, have expanded from Rs 128 lakhs to Rs 188 lakhs. Cash balances are lower by Rs 6 lakhs at Rs 26 lakhs. Loan liabilities have gone up by Rs 20 lakhs; simultaneously, investments have contracted from Rs 150 lakhs to Rs 24 lakhs. Among the items that have made a larger contribution to the company's income during the year is the net profit on purchase an sale of shares and securities, which has gone up from Rs 1.16 lakhs to Rs 2.69 lakhs.

Profits before tax have amounted to Rs 93.66 lakhs against Rs 109.57 lakhs in the previous year. The tax burden is lower at Rs 40 lakhs against Rs 43 lakhs owing partly to tax rebate against expansion of gross block from Rs 459 lakhs to Rs 604 lakhs. Net profit after tax, thus, comes to Rs 53.66 lakhs against Rs 66.57 lakhs last year, reducing the net earning per ordinary share of Rs 10 from Rs 4.53 to Rs 3.65. Of this amount, dividend equalisation reserve and deferred taxation reserve receive Rs 10 lakhs and Rs 15 lakhs, respectively, raising total reserves and surplus from Rs 219 lakhs to Rs 244 lakhs. Dividend on 5½ per cent preference shares absorbs Rs 6.13 lakhs, and that of Rs 1.50 on ordinary shares takes away Rs 22 lakhs, leaving Rs 2.63 lakhs to be carried forward against Rs 21.12 lakhs.

Since the supply of bamboos is proving inadequate for the company's needs, it is now intended to utilise bagasse from sugar mills within the Birla group. Arrangements for supplies of chemicals are being made with another sister company, Gwalior Rayon. The company's expansion programmes are progressing satisfactorily. It is proposed to set up a new paper mill in Madhya Pradesh, for which the necessary preliminaries have already been completed.



Four hundred young engineers who will man the three new State steel plants will spend six weeks at Jamshedpur before they go abroad for training.

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THE TATA IRON AND STEEL COMPANY LIMITED

Morarjee Goculdas

THE slump in textiles has affected Morarjee Goculdas Mills even more severely than most other units in Bombay. The cash shortage of more than Rs 4 lakhs has been made good by transfer from contingency reserve and the company's ex-cashier has been sentenced to imprisonment and fine by the Bombay High Court. Sales during the year ending June 30, 1957 declined to Rs 324 lakhs from Rs 353 lakhs, while gross profit (after depreciation) contracted from Rs 17.69 lakhs to Rs 13.46 lakhs. The profit margin on sales, thus, went down from 5 per cent to 4 per cent. Closing stock has gone up from Rs 74 lakhs to Rs 106 lakhs and loan liabilities from Rs 69 lakhs to Rs 119 lakhs.

Though gross block has risen from Rs 236 lakhs to Rs 265 lakhs, provision for depreciation has been cut down to Rs 7 lakhs from more than Rs 18 lakhs. Tax liability has gone down from Rs 8 lakhs to Rs 1 lakh. Net profit after tax has, thus, risen to Rs 12.46 lakhs against Rs 9.69 lakhs. Together with Rs 1.41 lakhs brought forward from the previous year, the amount available for distribution comes to Rs 3.87 lakhs. Nearly the whole of this amount is transferred to development reserve and the balance is carried forward. To pay the dividend of 4½ per cent on preference shares and maintain that of 14 per cent on ordinary shares, Rs 8 lakhs have been drawn from the general reserve. The aggregate reserve and surplus now stands practically unchanged at around Rs 39 lakhs.

Advertising for Exports

ONE of the drawbacks in our external trade is that Indian products, even those in which we can hold our own against competition from industrially more advanced countries, are not too well known abroad—in West Germany, for instance. The Export Promotion Committee, while reporting on the scope for selling more goods abroad, stressed the need for making the foreign buyer familiar with goods made in India. Our trade representatives are trying hard in this respect, but these efforts need to be backed up by more effective publicity. This, of course, is nothing new. Advertising is an accepted technique of sales promotion. But Shri A M Patel, President of the Advertising Agencies Association of India, is afraid that Government does not accord advertising its due place in schemes for export promotion. In his speech at the twelfth annual general meeting of the Association he said: "Although Government may well give encouragement and support to exporters, the problem of giving effective and widespread publicity to our goods in markets abroad will remain. It is, I feel, a matter of regret that the importance of advertising has not been appreciated by the powers-that-be".

Bristol Aeroplane's Record

THE Bristol Aeroplane Co announced that a Britannia airliner of Aeronaves de Mexico flew on December 8 from Mexico City to New York to what is believed to be a record time—5½ hrs. The fastest scheduled time is 6¾ hrs. On December 7 a Britannia of El Al (Israel Airlines) had flown from New York to London in the record time of 8 hrs 3 min.

After nine months of scheduled passenger services, the fifteen Britannia 100 airliners of BOAC are now achieving 7½ hrs working time each per day, says Bristol; this is a considerable increase of 'revenue-earning utilization', which in the aircraft industry is the universally recognized yardstick of reliability. Average revenue-earning utilization from February 1, when Britannia services began, to November 9 was 5 hrs 51 min per aircraft per day.

These figures improve as service experience increases, and at the end of the first year of operations the Britannia's average is expected to be in the region of 6½ hrs per day. The Britannia is pioneering a new field of long-range operation, and has achieved present results while operating over the longest and most exacting routes in the world.

It is impossible to achieve high utilization if aircraft are continuously on the ground under maintenance. Measures of engine reliability are, primarily, the length of time the engine runs between overhauls, and the rate of propeller feathering in flight.

The British Proteus turbo-prop has an overhaul life of 1,050 hrs. On entering airline route service in February, its overhaul life stood at 500 hrs. This was extended to 650 hrs less than a month later, to 850 hrs in May, and the 1,000 hr mark was passed in September. This rate of increase in the overhaul life of the new engine has never been equalled.

Excise Rebate on Typewriter Ribbons

WITH a view to giving impetus to the exportation of typewriter ribbons, Government have decided to grant rebate of excise duty on the Cotton Fabrics used in the manufacture of such ribbons. A notification authorising grant of such rebate is being published in the Gazette of India.

The following are some of the special features.

(1) The manufacturers of such ribbons will not be licensed but the exporters will have to get themselves registered with the Collector of Central Excise in whose jurisdiction such exporters conduct their business.

(2) The Cotton Fabrics for the manufacture of such ribbons need not necessarily be purchased from the excisable factory direct.

(3) The condition regarding identity of cotton fabrics used in the manufacture of such ribbons with the duty-paying documents, has also been relaxed.

(4) The exporters, after registration in the prescribed manner, will prepare an application for export, and present it to the Collector of Central Excise designated for the purpose, together with the Bill of Lading or Shipping Bill duly certified by the Customs authorities to the effect that the ribbons have in fact been exported.

(5) The ribbons and the rate of rebate admissible on their export, are as follows:—

(i) Ribbons for standard typewriters, that is to say, the ribbons the length of each of which is not less than twelve yards—Rs 50.00 per hundred dozens of such product;

(ii) Ribbons for portable typewriters, that is to say, the ribbons the length of each of which is not less than six yards—Rs 25.00 per hundred dozens of such product.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1509.25	1478.66	1490.98	1464.08
2. Rupee Coin	132.64	135.18	133.18	123.38
3. Deposits				
a) Central Government's	56.64	50.94	54.86	52.36
b) Banks'	78.50	109.02	94.80	51.46
c) Other Government's	6.74	11.31	6.16	14.04
d) Others'	116.05	110.31	110.93	14.17
4. Foreign Securities	280.19	280.19	301.77	447.30
5. Balances held abroad	28.33	29.30	19.42	91.01
6. Rupee Securities	992.29	982.29	960.72	785.35
7. Investments	252.84	259.68	228.95	60.19
8. Loans and advances to Governments	35.24	29.00	51.32	5.20
9. Other loans and advances	49.81	52.14	61.75	84.57
Scheduled Banks				
1. Demand liabilities (net)	722.68	727.30	754.61	653.59
2. Time Liabilities	672.46	667.66	645.63	459.15
3. Cash on hand	38.26	38.50	39.86	35.90
4. Borrowings from Reserve Bank	16.25	16.88	24.52	54.67
of which against Usance Bills	14.12	15.10	23.15	43.34
5. Advances and Bills discounted	789.69	790.75	800.79	713.48
of which State Bank's	158.43	159.07	161.09	129.11
6. Invst. in Govt. Sec.	408.82	408.36	403.38	365.48
of which State Bank's	163.91	163.93	164.02	106.60
Cheque Clearance	155.58	164.97	263.05	152.34

† For Reserve Bank week ended 6-12-57. Scheduled Banks and Cheque Clearance week ended 29-11-57.

Bombay Money Rates

	29-11-57	22-11-57	25-10-57	30-8-57
Call Money	2¼-4 7/16	3-4 7/16	3 1/16-4 7/16	3½-4¼
From banks	3¾-4 7/16	3¾-4 7/16	3½-4 9/16	3¾-4 7/16
From public	2½-4 11/16	2¾-4 7/16	2¼-4½	2¼-4 11/16
Three Months	2-4 7/16	2-4 7/16	2-4 7/16	2-4 7/16
Six Months				

Bombay Bullion

(In Rupees and nP)

	12-12-57	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	108.75	108.75	108.22	105.28
Forward	108.19	108.65	108.22	105.12
Silver (per 100 tolas)				
Spot	183.19	184.00	182.06	173.44
Forward	183.69	183.37	183.06	177.44

JUTE STATISTICS

	October	September	August	July '56 to June '57
Production ('000 tons)				
Hessian	31.7	33.7	33.9	428.8
Sacking	47.1	47.3	43.1	526.8
Others	4.7	5.0	4.9	70.1
TOTAL	83.5	86.0	81.9	1,025.2
Total production in the Corresponding months of:				
1956	80.4	84.5	89.6	1,095.0
1955	78.8	87.4	81.4	994.8
Stocks at the end of the month ('000 tons)				
Hessian	29.4	30.3	34.8	—
Sacking	37.8	39.1	51.1	—
Others	9.0	7.6	6.6	—
TOTAL	76.2	77.0	92.5	—
Stocks at the end of the Corresponding months of:				
1956	116.7	125.2	123.5	—
1955	62.3	69.7	79.2	—
Despatches : † ('000 tons)				
Hessian	32.2	38.3	37.4	424.5
Sacking	48.4	59.0	56.4	547.0
Others	2.8	3.5	4.3	60.4
TOTAL	83.4	100.8	98.1	1,031.9
Total despatches in the Corresponding months of:				
1956	88.5	81.9	105.6	1,047.2
1955	86.9	95.8	82.7	988.4
Raw jute consumption: (lakh bales of 400 lbs each)				
1957	5.14	5.06	4.78	60.15
1956	4.86	5.11	5.18	63.40
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	1,00	91	76	503
In corresponding periods of:				
1956	38	49	84	1,191
1955	123	110	159	1,178
Indian	591	540	391	5,856
In corresponding periods of:				
1956	541	535	524	5,190
1955	558	406	265	5,196

† Despatches include exports and sales for internal consumption.

Source: Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base 1952-53 = 100)

Group and Sub-Group	WEEK ENDED 23-11-57	16-11-57	26-10-57	24-11-56
Food Articles	108.4	108.7	107.0	107.7
Cereals	102	102	102	101
Pulses	83	84	83	88
Fruits & Veg.	112	111	113	112
Milk and Ghee	106	106	102	99
Edible Oils	132	133	128	136
Fish, Eggs & Meat	100	101	97	96
Sugar & Gur	108	111	111	107
Others	137	136	133	141
Liquor and Tobacco	96.5	96.5	96.5	86.9
Tobacco	95	95	95	86
Fuel, Power, Light & Lubricants	115.0	115.0	114.6	107.1
Industrial Raw Materials	116.3	116.6	115.5	120.6
Fibres	117	118	112	122
Oilseeds	121	126	123	125
Minerals	108	107	109	104
Others	106	107	108	110
Manufactures	108.3	108.5	108.9	108.8
Intermediate Products	106.2	106.3	106.6	113.4
Finished Products	108.7	108.8	109.2	108.0
Textiles	107	107	108	110
Cotton	116	116	116	118
Jute	96	97	100	104
Woollen	103	103	103	97
Silk & Rayon	82	82	83	85
Metal Products	141	141	141	131
Chemicals	99	99	99	93
Oilcakes	130	128	121	122
Machinery and Trans Equipment	102	102	102	99
Others	111	112	111	103
All Commodities	109.5	109.8	108.9	109.6

GUNNY SHIPMENTS FROM INDIA

(000 tons)

		Hessian		Sacking	
		Bags	Cloth	Bags	Cloth
1954-55		20.5	326.1	386.8	7.9
1955-56		31.3	341.9	383.2	16.9
1956-57:		42.7	362.5	376.2	26.5
	July	2.8	30.7	30.2	1.7
	Aug	3.3	37.1	43.0	2.7
	Sept	2.2	29.1	26.4	1.5
	Oct	4.7	30.4	38.8	1.3
	Nov	5.4	42.0	41.8	1.7
	Dec	3.9	33.8	29.8	1.8
	Jan	5.4	32.0	27.0	2.3
	Feb	1.9	26.3	25.3	3.4
	Mar	3.0	30.5	38.8	5.3
	April	2.2	21.0	23.9	1.4
	May	6.2	19.9	27.7	1.9
	June	1.7	29.7	23.5	1.5
1957-58:	July	1.6	34.1	40.3	1.8
	Aug	2.8	24.9	37.7	1.2
	Sept	3.2	30.5	46.0	0.5

Source: Indian Jute Mills Association

CLOTH PRODUCTION IN INDIA

(Mn yds)

Year/month	Cotton Textiles (Mill Made) Yarn (lbs)	Cloth (lbs)	Cloth (yds)	Artsilk (yds)	Woollen and Worsted Yarn (lbs)	Woollen and Worsted Fabrics (yds)
1954	1,561,032	1,161,328	4,997,712	181,207	19,361	13,748
1955	1,630,399	1,180,872	5,094,475	243,140	20,700	13,578
1956	1,671,204	1,200,104	5,306,584	295,750	25,576	16,308
Sept	146,235	106,571	465,594	25,000	2,387	1,595
Oct	142,527	101,049	443,359	19,782	2,351	1,506
Nov	139,490	98,972	430,084	17,636	2,212	1,421
Dec	155,205	111,802	479,276	22,822	2,226	1,364
1957: Jan	156,416	111,802	483,702	24,723	1,844	1,196
Feb	143,246	100,839	435,081	21,471	1,862	986
Mar	150,451	105,264	453,323	23,290	2,137	1,066
Apr	153,672	108,263	464,374	21,081	2,179	1,157
May	149,983	105,044	453,074	24,646	2,185	1,211
June	136,978	96,801	419,624	24,881	2,217	1,225
July	150,171	106,627	458,882	20,499	2,427	1,382
Aug	144,056	99,807	420,539	19,168	2,485	1,366
Sept	150,884	104,831	443,721	14,135	2,620	1,515

Production, Import, Export & Per Capita Availability of Cloth in India

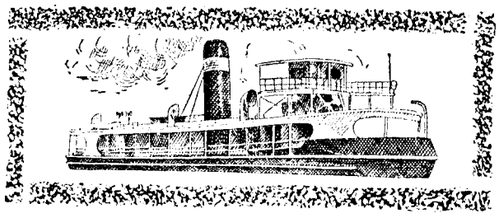
	Popln (millions)	Cloth Production (mn yds) Mill made	Hand-loom	Power-loom	Import mn yds	Total incl imports (mn yds)	Export (mn yds)	Deliveries for other purposes (mn yds)	Available for consumption (mn yds)	Per capita availability (yds)
1949	353	3,904	1,198	220	94	5,416	466	39	4,911	13.9
1950	357	3,665	805	148	7	4,625	1,120	27	3,478	9.7
1951	361	4,076	850	157	9	5,092	823	31	4,238	11.7
1952	365	4,598	1,109	204	5	5,916	602	39	5,275	14.4
1954	369	4,878	1,200	221	5	6,304	716	22	5,566	15.0
1954	373	4,998	1,318	243	6	6,565	956	23	5,586	15.0
1955	377	5,094	1,480	273	6	6,853	873	29	5,951	15.8
1956	381	5,306	1,509	278	13	7,106	804	27	6,275	16.5
1957 (Jan/Sept)	384	4,032	1,216	224	10	5,483	598	20	4,864	

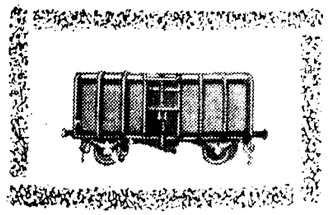
Source: Textile Commissioner, Bombay

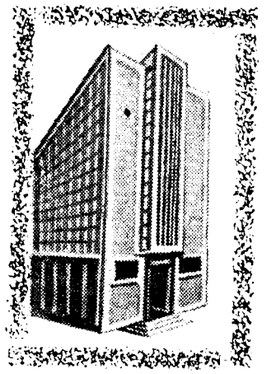
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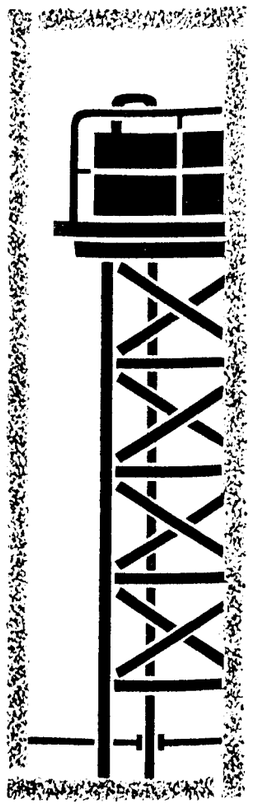
AIDING INDIA'S PROGRESS

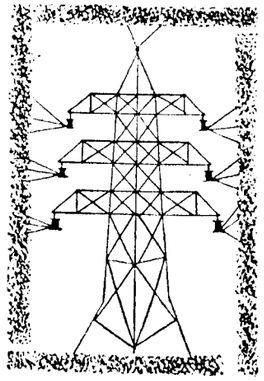












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Over-combative

A STRONGER Opposition has emerged out of the last general elections. In the Lok Sabha, the Opposition is now making its influence felt on some major issues that confront the country. In many States, too, the Opposition is now more vocal, though less effective. This developing political trend will be welcomed in the hope that the Opposition will become stronger and more powerful so that democracy can thrive. In the main, however, the Press and the private sector have been, and still are, performing the role of the Opposition in this country. This is a legitimate function which both have pursued with energy and vigour. But Mr Michelmore's presidential address before the Associated Chambers of Commerce in Calcutta is a reminder that the private sector may have so behaved on occasions as to create suspicion about its over-combative attitude to the Government's economic policy.

Many will echo the Prime Minister's appreciative marginal comment that Mr Michelmore's address was "unusual". Mr Michelmore is not a "yes" man. He was provocative on many aspects of the Government's economic policy. He is entitled to a sense of grievance that the manner in which the private sector has adapted itself to the "progressively socialistic trend of national thought and policy" has not received due recognition. He, as the spokesman of non-Indian business interests in this country, is critical of many aspects of the Government's economic and industrial policies. It is only natural that he will emphasise "the tremendous non-Government developments" in industrial and economic spheres. But he has the grace to concede the compelling urges which have shaped and influenced the Government's basic economic policy.

There have been sweeping political and economic developments in the last ten years. "India can", Mr Michelmore accepts, "rightly claim with pride to be the biggest genuine democracy in the world." Does, or can, the Government's economic policy substantiate this claim? On economic and social fronts, events have moved faster. Zamindari has been abolished. Prohibition has been enforced. State trading, death duties, expenditure tax and "many innovations in Government control of industry" have been introduced. New Delhi is committed to future expansion of key industries mainly within the public sector. Life Insurance, the Imperial Bank of India, Indian Air Lines and the Kolar Gold Mines have been nationalised. "Immense strides have thus been made in the direct and indirect moulding of commerce and industry into the pattern accepted by Parliament..." All this has involved a great deal of compulsion. There is growing criticism of the increasing infringement of the State on individual rights. "I wonder," Mr Michelmore has the honesty to admit, "how many there are who genuinely think that greater or more rapid advances could have been made without this element of what one might, to put it mildly, describe as 'persuasion'." It is time for both Indian and non-Indian business interests to appreciate this wider aspect of the Government's economic policy.

For too long have the Government and the private sector been quarrelling with each other at the cost of the national economy. At this moment of crisis, each must pull its weight so that the momentum of economic growth is not lost. It is futile to waste time and energy on crying over spilt milk. Mistakes have been made. Even New Delhi

will not deny that the grave foreign exchange crisis could have been minimised, if not averted, by planned and phased expenditure of foreign exchange resources. But, even as every cloud has its silver lining, the prevailing foreign exchange crisis has served to focus attention on fundamental issues. Credit is due to New Delhi for its new-found emphasis on the importance of internal resources. It is not that the private sector does not realise the need for mobilising internal resources. But it hopes that the foreign exchange crisis will frighten the Government to amend its basic economic policy. Mr Michelmore was discreet on this issue. But what he left unsaid could be liable to the interpretation that non-Indian private capital would welcome such a change.

Pandit Nehru was as sophisticated and suave as the President of the Associated Chambers of Commerce. Even as the Prime Minister appreciated the President's approach to the country's economic problems as a refreshing contrast to the customary attitude of the private sector, Pandit Nehru left no room for doubt that there was no question of the Government going back on its economic policy. This should remove suspicions that the foreign exchange crisis will compel the Government to sacrifice some of the basic elements and features of its economic policy. But the private sector should, at the same time, take comfort from the knowledge that New Delhi is anxious that the former should exploit its bargaining counters fully to acquire the needed foreign exchange for financing its expansion projects.

Pakistani Politics

DISRAELI once said that England did not love coalitions. England still does not. Neither does America. There are a few other democracies which also do not like coalitions. That does not mean that a two-party system of government is an essential attribute of parliamentary democracy. In many newly-independent countries, though India is a notable exception, there are coalition cabinets. If, and when, Congress ceases to be the party in power, it is not unlikely that India, too, may have a coalition government. That Mr Feroze Khan Noon's Cabinet is a coalition Government, is not therefore something which is derogatory to Pakistan. What is disturbing is the element of truth in the caustic comment of Mr Nurul Amin, the East Pakistani Muslim League leader, that the Noon Cabinet is a "hotchpotch combination of heterogenous elements with diametrically opposite interests and ideologies." Mr Nurul Amin's hostile reaction to Pakistan's seventh Cabinet is understandable. But it is clear that, with the Muslim League's loss of power, Pakistan is likely to have only coalition cabinets.

Mr Noon owes his position to the antipathy of all influential political parties to the Muslim League. This political allergy of the people and political parties of Pakistan is a welcome symptom. There will be appreciation that Mr Chundrigar and his seven-weeks-old Muslim League Government had to go because the principle of separate electorates was not liked by the people of Pakistan. This popular disapproval is a healthy sign. Immediately after assumption of office, Mr Noon gave an assurance that he and his Government would work for holding elections on the basis of joint electorates. Mr Noon and his Republican supporters can also reply to Mr Nurul Amin's angry insinuation that a coalition cabinet must necessarily be composed of parties some of which are likely to have different interests and ideologies. Such coalition cabinets may not, as in France, last long. But that is not necessarily an undemocratic trait in French politics, and should not, therefore, be considered as such in relation to Pakistan.

These arguments will be conceded. There will be sympathy with the efforts of Pakistani political parties to avert President's Rule as also to keep the Muslim League out of power. This combined fight against reactionary or extra-constitutional politics is a welcome development. To credit Pakistan's major political parties with this democratic instinct, is not to gloss over the unseemly jockeying for power by most of these. It is a tribute to the tactical position that the Republican Party holds that it continues to be the maker and unmaker of cabinets. It was the Republican Party which ousted Mr Suhrawardy. But in removing Mr Suhrawardy from power, it had to stoop so low as to make an alliance with the Muslim League. That was a political mistake which would have irretrievably damaged the Republican Party's ambition to emerge as the Party in power. It soon discovered its mistake.

It was magnanimous of Mr Suhrawardy to lend his and his Party's support to Republicans who manouvred him out of power. But his reluctance to join the Noon Cabinet indicates that he may not have yet forgiven the Republican Party for its campaign against him. That the Republican Party would have the moral support of the National Awami League was a foregone conclusion. But even National Awami League members have refused to participate in the Noon Cabinet. It is to be presumed that Maulana Bhasani's National Awami League will tolerate the Noon Government's foreign policy only on the condition that the latter keeps its promise of dissolving one-unit West Pakistan in order to create separate, linguistic provinces.

If the Republican Party tries to fulfil this pledge, it will invite opposition from both the Awami League and the Muslim League. Will the Republican Party have the statesmanship to pursue, and stick to, a wise policy? It has more than one commitment to more than one Party. Some of these pledges and promises are either contradictory, or will, if adopted, estrange some of the groups now coalescing with the Noon Cabinet. Where, and how, will this political tight-rope dancing end?

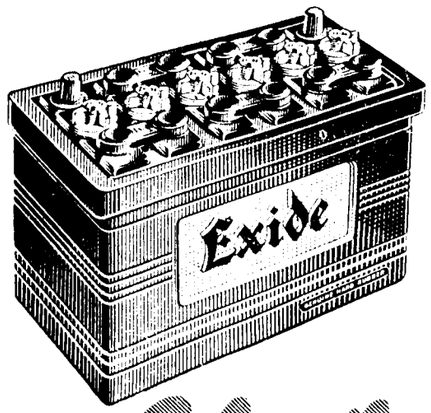
Greetings

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 28 on account of Christmas Holidays.

The next issue, Volume X No 1, will be out on January 4, 1958.

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Weekly Notes

Industrial Delegation Report

THE Report of the Industrial Delegation which recently visited the U S, Canada, West Germany, France and U K is really meant for the Government of India, though it is formally addressed to the Federation of Indian Chambers of Commerce and Industry. The purpose of the delegation was to enlist help to relieve the foreign exchange problem facing the country by attracting foreign investments in India. According to the delegation, the balance of payments problem falls into two parts:

(1) Lack of adequate resources to meet liabilities already undertaken by the Reserve Bank to supply foreign currency for the purchase of equipment made so far by the public and the private sectors.

(2) Lack of resources for the future needs of the country to fulfil the Plan.

It is the latter which the delegation took up as its responsibility, as the Finance Minister was in the United States at about the same time to tackle the former, the remedy for which is to raise a loan immediately on a Government to Government level in the U S or float a loan in the open market. The delegation studied both the scope for attracting foreign investments as well as for raising commercial credits abroad. While it thinks that the prospects for raising a foreign loan are slender at the moment, India should nevertheless make a token entry in foreign money markets, though sizeable assistance can only be obtained at the moment from institutions like the World Bank, the Export Import Bank, the I C A, P L 480 and other Government or semi-Government institutions.

The delegation did not think that there was any political hostility against India either in the U S or in other country but there were misgivings. There were misgivings not about the policy of neutrality but doubts: how neutral was India?

There were similar misgivings about India's economic policy which deterred the flow of foreign capital into the country. The reasons for these misgivings and doubts have been touched upon in the Report. The solution, though not explicitly stated, is to rehabilitate the private sector and ensure to it the same status and position which its counterparts enjoy in countries like U S or West Germany.

The Report is cleverly drafted. It has not run down the Plan nor questioned the political ideology of the Plan. It merely overlooks what should be pretty obvious, viz, that the economic policies to which it takes objection are, by and large, merely a reflection of the political ideology which the country has adopted by a free and democratic process. Since the formulation of policy and its implementation cannot be entirely separated, it will be readily conceded that some of the deterrents to foreign investments in India, e g, those listed by the U S Department of Commerce in the Note appended to the Report, are not so much matters of policy as that of administration. Again, some of the difficulties arise from lack of clarity in enunciating the policy. These need to be looked into carefully and some of them can certainly be removed to the best advantage of the country. The measures to induce freer flow of U S private investments in India, the Report hopes, would also pave the way for raising a loan from the U S Government in the future.

The delegation formed a fairly favourable opinion about the possibilities of commercial credit, provided the Government does not insist on a longer period of credit than five years, which is usual. This, the Report feels, should be adequate as in practice the credit would cover at least 7 to 8 years after a deal is finalised since the first shipment cannot be expected before 2 to 3 years from the date of concluding a deal. This is particularly emphasised in regard to the possibilities of India borrowing from the Export Import Bank which can consider a longer period loan only on "project credit." In view of the first two loans granted to India by the Export Import Bank and the delegation's justifiably favourable view of the possibilities of much larger loans from this source, it is curious that the Report fails to clear up the point it mentions earlier as the deterrent to India's borrowing from this source in the past, viz, higher prices of American equipment. If the quality of such equipment is really better, surely the prices cannot be very high? There is, however, an additional inducement—the lower rate of interest usually charged by the Export Import Bank.

Balance of Payments & Taxation

FINALLY, there is the question of down payment, when credit or foreign participation in projects in the private sector have been arranged. What about raising enough rupee capital to match the foreign credit? The Report comes to the woeful conclusion that: "As the situation stands today, it is almost impossible to raise very substantial equity capital even with the best of efforts. There are various reasons for this, but, broadly one might say that it is due to inadequacy of savings and, secondly, to the tightness of the money market, partly as a result of policy adopted during the last year.... Without profits there can be no saving, and without saving there can be no investment, and without domestic investment, no seeking of capital abroad". The clue to the solution of the foreign exchange problem is, therefore, less taxation and unless taxation is reduced, the delegation finds that the vicious circle cannot be broken.

So, the balance of payments crisis is an argument for persuading the Government to change its present taxation and social welfare policies. Political ideology, according to the Federation, may appear to be an irrelevance; unfortunately, Pandit Nehru is not in the happy position of acting according to this comfortable doctrine. It may also be asked, if the private sector is in such a bad way in respect of capital resources, how could it complete the targets assigned to it in the Plan three years ahead of schedule and invest as much as Rs 800 crores, for which due credit is taken in the Report?

Exchange Crisis and the Plan

THE first of the series of Occasional Papers brought out by the National Council of Applied Economic Research is appropriately devoted to an examination of the foreign exchange crisis and the means to meet it*. After presenting a fairly clear analysis of the familiar factors which have brought about the present impasse, the monograph goes on to suggest some remedies. These range from reduction of imports, promotion of exports, deferment of payments due or likely to arise and arrangements for import credit to exploration of the possibilities of substituting domestic for imported resources in Plan projects and for less import or capital intensive projects.

Among the suggestions are:

1) All imports of consumption goods and intermediate goods intended to be processed into consumers' goods internally should be drastically reduced and the outstanding unutilised licences issued during 1956 should be recalled.

2) Imports of raw jute, oils, paste board and stationery and a whole range of miscellaneous items should be reduced.

3) A certain percentage of sugar output should be reserved for exports and export restrictions on staple commodities like vegetable oils, oilcakes, etc, should be relaxed.

4) Reduction of export duties and export subsidies in the form of short period credits, special rail freight rates, shipping freight rebates, etc, should be resorted to with a view to increasing exports.

The suggestion for recalling import licences which are unutilised is both bold and timely, particularly in view of the reluctance on the part of the authorities to countenance any step which might savour of repudiation of obligations. Indeed, such of the unutilised licences for which no firm commitment had been made should have been called back long ago; no repudiation would be involved in postponing temporarily the utilisation of the licences. One can well imagine the administrative difficulties that may arise in implementation, but in the bulk of the cases where the import licences are for large amounts, enforcement should not present insurmountable obstacles.

* Foreign Exchange Crisis and the Plan. Asia Publishing House. Pp 31. Price Rs. 2.

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More open to controversy is the suggestion that foreign concerns should be requested to defer their remittance of profits for some time. So long as it is only a request and compliance is voluntary, the suggestion may be innocuous but it is dangerous ground and Government has to proceed very cautiously for anything like an indirect attempt at blocking of accounts would be unwise in the extreme.

Export Pool for Cloth and Sugar

THERE is an impression abroad, unfortunately not entirely unjustified, that India has not been doing as much as she could in increasing her export earnings. The presence of inflationary pressures at home is itself the greatest obstacle to export promotion and has to be tackled first. But even where home demand is not itself an impediment, the Ministry of Commerce and Industry has displayed little energy or enterprise in promoting exports. A classic case is that of cotton textiles. The industry is loaded up with unsold stocks of the order of four to five hundred million yards and the situation is being met by painfully cutting down production, by reducing shifts or closing down mills, both most undesirable, while nothing is done to work out a scheme by which this overload could be sold abroad. The millowners' associations could easily set up a voluntary organisation for finding a market abroad for surplus stocks. The proposition would be criticised on grounds of social policy; it could even be dubbed as an attempt to fleece the domestic consumer; it might arouse opposition from textile exporting countries; but as a measure of expediency, its merits are so obvious that it is hard to explain why either the Ministry of Commerce and Industry or the millowners' associations themselves have been so slow to move in the matter.

The failure to get a move on in promoting continued exports of sugar is equally inexplicable and is to be regretted in the extreme.

Apart from advocating cutting down of imports and promoting exports, the monograph has some general observations to make about the character of the projects in the Plan. These are as follows:-

1) In cases of projects for which it is possible to substitute domestic resources for imports, domestic resources should be utilised.

2) Wherever there is a choice between capital and import intensive projects and quick yielding, less import and capital intensive projects, the latter should be preferred. This possibility should be explored even in the case of what is termed as the hard core of the Plan.

An Arithmetical Excercise

NOW it might appear to be somewhat late in the day to suggest so obvious a thing that projects taken up should be less capital intensive in view of the shortage of capital in the country or that domestic resources should be substituted for imports wherever possible. Would it not be proper to assume that this has already been done and that the National Council of Applied Economic Research is merely wasting its breath? Throughout the discussions on the Plan and from the earliest stage there has been much sophisticated talk about factor proportions and optimal combinations of factors but no realisation how idle all this talk is and how futile economic reasoning is against the dead-wall of technical rigidities which arise not from a comparison of different techniques but from the methods of working to which the Government departments are habituated. And if the truth has to be admitted, where is the inventiveness, the designing talent and capacity for fresh thinking among our engineers, technicians and administrators to make any such discussion fruitful? The Public Works Department goes by precedent and sticks to specifications sanctioned by hoary antiquity. The foreign exchange crisis would have served some purpose if it could shake it out of its routine ways.

While outlining the principles for revising the Plan from the stand point of reducing the import content of the projects to the maximum possible extent, the alternative Plan given at the end of the monograph does not live up to the expectations raised. It is merely an arithmetical exercise. It is doubtful if adequate data are available even with the Government or the Planning Commission to make a useful study on these lines possible. That the monograph calls upon the Planning Commission to work out and publish the foreign exchange component of the projects included in the Second Plan bears out the contention. But if any public body can undertake such an examination, the National Council of Applied Economic Research is in as good a position as any other, and it is to be hoped that it would undertake a more thorough study of the problem along these lines, instead of remaining content with dishing out what is more or less already known. The fine get up and the high cost of the publication call for more substantial contents.

Problems of Indian Shipping

SHRI LAL BAHADUR SHASTRI's speech before the Indian National Steamship Owners' Association in Bombay is not likely to satisfy fully Sir A Ramaswami Mudaliar, Chairman of India Steamship Company, or the private shipping industry. But the India Steamship Chairman should feel flattered that New Delhi accepts most of his suggestions, as indicated in the Union Transport Minister's assurances in his Bombay speech. In the main, the shipping industry's grievance is that not enough is being done to help its rapid growth. There are many limitations. But the Government's concern to provide finance for the development of shipping is confirmed by the decision that the non-lapsable Shipping Development Fund will be raised to Rs 50 crores. Besides, additional contributions will be made to the Fund from general revenues from 1958-59, if not from 1957-58. Loans to shipping companies out of this Fund will also bear a lower "effective" rate of interest, though the details indicate the Government's emphasis on the expansion of coastal shipping.

Shipping may not be a "better bet", as asserted by Shri Vasant J Sheth, INSOA President, "than steel as earner of foreign exchange." But Sir Ramaswami and shipping interests will welcome the Transport Minister's disclosure that the development rebate will be raised from the present level of 25 per cent. In his speech as Chairman of India Steamship, Sir Ramaswami had hinted what the shipping industry would like the rebate to be by mentioning the allowance of 40 per cent given to the British mercantile marine. Shipping is a valuable earner of "invisible" income. This industry can earn foreign exchange rapidly and in sizeable amounts. That is why the industry has been urging, and this was reiterated by Sir Ramaswami, that the foreign exchange it earns should be earmarked for its development. New Delhi does not, as stated by Shri Shastri, accept the industry's suggestion to pool its foreign exchange earnings for acquisition of extra tonnage. But the Government has agreed, as Shri Raj Bahadur, Shipping Minister, informed the Lok Sabha recently, that net freight earnings of a newly acquired vessel will be released for paying its own price. Need and urgency of expansion of Indian shipping will not be denied. However, the industry may as well consider Shri Shastri's suggestion that it should explore possibilities of acquiring foreign exchange on a deferred payments basis, or through mortgages of their assets to foreign banks and lending institutions.

Sir Ramaswami's criticism of that aspect of the State Trading Corporation's activities which "cuts across or infringes on the legitimate interests of Indian shipping" is not fully accepted by the Government. New Delhi rejects the industry's suggestion that it should have full freedom to operate its tonnage as and where it liked. But Shri Shastri's statements in Bombay indicated that Indian shipping companies may be allowed to move Government cargo on a cost-plus basis. One of the points raised by Sir Ramaswami is that shipping interests are not consulted on issues which deeply affect them. It is, therefore, welcome news that a co-ordinating agency will be set up soon to maintain liason between the Department of Transport and other Ministers concerned with imports and exports. In his speech, Sir Ramaswami had complained that STC had made contracts for the rate of bulk commodities, such as ore, on an F O B basis, which meant that the importing country could completely shut out Indian shipping from such trade. With effective liason, and with the assurance that Indian shipping will be allowed to carry Government cargo under certain conditions, these grievances are likely to be removed.

Towards Uniformity in Sales Tax

SOME solution to the problem presented by the vesting in the States the power of levying sales taxes has long been awaited, but on each occasion on which legislation in this field has been undertaken, hopes of a satisfactory solution have been belied. The Central Sales Tax Act did not solve the problem of inter-State sales tax because it continued the practice of State administration of this tax though this was now to be levied at certain rates prescribed by the Act. These strictures cannot be applied to the legislation that has now been introduced into Parliament to replace the sales taxes on sugar, tobacco and cotton textiles by additional excise duties to be levied and collected by the Centre, the proceeds of which are to be distributed primarily to the States.

The main justification for the present legislation is that it will eliminate the burden which is imposed on the trade in these commodities in the collection of sales tax, particularly in regard to inter-State trade. Both consumers and the trade will gain as a result of the proposed changes without affecting adversely the revenues obtained by the States. As a matter of fact, the States will gain from the prevention of tax evasion that is anticipated as a result of the change.

There can be no question about the advantages of the additional excise duties that are to replace the sales taxes that are now in force. The question may be asked, why cannot the system be extended to other commodities, thus eliminating the problem of the sales tax altogether? It has to be admitted that there are probably some commodities for which it would be absolutely impossible to do this, but wherever possible, such a substitution should be carried out. The main opposition to the change, however, still comes from the States, though why there should be any objection if there is no loss of revenue it is difficult to understand.

Another welcome change in the field of sales taxation was announced by the Finance Minister in the course of the debate on the new bill. It appears that the States have agreed to the imposition of uniform rates of taxation on sixteen commodities, so that no one will find it advantageous to transfer his business from one State to another. This is also welcome and may be considered as one further step towards uniformity in sales taxation. If the country cannot have the advantages which follow from the centralisation of the sales tax, the minimum it can expect is that the States agree to whatever steps will give some benefits to the trade and to the consumer without adversely affecting their revenues.

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Uneasy NATO

EVEN President Eisenhower's presence in Paris has not succeeded in mesmerising America's NATO allies to prompt or enthusiastic acceptance of the IRBM offer. Many west European countries are reluctant to have IRBM bases in their countries in order not to provoke threats of Russian counteraction. As was only to be expected, Moscow had timed its revived appeal for East-West talks to coincide with the meeting of NATO Heads of Government. That appeal may not have been heeded. But there are indications of a growing desire among America's NATO allies to initiate a move towards a rapprochement between Russia and the western powers.

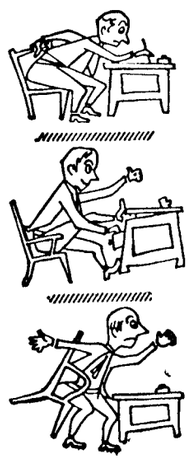
It becomes increasingly obvious that some of the western powers are anxious that both America and Russia should start a policy of disengagement from Europe. This was one of the main themes of Mr Kennan's Reith Lectures this year. Some days ago, Poland suggested a scheme for neutralising parts of central Europe through an agreement that no atomic bases would be permitted in some countries in this region. Some such proposal will have to be accepted to create a congenial climate for the proposed Foreign Ministers' talks on disarmament, as a prelude to an attempt to reach an understanding between East and West.

Dampers on Enterprise

THE viewpoint of progressive private enterprise in the country in relation to the problems that face the country today has rarely been presented with as much clarity, sobriety and balance as has been done by Mr E D Sheppard, Chairman of the Killick Industries Ltd, Bombay, in his address to the company's Annual General Meeting this week. While welcoming the reduction in the highest rate of income and super tax on earned incomes from 92 to 77 per cent, he pointed out that a price had been paid for this concession in the shape of the Expenditure and Wealth taxes. Mr Sheppard was particularly critical of the Wealth Tax on Companies. "If ever there was a measure designed to grab money, irrespective of justice or reason," he said, "this tax is surely it." It was his contention that the various facts which he set out in connection with taxation were responsible for eliminating the incentive to invest-

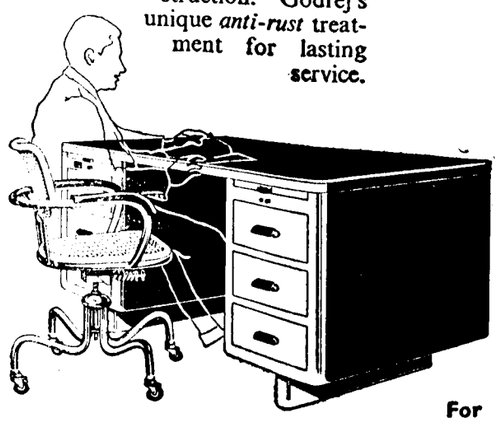


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and for depriving the country of foreign capital and of the technical skill and advice which goes with it.

Mr Sheppard then directed his attention to the "ever-widening scope of the activities of the State Trading Corporation," which he insisted had quite exceeded the avowed objectives with which the Corporation had been started. Specifically, it was the entry of the Corporation into the cement and manganese ore businesses which Mr Sheppard considered quite unjustifiable.

Whatever may be the validity of the views expressed by the Chairman of Killicks on these two questions, there can be no question of the soundness of his criticism of recent developments in the field of labour relations. Mr Sheppard was naturally influenced in his judgement on the subject by the serious labour indiscipline which he contended prevailed at the Hingir-Rampur Colliery under his Company's control, indiscipline which culminated in riots and the murder of the colliery manager. There is undoubtedly need for some reconsideration of the basic issues in connection with the trade union movement, where unhealthy tendencies have been visible for some time past. One must agree with Mr Sheppard that there can be no excuse for violence and hooliganism. The question of course is whether such violence and hooliganism prevail on a very significant scale in the country and whether the authorities are not taking adequate action to put them down wherever they tend to occur.

Apart from these three, which in a sense arise directly out of the business activities of his firm, Mr Sheppard also discussed certain wider issues in relation to the Plan. Here he raised fundamental questions, but he was also treading on much more controversial ground. His doubts with regard to the extent to which the concentration on heavy industry can be pushed, his questioning of the premise of our planning today that unless a certain rate of growth is achieved the people of the country may turn to alternative ideologies, his reference to the tendency on the part of authority to treat critics as anti-national defeatists, his observations on the British experience of the welfare state, all these raise basic questions the answers to which are implicit in his own remarks, which many may find unacceptable. It nevertheless speaks of Mr Sheppard's courage and his integrity that he raises these questions in the belief that they ought to be considered in the interests of the nation. There can be no doubt that uncritical acceptance of current ideas on these questions is undesirable, particularly in the context of the present difficulties facing the country. Mr Sheppard must be thanked for provoking thought on these issues.

In regard to the continued expansion of Killick Industries, Mr Sheppard pointed out that the stage has been reached where further finance would be required. Though no decision has yet been taken, he indicated that an application for issue of fresh capital next year may be made to the Controller of Capital Issues. In reply to questions at the meeting, Mr Sheppard said that the new capital issue may amount to Rs 25 lakhs, with one new share being issued for every four held, the issue being at a premium of Rs 20 per share.

To ask how Killicks could expect the issue to be successful if the conditions which prevail in the market are as bad as Mr Sheppard says they are, as a result of Government's tax and other policies, would be failing to see the point of his criticism for it is the sound reputation of Killicks established over a hundred years which is the guarantee of its success. This advantage is not available to all.

Letter to the Editor

Note on the Ambar Charkha

A Reply

IF the readers of the **Economic Weekly** feel that far too much has already been said on the Ambar Charkha, I cannot blame them. So I shall make my reply to Shri Amlan Datta's last note (**Economic Weekly**, December 7, 1957) as brief as possible.

I am not quite certain whether we are all sure what exactly we are arguing about. In my first note on the Ambar Charkha (October 19), I tried to suggest that the net value added per Charkha worker per day was 1 anna and 9 pies, that to let the Charkha workers earn 9 annas per day (as suggested by the Ambar Charkha Enquiry Committee Report) we had to create a recurring excess of extra purchasing power over extra production, that this measured per unit of capital meant a rate of surplus of **minus** 276 per cent per year and that this excess of consumption over production would tend to exert some inflationary pressure and also lead to some contraction (rather than accumulation) of capital. Shri Datta, in his note of November 2, seemed to argue that the Ambar Charkha being a family-based enterprise, the earning of the Charkha workers could not exceed the value produced by them and hence the problem of negative surplus did not arise. In my reply (November 23), I tried to point out that Shri Datta had left out the subsidies paid to the Charkha workers which is the way their earnings are actually made to exceed the value produced. Shri Datta in his most recent note (December 7) seemed to accept the point completely and set an admirable example of self-criticism by describing his neglect of the subsidies as "an obvious defect". I should have thought the controversy would end there. But obviously Shri Datta does not think so. He has now come out with quite a new point. The gap of 276 per cent of purchasing power over production, he argues, need not express itself fully both as inflation and as contraction of capital. I quite agree. To the extent the gap works itself out as a rise in the price of consumer goods restraining the rise in real consumption, real investment obviously need not fall. I think the deficit will tend to spread itself in both the directions and thus lead to some degree of inflation and some disinvestment of capital. And that is all I said in my note on the Ambar Charkha (October 19).

Again, even if the gap leads to only inflation and no contraction of capital, or only capital contraction and no inflation, the situation is not in either case very encouraging. So I do not quite see how this meets our criticism of the Ambar Charkha as a technique of production.

Amartya Kumar Sen

Calcutta,
December 16.



The Story of Oil—4

Exploring for oil

It is impossible for anyone to say exactly where petroleum will be found. It accumulates in isolated subterranean traps, and these are what the oil-explorers seek, rather than the oil itself.

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The geologist is all the time patiently searching for signs that could point to the existence of underground rock traps. Traps suitable for an accumulation of oil consist of porous rocks in which the oil (if any is there) is hemmed in on all sides by non-porous rock. Clues to such buried structures may be found in the banks of rivers and streams, for here the earth's rock layers are often exposed to view, enabling the geologist to calculate their age and measure the directions in which they slope beneath the surface. The rocks may contain the fossilised remains of plants and animals that lived millions of years ago, when crude oil was being formed.

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B.O.C

A Calcutta Diary

2 Dead, 24 Injured: Long Live Nehru!

READERS in Bombay, to which city the true native of Calcutta still affects a slightly superior attitude, will have been surprised more than somewhat that Job Charnock's city had gone so wild over the formal opening of electric trains over a distance of fifteen miles or so. Part of the excitement may have been caused by the presence of Nehru, whose own disproportionate enthusiasm over so trifling an achievement, and behind schedule to boot, remains a mystery. The electrified service, incidentally, had been running since December 1st in any case, and all the Prime Minister was doing was formal inauguration a fortnight later. His own description of the strange "big do by the Hooghly" was that it looked like a marriage ceremony: marriage between the old and the new, he said later. Lakhs, it is said, were spent for the wedding, and friends foregathered by the hundred thousand to bless the bride. At the end of the ceremony the bride's father, the General Manager of Eastern Railways, looked a sorry man. It looked as though he had borrowed too much money, paid too high a dowry.

He did not, really. Two other families did, with their sons, who were run over and killed by the brave "new" thing introduced by Eastern Railways. Nor is that the complete casualty list; 24 others are in hospital now, some with serious injuries. They had gone to see the Prime Minister, the electric train. It is possible they had stood on the footboard or something, and did not know how quickly these trains pick up speed. They have been posthumously accused of "folly," by at least one newspaper, and perhaps they were fools. The question remains unanswered up to the time of writing whether this fatal fuss over ever so small an achievement was at all necessary.

* * *

The unidentified bodies are not Ceasar's; they will be buried, and I am not here to praise them. But the evil that other men did lives after them, those two unfortunates who had lov'd Nehru not wisely but too well, and it is to that we have to turn our thoughts, tinged, if we are capable of it, with a little sorrow. These two men's blood, cold and clotted by now, is on the conscience of us all. We newspapermen, who will not publish an edition without something about Nehru and do not consider anything news which is not concerned with him. (This is the place to add that only one newspaper had it in the headlines that two men had died, while the others bannered Nehru's opening ceremony and his speech.)

The railway administration owes the country an explanation for inviting so many to so ill-organised a show, and it is to be hoped that Jagjivan Ram's conscience has not gone to sleep after sanctioning a hundred rupees each for the injured. As for the Prime Minister, it is time for him to think whether his fondness for huge audiences wherever he goes—a fondness fully reciprocated, admittedly—is not fraught with grave risks. His love for ceremony may also need re-examination, if only because ceremonies cost money.

* * *

What the Prime Minister has to ask himself more urgently is whether he has not created, in the country and in its bureaucracy, a state of mind wholly unconducive to democracy or efficient working. The General Manager of Eastern Railways, whom it is now easy to blame, is not unrepresentative of the country's officialdom in having thought, as he must have done, that no achievement was big enough by itself. It has to be blessed by the Prime Minister. Recognition by him alone matters; all else is a waste of time. To be a member, even as a sycophant, of the court of Nehru is the one end every official must work to if he hopes to be successful. It is possible that Nehru dislikes it, deprecates it as the muse may move him. Neither wipes out the fact that such is the situation today, and it is for the Prime Minister to end it. The General Manager of Eastern Railways, poor man, was only doing what most others do and are rewarded.

A healthy indifference to Ministers is the first essential component in the mental make-up of a good bureaucrat, and this is the kind of goodness which no longer pays. It is Nehru who keeps telling the bureaucracy everyday that it must change its outlook, that it must be most responsive to the popular will as represented by the elected Ministers—and this is the result. Going to the airport to meet a Minister has a higher priority than going to a trouble spot, or getting on with one's job. Three letters, V I P, are today more important than anything else, and West Bengal is perhaps lucky in not having a second Kumbh Mela. By the way, does anybody know how many died on that occasion? The answer may be, who cares? My Chinese shoemaker, with whom I tried to fraternise by informing him that 15,000 Chinese had been sadly washed away in some flood, said "Don't worry, sir. Plenty Chinese." Plenty Indians?

* * *

These opening ceremonies and other shows that the Prime Minister attends are a part of his public relations effort, in part necessary. If popular enthusiasm is going to be the chief asset to be invested in the implementation of the Plan, and there is little else to invest, these "mass contacts" are necessary, up to a point, for making the despondent public feel that something is being done, even if it is only electrifying a few yards of railroad. Arrangements for these functions have to be improved then. And the crowds have to be trained to behave better, and in Calcutta that is no easy job in all conscience. The best of arrangements can be nullified by the Calcutta crowd, even if it is, as it is all too often, at its own peril. Here they go to meetings, their only recreation, like—like fireflies to a candle, and as desperately.

The basic question is deeper. In analysing the abusive letters recently received by Malcolm Muggeridge and Lord Altrincham for their attack on Royalty, Henry Fairlie wrote, "The trouble is not that the monarchy is not doing its job: it clearly is. It is that the rest of the society has broken down and ceased to do its job." Read "Nehru" for "the monarchy," which should not really call for much effort. Fairlie had written earlier, "It is quite clear that the present infatuation with the monarchy should be discouraged ... the monarchy is in danger of becom-

ing the sole prop of the weak, the sole provider of emotional security, the sole cohesive force in society. A healthy society should provide people with other supports, other totems, to make their lives bearable." Again, read "Nehru" for "the monarchy", which should be even easier tnis time.

—Flibbertigibbet

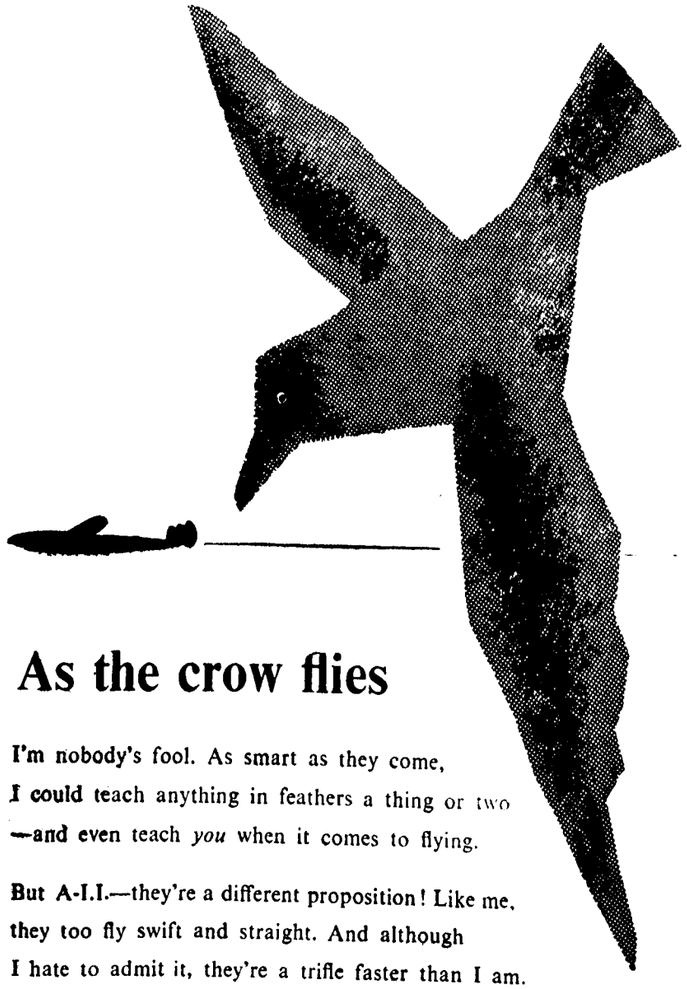
December 17.

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Letter from Paris

Oil, Atom and Decadence

IS France a decadent country? The answer depends, as Professor Joad would have said, on what one means by 'decadence'. This much-used word applied generally in a derogatory sense reveals on examination to carry no precise meaning; for society is not really comparable with a living organism and such a notion as the death or the decadence of a society cannot but be vague. One often has the tendency to see symptoms of decadence of a society in the cultural and moral fields. Such and such writers and artists (e g, Wilde, Gide, Dali) and such and such behaviour (e g, dancing boogy-woogy, living with a girl friend without getting married) are considered decadent, and from that by inference a society that shows such symptoms is branded decadent. Without questioning the validity of the approach, it is permissible to remark on the difficulty its use must necessarily pose. As an example of how slippery such a criterion might be, take the case of Picasso. He was regarded as decadent by many protagonists of social-realism, and this in spite of the fact that Pablo Picasso is a member of the French Communist Party and that, according to a recent article published in the English journal **Observer**, he considers all art previous to Cubism as false!

Anyway, a quick examination of present-day French culture in search of signs of decadence is not likely to lead anywhere. Whether Picasso, Braque and Matisse or even Roualt, Dufy and Buffet are to be considered as more dacadent than Renoir, Toulouse-Lautrec and Cezanne can, for the present, at best remain undecided. In the literary field of today one can point to writers like Francoise Sagan or Cocteau as indicating an irresponsible ivory-tower mentality or an extreme individualism. It will be generallly admitted that in the post second world war period, French literature has gained in vigorousness, and many writers like Sartre are carrying on the tradition of Zola, not to mention the powerful group of Communist and other Marxist writers, who, whatever one might think of them, are not generally accused of revealing the usual symptoms of decadence. As to moral aspects of the society. they are perhaps one of the things that have changed least in a hundred years; hardly moved out of measure by Freudian thought, France has not undergone any process similar to what is termed the sexual revolution of the 20th century in the U K and the U S A. Morals are therefore the last thing a sociologist should think of, if he is searching for a decadence relative to the 19th century.

How to Measure Decadence

There is another way of looking at the question. It is to think of the great civilisations that had arisen and vanished in the past—the Assyrian, the Egyptian, the Greek, the Roman, etc,—and asking the question whether the present-day European, and in particular French, society is passing through a period comparable to the 'declining' phases of these civilisations. But to answer this question, one must know what are the aspects to be compared. In descriptive literature one talks in terms of the flourishing of the arts, the sciences, etc. Here, again, we are faced with the difficulty that, in general, the values of cultural matters are not measurable and therefore are not suitable for use as objective criteria. One might, however, look at the economic and the institutional aspects, which are very much more interesting. In laying emphasis on these aspects it is not menat to minimise the importance of the cultural aspects, which to many minds is all that really matters! There is however a pretty good correlation between the growth and decay in the economic aspects and in the growth and decay in the cultural aspects. It might not be marked in a very short period, but it is usually discernible over a long period.

In discussing the decadence or otherwise of a society with reference to its economic and institutional aspects, the question arises : What are the observables to be observed? There can be many indices and it is not inconceiveable that their indications are contradictory. According to Professor Vilar, a noted Marxist, one should use the following as indices and base judgement on the basis of all of them taken together:

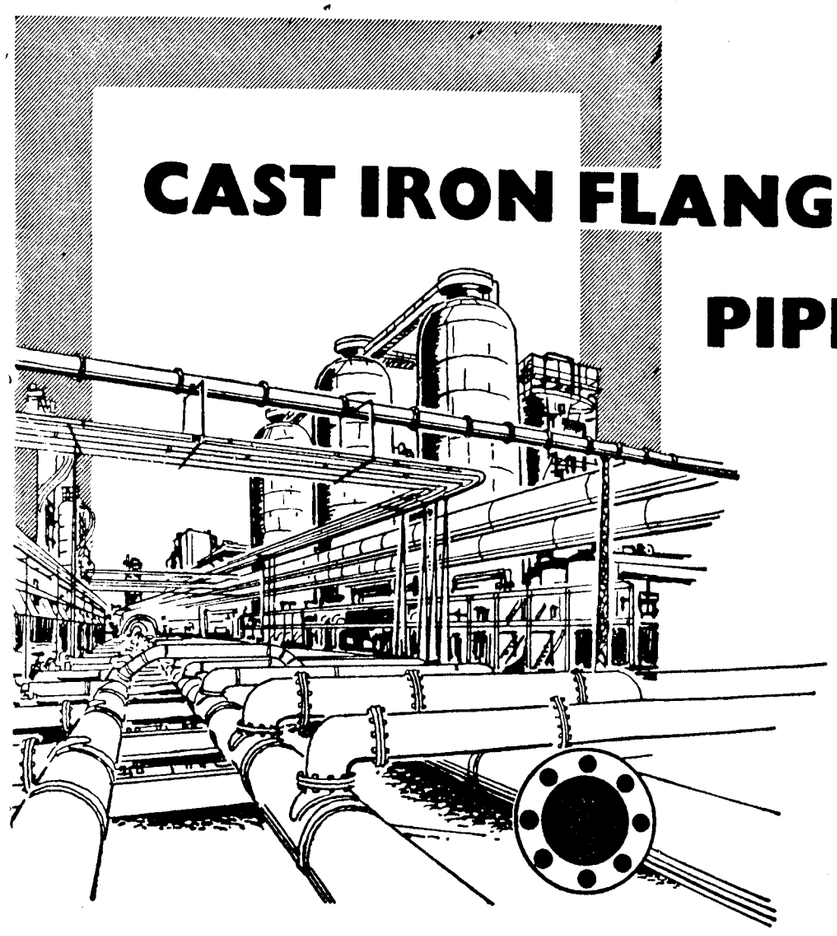
(a) movements in production;
(b) movements in the population;
(c) movements in prices and incomes;
(d) movements in the rate of investment;
(e) movements in commerce;
(f) movements in the financial aspects of the State; and
(g) movements in the monetary aspects of the economy.

A very tall order! Not only that: according to Professor Vilar, one should work on the basis of measurable quantities cited, but, before coming to a definite conclusion, take into consideration such nonmeasurable factors as social movements, political trends, presence or absence of equilibrium in the social life, etc.

It would indeed be fascinating to study any period in any country in history in terms of these criteria, but it is the work of a life-time We have set out to seek an answer to the question whether it is possible to describe the French society as decadent in any precise sense. We have to abandon the approach of Professor Vilar as it does not promise a quick reply. Before however finally closing this paragraph, it is good to note that superficial and partial application of the method might lead to paradoxical results : it is to be remembered that even in France, long considered 'sick', there has been remarkable increase in production as well as in productivity in the post second world war period, and that capitalism, long condemned as decadent by Marxists, has after all been creative in so far it has given rise to such innovations as nuclear energy, automation, etc.

Definition of Revolution

There is anothr way of looking at the problem of 'decadence' as applied to a society. It is to think in terms of the socio-economic set-up of the society; it is to ask the question, whether the set-up can be regarded as decadent in any sense? The distinction between the two approaches is this: It is not now asked whether the society as a whole is dying or not, but only whether its socio-economic base is. There is no paradox here. While it is true that all the aspects



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of a society are determined ultimately by the infrastructure, the relationship is not firm and close as in a mathematical functional expression. They may be influenced by many factors external to the infrastructure; and among other things, forces that are trying to overthrow the infrastructure might to some extent themselves influence different aspects of the society without any corresponding change in the infrastructure. Before formulating a criterion which we shall be able to use, we give below the definition of 'revolution' by Bowden, Karpovitch and Usher in the book 'An Economic History of Europe since 1750', revolution being understood in a very general sense:

> "The ordinary meaning of the term revolution seems to involve three main elements. In connection with any series of events described as a revolution, there is first what may be called the natural normal process of change and adaptation; secondly an obstacle or obstruction in the current of change; and thirdly a more or less abrupt removal of the obstruction with correspondingly rapid and often violent adjustments."

Applied to socio-economic history, this general definition gives rise to the Marxist definition of a socio-economic revolution: In a society with a given infrastructure (that is, a given base in terms of property relations), there is for a time a progress in the forces of production accompanied by a rise in the material as well as cultural level of living of the population; then the aforesaid progress starts to slow down, the institutions built up to protect the property base being more and more incapable of permitting further progress the revolution consists in the more or less abrupt substitution of the infrastructure by another which once again permits the forces of production to progress freely.

Criterion of Decadence

It is not the notion of revolution that interests us here, but that of the situation that calls for or leads to a revolution, namely, a lack of adaptation between the forces of production, material as well as human, and the institutional set-up in which they find themselves. We shall choose as our criterion of decadence whether or not the forces of production are getting more and more obstructed by the institutions in which economic activities are carred out. The advantage of this definition is that it does not require any of the more important economic variables such as production, consumption, investment, etc, to show any decline. It is sufficient that their progress be slowed down. Even the slowing down need not be observable over time; it is sufficient that there is a slowing down in comparison with the rate at which progress could have taken place if the infrastructure was suitably changed or in comparison with other countries where the adaptation between the forces of production and the infrastructure is more harmonious.

Decadence of France

In this narrow and precise sense, France is indeed decadent. This observation may be considered as very banal by some. Have not capitalist economies been regarded as decadent? But it is precisely because it has been so thought for a long time and yet the predicted permanent stalemate has not after all been realised, and the capitalist countries have shown a remarkable recovery in the recent period that a re-examination of the question is called for. Further, there is also a question of degree. Any country that shows a tendency of slowing down progress in the above sense is decadent according to our definition; but the use of the word, with all its suggestive meaning, is really appropriate in the case of a society whose internal logic is leading it into conditions from which it is more and more impossible to get out. It is in this more acute sense that France is decadent and that is why our observation is not altogether banal.

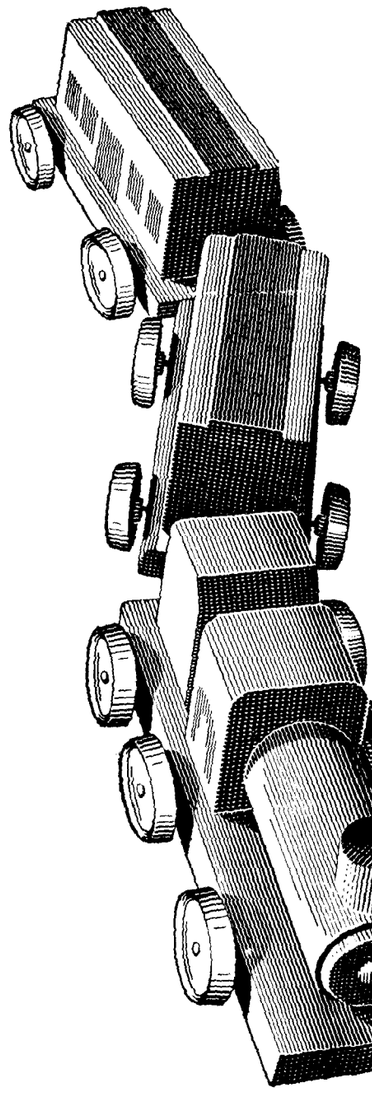
It is from this particular point of view that all the previous letters have been written. In this last letter of the series we do not propose to supply so much evidence in support of the thesis as to expect that the question will be settled once and for all; we shall only once again try to illustrate the incapacity of the society under the straitjacket of capitalist institutions to resolve the problems of its survival and continued prosperity with the help of two of the crying problems that are besetting it today namely, the colonial question, and the shortage of power.

The Colonial Question

On this question there is a remarkable difference between the British and the French situations that deserves careful attention. Lenin once distinguished between these two imperialist countries by saying that if British imperalism was essentially of colonising nature, French imperialism was basically usurious. Unlike the British, the French have not methodically exported either settlers or capital to the occupied territories outside Europe (excepting North Africa); they have derived from their possessions much less direct benefits than what the British have done from their own possessions. French imperialism has based itself mainly on the lending of capital to the underdeveloped countries of Eastern Europe and Latin America and drawing enormous rents from them. In the interwar period, about 20 per cent to 25 per cent of the imports were paid for by these rents! Now the greater part of this exported capital has been lost to France in course of the two wars, the part in Eastern Europe vanishing with the social revolutions there and the part in other countries being liquidated in repaying American debts. This is the source of the balance of payments trouble.

The period of prosperity enjoyed during the heyday of capitalism has developed strongly one of the forces of production, namely, human labour. It has been assured a relatively high level of material as well as cultural life.Today labour cannot be asked to accept a lower standard of living or even to be satisfied with the present level: it wants more and more. There is no possibility therefore of import cuts. As a matter of fact imports must go up more and more. If the trade deficit that used to be filled by rent has to be filled now with exports, the competitive powers of French export goods must increase very substantially. In the face of competition from Germany and America, even without any special handicaps, it would be very difficult indeed to increase France's competitive power. But France does have handicaps and very serious ones. Having enjoyed the advantages of protected and assured markets, and based as it is on relatively small financial units, French industry, with some exceptions, has

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allowed itself to become relatively backward in matters of technology. Now, to regain its place in world economy and to go ahead as the other countries, there has to be a planned and determined effort to mobilise national resources and avoid all waste.

Planning however is incompatible with capitalism, as much in France as in India. Not that it is not realised that this type of effort is needed. Yet, despite the realisation and talks about arrangements that would in the long run bring a solution to the problems, it is, under the present circumstances, inevitable that short-sighted, quick remedies should be sought. The only sensible course for imperialist countries with respect to their colonies is, of course, to come to amicable political settlements with them and retain with respect to them the same privileged position as before but changing over to the supply of capital goods from that of consumer goods. This of course means the replacement by capital goods industries of consumer goods industries in the export field, and at more or less competitive levels in the first.

This has been the course adopted by Great Britain. Great Britain has this advantage over France that she has not suffered much loss of foreign capital and that she has much more of financial concentration so that the shock of effecting the change in the export field has been relatively tolerable. France is finding this adaptation a very much more difficult task. Hence the extraordinarily absurd and unimaginative policy followed in colonial matters. Apparently there is a school of thought that thinks in terms of developing the same sort of economic relations between France and her remaining African colonies as Britain has had with her colonies and dependencies; that is of changing the character of her imperialism from a usurious one to a colonising one. The idea is of course fantastically unreal. Any attempt to prolong imperialism is absolutely without any hope, and can only waste resources that could be utilised otherwise to reorientate the economy according to the changed circumstances. Imperialism itself has given rise to and developed in the colonies new productive forces, and thus created new industrial labouring masses. It has naturally given rise to a new political consciousness which is more and more in contradiction with the colonial socio-economic base.

These nascent forces are of course bound to win, especially now that they have behind them the full support of Soviet diplomacy. Yet, in such a serious field as that of power, one of the supposed trump cards of the French 'plan makers', is the oil potential of the Sahara! The F L N has declared, and there is no reason to underestimate its capacity, that they would never allow the French to exploit the oil resources exclusively for French interest. Yet imperialist institutions have become so absolutely incompatible with the living social forces of the present world that the French people are being made to sacrifice £1000 million each year in order that what is happening today in the Middle East might happen in North Africa in a few years time.

Euratom

The question of Sahara oil leads us into the general question of power shortage in France. The question here is posed from two points. Firstly, it is pointed out that France's balance of payments deficit arises mainly from the fact that a very large part of her imports consists of coal and petroleum, and that they have to be paid for in sterling and dollars. Secondly, it is pointed out that if the present rate of growth of the economy is to be maintained, which is the price to be paid in order that the present socio-economic base be not overthrown by physical force by the working masses, the energy shortage, which at present is 30 per cent below total needs, will go up to 40 per cent in 1957 despite a projected doubling of the national supply, including those coming from the Sahara! The Euratom project represents the attempts of the more realistic sections of the French capitalists to think in a long term way. Though associated with the Common Market project, the Atomic Energy project is different in that it envisages a complete renunciation of sovereignty on the part of member states, in so far as the development of nuclear energy is concerned. As nuclear energy is going to play a more and more important part in industries, it means a more complete merger of the economies.

This call for surrender of the national sovereignties lends support, more than anything else, to the thesis that the present institutional base of the French economy is incapable of permitting within it further progress of the material forces of progress. The relevant forces here are, of course, atomic energy, automation, etc. Failure to develop and utilise these forces will not only mean that production and standard of living of the people will not advance as fast as they could; it might really mean a decline in them. For, these revolutionary innovations, which are being fast introduced in the U S A and the U S S R, are reducing production costs so tremendously that any country that does not manage to keep up in this race is bound to be thrown out by competition from foreign markets. In the case of France it would certainly mean a disastrous crisis with falling production and rising unemployment. France is however at present very badly situated in this respect, though ahead of the Continental countries of the O E E C. The table below, which compares the efforts that are being taken in the different parts of the Western capitalist world in the field of nuclear energy, also acts in a certain way as indices of their future relative economic strengths if the Euratom propect is not undertaken.

It is being realised with alarm that if France does not from now on take desperate measures, competition in the international market will reduce her as ruthlessly to the status of an underdeveloped country as capitalist concentration inside an economy reduces the petit bourgeois to the status of the proletariat. And it is with the same pathetic and unheroic attitude of the petit bourgeois trying

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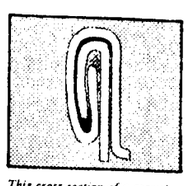
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not to lose its bourgeois status that the leaders of this already backward economy are trying to find a panacea in nuclear energy so that it does not become backward forever. France's alleged incapacity to develop the new source of power arises, according to the protagonists of the Euratom, from purely dimensional considerations. These productive forces are alleged to require so much initial capital as to be beyond the means of any single country excepting the U S A and the U S S R. If this be correct, the socio-economic base of not only France but the whole of Europe has become an obstacle to further progress in the same way as that of Germany when it was divided into innumerable small independent customs zones which had once hindered her industrialisation.

Superficially it might therefore appear that the tendencies towards closer amalgamation of the European states is a healthly one promising a new release of the productive forces. It must not however be ignored that such a new socio-economic base would be violently in conflict with the human productive forces that would be involved. The social upheavals and conflicts that must arise out of an economic unification of Europe in an age of Monopoly Capitalism have been discussed in a previous letter in connection with the Common Market Plan. Such conflicts are already arising. There is a lot of hostility towards the Euratom even among the Bourgeoisie. It is pointed out that France alone among the European countries has deposits of uranium 235; that France is ahead of her partners in research by ten years; and that she has the means of reaping all to herself the benefits of these two advantages, for she need spend only two or three hundred million pounds per year whereas she actually spends more than a thousand million pounds per year on the war in Algeria. (If this standpoint be correct, then the incapacity of the socio-economic base of the French society to develop these productive forces must be due to other than dimensional factors!). Finally, there is the suspicion that America does not want France to develop her own resources independently of German and American control. This is reinforced by the fact that America has offered to sell to the Euratom countries (provided that they constitute such a club, not otherwise!) enriched uranium 235 at a third of the price of what it would cost France to manufacture it herself with her own deposits, thus taking away France's bargaining power.

Conclusion

Though we have defined French decadence as a socio-economic situation that can only worsen unless a revolution intervenes, a revolution is precisely what is quite impossible now in France. Any movement towards a more rational social order through the parliamentary mechanism is unthinkable because the situation itself gives political power to the more regressive social classes. The Communist party which has now the support of only 25 per cent of the population is the object of deep hatred of the remaining 75 per cent. It is incapable of engineering a peaceful revolution unless it gets the support of a larger part of the population, and any attempt on its part to impose a revolution on the country by violent means will not only encounter the hostility of the 75 per cent of the population but will also, without any doubt, bring about American intervention. Therefore, the only prospect—a sad one—before this fair country, source in the past of so much hope and inspiration to progressive people all over the world, is unlimited (and unmitigated) stagnation.

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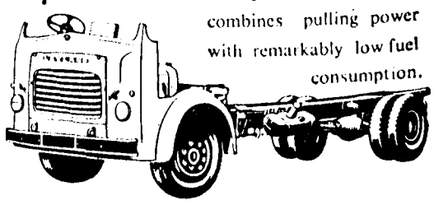
YES, Leyland Comet can carry 50% more goods every time than any other chassis made in India. Just think what this means to your operating costs. You save on time, save on fuel and save on maintenance. And you get more business from satisfied customers.

The Leyland Comet is built to carry heavy loads over long distances. Any Leyland operator will tell you that you can depend on it to give you trouble-free, low-cost operation year after year.



Every chassis is designed to carry a specific load. The 'F' form specifies it. Too frequently, overloading is adopted to enhance revenue with consequent increases on the incidence of breakdown and in the cost of operation. You don't have to overload a Leyland Comet. It's built to carry 50% more than any other chassis made in India.

The Forward-Controlled Leyland Comet Chassis is designed specially to combine large body space with easy handling. The quick starting, long life Leyland Diesel engine, with its high torque output, combines pulling power with remarkably low fuel consumption.



Leyland 'COMET'

The only 7½ ton payload chassis made in India

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Dharam Singh Ram Singh (Motors) Private Limited
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For West Bengal, Bihar & Assam :
Associated Indian Enterprises (Private) Limited
206 Lower Circular Road, CALCUTTA 17
For Bombay State & Andhra Pradesh :
Automotive Manufacturers Private Limited
108 Bazaar Ward, Kurla, BOMBAY 37
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George Oakes Private Limited,
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Ashok Leyland LIMITED

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AL 119 a

From the Chair

Killick Industries Limited

Speech of the Chairman E D Sheppard

THE following is the speech of the Chairman Mr E D Sheppard delivered to the shareholders of the company at its 10th Annual General Meeting held in Bombay on December 17, 1957:-

Gentlemen,

This year 1957 is of very special significance to the House of Killick, for it was a hundred years ago that Messrs. Killick and Nixon arrived in Bombay and started the business that so proudly carried their names. Though the firm of Killick, Nixon & Co. was discontinued in 1948, the two new Companies Killick Industries Ltd., and Killick Nixon & Co. Private Ltd., between them undertook the work started by the founders and fostered through the years by succeeding generations, and it is fitting that in this memorial year, Killick Industries Ltd. having acquired ownership of Killick Nixon, the family is united again. Thus although the corpus is changed, we may say that the spirit of Killicks has been preserved for a century past. May this spirit of unity in our family, of service to the nation, and of courage to face the future, continue to pervade our thoughts and actions in the years that lie ahead.

Low Morale

In my speech last year I tried to examine the implications of the impact which the pursuit of a "Socialistic Pattern of Society" would have on industrial development, and hence on the affairs of your Company. I had then forecast that, if the pursuit of this goal was continued along a path of increasing State control and diminishing individual responsibility, the results would not be happy. It is with a sense of sorrow and concern for the future, and not in any spirit of pride in the vindication of one's forecast that one sees these fears being realised as the Second Plan runs its course. Around us we see a growing deterioration of business confidence, and the onset of apathy amongst those whose function it is to promote and develop industry. If this sapping of morale and of faith in the future was confined only to large business houses, it would not be so dangerous, but unfortunately it is reflected at every point of the Industrial Society. The producer, the consumer, and the investor, whether big or small, is today lacking the virile faith needed to face the challenge of the future.

What are the reasons for this lack of confidence? Let us examine them.

Wealth Tax on Companies

Firstly there is the numbing frustration which an endless series of tax measures each following closely on the heels of the other, have produced among industrialists and shareholders, though one cannot but have a profound respect for the imaginative brain which has welded into one whole such a divergent and almost contradictory set of taxes. The Finance Minister has succeeded in performing a balancing feat on the tight rope of national finance which would be the envy of the most nimble witted. In an economy as over-extended as ours is, there is little scope for the introduction of incentives, yet this is what the last budget has succeeded, albeit in a minor way, in doing. The total of Income Tax and Super Tax at the highest salary level has been reduced from 92% to 77%, thus making possible the retention of some measure of enthusiasm in the managerial class for harder work and greater endeavour, but a price has been paid for this concession, a price which might well result in crippling incentive altogether. The price, of course, is the introduction of the Expenditure and the Wealth Taxes. But it is the Wealth Tax on companies particularly which can have no possible justification, either moral or material. If ever there was a measure designed to grab money irrespective of justice or reason, this tax is surely it.

The combined rate of Income Tax and Super Tax and Surcharge on Companies has been increased from 43.4 to 51.5 per cent. In addition, companies have to pay special taxes on dividends, on the issue of bonus shares, on the non-distribution of profits, on capital gains, on their net assets, and as if that were not enough are then required to deposit a part of their reserves under the Compulsory Deposit Scheme. It is just not possible for companies to bear this fantastic burden of taxation for very long, particularly at a time when they are required to carry out an expansion of their productive capacities in terms of targets set by the Second Plan, far in excess of those which normal commercial practice would dictate. The sum effect of such taxation is virtually to eliminate the possibility of raising equity capital in the investment market for new ventures because of the levels to which even the soundest shares have declined. It has been estimated that since August 1956 shareholders are poorer by 200 crores of rupees.

Tax Structure

Almost as disturbing as the taxes themselves have been the inordinately long periods which have elapsed between the framing of taxation proposals and their ultimately becoming law. During the many months out of the last twelve when the country has been virtually without a definite tax structure it has been impossible for any would-be entrepreneurs to finalise their plans.

Further, all these facts combined have deprived us of the entry, in any significant measure, of foreign capital, and of the technical skill and advice which goes with it, and which in the past have often been of great assistance to Indian Industrialists.

State Trading

Secondly, there is the ever-widening scope of the activities of the State Trading Corporation. The avowed objectives for which the S. T. C. was founded—namely to trade with Communist Nations and to augment exports where the existing trade channels were inadequate—were wholly laudable, but they have far exceeded this charter. Their entry particularly into the cement and manganese ore businesses was quite unjustifiable as these were being efficiently run by private enterprise. The specious reasons given for the S. T. C's intrusion do not bear examination and the objectives sought to be achieved could well have been reached without the S. T. C's intervention.

Further, in these commodities the S. T. C. incurs no risk, makes no organisational effort in promoting trade and yet takes unto itself an altogether disproportionately large share of the profits.

It is of more than passing interest that at the Meeting of all the Commonwealth Chambers of Commerce held in London earlier this year, the policy of State Trading was roundly condemned without one single dissentient voice.

I would like, however, to make it clear that we have no quarrel with those entrusted with the management of the S. T. C. Our objection is fundamental and concerns only the policy which requires them to carry out such duties.

Labour Relations

Thirdly, there is the sad deterioration of Law and Order in many parts of the country with which unfortunately is bound up the question of Labour Relations.

In a recent pronouncement the Hon'ble Shri Morarji Desai, the Union Minister for Commerce and Industry, stated that "If industrialists expect to get so many things from the State, then they must be prepared to provide the money for these through taxation". No one can take exception to the underlying premise of the argument of the Hon'ble Minister which is that no State can provide services for the community which are beyond its capacity to finance. But the first service any taxpayer in any country expects, and rightly so, is the protection of life and property and the preservation of law and order. Here in India all industrialists are in fact paying to the State a very high rate of taxation, as I have already pointed out, and in return are not, in some cases, being provided with even the elementary degree of security that is a prerequisite to the conduct of business and industrial growth.

Violence and Hooliganism

Serious labour indiscipline at the Hingir-Rampur Colliery for some time past culminated in a violent riot in June this year when our Colliery Manager was murdered by the workers. This dreadful incident took place several months ago, and we are still waiting for effective action to be taken to punish the murderers and to be assured of the protection that is necessary to prevent a repetition of the tragedy.

In the Free World today it is inevitable that trade unions acquire great strength sometimes a dangerous strength which is frequently misused. No one will deny the value of strong and healthy trade unions effectively organised to champion the cause of their members. But trade unions subject to little or no control, and those under bad influences are an increasing menace to the community. Whereas again no one will deny the right of a man to withhold his labour in order to voice a genuine grievance, yet there can be no excuse for violence and hooliganism being employed as the means of doing so.

Show Down Overdue

The plain fact of the matter is that the time is long overdue for a show down with this type of labour organised and led in this manner and towards these ends, and yet it continues to be protected and mollycoddled by those in authority. Without reference to even elementary economics, Unions of this type put forth demands based on what labour wants without any consideration as to what it is entitled to receive. They continue to make these claims, whether justified or not, and by strong arm methods ensure that they are granted. And who is to blame them? Why should they not continue to use these methods of getting what they want when the methods themselves have been continuously successful? The formality of conciliation having taken place, it is so much simpler to refer demands to adjudication rather than for the Governments concerned to incur the odium of telling labour that it has gone too far and must withdraw. What then does it matter to labour if their demands and the methods of approaching them are basically immoral so long as they get results?

I will not examine further the question of labour indiscipline as here, like in other countries, this has a political slant and I have no desire to bring politics into my speech. But the other two measures to which I have referred increased taxation and expanded S. T. C. activities with their damaging effect on the People's Sector have been introduced solely and wholly to provide money for "The Plan" or rather for that part of the Plan which falls in the State Sector.

Composite Plan

Before we proceed to examine the Plan and the results that are expected to flow from it, let it be quite clear that it is a composite Plan and if either Sector fails then the Plan fails.

The doctrine that the Plan is inviolate has been thrust down one's throat, although it has been plain for months past that a process of stretching it out has become inevitable. The main constituents of the Plan may not be significantly changed, but they will certainly take longer to complete. This is a heavy industry Plan for within the total set aside for industrial development rather more than half is to be spent on the production of steel, and the greater part of the remainder on Industry to manufacture capital goods.

Steel—the Hard Core

We are told that come what may the "hard core" of the Plan will be carried through. What is the "hard core"? In one word it is steel. Steel, and coal and power with which to make it and railways to transport it, in effect just steel. Of what avail will this steel be if the People's Sector is to be prevented from erecting the secondary and tertiary Industries to use it? We shall be told that it can be exported but it is axiomatic that an essential prerequisite to a profitable export trade is a flourishing home market. Therefore, if only the "hard core" is carried through, the Plan, as such, will still not succeed.

The question, therefore, that faces the country today is how far can this concentration on Heavy Industry be pushed? Undoubtedly among our planners and Economic thinkers there is a school, and a very powerful one, who would push the heavy industry concept to its utmost limits. This is of course an enormously expensive business as has been shown by the rate at which the nation's foreign exchange reserves have run down and moreover, throws the Plan out of balance. We are still waiting to see how the planners and those in authority are going to react now that difficulties have occurred and the Plan is getting bogged down in a succession of crises. The Finance Minister has returned from his tour of the U. S. A., Canada, the U. K. and Germany, during which no man could have made more valiant efforts to procure the exchange we require. In the light of the information he has gleaned a decision will need to be taken very soon as to whether the Plan is to be adjusted to manageable proportions or whether a forlorn attempt is to be made to fulfil it even at the cost of imposing methods of austerity and compulsion.

Fundamental Paradox

Having said this, let us also look at the other side of the picture. If we had been content to increase the national product only in relation to the available resources of the country, or those which could be readily obtained, it is doubtful whether the total volume of planned investment activity would have been more than half of what has actually been embarked upon. It is clear that the Second Plan is deliberately aimed at achieving far more than the available resources of the country will admit of, and that this is sought to be justified by the pressure of social obligations and the need to do sufficient for the people, quickly enough, to prevent them from turning to other than democratic methods to quench their frustration.

Another fundamental paradox in the Plan is the pre-occupation with heavy industry on the one hand and cottage industry on the other. In the result it seeks to achieve a compromise between the intensive use of capital to make steel, to dam rivers, to raise coal and develop Railways, and the pressure to put to productive and gainful employment the hoardes of willing but unemployed workers who populate our countryside and do not find work for more than three or four months in the year. No one can have anything but the deepest sympathy with people who are faced with the resolution of such fundamental dilemmas, and the responsibility for evolving Economic policies which are to succeed in spite of them. At the same time we of the People's Sector of the Nation's Economy, cannot help but be perturbed at the way things are going, for, in a planned Economy the whole future of our own businesses is inextricably mixed up with government decisions.

A Mistake of Timing

There is no doubt that in the course of time India is going to be a great industrial power. The principal resources are available, iron ore, coal, mineral wealth, hydro-electric power, and a large mass of people prepared to work for comparatively low wages, and here let me say, that the unschooled peasant of India has already in the Indian Army given abundant proof of his capacity to acquire mechanical skill and technical competence with good equipment and training. The mistake that we are making is a mistake of timing. There is too much made of this business of competitive co-existence with countries of other ideologies. A great deal of the haste and the rashness which has been applied to our planning has been due to this. As a result, through this planning and through much of the legislation and taxation which goes with it, conditions have been created in which a proper generation of the vigour and power of Free Enterprise is no longer possible.

In the modern world, some form of social organisations are of course inevitable if man is not to go back to the disorder of unbridled individualism, but all organisations must be for the benefit of the individual and not the individual for the benefit of the organisation. By the same token let us be very clear that the Plan is for the people and not the people for the Plan. If the needs of the two come into conflict with one another then it must be the Plan and not the people to give way.

False Burst of Speed

No one wants the Plan to fail. If the economic choices that now confront us seem difficult, it must be remembered that they are infinitely simpler than would be the political and social consequences of a Plan that failed because it got out of hand. Today the pressures of the Plan are being demonstrated very clearly in a rise in domestic prices and the constant threat of inflation. It is now—though somewhat belatedly—well understood that, if the food front is not firmly held, and gets out of control, all the benefits of heavy industrialisation would vanish in a trice, and all talk of increasing real incomes be rendered meaningless. To say that an endeavour to double the per capita income over a period of 17 years of a people as poor as ours is not ambitious, is a statement that no one would deny, but to go on and say that unless the impossible pace set for these five years is maintained, that revolution would follow is most certainly not justified. The people of India, and particularly its peasants, are sturdy beings of good sense. Their devotion to the soil they till and the values they cherish, have wrought an iron frame which is not going to be bent or twisted by a lengthening of adversity. This is not the link in the chain that will break. If the chain snaps, it will be the weakest link that will give way first; and that will not be the common people of India, but its educated leaders. If these great sons of our soil have the leadership which they merit, then it is certain that they will be prepared to accept whatever length of time may be necessary to bring about the economic betterment that they undoubtedly deserve, but in a manner that does not in the meantime endanger their own traditional democratic free Indian way of life. Anyway, who is to say that it will take 17 years to double the per capita income, and that we must therefore get off to a start with a false burst of speed which will leave us spent and trembling before half the race is run? It would be more prudent to start at a pace which will allow us to go steadily on and complete the course. The pace of scientific advancement is such that today weapons for economic betterment are being placed in the hands of under-developed countries which were never available to the countries of the West during their struggle for industrialisation. It may well be that these breath-taking advances of science will enable us to achieve the increased standard of living even more quickly than the 17 years at present envisaged. What however is certain is that neither these techniques nor any other measures will help us if we push the country to calamity by whipping it up to a speed which it is not capable of sustaining.

It would not be sensible nor would it be patriotic for any one in the country to gloat over the miscalculations of our planners and the consequential difficulties of the Finance Minister. The probability that something would go pretty wrong with the Second Plan might be said to have been built into it from the very start. What one can and should legitimately criticise, is the attitude that is adopted towards those honest, able and patriotic Economists and Industrialists who have from the very beginning had the courage to say that the Plan was incapable of fulfilment within the country's resources in the time set for it, and consistent with the maintenance of the democratic principles enshrined in our Constitution. It is tragic that those in power are prepared to

abel these good men as anti nation-
l defeatists, while those who blind-
y shout their approval of every
fficial measure from the house tops,
re lauded as patriotic pillars of
he Private Sector.

Welfare State

One of the objectives to be sought
rom the completion of the Plan is
he creation of the Welfare State,
he absolute desirability of which
as always so far been taken for
ranted and without question.

Let us however pause for a
oment and examine the progress
f the Welfare State in the U K
here it has been established for
ome years and the effect it has had
n an important section of the
itizens.

British Experience

A sample survey recently conduct-
d in a leading University revealed
remarkable and disturbing state
f affairs. Of the students questio-
ed, 38% said either that they were
eriously thinking of emigrating as
oon as they have completed their
ourse, or else had already firmly
ecided to do so. These young
eople are among the most intelli-
ent, most highly educated and the
ost enterprising in England. They
re people who are willing to make
heir own arrangements and to
ake their own risks. And they are
nder no illusions about life in a
trange land. Many of them have
orked overseas during their long
acations and are familiar with the
isadvantages and possible hard-
hips that emigration might entail.

This is a serious position. Bri-
in is doing everything to provide
e best education for the best
rains, and the service of the best
rains is urgently and increasingly
eeded in England. How then does
come that nearly half of those so
ined immediately take themsel-
qui- omewhere else and add to the
nd in ss and prosperity of another
vic? The reason is that they
Serious from the Welfare State.
ingir-Ram strong practical objec-
me past culm hey realise that it is
ot in June this crushing taxation
olliery Manager w the experience
e workers. This dread weight of
ok place several months heavily on
e are still waiting for le whole
ction to be taken to pun tes and
urderers and to be assure educat-
rotection that is necessary le class.
ent a repetition of the treant to
y years ago the man who forged ahead and made a great name and a great fortune for himself was admired and respected, today he is regarded with envy and resentment. More than the monetary penalties of the British fiscal system is this envy, and the assertion of the superiority of the mediocre which is driving young people of talent and vigour abroad. They want to go to a country where they can forge ahead without provoking sulky hostility. They want to feel that a life's work of exceptional quality and usefulness will not be held against them. They want to escape from a socially stifling atmosphere and to get away from a country where no exceptional talent is gladly recognised. If this draining away of Britain's best brains continues to increase, then the mass of British people will be brought in the end to recognise that while they cannot do without the direction and services of the elite, the elite can very well do without them

This is a lesson which can be learnt with advantage in other parts of the world.

Extra Provision for Taxes

Turning now to the affairs of your own Company, you will have seen that it has been necessary to withdraw Rs 2 lakhs from the Equalisation of Dividends Reserve in order to maintain the usual dividend. The principal cause of this is extra provision for taxation of Rs 3.28 lakhs—of which Rs. 1.77 lakhs is in respect of the previous year—due to the 1957 Finance Act. You will recall that I foresaw this possibility when addressing you last year. Another reason is that due to the change in the accounting years of two of the Electricity Companies, no Agents' Commission was received from the Surat Electricity Co. Ltd., during the period covered by the Accounts. This would have amounted to about Rs 1.1 lakhs. Consequent upon the necessity of closing the accounts of all the Electricity Companies on 31st March each year, your Directors are considering altering the Financial Year of your Company so that it will close on 30th November in future instead of 30th June as at present.

Otherwise, the Accounts are self-explanatory and have appended to them the Accounts of your Subsidiary Company, Killick Nixon & Co. Private Ltd.

The progress of our plans for Industrial Development has been detailed in the Director's Report and other projects are under consideration.

Continued Expansion

The continued expansion of your Company's activities has of course necessitated capital investment and a point has now been reached when further finance is needed. This matter has been receiving the attention of your Directors and although no decision has yet been reached it is possible that an application may be made to the Controller of Capital Issues for permission to make a new issue of Ordinary Shares next year.

As regards the future, I would only say that your Company is well poised for prosperous development. It is only political policies which threaten to impede fruitful progress.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting which will be sent separately to Shareholders.

Fuel Consumption on Indian Railways

THE Railway Board has set up a six-member committee under the chairmanship of Shri Karnail Singh, Member (Engineering), Railway Board, to examine the increased cost of fuel consumption on the Indian Railways and to plan the railways' requirements of high grade coal during the next few years.

The committee will report, inter alia, on:

(i) The factors responsible for increase in railway expenditure on coal, commenting particulary on the extent to which the quality of coal is responsible for increase in consumption and expenditure and for poor performance.

(ii) The causes and quantum of wastage and losses of coal in transit, in sheds and otherwise.

(iii) The extent to which the increase in expenditure on coal is due to increase in traffic, coal prices, freight charges on coal, etc.

(iv) The railways' future requirements of high grade coal for steam traction and the prospects of adequate supplies, and recommend measures for meeting any anticipated shortages.

Official Papers

Wanted: Collective Bargaining

S D Punekar

Labour Legislation in India. International Labour Office (India Branch). New Delhi, 1957. PP 122. Price Rs 1.50.

LABOUR legislation in this country has developed like a wild fungoid growth—unplanned, uneven and haphazard—grotesque in appearance and harmful in utility. The Workmen's Breach of Contract Act, 1859, can claim to be the first plant in this land of mushrooms, and it would be appropriate for advocates of labour legislation, like the state, labour pleaders and some labour leaders, to get ready for the centenary celebrations of Indian labour jurisprudence. During the course of a century, Indian labour law has grown in quantity and complexity, and we can now claim that our statute book is the fattest in the whole of Asia; it gave increasing power to the state and considerable money to pleaders. Industrial relations moved away from its field to the court. Trade unions ignored their legitimate activities and engaged themselves in litigation. Workers kept their union membership fees in heavy arrears, but contributed liberally to the union 'legal fund' for fighting bonus issue in the court. The employers engaged highly-paid legal advisers to fight the legal battle. The two parties—the manager and the managed—refused to talk to each other across the table and went separately to a third party with a request for adjudication. The famous Aesopian fable of the monkey and the two cats was being enacted. The adjudicator's award instead of solving the dispute furnished fresh issues for aggravating it. Labour legislation, apparently meant for regulating labour-management relations, thus indirectly contributed for their estrangement.

Origin and Growth

The mercantile economy, which had more interest in money profits than in human values, resorted to inhuman exploitation of flesh and blood in the form of employment of female and juvenile labour, even for heavy manual work, prolongation of the working day and intensification of labour. In the absence of organisation, the helpless masses had to be protected by statutory means and hence labour legislation had its utility in the early stages of modern factory system. Labour legislation would not have been necessary if employers had played their part in a human way. Legislation usually lays down the minimum labour standards and its very existence means the failure of the employers to come up even to these minimum standards. Alfred Marshall for this reason considered the British Factory Acts as a standing disgrace to his country. If the height of the statute book is the barometer of the employers' crime, Indian employers stand condemned for ever. The early labour laws in this country were enacted to correct and regulate serious abuses in the employment and working conditions of workers employed in plantations, factories and mines. The motive of this early legislation, however, was not entirely philanthropic. For example, the fear of the capacity of Indian cotton mills to sell cloth at a very low rate was the real reason behind the agitation of Lancashire manufacturers to lessen the exploitation of female and juvenile labour in India; this agitation paved the way for the first Factories Act of 1881.

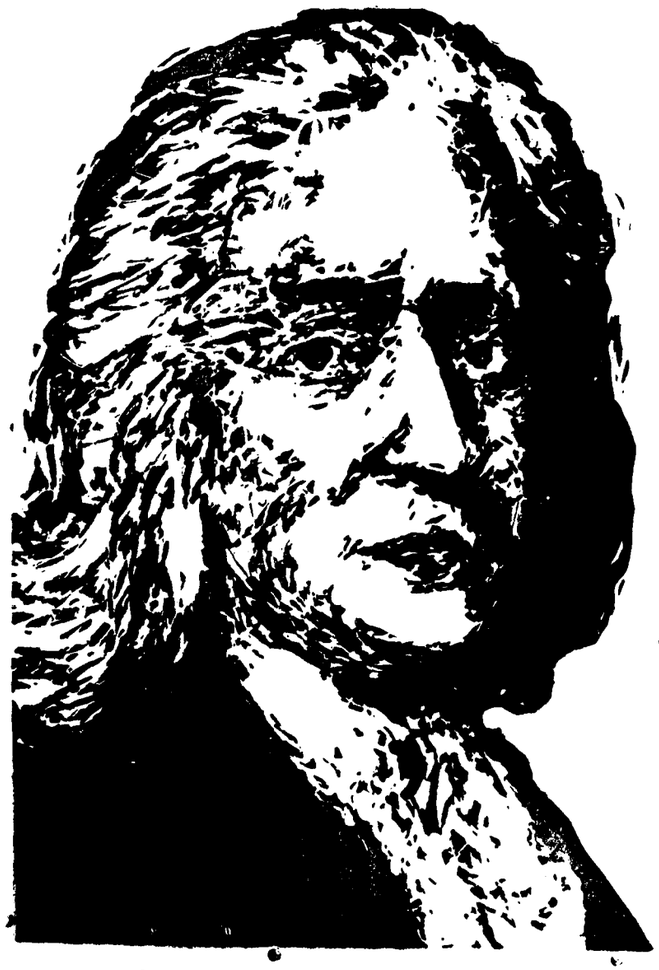
For a number of years, the State followed a laissez faire policy, refusing to intervene actively in the labour-management relations. When pressure of public opinion forced the state to intervene, it was content to regulate the labour conditions rather than to protect the workers. The earlier labour legislation were only half-hearted attempts on the part of an alien Government, interested in maintaining the level of profits of the foreign entrepreneurs. Labour legislation, however, took a rapid pace after the first World War when factors like rising consciousness among workers, pressure of new-born unionism, popular representation in legislatures, and the establishment of the I L O clamoured for increasing statutory protection to workers. In later years, the pace was further quickened by the recommendations of the Royal Commission, the popular enthusiasm of Provincial autonomy and the formation of the tripartite labour machinery. Immediately after independence, there was a plethora of labour laws because labour legislation was considered as the easiest and the most convenient tool of laying down labour standards. The years 1947 and 1948, for example, saw important enactments like the consolidated Factories Act, the omnibus Employees' State Insurance Act, the Minimum Wages Act, the Industrial Disputes Act, the Coal Mines Labour Welfare Fund Act, the Coal Mines Provident Fund and Bonus Schemes Act, the Dock Workers (regulation of employment) Act, and the Bombay Housing Board Act. The initial enthusiasm, however, soon died out and at present, there is a lull in the field.

The I L O Review

The rapid pace of legislative enactment and the tendency towards constant codification necessitate an up-to-date review of the important provisions of Indian labour legislation. The authorities have not yet realised the need for simplification and standardisation of this legislation and hence it is not easy for a layman or a student of labour affairs to have a grasp of the essentials of labour laws in India. The I L O's book under review is, therefore, a very useful contribution in understanding the important aspects of Indian labour jurisprudence. Like most I L O publications, it is a masterly survey, tracing the history of various labour enactments and summarising important provisions of the existing labour laws. It is a detailed chronicle of labour enactments and an exhaustive and up-to-date review of standards laid down therein. After an introduction indicating the general trends, labour legislation is summarised in separate chapters industry-wise (plantations, factories, mines, shops and offices, and transport) and subject-wise (wages, trade unions and trade disputes, and social security). Towards the end, there is a chapter each relating to seafarers' legislation and other legislation. Each chapter begins with the historical develop-



That falling apple...



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Jaipur ● Chandigarh ● Calcutta ● Madras
Bangalore ● Secunderabad ● Madura

ment of the relevant legislation and ends with a summary of the latest law in the field.

The very nature of the I L O makes the review informative and exhaustive but not critical. It may not be possible for an international organisation like the I L O to bring out the unhappy trends and the defects of our national legislation. The book, therefore, appears to be silent on the dark side of our legislation and leaves the reader to arrive at his own conclusions, after going through the various aspects of our labour legislation, individually and collectively. A chronological list of all the labour laws, current and defunct, as well as an index could have considerably added to the value of the book.

Some Defects of Labour Laws

Labour legislation in India suffers from the defects of quantity, complexity, incompatibility, non-uniformity, non-enforceability and state authority. The I L O book indicates the first two defects in its introductory chapter. The various Factories Acts (1881, 1891, 1911, 1922, 1934, 1948) provide an excellent illustration of increasing complexity. The 1881 Act was a simple legislation, limiting the employment of children to factories. In subsequent enactments, increasing restrictions regarding employment, health, safety, welfare, etc, were placed on employers, till the omnibus 1948 Act consolidated the position. The Employees' State Insurance Act and the Bombay Industrial Relations Act, 1946, also reveal the defects of quantity and complexity. Both are comprehensive pieces of legislation, unintelligible to the workers and confusing to the trade unionist, providing a paradise to pleaders. In fact the latter Act has been called the Lawyers' Full Employment Act! The complexity arises mainly because of the desire of the authorities to put everything in the body of the Act without leaving anything either to the rules or to the parties. For example, the various safety and welfare provisions embodied by the State Government in the rules under the Factories Act, 1934, were placed in the Act itself in 1948; naturally the latter Act grew in size and complexity. Similarly, a proper understanding between the employers and the employees through collective agreements or voluntary machinery would enable to reduce legislation pertaining to industrial relations or social security to simple law providing only for the background machinery.

Two other defects of our labour legislation are incompatibility and lack of uniformity. The haphazard growth of labour legislation and the constitutional provision giving powers of enacting legislation both to the Centre and the States have resulted in industrial and regional variations in respect of legal labour standards. The factory labour is heavily protected in contrast to unorganised labour in sweated industries. Similarly, an advanced industrial State like Bombay is far ahead in labour legislation, compared to many other States. Even in Bombay the Industrial Relations Act applies to cotton mills and not to engineering units. These legal differentials in labour standards arise out of the labour policy of the State and the level of industrial relations in the State. The incompatibility in labour legislation can be seen in the varying definitions of many terms like 'worker', 'factory' and 'wages' under different enactments. Another illustration is the definition of 'seasonal factories', which are defined differently under the Employees' State Insurance Act from that under the Factories Act, 1934, whereas the Factories Act, 1948, does away with the distinction between the perennial and seasonal factories. Some confusion also arises on account of the overlapping of the scope of various social security and industrial relations laws.

Another serious defect of Indian labour legislation is the inadequate enforcement of the various enactments. This defect is the result mainly of the procedure by which the Central Government enacts a law and leaves it to the State Governments for enforcement. The scope of the Factories Act was widened by enlarging the definition of the factory; however, this statutory enlargement was not proportionately followed by strengthening the State factory inspectorates, even though the States got a lot of money through licence fees. A number of factories remain uninspected in the course of the year. The Minimum Wages Act, though enacted in 1948, still remains to be implemented in agriculture. The Trade Unions (Amendment) Act was put on the statute book in 1947, but has not been enforced so far. The Employees' State Insurance Act, 1948, has so far extended its limited facilities only to half the insurable population. As many as fifty per cent of the registered trade unions fail to submit statutory returns to the Registrars of Trade Unions. Similar illustrations of administrative inadequacies can be given in respect of other labour laws.

State and Labour Legislation

The greatest defect of labour legislation in India is the ever-increasing state intervention in labour matters. In the earlier stages, the state followed the laissez faire policy and kept itself aloof from industrial and labour fields. Lately, however, the state seems to be going to the other extreme. It has taken great strides in expanding the public sector and has brought under its wing extensive sectors of industries and services. However, not content with this expansion, the state desires to control industry and labour through legislation. In the absence of any agreement between the contending parties, the state finds in labour legislation a convenient tool to make both employers and employees dependent upon the third party. This dependence is most marked in industrial relations. Because of low membership and unsound finances, Indian trade unions rely heavily on Government machinery, confining their activities to labour courts. Employers prefer adjudication to collective bargaining and are reluctant to discuss with workers' representatives on equal footing. Naturally, both the parties look at each other with distrust and suspicion, and thus contribute to industrial disharmony. Industrial relations legislation, instead of contributing to industrial peace, widens the gap between the two parties.

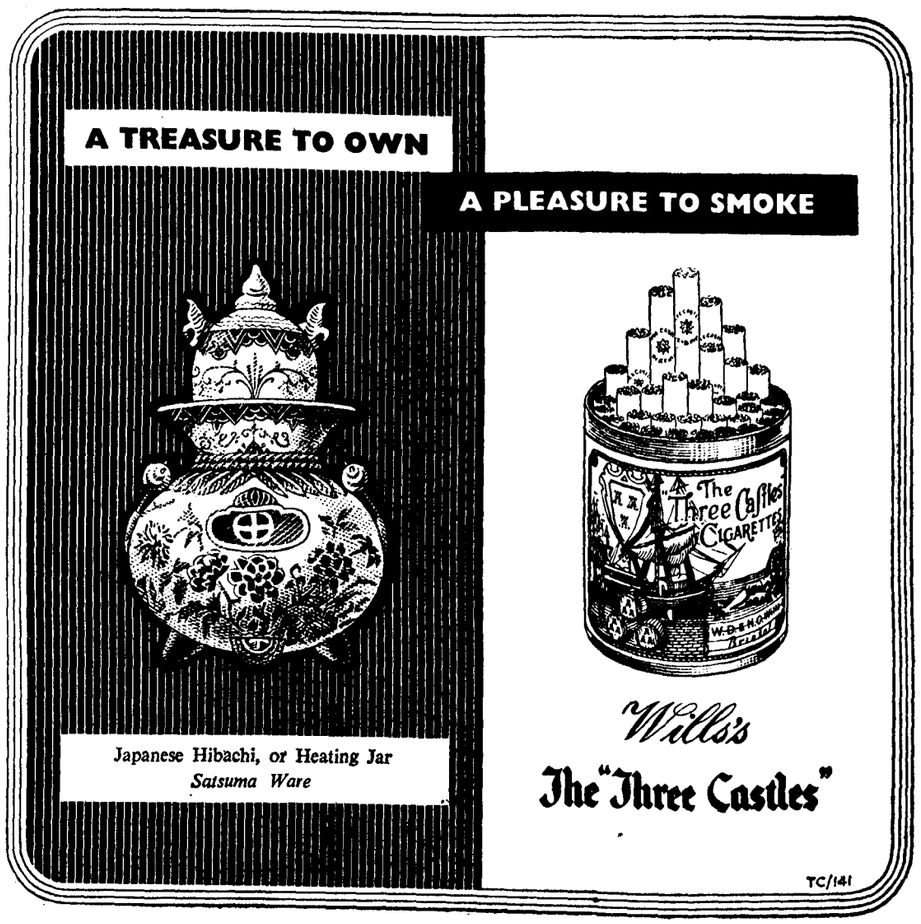
Labour-management relations should be bipartite in nature but legislation compels them to the authority of a third party. The disquieting feature is the domination of the state even in the field of labour welfare through legislation. In Bombay, for example, a statutory State-sponsored Labour welfare Board conducts welfare centres, financed through the money belonging to the employers and workers by way of fines, unpaid wages, etc. Similarly, though the finances of the Employees' State Insurance Scheme

come largely from the contributions of employers and employees, the state (Central and State Governments) claims more than 50 per cent of the seats in its management. The same story is repeated in the provident fund scheme and in coal and mica mines labour welfare fund. The usual pattern is state control with other parties' finances.

The Giri Approach

Shri V V Giri, when he was the Central Labour Minister, brought to light the futility of labour legislation and declared himself as Enemy No 1 of adjudicators, industrial tribunals and labour courts. Unfortunately, all sorts of vested interests opposed the Giri approach and successfully declared it a failure. The Central and State Ministers did not like to part with the power given by adjudication. The trade unions favoured adjudication against collective bargaining, because in the absence of inherent strength, they preferred to rely on the third party. The employers and their associations considered the state authorities as their friends against their own employees. A substantial part in putting down the Giri approach was played by lawyers of both sides (employers and employees), because in labour legislation they found ample scope for making money.

The failure of legislation to solve our industrial relations problems is being increasingly felt. **The basis of legislation is coercion and hence it cannot be a substitute for collective bargaining,** which can bring in industrial peace by mutual agreement. The Giri approach lays stress upon collective bargaining. Such a bargaining, however, presupposes a will to bargain and the strength to bargain. It is, therefore, necessary to explain to the workers and the employers the harm done by legislation, the motives of the parties behind it and the value of collective bargaining. It is also necessary to build up strong employers' and workers' organisations, who can rely on their own strength and not on the state machinery provided by adjudication and arbitration. Strong and healthy unions of workers and employers can discuss and settle the industrial matters among themselves and keep the state in the background.



Book Review

Problem Still Unresolved

Hannan Ezekiel

The Central Sales Tax Act, 1956 by R V Patel. N W Tripathi Private Ltd, Bombay. 1957. Pp 388. Price Rs. 12.00.

THE tortuous course which developments in the field of sales taxation have taken ever since this form of tax was first introduced into the country as a 'petrol tax' in Madhya Pradesh in 1938 is well-known to all students of taxation. Since the adoption of the Constitution, in particular, these developments have taken the form of an immense volume of litigation throughout the country and there has been a spate of legislation from the States as well as the Central Government in the attempt to meet the legal and other difficulties which have arisen from time to time.

The Central Sales Tax Act of 1956 is the latest piece of legislation in this field, though from the point of view of its impact on the economy, there is already promise of its being supplemented by legislation to replace sales tax on certain important commodities by Central excise duties, the proceeds of which are to be distributed amongst the States in proportion to collection. Though the problems created for the industry and the trade in these important commodities will be considerably reduced by the legislation pending before Parliament, the Central Sales Tax Act will continue to be of significance wherever the Sales tax continues to operate. It must be admitted in fact that the scope of sales taxation will still be quite wide and therefore the Central Sales Tax Act will also cover a fairly a wide field even after the new legislation is enacted .

Two Sources

The Central Sales Tax Act derives the justification for its existence from two different sources. On the one hand, the Taxation Enquiry Commission under the chairmanship of Dr John Matthai made certain recommendations with a view to reducing the harassment to which the traders in the country were being subjected under State legislation as a result of the Supreme Court's judgement in the **United Motors Case.** On the other hand, the Supreme Court created a peculiar situation for the tax authorities by reversing the **United Motors Case** judgement in a case coming in appeal from the Patna High Court, the **Bengal Immunity Company Case**.

It is an interesting feature of this dual nature of the sources from which the Central Sales Tax Act of 1956 derived its inspiration that it was the **Bengal Immunity Company Case** decision which forced the Central and State Governments to take action while the action taken was based on the recommendations of a body which reported prior to that particular decision of the Supreme Court. The report of the Taxation Enquiry Commission was submitted to the Government of India in December 1954 and was published in February 1955, while the Supreme Court judgement in the **Bengal Immunity Case** was delivered only in September 1955. The significance of this lies in the fact that the Supreme Court judgement of September 1955 entirely changed the situation to meet which the Matthai Commission had made its recommendations. One would probably be justified in doubting whether the Taxation Enquiry Commission would have made the particular recommendations which it did make, if it had been aware of the situation resulting from the September 1955 decision of Supreme Court, which unfortunately came only after it had already submitted its report.

Inter-State Trade

This discussion relates primarily to only one of the three aspects of the Central Sales Tax Act, that which is concerned with the levy of a tax on inter-State trade. About the need for Central legislation to define the circumstances in which a sale or purchase becomes taxable by a particular State and when it may be said to take place in course of export out of or import into India or in the course of inter-State trade, there cannot be the slightest doubt. Similarly, there can be no question about the justification for Central legislation to declare certain commodities as essential commodities and to provide for certain limitations on the powers of the States in taxing their sales or purchases. The major problem arises only in connection with the actual taxation of inter-State sales, which has been the subject of controversy ever since the implementation of the Constitution and to which the two Supreme Court judgements discussed above refer.

In the **United Motors Case** in appeal from the Bombay High Court, the Supreme Court held that the Bombay Sales Tax Act was valid and laid down in this connection what it considered to be the correct interpretation of the relevant provisions of the Constitution. The Supreme Court laid down in this case that the effect of the provision prohibiting the States from taxing inter-State sales was not absolute, but was only to prevent discriminatory taxation of such sales. In fact, one of the States concerned, but only one, would be permitted under the Constitution to levy and collect such taxes and that this permission would extend only to that State in which goods subject to the sales transaction were actually delivered for consumption.

Validating Legislation

The States immediately took advantage of this and enacted legislation taxing such sales as fell within their purview as a result of the Supreme Court's decision. Consequently, traders dealing in inter-State trade were subjected to considerable harassment and pressed their case before the Taxation Enquiry Commission. Though impressed with their case, the Commission was also impressed by the need to maintain the power of taxing sales with the States. Its recommendations flowed from the effort to meet the situation created by the **United Motors Case** without unduly reducing the powers of the State.

The **Bengal Immunity Case,** however, changed the entire situation since the Supreme Court now reversed its own decision in the **United Motors Case** and held that none of the States was entitled to levy taxes

on inter-State sales, unless of course Parliament passed legislation giving permission to do so as it was entitled to do under the Constitution. The effect of this was that inter-State sales became entirely free of taxation, with a consequent loss of revenue to the States. The immediate problem of the validity of the levy and collection of taxes during the period intervening between the two cases was met partly by the passing of validating legislation from the Centre, though even here one finds conflicting interpretation by the High Courts of different States.

Problem Unsolved

The crucial problem, however, was what to do for the future? The Government of India attempted to meet this situation by the passing of the Central Sales Tax Act, which however, in its relevant provisions followed the recommendations of the Taxation Enquiry Commission which was not really appraised of the situation which this legislation was intended to meet. That is why it is felt by many that even today the problem of inter-State sales taxation has really not been solved.

The author of the book under review is not, however, concerned with these wider questions relating to the desirability or otherwise of particular provisions of the Central Sales Tax Act. As a background to his study of the legal implications of the various provisions of the Act, he does provide a brief history of the developments in this field, both in the form of legislation and in the shape of judicial decisions. In view of the fact that the present Act, with which he is concerned, is based on the recommendations of the Taxation Enquiry Commission, he also includes in his introduction the relevant recommendations of the Commission for reference. There is no attempt, however, to analyse the economic implications of the developments described along the above lines, though one can hardly complain since the intentions of the author are different—to prepare a guide for those concerned with the legal implications of the Act in the course of their work, either as lawyers or as businessmen.

Competent Analysis

The utility of the present work even for those concerned with other than purely legal implications of the Act is apparent however from the fact that the above discussion derives much of its inspiration from the very competent analysis of the factual developments in the field contained in this book. The book is also useful in a somewhat wider field in so far as it tries to bring together rules of interpretation with regard to taxing statutes which will help the lawyer in connection with all sales tax or other tax work.

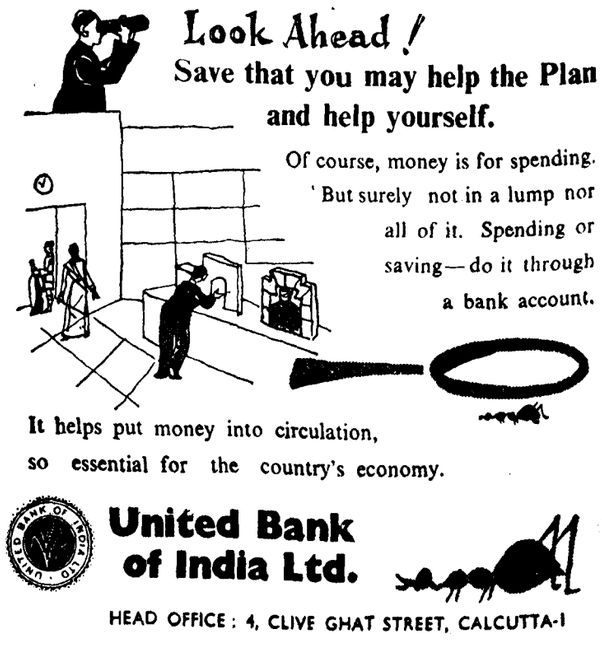
To the economist interested in public finance, the present work is useful even in the main body of its work in the way in which a study of the technical aspects of a particular industry is useful to the industrial economist. It provides that background information about the legal aspects of the problem of sales tax which is necessary to give authenticity to the views expressed and make them realistic.

In the manner of all legal works, the present work carries a commentary on each section of the Act together with detailed references to the relevant judgements both of the Supreme Court and the High Courts concerned. Passages from these judgements are grouped properly below the relative section to throw light on the intent and design of the section. These add considerably to the value of the publication both from the viewpoint of the legal expert as well as from that of the economist, who would like to appreciate the legal niceties of sales tax law.

The commentaries on different sections also refer to various notifications published by the Union and give the substance of some of the important sections of the Sale of Goods Act. As the rules of different States more or less conform to the same pattern, the Bombay Rules have been taken as a model in the discussion, though each set of rules is reproduced in full in the appendix.

There are three appendices. Appendix A relates to the Rules of Interpretation on Taxing Statutes. Appendix B contains all the Central Acts concerned with sales tax together with the Constitution (Sixth Amendment) Act and relevant articles and legislative entries from the Constitution. Appendix C contains the full text of the Act and the rules published there-under by the Union and the States, with the exception of those of Assam. It is clear from this description of the appendices that the author's "modest attempt" to make the book as self-contained as possible has eminently succeeded.

The book is a very useful work and as shown above it might be studied with profit not only by the legal profession but also by the economist interested in problems of sales taxation in India.



Automation and Economic Development

Charles Bettelheim

THE 40th session of the International Labour Conference took place at Geneva in course of the last June. The first part of the report presented by the Director General of the ILO was devoted to Automation and other recent technical progress[1]. One of the originalities of the report meriting particular attention is the accent it puts on the importance of automation for the insufficiently developed countries. This means a happy departure from the frequently held stand on "gradualism" (i e, the idea that the under-developed countries should pass gradually from less developed techniques to the more developed ones) and the alleged advantages of the relatively rudimentary techniques for countries having still rather small rates of accumulation.

It might not be useless, on the occasion of the publication of the above-mentioned report, to weigh up rapidly the progress that has been attained in automation and examine some of the problems posed by these new methods of production to the insufficiently developed countries. It is known that a current definition of automation designates it as "the automatic manipulation of the parts between the successive operations of production" (definition adopted by the Economic Stabilisation Subcommission of the Joint Committee of the Economic Report of the United States Congress, in the report: **Automation and Technological Change**, Washington, Government Printing Office, 1955). This definition, however, is too narrow, for it essentially concerns mechanisms of transfer and the chains of automatic production; whereas technological reality presents in fact three aspects of automation:

(1) the transfer aspect;

(2) methods of automatic control; and

(3) the automatic treatment of a whole range of technical or commercial information by electronic calculators.

In its report for 1956, the Department of Scientific and Industrial Research (**Automation**. London, H. M. Stationery Office, 1956) rightly deals with all these three aspects of automation. Moreover, everything points to the fact that the second aspect, which rests on the feed-back technique, as well as the third, which makes possible the extension of automatic control to complicated production processes and to office work[2] are called upon to play a more and more important role, to transform completely the industrial, commercial, banking, and administrative techniques inherited by us from the 19th century.

Extent of Automation in Highly Industrialised Countries

Given the extreme diversity of the applications of automation, it is very difficult to think of measuring the degrees of automatisation of the economies of the more important countries. It is possible for the moment only to indicate the investment and employment linked with automation and to note some technical changes associated with it.

As early as 1947, it was estimated that the amount spent on automatic equipment in the U S A reached 3 milliards of dollars and it was foreseen that if the present tendencies continued, the expenditure under this head would rise to 10 milliards of dollars in 1960. Already in June 1955, 53 per cent of American enterprises employing more than 1000 workers were in more or less large measure utilising automation techniques. More than 100,000 industrial establishments had installed equipment of automatic control.

Between 1947 and 1955, in American industries associated with the production of equipment for automation, employment went up by 50 per cent and at present it surpasses 500,000. In the U K, workers in the field of electronic instruments number more than 200,000. In the Soviet Union, the Fifth Five Year Plan has set up thousands of sets of automatic equipment and the Sixth Five Year Plan is building the base for general application of automation. In the same way the plans in Poland and Czechoslovakia foresee a large extension of automation in industry. In France and West Germany automation is in course of profoundly transforming the technical production conditions in the mechanical, electric and technical industries.

The cases of automation completely upsetting conditions of production are so numerous (they concern almost all branches of economic activities) that one has to limit oneself to only a few characteristic examples. In the United States and the U S S R, automobile factories are practically all automatised and utilise transfer machines effecting more than 500 operations. A single hand supervises such a machine, while previously it took between 35 and 50 hands to do the same work. With automation, a block motor can be produced in 20 minutes by 48 workers while previously the same production required 40 minutes and 400 workers.

In the U S S R, an entirely automatised factory manufactures aluminium pistons for the motors of heavy lorries. "No hand touches them from one end of the production process to the other: the metal wastes themselves are removed by automatic means' (**cf Report of the Director General of the I L O op cit**, p 10). The chain can adapt itself to the production of pistons of different dimensions, the switch over from one type of production to another being effected instantaneously.

Automatic machines of the "transfer" type are being more and more widely used not only in the production of motors, but also in the production of numerous mechanical parts, notably those meant to be used for machine tools, in chemical factories, in the manufacture of fertilisers, in the iron industry, the petroleum industry, the electric and the electronic industries, etc.

In the radio industry, a single machine will be able from now on to construct the whole of a radio receiver; such a machine produces 1000 sets per day and the output of the two workers who work with it is greater than that of 200 workers working with earlier methods.

At the Esso Petroleum Refinery at Fawley, United Kingdom, groups of six workers man installations that distil 25 millions litres of crude per day. In the United States an

[1] **Report of the Director General. Part I, International Labour Office. Geneva, 1957.**

[2] G P Shultz and G B Baldwin, **Automation: a new dimension to old problems.** Washington, 1955.

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automatic factory can, with the help of an electronic control board, prepare and deliver into separate lorries any desired combination of concrete according to any one of more than 1500 different formulae, with absolutely no interference of manual labour. It is practically the same in the Check Cellulose factory at Henevce. In the United States, certain machines can produce complicated mechanical pieces in 4 minutes where it took one hour's work of a highly qualified machine attendant.

In insurance, banking and commercial companies, electronic calculators record transactions, draw the daily account, book and cancel orders. Some big stores use electronic machines for controlling their inventories and stocks, and control even in this manner the sales taking place at different territorial points, there being a registration machine at each point connected to a central electronic machine.

These few examples will suffice to give an idea of the amplitude of the technical transformations that are taking place at present under the label of automation. They give rise to a gigantic leap forward in the productivity of labour. The introduction of automation methods can increase productivity of labour 10 to 100 times even when the point of departure is the productivity attained by techniques considered modern until recently. Such a jump is certainly without precedent in history, as the multiplication of productivity even by two or three within a few years has been exceptional.

Without doubt, some will think that technical transformation linked with automation is but of secondary importance for a country like India which suffers from a sizeable unemployment and still more grave underemployment and that it is better for such a country to turn away from these new techniques that promise a "smaller volume of employment per unit of investment". According to me such a negative attitude is fundamentally wrong, and may lead to catastrophic results. An examination of the possible advantages of applying techniques related to automation in the underdeveloped countries and the serious consequences that might follow the refusal to resort to them will bring out the reasons on which my opinion is based.

Advantages of Automation for Underdeveloped Countries

A fundamentally important point should be noted at the very beginning: in a very large number of cases, the amount of investment required for a given production capacity is less for automation techniques than otherwise. This reduction of capital needs is due to the fact that, as far as fixed capital is concerned, the proportionate increase in output is considerably greater than that of the cost of equipment. Here is an economic characteristic of the current technical transformation which is of great importance, for it tends—at least in the short period—to lower considerably the "capital coefficient" or increase the "investment yield".

Personally I think that the continuation of economic expansion in the "advanced" capitalist countries over an exceptionally long period is due not only to the military expenditure of a volume without comparison with any other period of "peace", but also to the wave of investments provoked and maintained by the new techniques that make investments highly profitable and which entail, on the other hand, the obsolescence and replacement of a considerable portion of existing equipment.

When considering industrial output as a whole for a country, the increase in the rate of yield of investments is all the more marked when the industries include more of such branches as chemical, metallurgical, mechanical or electric industries, which are the most susceptible to automation techniques. This partly explains the fact that yields from industrial investment have been particularly high in West Germany in the course of the last few years. Statistics demonstrate that, as a matter of fact, between 1950 and 1955, the ratio of increase in gross industrial output during a year to the preceding year's investment (gross) was 44.3 per cent in the U S A, 40 per cent in the U K and 110 per cent in Germany. It is in 1955 (the latest year for which calculations have been possible) that the "yield"—which of course in a capitalist economy is influenced by other factors than purely technical ones—has attained its maximum, with 109.5 per cent for the U S A, and 153.5 per cent for West Germany. Such figures are, of course, averages, and the "yield" of investments in the automatised units taken by themselves is much higher still. Detailed technical studies will be necessary for calculating these "yields".

Automation is Capital Saving

The lowering of the needs of capital necessary for a given volume of output in several cases of automation is due, firstly, as mentioned a little earlier, to the reduced needs of fixed capital, thanks to the considerable growth in the efficiency of the equipments. Besides they often occupy less space and are less heavy than non-automatised equipment, resulting in considerable (sometimes more than 50 per cent) economy of investment in industrial buildings and in the metals consumed in the installation of a given capacity.

The increase in the "yield" of investments in fixed capital often associated with automation is linked with two other extremely important factors:

(i) Increase in the average daily time of utilisation of the machines (notably as the stoppage required by repairing operations is less frequent, the machines working more regularly and being no more subject to possible misuse by workers). This particular reason for stoppages is specially important in countries not yet largely industrialised. This increase is often of the order of 30 per cent.

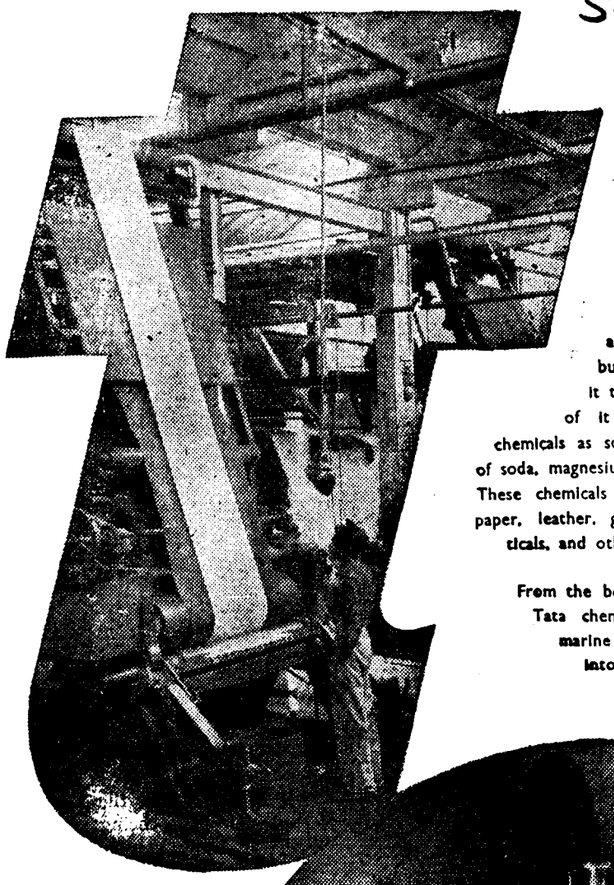
(ii) Reduction in the number of defectives, there being practically no more rejections. Now they can, in certain industries, considerably reduce the volume of acceptable production, all the more so where the proportion of recently trained workers is higher.

The needs for circulating capital are also generally reduced, thanks to automation, as it entails more often than not a significant reduction in the consumption of raw materials and fuel per unit of output. Besides, the operations by hand are reduced to a minimum and the regularity of the production process makes possible a reduction in the amount of stocks needed.

It is evident that whenever these advantages present themselves it would be seriously erroneous not to resort to automation in new investments under the fallacious pretext that "the volume of employment" created by these investments is smaller—and sometimes very much smaller—than that created by

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investments in less modern techniques. One should never forget that the end of a rational economic activity is to make possible more production and more consumption and that expansion of employment has to allow the maximum expansion of production but should not be made in a way as to be detrimental to the latter.

As a matter of fact, if in the very first period, the adoption of automation does slow down the expansion of employment, it can definitely contribute, provided that it is utilised in a rational and planned manner, to an enormous acceleration of the process of economic development and to the realisation of a rate of growth of employment unimaginable without this technical advance.

Reduction of Indirect Investment

Among the factors which contribute to making application of automation advantageous for underdeveloped countries, mention should be made of the reduction of the indirect investments required by the development of the processing industries. This reduction is due to the following factors:-

(i) The reduction in the quantity of raw materials and fuel required per unit of output reduces the investments required (for obtaining a given volume of finished products) in the production of raw materials, in the extractive industries and in the production of fuel and power. Given the particularly heavy requirements of these investments, there is considerable scope of reducing indirect investments. Where a part of the raw material and fuel have to be imported, this allows for a saving in foreign currency which is especially precious in a period of industrialisation. Such advantages have to be calculated at the national level as they do not appear on the level of the individual enterprise.

(ii) In the same way, the reduction in the quantities of raw materials and of fuel contributes to diminishing the investments that have to be made in the means of transport; this is all the more important as transport of raw materials and coal demand an important part of the means of transport.

(iii) The reduction in the number of workers necessary for a given production itself constitutes an important factor reducing indirect investment needs as a very rapid initial expansion of the industrial army of workers leads either to a terrible deterioration of housing and sanitary conditions or to the necessity of considerable investments in houses, roads, canals, etc, which reduces by corresponding amounts the available funds for increasing production and creating permanent possibilities of productive employment. To this one can add that a very rapid initial development of towns necessitate investments in means of transport required to supply food to a highly increased urban population. These considerations show that economic calculations made on the national plane can reveal that even some automation techniques which require more of direct investment per unit of output may, if adopted, entail a smaller total volume of investment.

Another factor contributing in making automation techniques advantageous for countries not highly industrialised is that the reduction in the number of workers necessary for a given volume of production means also the reduction in the number of skilled and highly qualified workers; now, if unskilled workers do not provide any bottleneck in rapid industrial development the same is not true with regard to skilled and highly qualified workers. Training of such workers takes several years and their shortage can seriously slow down the rate of industrial development. It is indeed particularly important on the one hand to turn out the largest possible number of skilled and highly qualified workers, specialists, engineers, technicians, etc, but also on the other hand to create the technical conditions necessary for making this "rare factor" furnish the highest possible production.

From this point of view automation can bring a decisive contribution to the economic growth of the underdeveloped countries; for the latter do not find themselves in the same situation as the industrialised countries where technical progress, while requiring more of qualified workers, engineers, etc, also contribute to "free" them from already existing branches of industry.

Finally and above all, thanks to the considerable growth of the productivity of labour, to the reduction of the needs of raw materials and fuel, and to almost the disappearance of defectives and rejections, the cost of production is substantially reduced; this makes possible, provided institutional conditions (to be described shortly) permit the reduction of sale prices, the raising of the standard of living and, at the same time, through the increase of profits, the augmentation of the funds available for industrialisation, which means acceleration of the growth of employment.

In China, as well as in the Soviet Union, the chief means of increasing investible funds is the increase of productivity. The reply to the question: "How to get the funds for industrialisation?", can certainly only be—once all the sources of potential investible surplus have been tapped—"by the growth of the productivity of labour". Automation, making possible an enormous leap forward in productivity of labour, creates unprecedented possibilities of rapid industrialisation, subject to the reservaton that the introduction of the new techniques takes place in institutional conditions that really make of them factors of progress rather than of economic disequilibrium. However, before going on to the institutional problems, I would like to enumerate briefly some of the grave consequences that would, according to me, follow a negative attitude towards automation.

Consequences of a Negative Attitude

The most obvious consequences of a negative attitude towards the current technical progress will be to render a more or less important part of industry incapable of competition on the international plane. The amplitude of the growth of labour productivity which results from the adoption of these techniques is such that even with wages lower than those existing at present in India, the cost prices of production resulting from the use of the older techniques will be in general higher than the cost prices resulting from the adoption of the most modern techniques, using far better paid labour.

More generally, the consequences of a negative attitude of this type would be that a large part of the newly installed equipment would be obsolete before any utilisation has been made of them. In other words, one part of the fund of investment would practically have been wasted. One should by all means avoid to undertake an investment effort of considerable size which is doomed

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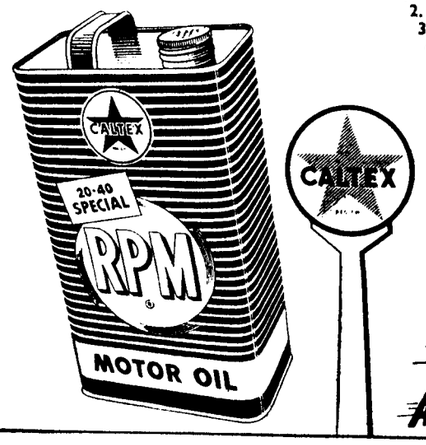
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from the beginning to come out with an obsolete industry, equipped with 19th century type techniques in place of those of the second half of the 20th century. Now such a risk exists if one is not conscious of the techniques which are being utilised in the very last few years and if one does not envisage resorting systematically, each time it is advantageous to do so from the point of view of the national economy, to the most modern techniques.

It should be added that even when there is no risk of immediate obsolescence, it is necessary to take account of the fact that equipment installed today has to serve for several years, and consequently it runs the grave risk, in the present period of rapid technical progress opened up by automation, of rapidly becoming obsolete, if it does not keep abreast of the most modern current techniques.

Besides ,it should never be forgotten that when one envisages economic development and rising standard of living, those techniques which are currently rentable will cease to be so at a higher level of wages. This observation has a general validity but is particularly important in a period of rapid technical progress.

A last point should be emphasized here: countries relatively less industrialised possess over those which are more advanced an advantage which is often neglected; underdeveloped countries are not burdened with a mass of obsolete industrial equipment which stand in the way of introducing modern equipment. Countries which were in such a situation at the end of the 19th century, e g, the United Kingdom and France, which had in the immediate past been at the head of all industrial countries, were surpassed by Germany, United States and in certain fields even by Japan (without referring to the U S S R which has a different economic and social system) —countries which had the **advantage** of being less industrialised at that time, so that industrialisation could proceed on a more advanced base than that of their predecessors. It would be self-defeating for the insufficiently developed countries to install equipment which instead of serving their economic growth would rather obstruct it.

I believe it to be important that these different points be underlined considering the generally widespread tendency in India to prefer relatively backward techniques because of their supposed high "employment potential". When such an attitude exists and has already opposed the installation of techniques even of the age of "mechanisation", one cannot but fear a systematic refusal of most of the techniques of the age of "automation". However, for reasons already elaborated, such a refusal would be a tragic error.

One can however add that the passage from an agricultural structure and traditional techniques to an industrial structure and modern techniques can be realised with undoubtedly less pains in the age of automation than in the age of mechanisation, notably for the following reasons:-

(i) The conditions of work in the automatised factories can be infinitely better than in factories of the age of mechanisation. In particular, the problem of the speed of work does not pose itself at all in the same fashion in an unit of production where man has essentially the role of manning machines that "work" for him, of supervising them, repairing them, and of preparing their programme of production, as in the unit of production where man has to "serve" the machines and has to adapt his rhythm of work to that of the machines. On the human plane, there is the possibility of an extremely important change which could diminish one of the most repelling aspects of industrialisation.

To this point of view, one can add the following observations:

Automation tends to reduce the proportion of workers participating directly in material production or in hard physical labour in comparison with those engaged in works of supervision, conception and organisation; it diminishes the differences of qualification among the workers engaged in different categories of work, the proportion[3] of qualified workers being required to grow considerably; and under proper institutional conditions, this means the bringing about of objective conditons favourable to a lesser degree of inequality in the sharing out of the gains.

(ii) Corresponding to a given increase in industrial production the rate of growth of **urbanisation** could be very much smaller with automation than without it. There is here perhaps an aspect of the consequences of the new techniques which might make them more favourable to those who have some nostalgia about the "Indian village life". As to myself, I would say that this eventually renders still more urgent a thoroughgoing and real agrarian reform.

(iii) Finally, the progress of automation and of atomic energy constitutes a factor favourable—under propitious institutional conditions—toward **geographic decentralisation,** which is certainly a necessity for a country like India and the protagonists of which are often among the more or less determined adversaries of "too" rapid technical progress. Let us hope that they will not now have the same reason for adopting a negative attitude with regard to the latest technical developments.

Nevertheless, as I have mentioned several times, it is only under propitious conditions that automation can have all these different favourable consequences (as much from the human as from the development point of view) which have been discussed above. It is time now to examine some of these institutional conditions.

Necessity of Technological Planning

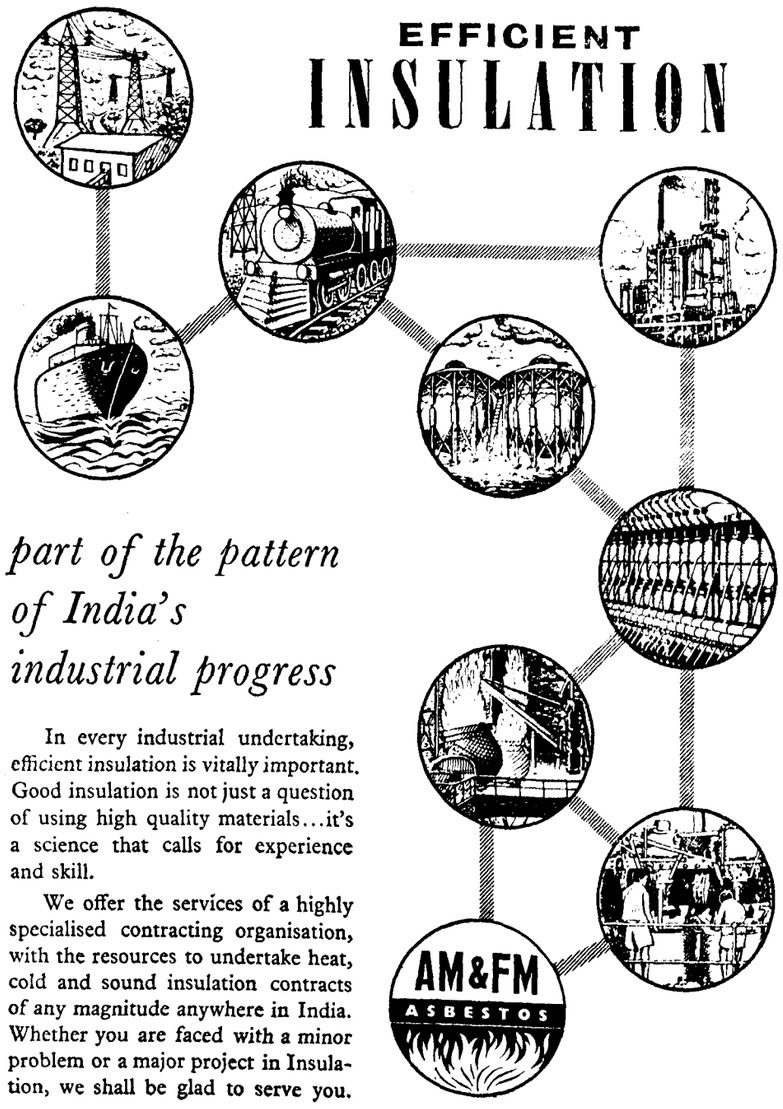
Because of the deep changes that automation can bring to the functioning of the economy, it is essential that the necessary general introduction of the new techniques are organised in a planned manner. Practically this signifies that less than ever can one remain content in planning with fixing objectives of production without making precise by what means those are to be attained, and without taking the necessary measures so that those means are effectively put into operation. These are necessities of planning which I have already stressed in my previous writings and which are now more imperative than ever.

In other words, what is indispensable is a thorough planning of techniques. This is in order to avoid the introduction of new techniques in sectors where they are not justified from the point of view of national economy (even if there are advantages from the point of view of private enterprise) and where they will produce unemployment and useless deplacements of working

[3] The growth of the **proportion** of qualified workers in industry is of course not contradictory with the reduction in the **absolute initial** needs of qualified workers.

hands, and to assure their introduction in sectors where they are useful in terms of general economic growth, even if it is not advantageous from the point of view of private enterprise.

Such a planning of techniques is indispensable as it ought to determine the types of equipment, machines and tools the production of which has to be undertaken. At a time when machinery making industry is to be started it is important not only that those industries furnish equipments at the lowest possible cost, but also that the equipments furnished be such that their production can be justified during quite a large number of years in the perspective of the general spread of automation.



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This requirement signifies that one should also start, as fast as possible, work of **standardisation and of normalisation** which are the indispensable prelude to a more and more wide application of automation techniques.

With technological planning, in the narrow sense of the word, has to be integrated a technical planning of the whole which covers planning of scientific education and technical training. This is particularly necessary in order to assure that general progress of education proceeds at a sufficient speed, and to avoid the "production" of degree-holders for whom one no more has any need, while the shortage of the right type of technicians constitutes a serious obstacle to overall economic development. These problems are of such importance that I shall devote to them the last section.

Automation and Educational Programme

It seems to me particularly important to point out that the extension of automation techniques to administrative services, banks, commercial firms, insurance companies, etc, will limit more and more the fields open to those who hold degrees without being technically trained. Thus, for example, American banks have nowadays at their disposal electronic machines capable of "reading" bank cheques and of reproducing their indications on punched cards at the rate 7,200 cheques per hour. Other machines utilise these punched cards for crediting and debiting the accounts of clients and making them uptodate. This is done automatically and practically instantaneously under the supervision of a few technicians, a work that required previously hundreds of clerks and typists.

It is indeed necessary from a long term point of view to foresee which are the fields offering less and less of employment and which are the fields for which the present generation of students has to be prepared.

It is necessary also to radically modify the education programme on the plane of primary education; the teaching only of reading, writing and arithmetic is becoming more and more insufficient and a supplementary course of scientific and mathematical training even at this level will become very rapidly necessary as well as a course of technical instruction following upon the primary stage. In a country like India it is obviously necessary to take from now on measures in order that such a system of education gets introduced in course of the next ten years.

On the level of secondary education, a very much more important place than is given at present has to be given to science and mathematics. In the Soviet Union, after a recent educational reform, half of the teaching time in secondary education is devoted to scientific subjects.

In the perspective of economic development and within the framework of a long-term plan integrating technological planning, it is necessary for India also to proceed to a remoulding of the educational programme and to the formulation of objectives in the domain of the training of scientists, research workers, teachers, engineers, technicians, etc.

The experience of the industrially developed countries shows that the rates of growth of scientific and technical cadres and their proportions to the size of the population which were previously considered sufficient are no more so today, in view of the rise in the proportion of technicians, engineers and scientists required by the introduction and development of new techniques.

In the United Kingdom, 8000 engineers are at present graduated per year, the figure being too low by comparison with the needs of the modern techniques and it has been decided to introduce a number of measures to make possible a doubling of this "production" between now and 1970; £ 70 mn are to be devoted to the establishment of new technical colleges in view of the objective. This appears, however, very little in comparison with the efforts made in other countries. Thus in West Germany, where the production of engineers is also 8,000 per year, measures are being taken for raising the figure to 12,000 by 1960. An effort of the same order is being made in France.

In the United States the annual recruitment of science teachers (indispensable for the "production" of future scientists and technicians) has increased by 20 per cent between 1954 and 56; but despite this, the needs are far from being satisfied. It is today certain that in this field the United States have been far out-distanced by the Soviet Union. From now on, the United States will find it difficult to make as much application of automation as would be materially and financially possible for them. The Soviet Union, thanks to a planned effort spread over a long period and resting from now on on a generalised secondary education, has been able to avoid this particular bottleneck.

In a country like India, where remarkable achievements have already been made by the creation of the National Laboratories, the objectives set in the field of education do not appear to correspond to the current needs of development on the basis of the most modern techniques.

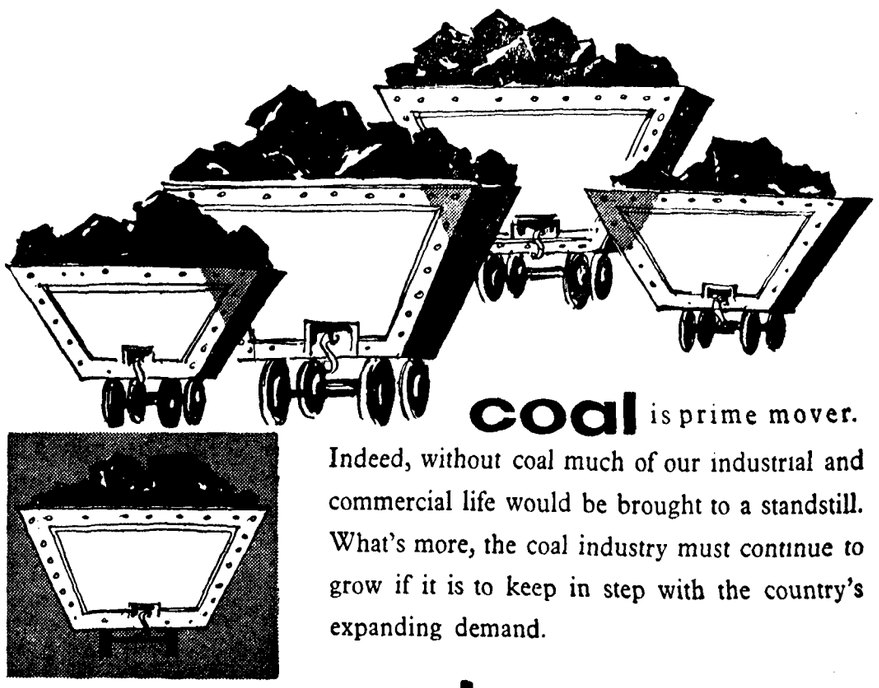
A very large democratisation of education is today indispensable in order to discover aptitudes, and the latter ought to constitute the decisive criterion for admission in secondary and higher education. Free education not only at the primary stage, but also at the secondary ought to be regarded as an objective to be realised with the least possible delay and a vast system of scholarships for higher studies must be made available to all who are desirous and capable of such studies. This need of development represents at the same time a profoundly democratic measure.

Precise **quantitative** objectives have to be fixed about the number of teachers to be trained in the course of the next few years as well as about the number of research workers, engineers, technicians of different specialities to be turned out between now and say, 1970. These quantitative objectives have evidently to harmonise with a general economic development plan.

However this necessity of technological planning and planning in the field of forming cadres, technicians and qualified workers is but one of the aspects of the role that the state has to play in order that economic development can utilize automation.

State Control over Automation

Another aspect of this role of the state, even more important, is linked with the necessity of an extension of the public sector, a necessity very much more imperative than it was in the perspective of



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development on the basis of "mechanisation."

As a matter of fact, the new techniques are prone to give positions of extreme monopoly power to enterprises utilising them. To leave these positions to private capital, national or foreign, would be to permit it to profit from the situation to the detriment of economic development. This would moreover be to deprive the State of the possibility of mobilising for development purposes almost entirely all the profits made possible by the lowering of cost price due to automation. Now we have seen that it is precisely by such a mobilisation that one can find the means of financing economic development on a large scale.

To show to what degree of monopoly the new techniques can lead, it suffices to indicate that in the U S A, 14 glass-blowing machines, manned each by a single person, produces 90 per cent of the country's need of incandescent lamps as well as the total of glass tubes required for radio and television sets (excepting the tubes for image reproduction). Given the extent of the smaller Indian market, two or three machines of this type will be sufficient to meet all the needs of the country during several years, giving rise to still more powerful monopoly positions. Another example of such monopoly power is given by the application of automation in petrol refining: in the U K, the Esso Petroleum factory at Fawley, already referred to, with the aid of six workers per team, furnishes nearly a third of the petroleum products needed by Great Britain.

These are of course extreme examples, and there are cases when the volume of production of an automatised enterprise is not greater than the optimum volume of an enterprise which is only mechanised. However, on the whole, according to the opinion of technicians, automation leads to a concentration of production in big units, to a much higher degree than mechanisation. This signifies that, more than ever, with the coming of the age of automation, socialisation of the important sectors of the economy becomes a necessity.

In countries already industrialised, the maintenance of the capitalist system in the age of automation will finally lead to a deep economic crisis, for the amplitude of the productive forces will clash with the limits of the capitalist market, and the interventionist methods as well as monetary and financial "remedies" will, I am convinced, prove to be ludicrous in the face of the size of the problems to be solved.

In the non-industrialised countries, a spontaneous development of automation on the basis of private property has all the possibilities of leading to an economic catastrophe, private enterprise—above all in an underdeveloped country, where the elasticity of the demand for industrial products is still necessarily small—having the tendency to "rationalise" methods of production in existing industries rather than create new industries. Now, at the present moment, such a "rationalisation" done without a systematic effort for general development of the economy at a high rate (higher than that foreseen in the Second Five Year Plan) would lead to an aggravation of unemployment and finally to a shrinkage of the market.

The fact that a general application of automation can very well be accompanied by a considerable expansion of employment is confirmed by the example of the Soviet economy where, in the course of the fifth five year plan, despite (or rather, thanks to) a large scale application of automation, the number of workers and of employees have gone up by 9.5 millions in five years.

What is true is that, on the one hand, automation makes possible an infinitely more rapid economic development than could be hoped for a few years ago, and that, on the other hand, this more rapid development also becomes a necessity. If this latter condition is not satisfied, if development is too slow, automation, instead of leading to a rapid development and full employment which it can do, would lead to increasing unemployment and to unprecedented social and economic difficulties.

This signifies that the age of automation requires, above all for the underdeveloped countries, structural transformations making possible a rapid and organised growth of the economy.

Collective Effort Necessary

In my opinion, now that the Second Five Year Plan is already in progress in India, it is high time that, inspite of the present difficulties, the conditions are examined under which the future plans, particularly the Third Plan, can be made into plans for the introduction on large scale and in a harmonious manner of the latest techniques, permitting at the same time the relative economising of the investment funds and the rapid augmentation of the absolute volume of these funds.

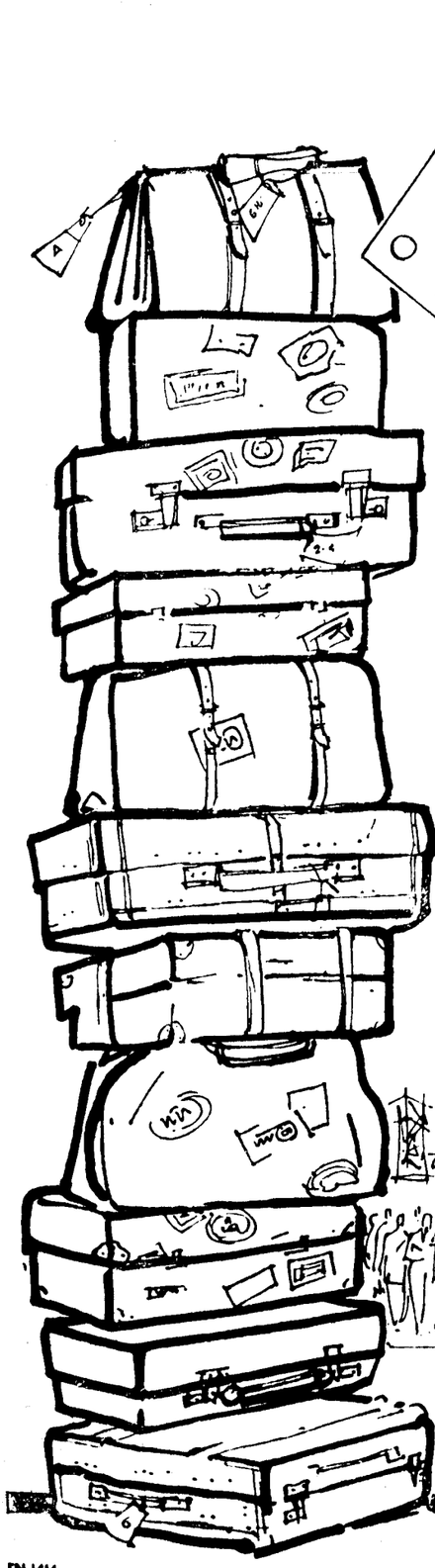
This task of preparing the general lines of the future plans will require a lot of imagination, initiative, knowledge and independence of the "vested" interests. It cannot be achieved just by a handful of men, however competent and devoted to the future of their country they might be. Such a task requires a large amount of cooperation and exchange of views.

It appears that at the present stage, two categories of decisions can help to start a fruitful effort in this direction.

Firstly, it appears to be highly desirable that a Technical Commission be created counting among its members the most eminent Indian scientists and technicians to prepare a list of the industries in which the most modern techniques are to be introduced in the course of the next ten years. This Commission should have a permanent staff of research workers and the means of obtaining information as to the latest foreign inventions. It ought to be consulted for everything concerning the technical aspects of important projects.

On the other hand, in order to make the future plans as collective a work as possible, it appears desirable to constitute a National Economic Council gathering in its fold at the same time scientists and professors, eminent technicians and representatives of big social organisations. The members of this Council having only consultative functions could be nominated by the universities, scientific workers' associations, and trade unions in proportions and under conditions to be determined by a law.

These are some of the ideas to which I am led by a certain amount of experience of economic problems of India and her efforts in the field of planning, and some of the thoughts provoked in me by the entry of humanity into the age of automation.



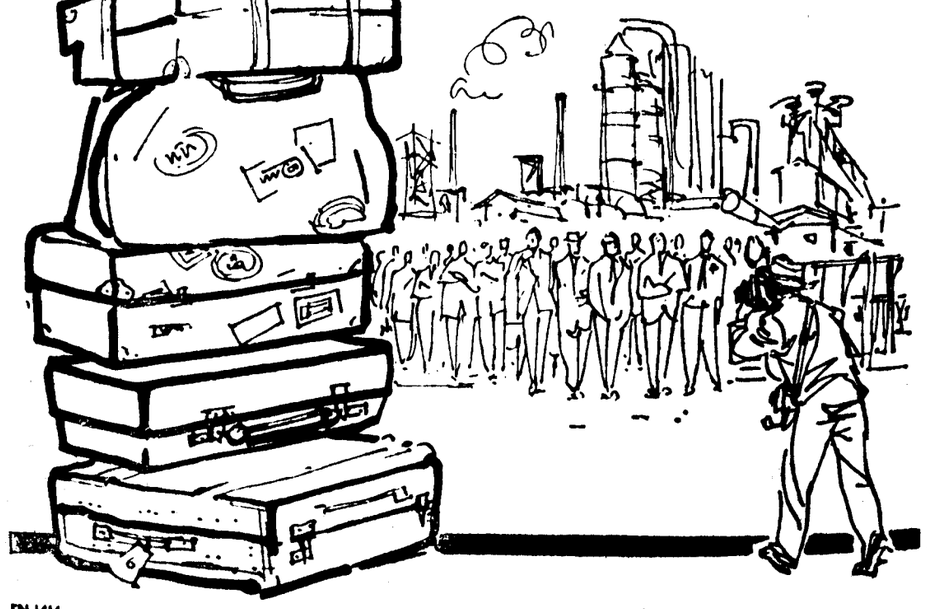
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Around Bombay Markets

Minor Recession

Thursday, Morning

THE market has not been amused by the new additional excise duties in lieu of State sales taxes, and the Parliamentary debate on the investment policy of the Life Insurance Corporation. The additional duties on sugar, tobacco and mill cloth are estimated to bring in Rs 9 crores more than the State levies. The actual revenue may be even higher, as evasion will be more difficult and trade may improve. On the other hand, traders are certain to gain from the easier flow of trade across inter-State boundaries and the elimination of much irksome book-keeping as well as frequent visits to sales tax offices. So far as sugar is concerned, the additional excise, on the whole, will be heavier than the previous levies. In the case of textiles, the temporary reduction in the excise duty on medium cloth is not much of a consolation when viewed against the withdrawal of the half-anna rebate on production in excess of the past average, and the effective increase in the burden on fine and superfine fabrics. On balance, these adjustments are of a minor character and their principal virtue lies in the removal of uncertainty rather than in reduction of the tax burden.

The doubt raised in these columns last week that there could be any tax relief has, therefore, been confirmed by events—the rather extravagant hopes entertained earlier in the market have met an even worse fate. The effect of these changes on the pattern of cloth production is likely to take the form of a marginal shift back from coarse to medium varieties. This process would be stimulated not merely by the reduced duty on medium cloth but also by the withdrawal of the rebate on 'normal-plus' production which had tended to encourage larger coarse output.

Though the nature and magnitude of the new levies did disappoint the market somewhat, they were not largely responsible for the minor recession that occurred during the week. Shri Feroze Gandhi's attack on the L I C's investments in Mundhra shares and the Finance Minister's ineffective reply to it led operators to believe that the L I C might keep off the market for some time. Before this development could be soberly evaluated, nearly all counters had lost a few points, Tata Steel shedding more than Rs 3 in the process. Among the counters which stayed comparatively steady were Mahindra and Mahindra, Tata Loco, Tata Chemicals, and India Steam. The long period of the current settlement also induced some technical selling pressure. Given its expanding business, it is hardly likely that the L I C will stand aloof and accumulate idle funds. All that is likely to happen now is the long-awaited setting up of clear criteria of choice in making investments—the psychological damage done by the Mundhra deal notwithstanding.

Mundhra Shares

Many people appear to ignore the fact that had life insurance not been nationalised this deal would never have received the publicity it has. Further, the fact that a capital loss of more than Rs 37 lakhs has been suffered on a large investment should not by itself be a ground for criticism for on many other investments the Corporation has made impressive capital gains. Even the fact that the shares were acquired through a private deal partially concluded on a bank holiday at prices higher than the open market quotations is understandable since large blocks of shares can hardly ever be bought in the open market at published market values. Very recently, actually, the Corporation acquired a sizeable lot of first class scrips at much less than the open market value through a private deal.

Shorn of somewhat ill-informed criticism on these grounds, this deal of about Rs 1.25 crores stands out, nevertheless, as a conspicuous example of mis-investment. The Corporation's purchases of Mundhra shares might have been effected to save the non-Mundhra shareholders of his companies and to give a prop to Lyons Range. But such a charitable interpretation is ruled out by the oft-repeated declaration of Government and L I C's spokesmen that the best possible use of policyholders' funds is their only criterion of investment. Surely the Mundhra deal was not concluded in order to maximise the policyholders' welfare? The core of the matter is: Why did the Corporation have to take up shares, the genuineness of many of which had been suspect in Calcutta and elsewhere ever since Shri Mundhra acquired control over their companies? The disclosures make it necessary that an investigation be ordered. In the case of Bharat Insurance, the Government, after all, did not stay its hand till matters could be straightened out!

Excess Cash Drawn Off

Excess cash with scheduled banks has been markedly reduced during the week ending December 6. The amount of Rs 29 crores drawn from deposits at the Reserve Bank (offset to the extent of Rs 1 crore only by rise of cash in hand) has found its way into Government securities (+ Rs 19 crores), call and short loans (+ Rs 4 crores), advances and bills (+ Rs 3 crores) and repayment of loans from Reserve Bank (— Rs 3 crores). It is interesting to note that the State Bank has played a predominant role in these changes. Its cash balance declined during the week by nearly Rs 27 crores and its gilt-edged and credit portfolios expanded by Rs 19.5 crores and Rs 3 crores, respectively, though its call and short loans went up by Rs 0.5 crores only. So far, at any rate, therefore, the new bond issue on tap has induced only the State Bank to reduce its excess cash reserve. Other scheduled banks have maintained their slack season policy of expanding call and short loans in preference to holding more gilt-edged. The cash ratio now stands at 8.60 per cent against 10.62 per cent in the previous week and 7.89 per cent a year ago, while the corresponding percentages for the gilt-edged ratio are 31.44, 30.01 and 33.25, respectively.

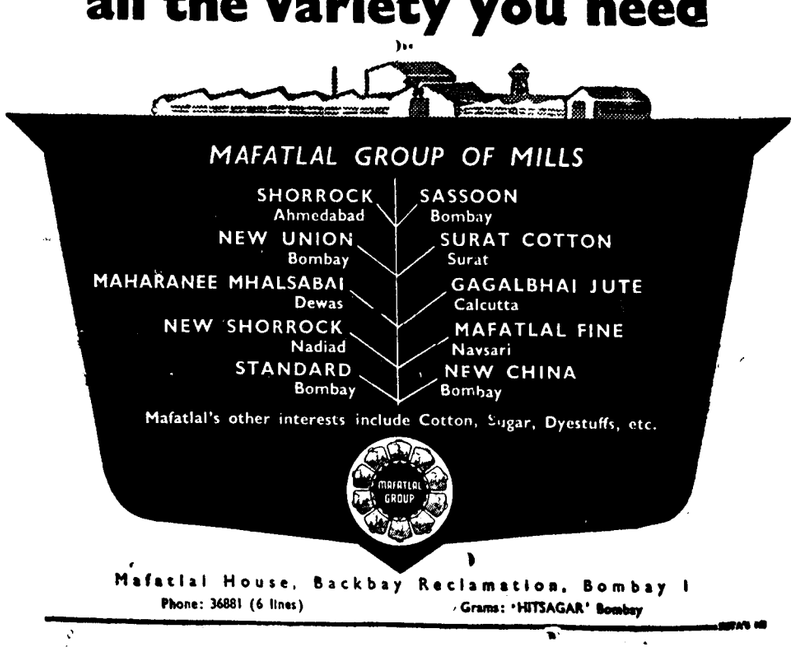
During the same week, net deposits went down by Rs 2 crores (State Bank Rs 1 crore), resulting from a decline of Rs 10 crores under demand liabilities and a rise of Rs 8 crores under time liabilities. This slack season trend, thus, continues to persist. Of the total expansion of Rs 282 crores in deposits over the last 12 months, time deposits have accounted for as much as Rs 216 crores.



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During the week ending December 13, Government deposits at the Reserve Bank went down by Rs 3 crores, including Rs 2 crores on account of State Governments, but Government borrowing in the Banking Department has gone down by Rs 2 crores, though this decline is more than offset by the rise under ways and means advances. Bankers' deposits are lower by a further Rs 2 crores and loans to them against usuance bills are higher by the same amount. Balances held abroad have declined by Rs 4 crores but there is no change under foreign securities. The expansion of Rs 4 crores in active notes has been effected largely by drawing down the notes held in the Banking Department.

Cotton

Selling Pressure Continues

THE cotton market has been unable to recover its losses. Earlier in the week, heavy arrivals and option deals tended to depress values, and shippers stayed off the market. The subsequent announcement of additional excise duties in lieu of State sales taxes provided little enthusiasm for Textile shares and still less for the cotton market. Since mills are already heavily burdened with unsold stocks, and will now have to bear, in addition, the initial incidence of additional excise, together with the responsibility of shifting it elsewhere, they are hardly in a position to buy cotton beyond immediate requirements. With the present pace of arrivals and the pressure of selling options, it is hardly surprising, therefore, that values have plunged to the lowest level so far in this season. The position is scarcely likely to improve, technical considerations apart, in the near future, since it will be sometime before mills are able to dispose of unsold stocks. The prospect of a reduction in the total tax burden on the mill industry, however, is bleak, unless the Government changes its policy on cottage industries.

The total mill consumption of cotton during October amounted to 4.21 lakh bales against 4.20 lakh bales in the corresponding month of 1956. This figure is impressive in view of the difficulties which mills are facing. The consumption of domestic cotton has risen from 3.70 lakh bales to 3.73 lakh bales while that of foreign cotton has declined from 50,500 bales to 48,400 bales. Stocks with mills are 279,000 bales less than last year, and amount to a little more than two months consumption only.

Linseed Remains Firm

While groundnut and castor have been witnessing a mixed trend, linseed has remained firm on reports of an order for 1,000 tons of oil from Australia. Fluctuations in the other two oilseeds have been largely speculative, and both tended to ease towards the end.

Company Notes

National Insulated Cables

ONE of the two major producers of cables in the private sector, NICCO, has completed its fifteenth year by raising its sales to Rs 322 lakhs from Rs 277 lakhs in the previous year, in spite of a lockout for two months during the year ending March 31, 1957. The gross profit margin on sales has declined, however, from 31 per cent to 26.6 per cent due, inter alia, to a rise in the wage bill. Net block has risen from Rs 22 lakhs to Rs 35 lakhs but current assets are lower at Rs 189 lakhs against Rs 246 lakhs. Loans and advances have gone up from Rs 41 lakhs to Rs 60 lakhs while cash has declined from Rs 7.7 lakhs to Rs 3.1 lakhs. Against these, secured and unsecured loans have gone down from Rs 112 lakhs to Rs 50 lakhs while current liabilities are also lower at Rs 76 lakhs against Rs 90 lakhs.

The provision for depreciation on fixed assets has been cut down from Rs 1.91 lakhs to Rs 1.47 lakhs but tax liability has gone up from Rs 28 lakhs to more than Rs 32 lakhs, including Rs 71,000 for wealth tax. While profits before tax, therefore, have risen slightly from Rs 58.72 lakhs to Rs 59.75 lakhs, net profits after tax are lower at Rs 27.64 lakhs against Rs 30.72 lakhs. Since the share capital of the company was increased during the year from Rs 40 lakhs to Rs 60 lakhs, the net earning per ordinary share of Rs 10 has declined from Rs 7.7 to Rs 4.6. The dividend has been maintained at Rs 2 per share. Of the total amount of nearly Rs 39 lakhs available for distribution, including a withdrawal of Rs 9.3 lakhs from excessive tax provision in previous years and Rs 1.4 lakhs brought forward, dividends take away Rs 12 lakhs only. Rs 15 lakhs are transferred to general reserve, Rs 5 lakhs to dividend equalisation fund, Rs 4 lakhs to expansion reserve and the balance of Rs 2.68 lakhs is carried forward. The total reserves and surplus have thus gone up from Rs 75.94 lakhs to more than Rs 101 lakhs.

The company has so far been selling its products almost entirely to public bodies but is now making persistent efforts to reach into channels of normal trade. Its expansion schemes are directed towards rapid replacement of imported goods.

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Around Calcutta Markets

Lower Trend

IT would be difficult to put out any one reason for the set-back in equities in the last few days. It would, in retrospect, be evident that many factors combined to bring about a fall which has not been appreciable. There is no follow-up support, however, at higher levels. For two or three days, professional operators tested the market. As they discovered that prices were not going up further, they made some short sales. As prices began to climb down, weak bulls unloaded. So, prices dropped further.

To some extent, this week's irregularly lower trend is due to settlement considerations. At the last settlement, "budla" rates indicated a weak bull position. Tuesday's setback in speculative scrips was partly due to settlement factors. Today, Indian Iron and other clearing shares eased further on liquidation by holders at higher kerb rates. Also, at higher official quotations, there was some liquidation. By the time Lyons Range closed, settlement rates were fixed at today's lowest levels. For the second time in succession, there has been liquidation by weak bulls at the time of the settlement. This is a disturbing phenomenon.

Company Law

Technical considerations alone were not responsible for the slightly lower trend in equities in the last few days. Equities developed a quieter trend since and from last Saturday. It could not have been a mere coincidence that the rising trend in equities was halted as the Prime Minister informed the Associated Chambers of Commerce in Calcutta that no basic change in the economic policy was under the Government's contemplation. In the last few weeks, equities had been moving up on buying support in the hope that the foreign exchange crisis will force the Government to amend its economic policy in favour of the private sector.

Another factor that had a psychological effect on the market was the development relating to the Mundhra group of shares. Though the Mundhra group actually had been steady after the recent fall, the Lok Sabha debate had seemed to focus attention on some of the weaknesses of some owners or managing agents of companies. There is a growing feeling that, as a sequel to the developments relating to the Mundhra group, the Company Law Administration may be tightened further. Small investors are showing symptoms of nervousness at the developing turn of events.

Tax Load

Be that as it may, recent fluctuations in equities indicate that professional investors, if not investors in general, are moderately optimistic about the outlook. This view is based on the growing assumption that there will be minor reductions in Central direct taxation such as adjustments in dividend and bonus taxes and in the wealth tax on companies. It is also believed that the system of compulsory deposit of industrial funds will also be abolished. Most of these expectations are likely to materialise. In the circumstances, the prevailing steadiness in equities is not quite surprising.

What about the other side of the coin? In States, taxes will be raised. But stock market circles are not wrong in hoping that further taxation in States will involve more indirect taxes. Indeed, the replacement of sales taxes in States by additional Central excise duties suggests that the emphasis will now be on further exploitation of indirect taxation. That may have regressive effects on the tax structure. But, in so far as it implies that the Government accepts the view that direct taxation has reached its limits, it is a justifiable ground for moderate optimism about equities. So much must be conceded to professional operators.

Indirect Taxes

This brings in another aspect of recent market behaviour. By the end of last week Dalal Street, eased as it was, realised that the additional Central excise duties on cloth would mean higher tax burdens on the industry. It is widely believed that TTK's hope that these additional excise duties will help in clearing mills' stocks of cloth will not materialise. That explains the

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drop in cotton mill and sugar shares in both Bombay and Calcutta. Fall in these shares has had an adverse effect on other scrips quoted on Lyons Range.

This draws attention to another possibility. Under the Pay Commission's recommendation, the Central Government's administrative expenses will rise. This will mean that the Centre will not be able to reduce taxes as much as it could otherwise. Demand for higher salaries of low-paid Government employees is likely to be heard in States, too. It is, therefore, reasonable to assume that the aggregate tax burden will have to rise further. Maybe, there will be no further increase in direct taxation. It may even be that the direct tax burden will ease slightly. But the aggregate tax load will increase. And there are limits beyond which increases in even indirect taxes may affect business interests.

Group Leaders

Coal shares continue to be quiet. Coal dividends recently announced are well below those of the previous year. Lower Coal dividends are not unexpected or surprising. Coal shares have been dropping since the announcement of the Government's decision to expand coal output progressively within the public sector. Only the other day, the Government announced further that State-owned collieries will expand production during the rest of the Plan period.

Jute shares developed further weakness as jute goods dropped in the last few days. Fall in jute goods reflects lower burlap consumption in America in the last month. This is causing anxiety as it is customary for American consumption to expand at this time of the year. There has been some speculative selling prssure in heavy goods, following the increase in the output of sackings. But statistics indicate that shipments continue to be satisfactory. In the first ten days of this month, shipments of jute goods were higher. In the main, the jute industry's trouble relates to the spinner's margin. It continues to be unfavourable.