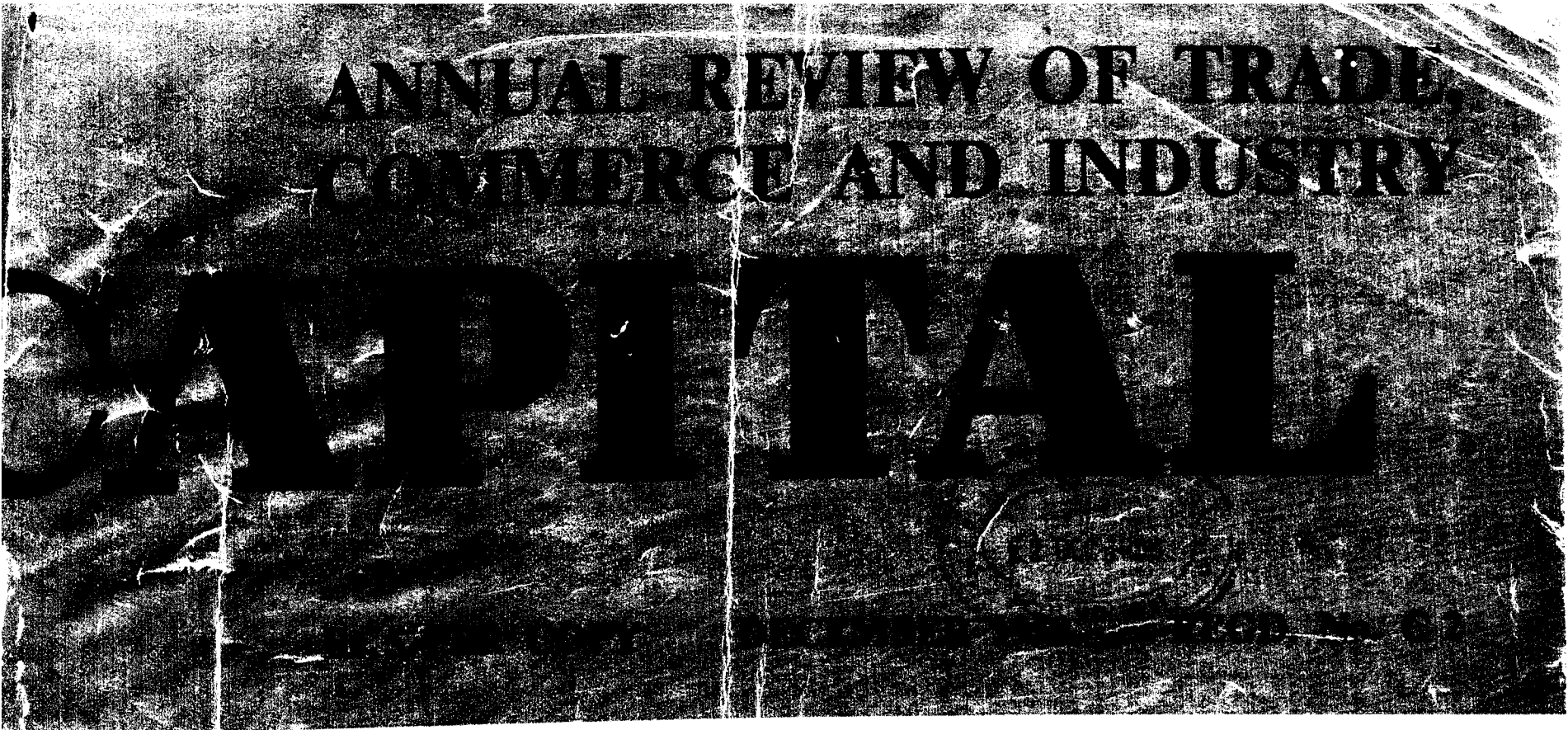




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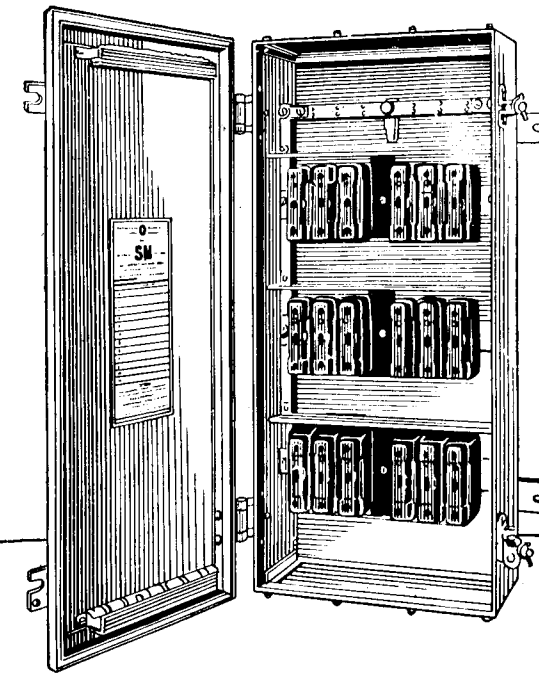
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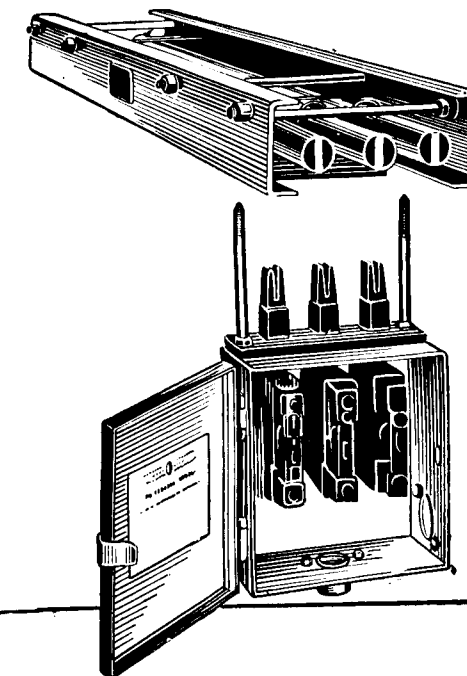
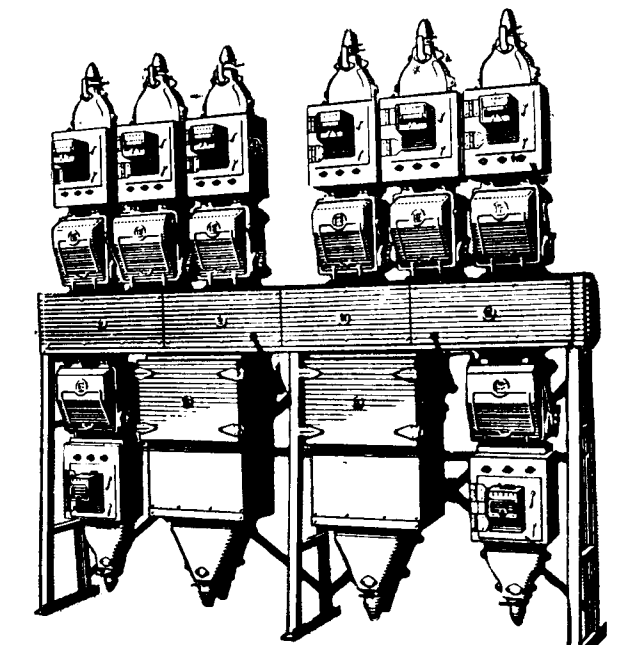


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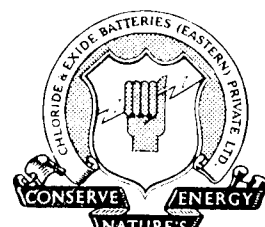
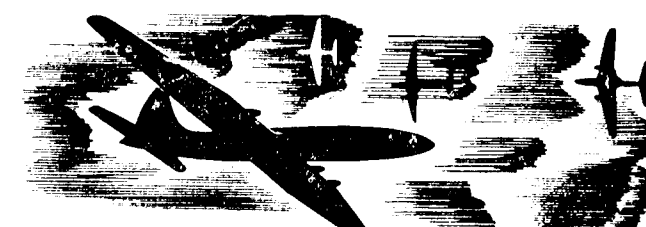
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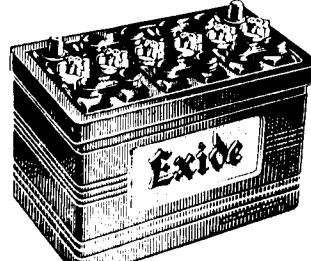
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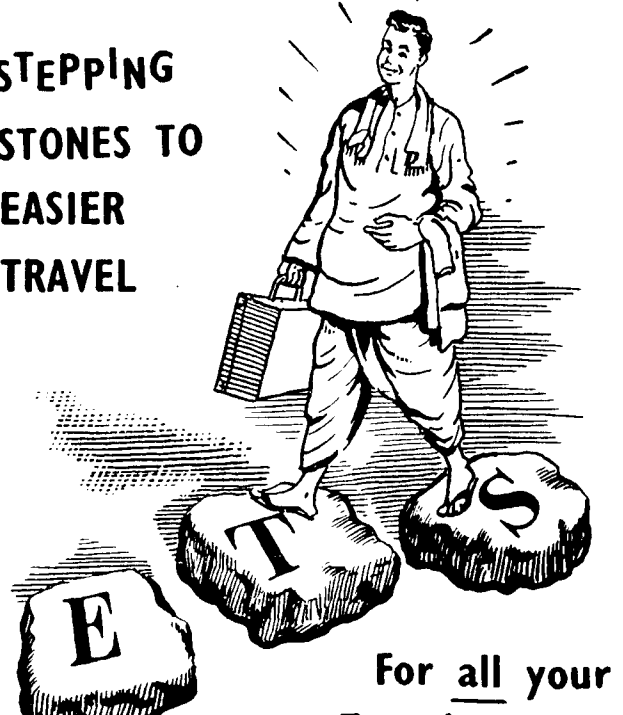
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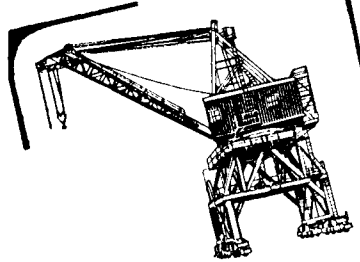
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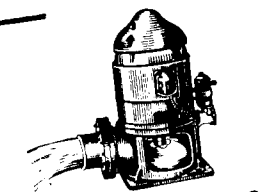
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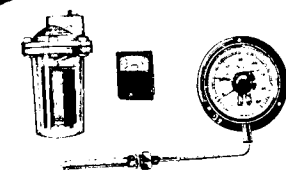
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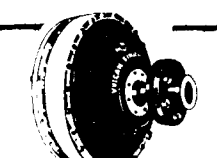
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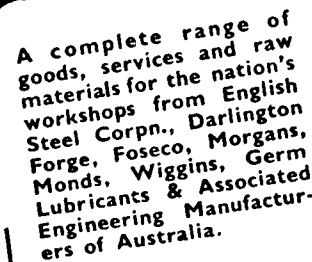
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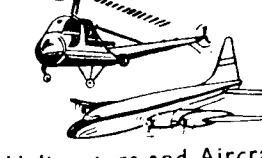
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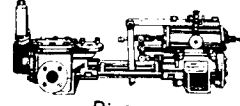
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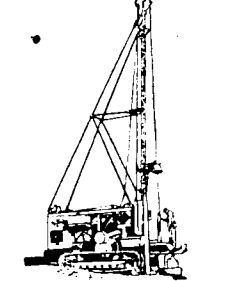
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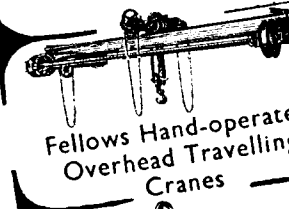
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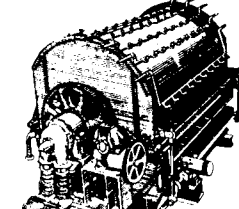
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Horizontal Pumps



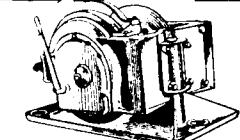
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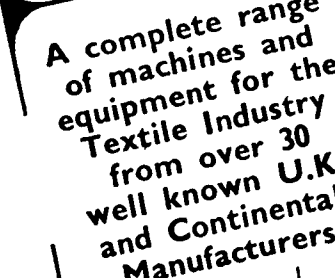
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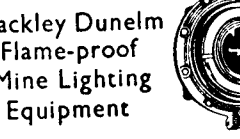
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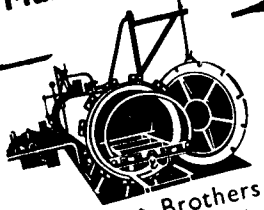
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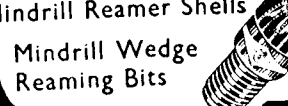
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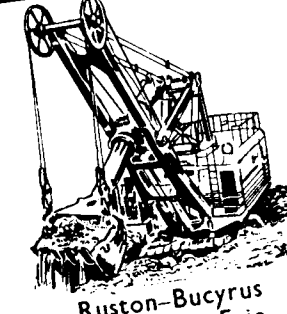
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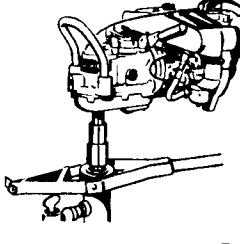
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Reaming Bits



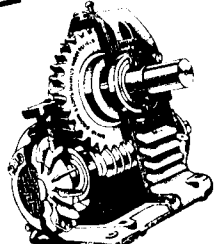
AND MANY
OTHER
EQUIPMENT



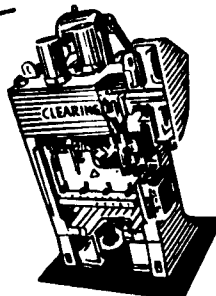
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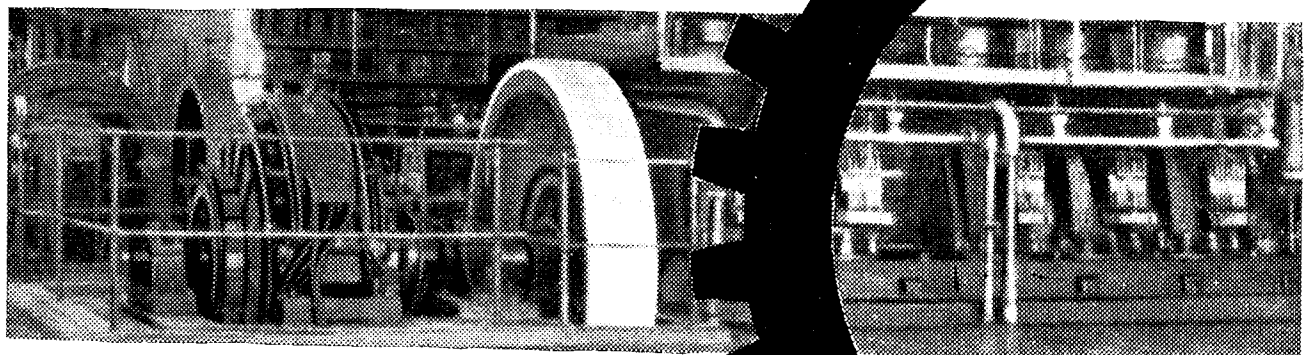
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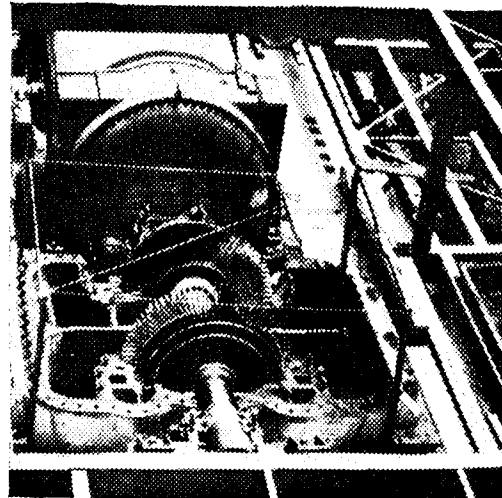
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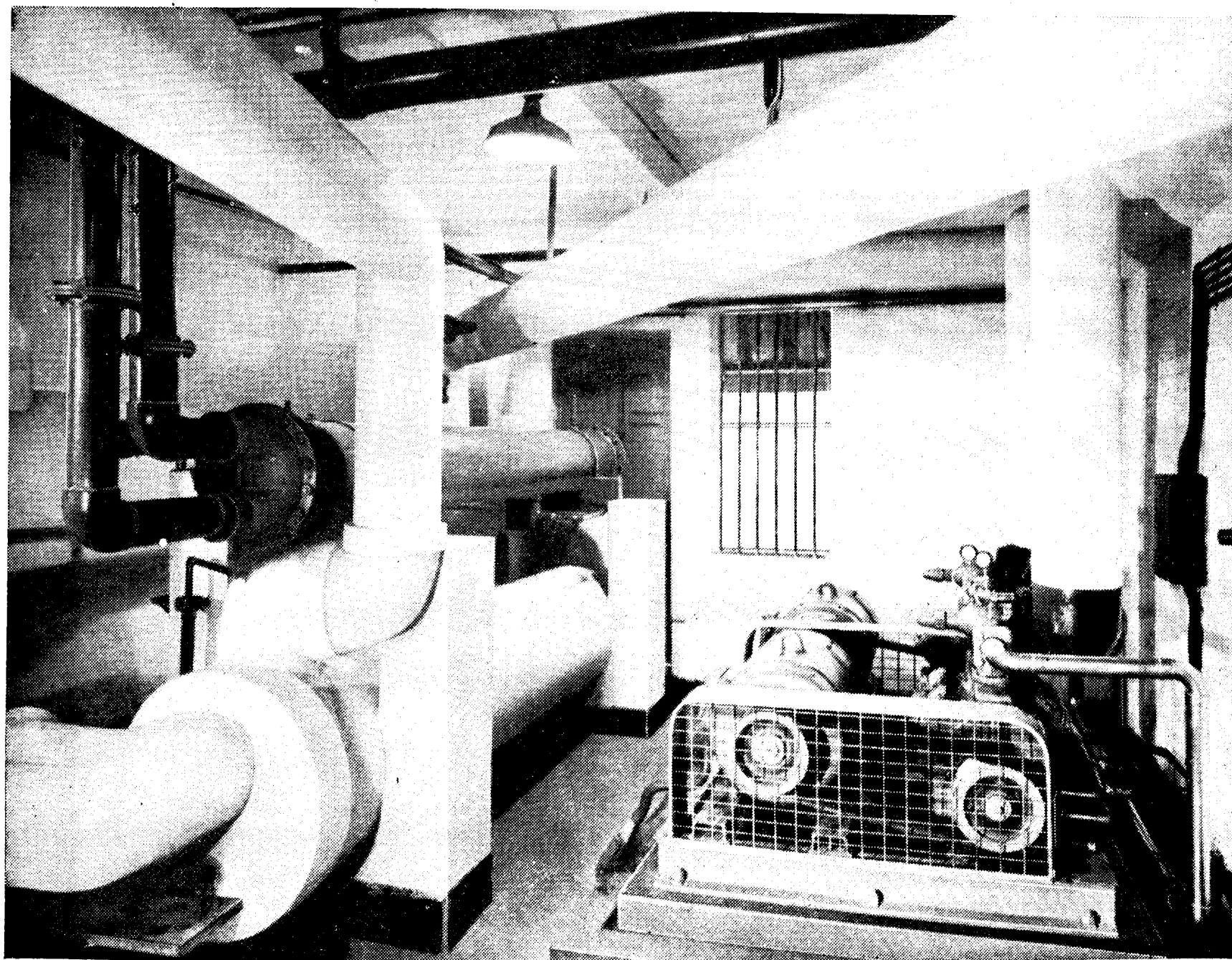
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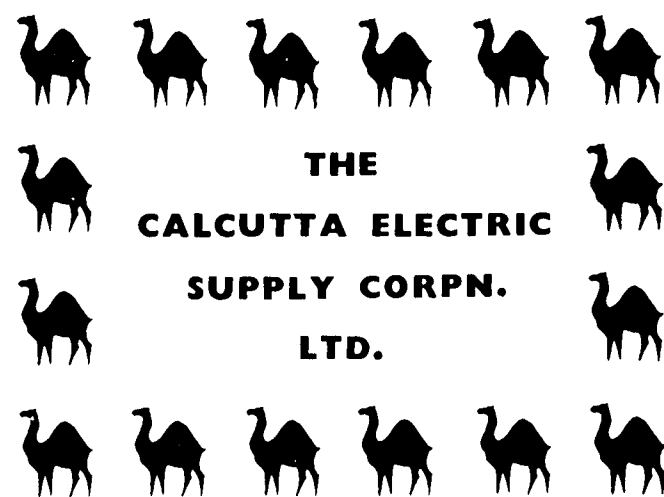
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THE CONSUMER AND ECONOMIC DEVELOPMENT

Dr. Thomas Balogh needs no introduction to readers of "Capital's" annual number. This world-renowned socialist economist has already contributed articles for two previous supplements. In this one, he discusses a matter of fundamental importance to an economy developing under a "mixed" regime. His theme is that the economic doctrine of consumer sovereignty is even less relevant for developing countries than, so he claims, it is for those which have already attained a high level of affluence. Both the western and the Soviet systems, he points out, are falling under the tyranny of more and more production; social wants are having to take a second place. For a developing country, Dr. Balogh explains, this would be cruelly wasteful. While not necessarily expressing the views of "Capital", this article presents a thought-provoking argument which has not so far found its way into the current debate on the varying merits of socialism and capitalism in India.

ALL the best economic text-books and speeches by the heads of international banks and agencies begin with an appealing reference to that shadowy if convenient concept of the average, yet sovereign, consumer. There he stands steadfast among millions of temptations, surrounded by a host of goods and services from among which to choose. He is alert, and quite determined. He does not look round to see what the Joneses do; his tastes are all his own. He knows his own mind and is not influenced by anybody or anything. The only point he looks for are prices. He reacts instantly and intensely even to their smallest alteration, and he is an expert buyer with a quivering knowledge of the last advantage to be squeezed from every deal. In fact, it is his buying which rules the economic system. Through the elastic sway of his favours, new firms spring into being and old ones are instantly eliminated. In this way, what he wants is produced when he wants it and as he wants it. A perfect balance reigns.

This concept of the sovereign buyer and his needs and satisfactions is not in fact a very old one. It had, for example, no place in the common-sense system of the great English Classics. It was developed simultaneously in Switzerland, Austria and England as late as the early 1870's. Its simultaneous birth in three widely dispersed areas can probably be attributed to the fact that the classical theory based on labour value was leading more and more to unfavourable conclusions about the character and prospects of capitalism, and an urgent need was felt for new reassurance and moral justification. Mill, the greatest exponent of the classical doctrine, was turning towards socialism, and Marx used the orthodox Ricardian system to prove to his own and his disciples' satisfaction the fact that the worker was being deprived by capitalist exploiters of his right to the value he alone created.

The new doctrine contained an element both of optimism and moral justification of the existing state of affairs. It showed clearly that with the growth of the stock of capital, the share of labour would tend to increase and that nobody got more or less than exactly what he deserved through his contribution to the creation of wealth. Demand and supply were equated at exactly the level where utility was maximised and the interaction of prices saw to it that nobody was better off without making somebody else worse off.

Already Unreal

This theory was already unreal at the moment of its formulation. On the one hand, it was clear that it could not defend the private ownership of capital or land; on the other, it was equally clear that consumers did not behave in the way assumed. Consumption was not, as it may have been in earlier periods, the expression of the needs and tastes of the individual. There was a conspicuous competitive element in it which, as the career of Lord Duveen, the most successful art dealer of his time showed, could be stimulated and played upon to make profit for others. This was clearly recognised by the only wholly American sociological economist, Thorstein Veblen, in his theory of the leisured class, and less

consciously by those writers early in the 19th century who defended the existence of disproportionate accumulation of wealth by reference to the employment it created.

Artificial Needs and Social Balance

As income increases, both these artificial elements become more patently demonstrable. Not only does income become less essential, but the immense importance of maintaining spending as a means of retaining stability in the system increases. The under-consumption theories of capitalist crises, as well as the growing fears of a running down of the system and of permanent stagnation, derived from this idea. The Keynesian school, which opted for equality in order to diminish savings, and pleaded for State action to offset them by investment or loan expenditure, was the first scientific expression of this trend of thought.

Professor Galbraith in a recent publication, *The Affluent Society*, with his usual brilliance, has carried the argument a stage further. He followed to its logical conclusion the critique of the American economic system and pointed to the struggle by producers, growing more and more desperate, to keep the machine moving by creating needs which are expanding far less vigorously than the capacity to meet them. The fickleness

By

Thomas Balogh

of the consumer grows as income and consumption expand and the effort of interesting him has to be pursued with relentless ferocity. The most modern methods of psychology are used in order to discover a chink in the armour he builds up against the blandishments of the advertiser. Failure means lapse from full employment, collapse of profits and the diminution of the prestige and power of the firms and managers depending on the successful sales of the product. This obsession with production, this drive for a continued increase in productivity, becomes increasingly absurd. As the intimate connection between real needs and production weakens, it is no longer legitimate to accept all production as equally urgently needed. We must look to how the composition of production is determined. References to the "average consumer's sovereignty" or to the "consistency of choice" as the final determinant of our productive efforts have become absurd in the present situation. In Galbraith's opinion, the neo-classical analysis based on scarcity and want must in present conditions give the wrong answers:

"Keynes did not foresee that the rapid expansion in output which was implicit in his ideas would soon bring us to the time when not total output but its composition would become the critical matter. Had he survived, he would no doubt have been perturbed by the tendency of his followers to concentrate

their policy on the single goal of increased output. He did not lack discrimination. But his followers or some of them will almost certainly continue to protect the Keynesian system, with its concentration on aggregate demand and output, from ideas which Keynes might have been disposed to urge. Such is the fate of anyone who becomes a part of the conventional wisdom."

Nor is this all. The preoccupation with production means the abandonment of a balanced approach to society and its requirements. It prevents the setting aside of sufficient resources for those basic needs of the community which cannot conveniently or possibly be satisfied by the market system. Production capacity is pre-empted for the satisfaction of artificially created wants. The mad rush after production even endangers the safety of the State, because taxation for defence is resented and loan expenditure is regarded as ruinous. It destroys amenity because the competitive urge does not embrace collective needs such as education, city planning, rural preservation, the creation of a cultural environment—all these go by the board. They do not yield higher saleable production and are thus neglected. At the same time, the affluence of society produces a fundamental change in politics and weakens the chances of resolving problems. The great issues rallying the progressive parties, inequality and insecurity, lose their appeal. Left and Right are confronted and menaced by the same problems—inflation and the assurance of price stability without unemployment.

The Consumer and the Manager

Here is, then, a revolutionary analysis of the contemporary economic scene, which Professor Galbraith restricts to the United States and those countries which have been afflicted with affluence leading to growing unbalance and unhappiness. That these problems are important and are not merely for capitalist societies based on private property and private profit, is obvious. Once the elementary needs of a community are satisfied they will begin to bother the managers in a socialist State. There, too, members of the most powerful class in society will be confronted with a choice of diminished status for themselves or increased drive for increased demand. We are yet to see whether, once that stage has been reached in Russia—and it may not be so very far ahead—the same mistakes will not be committed there that have been committed in America. And the problem could then only be resolved by central planning, of purposive shifts in employment necessitated by the saturation of demand. It is by no means certain that responsible control, through the government, will be able to deflect the increasing productivity into the channels which have been intelligently discussed and decided upon by the representatives of the community, including leisure, and not by the inter-action between the needs of the manager of any given industry and the gullible public. The fascinating problem will soon arise, as yet undiscussed and probably unrealised, of how to arrange an increase in leisure, an increase in

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A view of the Nangal dam

collective consumption and a relative decrease of material needs.

But even if this particular problem arises in a similar form under socialism, as under private enterprise, there are basic institutional differences which render its solution far more possible (though by no means necessarily probable) than in an individualist system. The first of these is that in a socialist economy, or in the public sector of a mixed economy, all enterprises are interconnected by common collective ownership. The shrinkage of any one can be deliberately controlled and the personnel promoted away into expanding sectors. As there are no shareholders, or rather the "shareholder", the State, owns a great many sectors both expanding and contracting, no one vested interest will be hurt and need not, therefore, desperately protect its interests. But if the managers consider themselves dependent on the success of any particular publicly-owned industry, they will be under the very similar temptation to prolong their prosperity by reverting to the advertising game. These temptations need, even in a socialist State, early and forceful checking.

While the drive for greater production is absurd in the American form, it cannot be explained as a consequence of an outdated economic theory, however important that may be as a rationalisation. It will be continued so long as production is governed by profits and not by needs, and so long as profits do not depend on the satisfaction of needs but on sales, however contrived. This, as we argued, may happen even in a socialist country, but it must necessarily happen anywhere where the whole productive machine is privately owned and fragmented, and where the survival depends on profit. Although large corporations may become increasingly powerful and their interests more diversified (General Motors is no longer merely a motor-car factory but has branched out into all sorts of other enterprises, as have similar British corporations), nevertheless it is hardly likely that their interest will be sufficiently widespread for them to be able to disregard a decline in a large part of their activity and always offset their losses.

Public Ownership

Public ownership would, to a considerable extent but by no means wholly, eliminate the motive for pushing production for its own sake. It would have another and hardly less important effect. One of the increasingly awkward problems of a private enterprise, individualistic system—and not merely in America but in all other countries, poor or rich—is the growing (and cleverly stimulated) resentment of taxation. This means that collective needs cannot be satisfied, because they depend on taxation. But collective needs for education, for town planning and rural preservation are of increasing importance in an expanding cultural level. And this expansion is vital to meet the challenge of the communist countries, where collective needs can be met by the profits of State enterprise or the manipulation of prices.

Professor Galbraith hopes that he can eliminate this particular obstacle in the way of social

balance in a free enterprise democratic system by increasing indirect taxes. In this he merely shows himself under the influence of his American environment, in which agitation has been directed almost exclusively against direct taxation, because it falls upon those who control the Press and other means of mass communication, and because indirect taxes play a relatively minor rôle in federal public finance. But we have seen in countries where a greater proportion of the revenue is obtained through indirect taxation, that large corporations wishing to push their own product inflame their customers against government policy by indicating how much tax there is in the total price, and encouraging the consumer "to write to his Congressman", i.e., to put pressure on the government to cut the indirect tax. Even general sales taxes have not been exempt from this agitation.

Collective Consumption

The difficulty of obtaining means for collective consumption without taxation could only be solved when the public sector becomes large and prosperous enough to be able to shoulder an increasing part of the finance of what might be called amenity investments, while at the same time meeting its own needs for maintenance and expansion. I shall not, in this context, analyse those further difficulties into which Professor Galbraith involved himself as a result of his desire to find a solution within the framework of an entirely free enterprise system. To me, it is

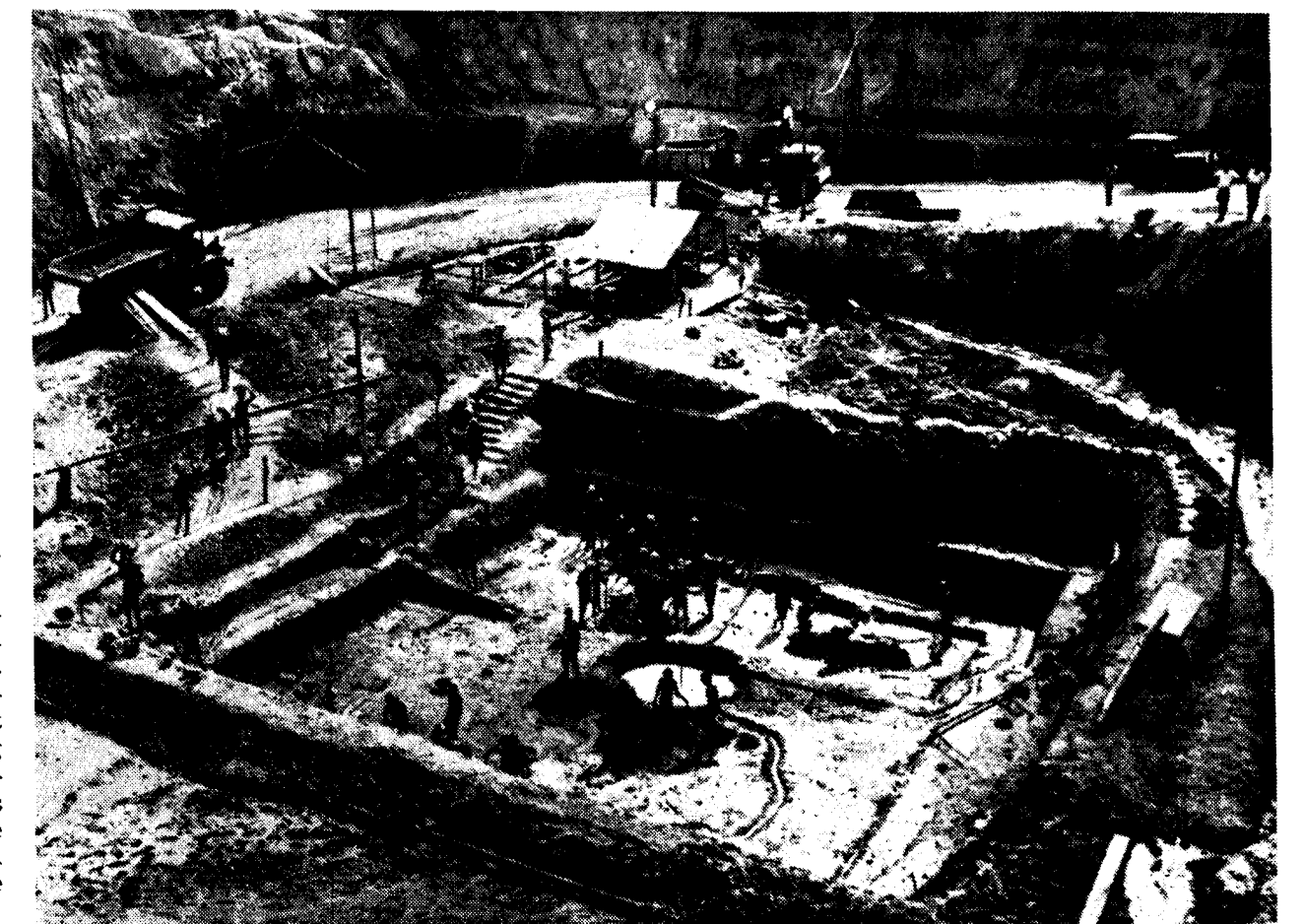
clear that balanced progress and stability cannot be achieved without conscious direct controls, and especially without a conscious income distribution policy and a considerable extension of the public sector.

The point I should like to make here is the same as the one I made in three lectures given four years ago at the School of Economics of Delhi University, which I visited at the invitation of the present Vice-Chancellor, Professor Rao. I pointed out in those lectures that the whole theory of consumer demand is quite inapplicable to poor but quickly developing countries; it is inapplicable because neither needs nor tastes can be assumed as "given". The concentration on the consumers' sovereignty is not less irrelevant as Professor Galbraith seems to think, but more irrelevant in that situation than in an affluent society. Indeed it is in a poor but rapidly progressing society that the classical tenets apply least. The problem of the social cost of change can be disregarded in such a society only at much greater risk than in a rich and integrated one. Obsession with "freedom for market forces" would cause far greater distortion and far greater waste of effort, with far more ferociously unjust consequences, than in a rich country. Indeed, it might well imperil the whole development programme. After all, in these countries development is superimposed on a mainly feudal system of land tenure and agriculture in which the discrepancy between the wealthy and the poor is far more enormous, and where the conspicuous consumption of the former means an immediate impact and weakening of the balance of payments, as the luxury goods which confer most prestige need to be imported.

Administrative Manpower

Some people, like my friend Mr. Kaldor, thought that all this could be remedied by fiscal measures, by a complicated system of taxation. I was always sceptical about this attitude, partly because it implied a disproportionate absorption of scarce skilled administrative manpower on a negative task to enforce the tax laws and to stop the consequently increased tendency to evasion—skilled manpower which ought to be used for more positive measures of economic expansion. I was also sceptical because of the severe disincentive effect if these luxury goods are taxed, and not entirely prohibited, which is implicit with pervasive high taxation. I think it is easier to force people to save and invest if they cannot spend than if they are taxed. My fears have, I think, been justified in the event.

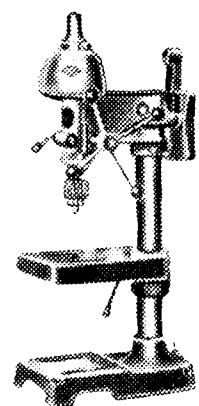
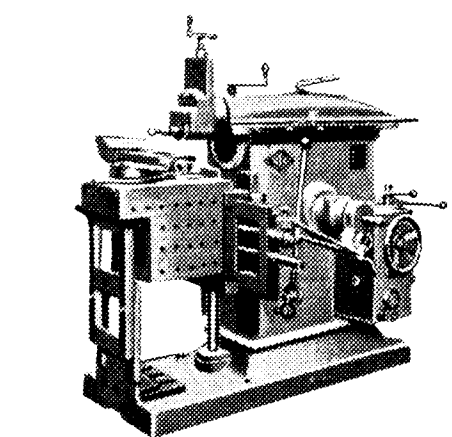
I still feel that unnecessary social exacerbation could be eliminated and imitative competitive spending absorbing scarce resources prevented, if the import, and home production, of certain luxury consumer goods, especially durables, were altogether prohibited. If conspicuous consumption exhausts itself in domestic service and consumer goods produced by handicraft workers—whose production cannot be exported and who are no better suited for employment in public works or in newly-created industries, than people wholly unemployed—it could be regarded as innocuous. It is true in strict logic that the increase in consumption of these artisans and domestic servants, who do not contribute to investment, detracts from total investment capacity. But strict logic



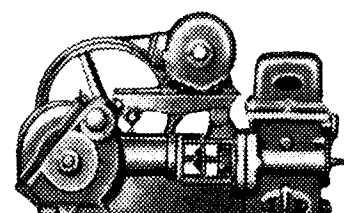
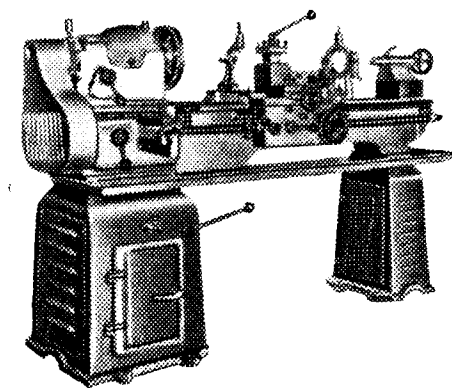
Excavation work in progress for bulk samples at a lignite pit in Neyveli, Madras

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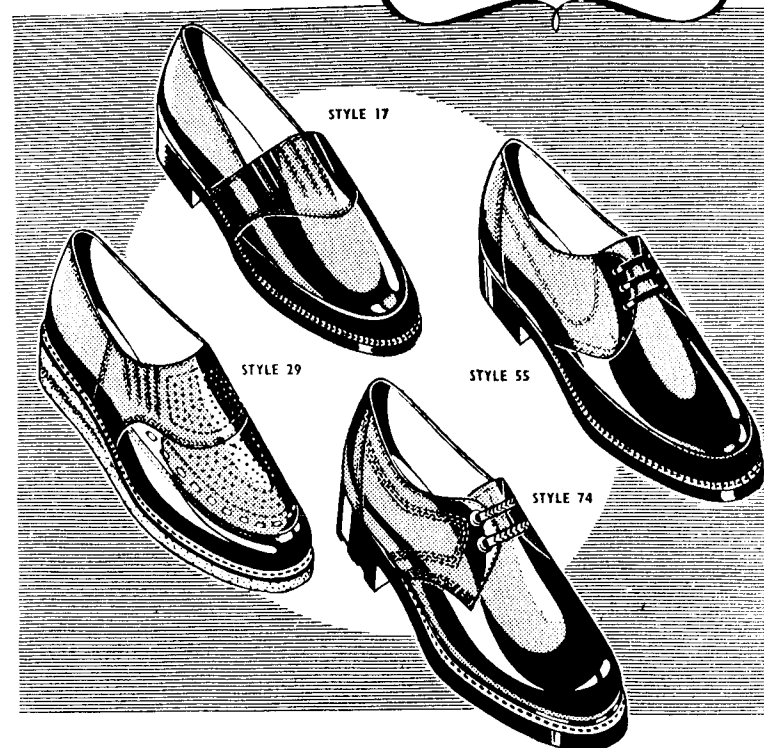


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PROSPECTS FOR THE SECOND PLAN

LIKELY EFFECT OF REAPPRAISAL ON INDUSTRIAL SCHEMES

MUCH is being said and written about the "reappraisal" of the second five year plan which has been necessitated by foreign exchange difficulties and an insufficiency of internal resources. The figures quoted in this connection have generally had reference to financial outlays and not to the physical content of the plan. Yet, the latter is really more important. Since readers of *Capital* are specially interested in industrial development, I shall, in this short article, devote most of my space to examining the effect of the "reappraisal" on the industrial programme. It will, however, also be useful to note briefly the impact in other important fields and I shall begin with agriculture. A word of caution is necessary. We are only half-way through the plan and whatever one can say now will indicate only in a general way the results expected to be achieved.

Agricultural Production

I have written recently in *Yojana* on agricultural production. I shall only mention here that, in recent months, the agricultural programmes—utilisation of irrigation resources, establishment of seed farms and supply of pure seeds, better use of local manurial resources, contour-bunding and other techniques of dry farming—are gaining in momentum. Also, in the last two years the community development movement has been extended over nearly 280,000 villages (as against 85,000 at the end of the first five year plan), and in these much more sustained efforts are being made than in the past in carrying out the agricultural programmes. There is, therefore, every reason to expect that, by the end of the plan period, the targets set for increased production will be achieved if seasonal conditions are fairly good.

"Rapid industrialisation with particular emphasis on the development of basic and heavy industries" is one of the principal objectives of the second five year plan. Through industrialisation, it is hoped to relieve the pressure on the land and achieve a substantial increase in national income and living standards. Basic and heavy industries have been accorded priority not only because of our national advantages for certain of these industries, such as iron and steel, but because these can provide the foundation for further and larger industrial development without undue dependence on external help.

Large Effort

It has been always recognised that the development of this objective requires a large effort which is partly reflected in the strains and stresses through which the economy has been passing during the last two or three years. In terms of financial outlay, the effort envisaged was about 3½ times greater than in the first plan. Whereas the new fixed investment proposed in organised industries (excluding coal and other mineral extraction industries) in the first plan was Rs. 327

crores—about Rs. 94 crores in the public sector and Rs. 233 crores in the private sector—the corresponding investment contemplated in the second plan is Rs. 1,094 crores—Rs. 559 crores in the public sector and Rs. 535 crores in the private sector. The actual expenditure in the public sector may, in fact, turn out to be higher, since in a number of projects the original estimates have had to be revised upwards.

The importance attached to producer and capital goods industries in the second plan is brought out in the following statement which gives the break-up of investment in organised industries.

	Public Sector including new investments of N.I.D.C.	(Rs. crores) Private Sector	Total
Producer goods	463 (615)	296 (275)	759 (890)
Industrial machinery and capital goods	84 (76)	72 (50)	156 (126)
Consumer goods	12 (10)	167 (150)	179 (160)
	559 (701)	535 (475)	1094 (1176)

(Figures in brackets indicate anticipated investment on the basis of present expectations).

Total Investment

Out of the total investment of Rs. 1,094 crores, it will be seen that as much as Rs. 915 crores (that is, over 80 percent of the total) are intended to be devoted to the development of producer goods, industrial machinery and capital goods. As is well known, the expansion of the iron and steel industry is the largest single item in the indus-

By

V. T. KRISHNAMACHARI

(Deputy Chairman, Planning Commission)

trial programme. It is intended to raise the annual output of finished steel from 1.3 million tons to 4.6 million tons—2.3 million tons from the three new steel works in the public sector, Rourkela (720,000 tons), Bhilai (770,000 tons) and Durgapur (790,000 tons), and the rest (2.3 million tons) from the existing steel works in the private sector which are being considerably expanded. Apart from steel, the availability of pig iron is expected to be doubled. With the completion of these projects, the country will not only attain self-sufficiency in a basic commodity but may be in a position to earn foreign exchange by its export. There are also plans for the manufacture of alloy and tool steels and stainless steel which

play a vital rôle in the development of engineering industries.

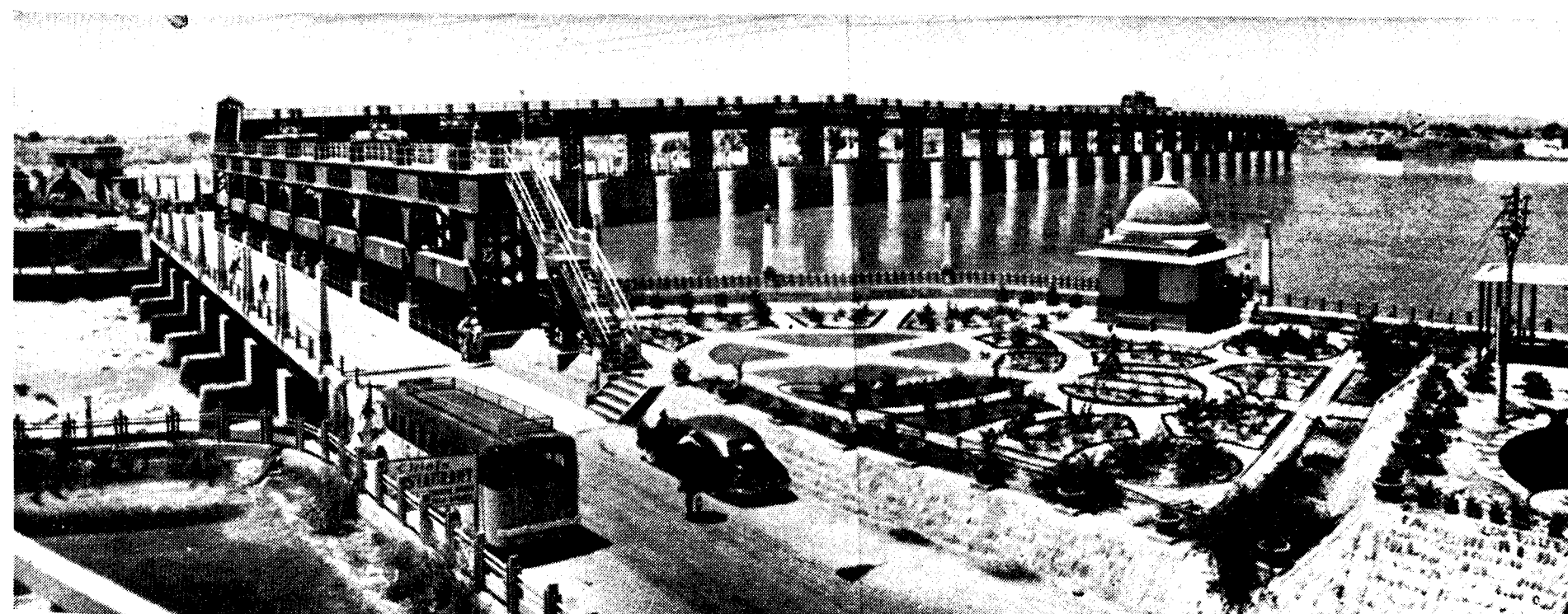
Next in importance to the iron and steel industry, and closely allied to it, is the development of the heavy engineering and machinery industries. In this field, the plan contemplated a complex of projects whose scope has been more clearly defined as a result of studies in the last two years. The major ones are: (i) foundry-forge for heavy castings and forgings; (ii) heavy machine building plant; (iii) mining machinery plant; (iv) heavy plate and vessel works; (v) heavy machine tool factory; (vi) alloy and tool steel plant; and (vii) heavy electrical plant project. It was realised from the outset that it would not be possible to complete all these projects during the second plan but it was hoped to make a beginning on them. In addition, it was expected that in the private sector there would be considerable expansion of engineering establishments and of capacity for structural fabrication of all kinds, including the manufacture of cranes and earth-moving equipment, cement-making machinery and machinery for such industries as cotton and jute textiles, sugar, tea and paper.

Dyes and Drugs

Another basic project to which importance was attached was that for the production of intermediates required for the manufacture of dyes and drugs. It was proposed that this plant should be set up under the National Industrial Development Corporation, an agency established in 1954 for pioneering new enterprises, while the further processing of these intermediates might be left by and large to private enterprise. An expansion of the heavy chemical industry was also envisaged, almost entirely in the private sector, as also of capacity production of another of the important producer goods, namely, cement. In the public sector, manufacture of fertilisers—a product of industry vital for agriculture—was proposed to be stepped up by the establishment of three new fertiliser plants with a total capacity of 220,000 tons of nitrogen in Nangal, Rourkela and Neiveli and the expansion of the Sindri Fertiliser Factory. As a necessary concomitant of industrial development, plans were drawn up for large expansion of the coal-mining industry in both the public and the private sectors—the target being to raise the annual output from 36 million tons to about 60 million tons.

Foreign Exchange Difficulties

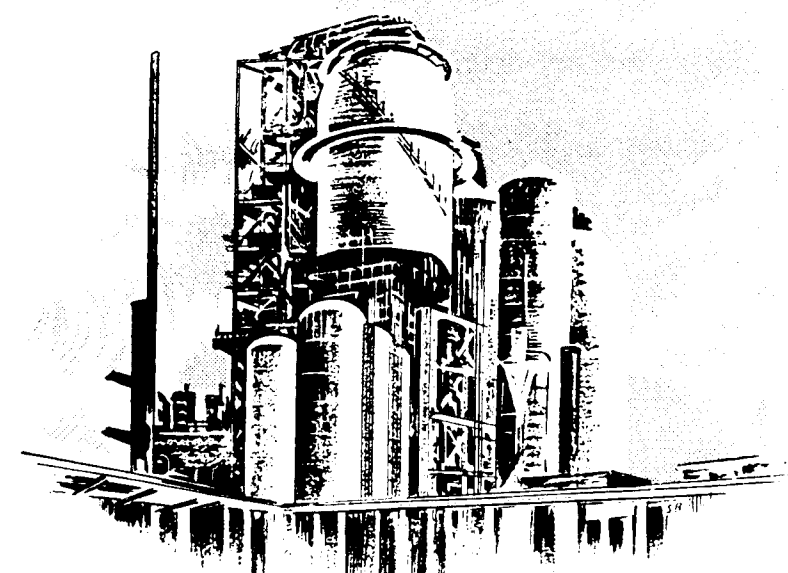
These were the main features of the plan for industrial development designed to lay a foundation which would enable further industrialisation to go forward more rapidly in future. What has been the impact on it of foreign exchange difficulties and to what extent have these necessitated its revision or curtailment? It can be said at once that there has been no need to revise or to



A general view of the Nangal dam and the hydel channel head

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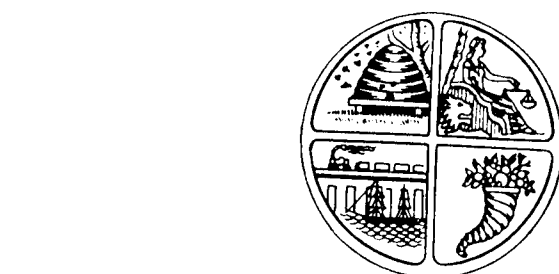
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modify materially the main content and structure of the industrial plan. Nearly all the principal projects are going forward substantially as originally contemplated, though in some instances delays have occurred due to the need to negotiate deferred payments. There was, however, no delay on this account in the case of steel plants and the coal and lignite-mining programme, both public and private. When the seriousness of the foreign exchange shortage became apparent, it was decided that these must be proceeded with according to schedule. They were, therefore, included in what has been called the "core" of the plan and treated as entitled to the release of foreign exchange. Other industrial projects were not included in the "core" and had to be tied up with foreign aid or deferred payment schemes. It must, however, be remembered that for all the big projects in the public sector, technical assistance had in any case to be obtained from outside and the extra time taken in negotiating acceptable financial terms has not been considerable.

Of the public sector projects listed earlier, the plant for heavy machine building and the manufacture of mining machinery are being put up with Russian aid, while Czechoslovakia is giving assistance for the closely integrated foundry-forge project. The electrical plant project is being undertaken with assistance from the British firm of Associated Electrical Industries Ltd, with whose good offices it has been possible to negotiate suitable deferred payments. Negotiations are in progress with the German firm of Bayers for the intermediates plant and with a number of firms for the alloy and steel plant. For all the three fertiliser plants, deferred payment terms have been negotiated or are expected to be negotiated shortly. Thus, the basic structure of the industrial plan remains practically intact and the only major projects in the public sector on which no beginning is likely to be made are the heavy plate and vessels works and the heavy machine tool factory. On the other hand, there have been significant additions to the plans for oil exploration and exploitation. Consequent on the discovery of gas in Jwalamukhi and of oil in Cambay, more funds are being provided for oil exploration than was originally thought necessary. Also, a project for which no provision had been made—a refinery in Assam—is being undertaken with Rumanian assistance and negotiations are in progress for another refinery in Barauni. Similarly, in the field of essential drugs, a major effort to achieve self-sufficiency is expected to be initiated with assistance from Russia.

Private Sector

The supplementary programme in the private sector for enlarging capacity for the production of capital and producer goods is also expected to be substantially fulfilled. The expansion of the steel works in the private sector has already been mentioned and will be fully completed. In addition, a big increase will be achieved in the capacity for structural fabrication, while the manufacture of a number of machinery items, including cement, sugar, tea and textile machinery, and of transformers, electric motors and cables and wires will be expanded or initiated. The capacity for a number of basic chemicals like sulphuric acid, caustic soda, soda ash and primary organic chemicals will be considerably increased. As compared with the original targets, there are likely to be shortfalls in the field of capital and producer goods industries in the case of aluminium, caustic soda, cement and structural fabrication. However, except perhaps in the case of aluminium, the capacity likely to be achieved is expected to be adequate to meet the demand at the end of the second plan.

There is another aspect of the foreign exchange shortage which is of immediate consequence to industry. Its efficient and uninterrupted operation depends on the supply of adequate quantities of imported raw materials, components and essential spare parts. From the beginning of 1957, when foreign exchange restrictions were imposed, allotments of foreign exchange for raw materials, spares, etcetera, have been limited. This has prevented some industries from expanding production as fast as might otherwise have been possible and has caused difficulties to others, particularly to the engineering industries. Every effort is being made to meet these difficulties and the highest priority is being given to what is called the "maintenance of the economy", which includes the maintenance of industrial production at a rising level. It is realised that it has not been possible to meet the requirements of industry to the full extent necessary, but it is believed that the position will ease when the new steel plants begin to come into production and it becomes possible to diminish the large amounts of foreign exchange which at present have to be allotted for the import of steel. Meanwhile, industry is trying to achieve as high a level of production as possible with the limited foreign exchange allotted to it and to make use of raw materials and compo-

nents indigenously available to the maximum extent. Power production will be reduced from the 6.9 million kilowatts anticipated in the plan to 6.4 million kilowatts due to the shortage of foreign exchange. The projects connected with the "core" of the plan, including railway electrification, will be carried through, but those needed to meet the rapidly increasing demands in other areas will be delayed.

Railway Expansion

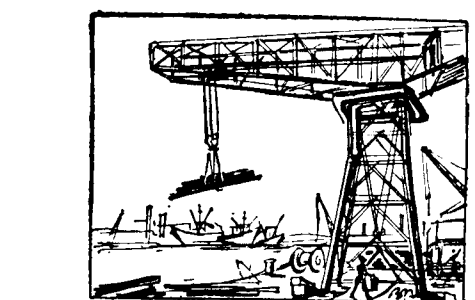
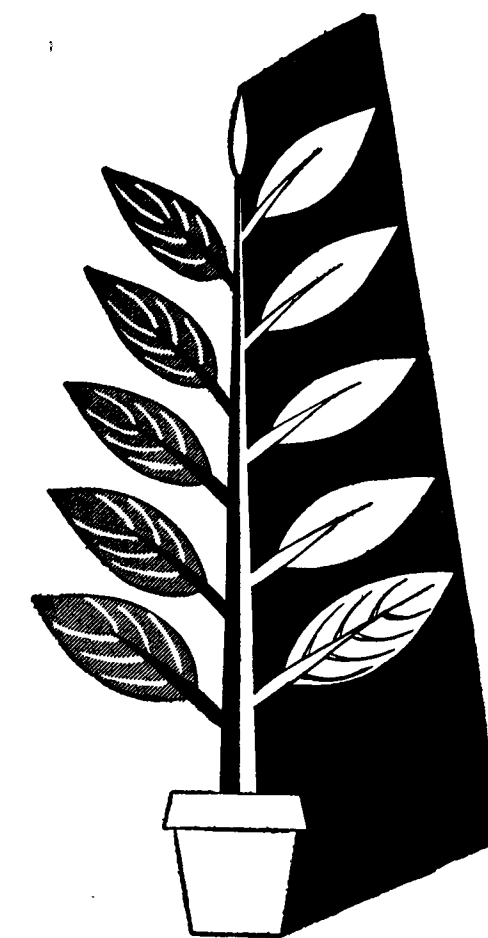
A few words may be said about the railways and the ports. The large industrial plan inevitably makes great demands both on the railways and also on the ports through which so much of the plant and equipment required for new industries has to pass. Care has, therefore, been taken to ensure that, in spite of the shortage of foreign exchange, the main requirements of both should be met in full. Thus the entire railway programme was originally put in the "core" of the plan and the programmes relating to the four most important ports, Calcutta, Bombay, Madras and Visakhapatnam, were similarly included in the "core". According to the original estimate, the total goods traffic to be carried by the railways in the last year of the second plan was 181 million tons. The financial provision of Rs. 1,125 crores made in the plan (of which about Rs. 425 crores was the foreign exchange component) was admittedly insufficient to enable the railways to increase their capacity so as to handle such a large tonnage. It is now estimated, however, that the tonnage to be carried in 1960-61 will not exceed about 168 million tons and it is believed that the railways will be able to carry this amount. They actually carried 132 million tons in 1957-58. The World Bank has provided considerable loan assistance for railway development and this covers a good deal of their foreign exchange requirements. Notwithstanding this aid, it was con-

sidered necessary to review the schemes in the railway plan in order to effect a saving in foreign exchange. Among the schemes which are likely to be postponed or staggered are certain electrification schemes and the metre-gauge coach factory.

Port Development

The plan made a provision of Rs. 435 crores for the development of the major ports of Calcutta, Bombay, Madras, Visakhapatnam, Cochin and Kandla. As already mentioned, the programmes of the first four have been included in the "core" and the ports of Calcutta and Madras have been assured a loan of Rs. 20.67 crores for their programmes from the World Bank. In view, however, of the heavy dependence of the port programmes on foreign exchange, the possibility of postponing some of the items has been considered and it is now expected that the following long-term projects will be retarded: (i) minimum schemes for the Princess and Victoria Docks, Bombay; (ii) dredging of the main harbour channel in Bombay; (iii) equipping of new berths in Kandla; and (iv) formation of a dredger pool for the minor ports. In spite of the likely postponement of some of these projects, the programmes already undertaken at the ports and those which are likely to be taken up will enable the handling capacity to be raised as originally visualised in the plan from about 25 million tons to about 33 million tons.

To sum up, it may be stated that, in spite of the difficulties that have arisen, the important parts of the plan will be substantially carried out and sound foundations will have been laid by the end of the period for future progress. More than anything else, the experience the nation is gaining of the measure of sacrifice large-scale social and economic development demands will be of great value in the formulation and carrying out of future plans.

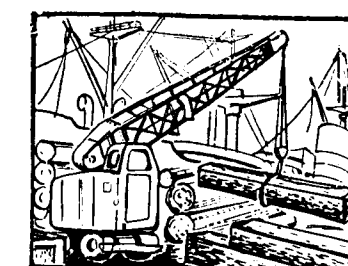


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THE STEADY RECOVERY OF STERLING

DIFFICULTIES IN ACHIEVING CONVERTIBILITY

IT is a pointed commentary on the passing of the years that I can recall a time in the early 1930's when London banks and finance houses were keen competitors for Indian Treasury bills; when, in fact, they could make a bid at the weekly tender, pay the arbitrage costs on their remittance and lend short-term funds, which were presumably of use to India, and still make a profit out of the transaction. I can remember too the flotation of the last of the Indian loans (which were long-term) on the London market, where Indian stock stood high on the list of gilded and approved trustee securities. I trust these glimpses of the past will not be taken to be the amiable droolings of an old fuddy-duddy; I mention them only to show to a younger generation that there was a time—not so long ago—when international capital movements were part of the accepted order of things and a real factor in the life of nations and individuals. Many people seem to think that these movements began and ended with the adoption and subsequent abandonment of the gold standard. They did no such thing; international capital movements *via* sterling, the dollar, the dinar, the franc or the cruzeiro continued without licensing or let or hindrance long after the departure from the gold standard in 1931—indeed, right up to the outbreak of the second world war in 1939 when, as far as the pound and other sterling area currencies were concerned, movements on both capital and current accounts were brought under close official control as part of the economic strategy of victory.

Removal of Restrictions

Since then, the sterling area's policy has been slowly but steadily directed towards getting rid of the restrictions on movements from one currency into another and restoring that convertibility which came to an abrupt end when Hitler invaded Poland nearly 20 years ago. And those who care to recall the straitjacket of controls which were in force at the end of the war in 1945, will agree that we have come a long way on the road to full convertibility in the intervening 13 years. Far more has been done than is generally conceded, and in my view the historian of the future will see the achievement of the past decade in a much clearer light than many contemporary commentators who now argue that because full sterling convertibility on the classic pre-1939 pattern has not yet been attained, postwar U.K. monetary policy has failed in its objective. *Per contra*, it is a measure of the success of British recovery since the war that it is *full* convertibility of the pound sterling which is now the slogan and the goal of policy. Indeed, some quite well-informed forecasters of monetary trends expected the October I.M.F. and World Bank meetings in Delhi to provide the platform from which to announce the final, formal step into complete convertibility. Instead of which Mr. Heathcoat Amory said: "When we judge that the necessary conditions have been achieved, and we can do so without risk, we shall move forward". In some quarters, this was regarded as almost a complete anti-climax. But is it?

Symbolic Importance

In practice, a very large measure of sterling convertibility already exists. For those who do not reside in the United Kingdom and for the Governments of the sterling area, sterling is fully convertible, although at two slightly different rates of exchange. For its holders, what is called "transferable sterling" has for some long time past been convertible through the mechanism of the markets, in which the British monetary authorities regularly intervene to prevent the rate falling more than a fraction below the quotation for the officially convertible "American account" sterling. Thus, in practice, the final act of convertibility for all non-resident holders will be the unification of the rates for the transferable and American brands of sterling and there are some reasons for thinking that it will be of mainly symbolic rather than quantitative importance. In its ninth annual report on exchange restrictions, which covers part of the year 1958, the International Monetary Fund notes that by using the free exchange market, non-resident holdings of

transferable currencies may be converted into dollars at only a small discount and that throughout the year, the rates have been improving and are generally within 1 percent of the official quotations. This is certainly true of sterling, whose strength has been immensely reinforced by the determined use of Bank rate and the credit squeeze imposed in the autumn of 1957.

Full Convertibility

What then are the arguments against taking the final plunge into the only slightly deeper waters of full convertibility? No Chancellor of the Exchequer could afford to say everything that is in his mind on a matter of this kind, any more than a Finance Minister could permit himself to philosophise in public about the possible advantages of a devaluation. But, in effect, what Mr. Amory has said is that in this operation he prefers to wade out and float off gently, rather than to plunge dramatically, into full convertibility. And while he cannot hope to provide against every possible contingency, I think the factors uppermost in his mind are probably the following: the prospect of a general election in Britain must now be measured in months rather than years and if, as has been freely prophesied, a run on sterling were to develop as that event drew nearer, it might be highly inconvenient to have taken on a new and irreversible obligation on the sterling exchanges. Secondly, there will be unusually heavy drawings on the gold and dollar reserves at the year-end (£67 million to meet the service of the U.S. and Canadian credits) and some repayments to be made to the I.M.F. and the Export-Import Bank in 1959. Furthermore, the proposed

By

GEOFFREY TYSON, C.I.E.

increases in Fund and World Bank resources will require that substantial additions be made in gold to the sterling area countries' subscriptions to those institutions. Finally, though the United States has snapped out of her recession, it is not yet proven that Europe has done likewise. These are some of the more obvious reasons why the British authorities must approach the final instalment of convertibility with a due sense of caution.

For sterling is still the most widely used currency in the world; it finances slightly more than half the total movement of world trade, while assets held in sterling constitute a substantial proportion (about 10 percent) of the world's international reserves. For these and other reasons, the pound is exposed to a variety of hazards which, in the ordinary way, have no effect on other currencies. To mention only one factor: as banker to the sterling area, the United Kingdom has to take into account the needs of her clients, some of whom experience sharp seasonal swings in their balance of payments which are quickly reflected in their drawings on London. A recent study of liquidity problems by the staff of the International Monetary Fund notes that shocks to the world economy were much fewer before than in the years since 1914, which is taken to be the date when New York emerged as an international money market alongside of London. It adds: "Developments since 1946 have further increased the importance of New York as a financial centre, but have by no means given New York the same importance relative to London and other financial centres that London before 1914 had relative to all other centres".

Problem of Reserves

It is the problem of the reserves which stands at the very centre of the argument about convertibility. And the I.M.F. study recognises that the problem is both complex and the result of developments over many years. After the second world war, the United Kingdom faced a changed world and had to adapt itself accordingly. And it had to do this with lower reserves, sadly depleted overseas investments, much larger short-term liabilities,

a heavy legacy of wartime damage and obsolescence and a pressing backlog of domestic demand for both capital and consumer goods. In deciding how her surpluses should be used, the task has been to strike an appropriate balance between the claims of home and overseas investment and the need to strengthen the reserves so as to reinforce Britain's position as an international banker and trader.

What that balance should be has recently been a matter of keen debate. There are those who claim that the game of international financier and entrepreneur is not worth the candle, and that apart from shipping and insurance (and possibly banking) earnings, the other activities of what is comprehensively called the "City" (the terminal markets, commodity exchanges, merchant banking, etcetera) consume too much of the national substance for too little reward. The facts are almost certainly otherwise, for a very cautious official estimate put the City's 1956 earnings of foreign exchange at £125 million and they were very probably somewhat larger than that. Furthermore, in producing these earnings, the City runs up virtually no import bill against an average import content of 20 percent for Britain's physical exports. But many commentators with Leftist tendencies would undoubtedly like to see Britain's international financial commitments sharply reduced, and more of her surpluses directed to investment in domestic industry.

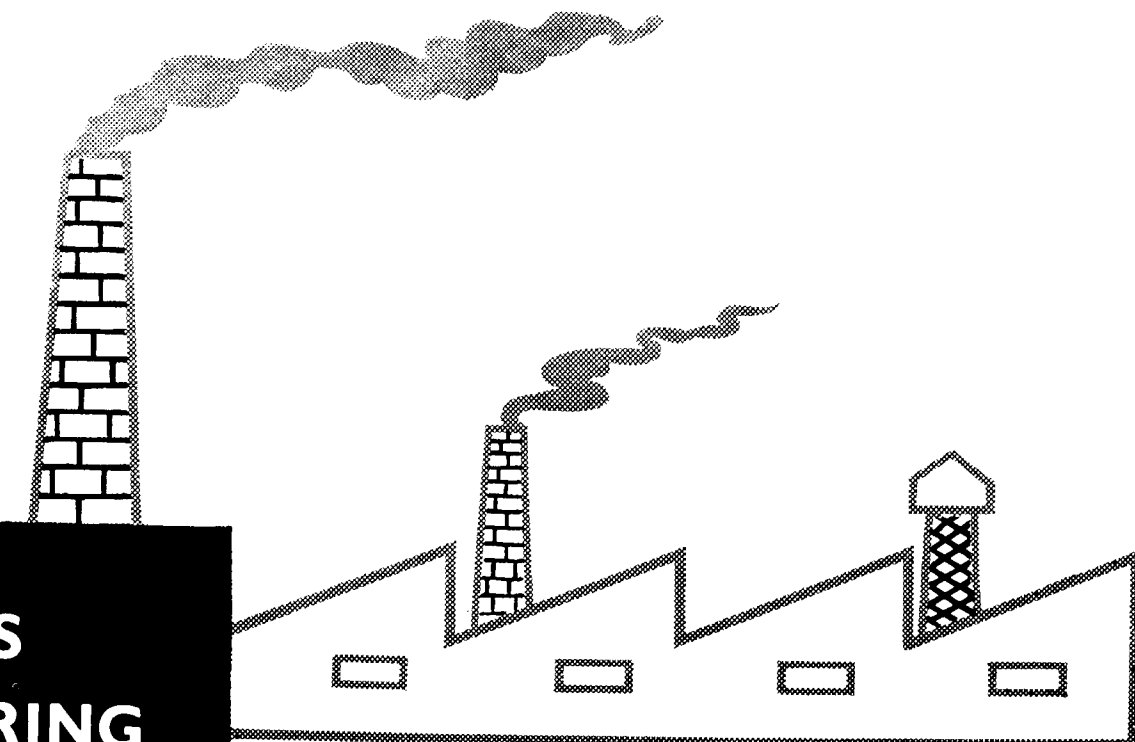
Recovery of Sterling

Be that as it may, the record of 1958 provides ample evidence of a buoyant pound sterling and the efficiency of the monetary weapon in correcting economic ills. Consider the evidence: in September 1957, when a 7-percent crisis Bank rate had to be introduced, the gold and dollar reserves had fallen to \$1,850 million; at the end of October 1958, they had risen to \$3,174 million. The U.K. balance of payments surplus for the first half of 1958 was £334 million, making a total for the 12 months, July 1957 to June 1958, of £488 million, both figures being all-time records. For the first time in this century, Britain's famous trade "gap" was closed, that is, she had an actual surplus of visible exports over visible imports in the first half of 1958; and although the prospects for the second half of the year are not so rosy, there must be a very strong presumption that she will end 1958 well over £400 million in credit on current account with the rest of the world.

Some part, but by no means all, of this has been due to a stroke of fortune in the shape of a fall of approximately 10 percent in the average price of imports. This may have been lucky for the United Kingdom, but it is a short-lived benefit, and British export earnings are likely to fall in consequence unless overseas credits for her customers are stepped up. Some recent measures have this in mind and the cheaper credit for the Commonwealth, announced by the Chancellor at the Montreal conference, is clearly designed to help development projects which will require British capital goods. The downward trend of export earnings is underlined by the fact that in the first half of 1958, sterling area exports, as a whole, were 10 percent lower than in the first half of 1957, against a fall in value of world trade generally in this period of 6 percent. U.K. exports fell by only 3 percent, but the rate of decline later increased and for the period June-September was about 6 percent.

Final Formality

But the October trade figures show a more hopeful trend. U.K. exports to the United States for the first ten months of 1958 show a rise of 12 percent and in October itself reached a record monthly figure of £26½ million. Exports to all markets rose by over £26 million to £266.8 million in October. But whether we can presume the upswing will continue is another matter. It is against this kind of fluctuation in sterling area and Commonwealth trade that the pound must be kept in good shape and the reserves be maintained at a level which will provide a reliable buttress. In such a context, the final formality of making sterling fully convertible assumes secondary importance.



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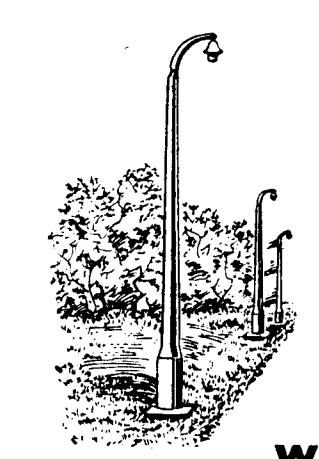
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It is my own belief that private business and investment must play an important rôle in the coming years if the pace of growth in the developing countries is to be speeded on a sound basis. Since the war, there has been a great deal of effort at the governmental level to further development through the planning of general programmes of development and construction of basic facilities. As these basic facilities, like power and transportation, have become increasingly available in recent years, more attention is being focussed on the private sectors of the developing countries and the means by which their potentials can be fully utilised in the development process. At the same time, private business men in both industrialised and developing countries have exhibited an increasing interest in economic development and in their own rôle in the efforts being made to further the development process.

It was very impressive to me, and I am sure to many others visiting India for the annual meetings of the World Bank, International Monetary Fund and International Finance Corporation, to find the keen awareness on the part of private business men of the broad problems relating to India's development and also their active interest in expanding their own businesses and in attracting foreign business and investment to stimulate India's economic growth further. The I.F.C. was formed to stimulate the growth and spread of private enterprise and the flow of private

Second, a participation in the profits of the enterprise. Third, an option to purchase stock or to convert our investment into stock. It will be noted from the table summarising the investments which the I.F.C. has made so far that various combinations of these three elements have been worked out. The Corporation seeks to adapt this pattern to suit the individual proposal.

The I.F.C. is not a source of "cheap" money. If it were, it would directly undercut other sources of private capital, as well as find itself in the position of being unable to sell out its own investment later on. It also seeks initially to find other private capital to participate in the enterprise. Were I.F.C. investments on terms unrelated to the realities of investment, other private capital could never be attracted into any of the ventures in which the Corporation invests. To complete its rôle as a catalyst, the I.F.C. intends to sell its interests in the enterprise in which it invests at some future date when the enterprise has matured and is successful. In this way, it will revolve its funds.

Criteria for Financing

The I.F.C. is neither large enough, nor was designed, to consider the financing of every type of enterprise. Here are four criteria which give

definition to the type of enterprises it considers for its financing:

(a) *Private character*: It will finance only private enterprises. It will not invest in undertakings which are Government-owned or operated or in which a Government participates in the management.

(b) *Location of project*: The enterprise must be located in a developing member-country, including dependent territories. The I.F.C. will not invest in projects located in its highly industrialised member-countries.

(c) *Type of enterprise*: In its early years, the I.F.C. will normally invest in enterprises which are predominantly industrial—manufacturing, processing, mining. The project may be for the expansion or improvement of an existing enterprise, or the creation of a new one.

(d) *Size of enterprise*: In most cases, it is not practical for the I.F.C. to consider an investment in an enterprise whose total assets are less than \$500,000.

The Corporation's own investment will not cover more than half the total cost of the enterprise. Generally its investments range from about \$100,000 to \$2 million. All of its capital is paid in U.S. dollars. So far, its investments have generally been in U.S. dollars. However, the investments,

SUMMARY OF INTERNATIONAL FINANCE CORPORATION COMMITMENTS
(AS ON 10TH SEPTEMBER, 1958)

Country, Obligor, Type of Business	Date of Commitment	Terms	Commitment ¹ (in U.S. dollars)
Australia Duncan's Holdings, Ltd. (Lumber milling)	Sept. 27, 1957	7% interest and additional payments contingent on profits; maturities 1961-67; option on shares.	660,000
Brazil Siemens do Brasil Cia. de Electricidade (Electrical equipment) Olinkraft S.A. Celulose e Papel (Pulp and paper)	June 20, 1957	6% interest; maturities 1962-68; option on shares.	1,000,000 ²
	Jan. 16, 1958	7% interest; maturities 1963-70; option on shares.	957,000
D.L.R. Plasticos do Brasil, S.A. (Automotive parts)	April 30, 1958	7% interest; maturities 1961-68; participation in profits; option on shares.	450,000
Willys-Overland do Brasil S. A. Industria e Comercio (Motor vehicles)	June 30, 1958	7% interest; maturities 1962-65; participation in profits; option on shares.	2,450,000
Chile Empresa Minera de Mantos Blancos S.A. (Copper mining and smelting)	Aug. 20, 1957	7% interest and additional payments related to dividends; maturities 1964-68; option on shares.	2,200,000
Guatemala Industria Harinera Guatemalteca, S.A. (Flour mill)	Oct. 20, 1958	5% interest and additional payments contingent on profits; maturities 1963-66; option on shares.	\$200,000
Mexico Engranes y Productos Industriales, S.A. (Industrial equipment)	Sept. 27, 1957	7% interest and additional payments contingent on profits; maturities 1961-67; option on shares.	600,000
	Aug. 25, 1958	6½% interest; maturity 1960, with provision for extension on modified terms in certain events.	200,000
Bristol de Mexico, S.A. (Aircraft engine overhaul)	Sept. 10, 1958	7% interest and additional payments contingent on profits; maturities 1960-66; option on shares.	520,000
Pakistan Steel Corporation of Pakistan, Ltd. (Steel products)	June 16, 1958	7% interest plus additional payments contingent on profits; maturities 1964-68; option on shares.	630,000
Adamjee Industries Ltd. (Cotton textiles)	July 8, 1958	7% interest; maturities 1964-68; option on shares.	750,000
			\$10,617,000

¹ The investments are repayable in U.S. dollars in all cases except the original Engranes commitment and the Bristol commitment, where 50 per cent of the investments are repayable in Mexican pesos.

² During the year, Siemens revised its expansion programme and requested that the Corporation's commitment of \$2,000,000 be reduced to \$1,000,000. ³ Original commitment was \$1,200,000; \$243,000 was cancelled by Olinkraft as not required.

capital in the developing countries. Although it has not completed an investment in India, project proposals are under active consideration in that country, and I am hopeful that within the next few months some of them will be concluded.

Slow Start

The fact that after 2½ years of operations, the I.F.C. has made 11 investments and has yet to make its first in India, may appear to some to be a slow start. There are a number of reasons for this—time is required to recruit staff, to spread information about the Corporation, and to get through the usual teething problems. But, apart from these, there are other reasons. The I.F.C. is an unique institution. It is owned by 57 Governments, which have paid in its capital of \$94 million, but its purpose—to further development by promoting the spread of private enterprise—makes it non-governmental in its character and operations. The I.F.C. deals directly with private business men and investors without any channelling of contacts through governmental channels. This, in itself, has necessitated much explanation. Any business man can come directly to us either in person, through representatives, or by writing.

Beyond these unusual features, the I.F.C.'s investment pattern is novel in many of the developing countries. When the idea for the Corporation was being developed several years ago, one fact emerged clearly: if the Corporation was to help spread private enterprise and stimulate the flow of private capital, it must be flexible in its approach in order to deal with a variety of circumstances and enterprises in many different parts of the world. The I.F.C.'s investments—and they are investments, not loans—are intermediate between conventional loan capital and share capital. Or, to put it another way, they are loans carrying interest and some right to participate in the profits and growth of the enterprise.

Three Elements

These are the three elements in our investment pattern. First, the fixed-interest obligation, which is usually long-term, say eight to ten years. The rates of interest which we are setting, although some people claim that they are high, are really moderate in relation to the international capital market. And these rates vary, within reasonable limits, according to the particular transaction.

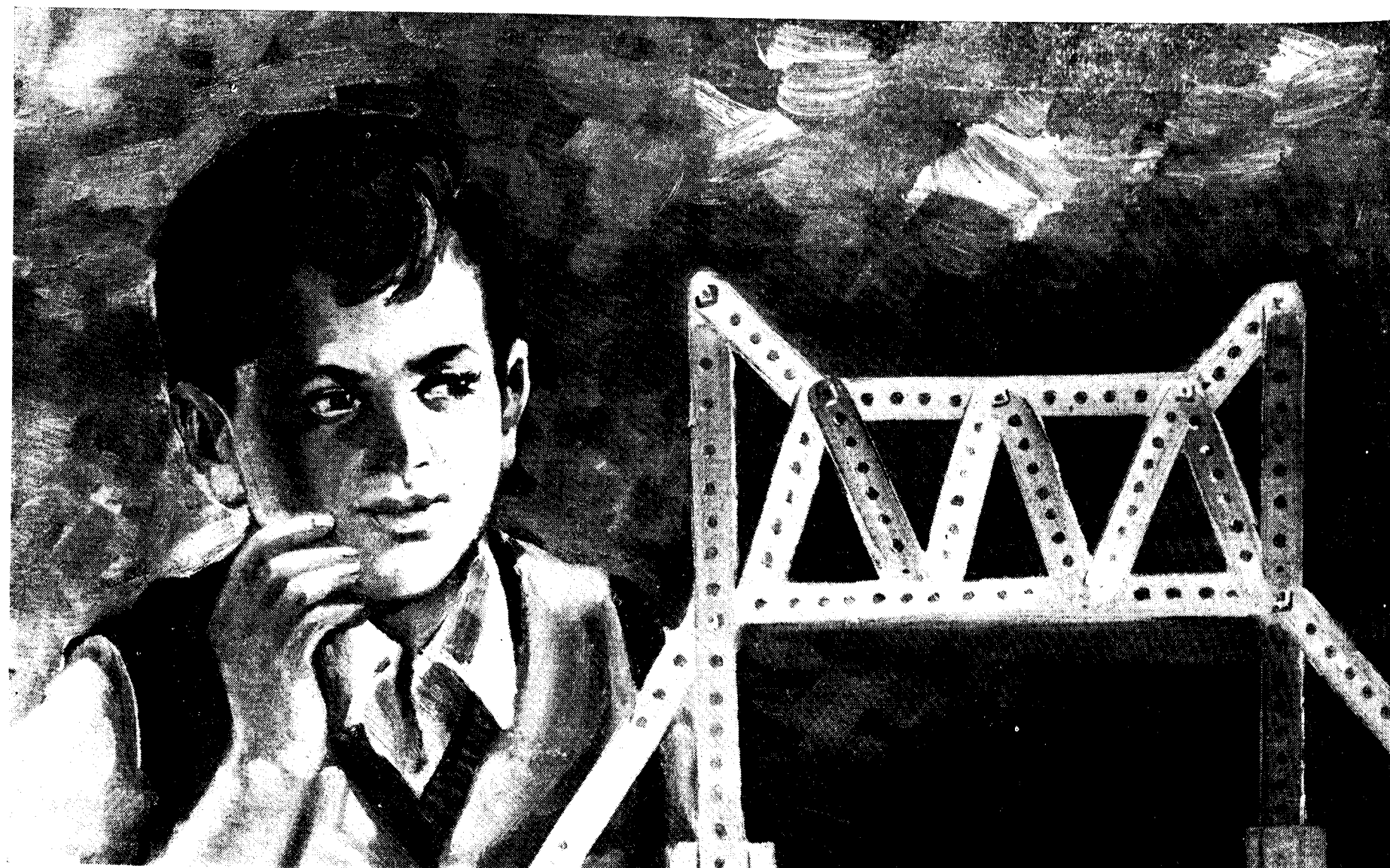
to some extent, may be expressed in other currencies if justified by their stability and by the terms of the investment. But in our early years, we must protect the Corporation against substantial currency losses before reserves have been established.

The I.F.C. is very similar to a private investment bank in its methods of evaluation of investment proposals. We look closely at the arrangements for management, particularly since the I.F.C. does not participate in the management of its investment projects. The sponsors of the projects must know the field in which they operate and must be able to provide a continuity of experienced management. Beyond these considerations, the I.F.C. looks at the physical, financial and economic aspects of the project. Where considered necessary, we require market surveys, engineering

studies and audits. We send members of our own staff to investigate and examine projects as well as using the services of consultants and accountants.

The I.F.C. is doing business with both large and small firms—foreign and local. Some of the companies are experienced in the foreign field and are accustomed to doing business in the financial markets; others are just entering the foreign field or are utilising financing means which are new to them. I would emphasise that the proposals we have under consideration are not from companies desperate for finance. They are from companies who are working out plans for enterprises requiring long-term considerations. Although we have found ways to short-cut many things in this century, it still requires time to plan and organise all aspects of a business.

As I mentioned at the beginning, the I.F.C. has a number of proposals under consideration in India. In discussions recently with officials of the Government of India, we were assured of the Government's desire to co-operate with it in its operations in India. We agreed that, under present conditions, the Corporation's fixed interest rates would not be higher than 7 percent, which in principle the Government of India is agreeable to; the Government has assured us that it will approve financial arrangements between the I.F.C. and its investment partners, and that it will not object to the terms of any profit participations or stock options which are agreed to between the I.F.C. and project sponsors. We have agreed not to consider projects which do not earn or save foreign exchange and to propose investment terms which require repayment only within such foreign exchange earnings or savings.



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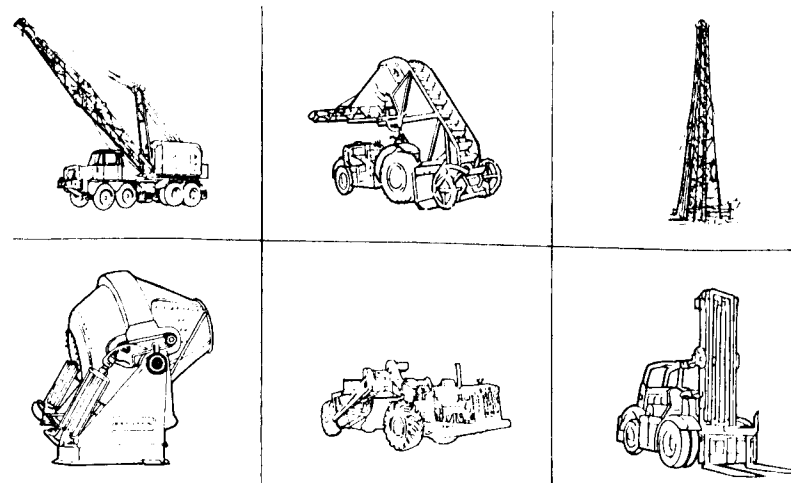
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BACKGROUND TO THE GROWTH OF THE INDIAN OIL INDUSTRY

RECTIFYING UNBALANCE IN CONSUMPTION PATTERNS

THIS is an attempt to express a layman's understanding of a technically rather complex subject; or rather, of the background of facts against which should be set any discussion of the various aspects and problems of the subject of oil—mineral oil or petroleum—in India. The subject has in recent years aroused considerable interest, and is, in fact, of rapidly increasing importance to the Indian economy. Nothing original is attempted, or intended, in this brief essay, which draws upon facts and figures that are available in various publications; nor does it seek to enter into any matter which may be arguable or controversial.

Energy trends throughout the world, including special studies relating to India, as well as the energy requirements of the future, have been receiving the close attention of all those who are connected with the production and use of energy or energy-producing materials. These include atomic and nuclear energy, for which a great future is predicted even by the most cautious and conservative experts, coal, hydro-electric power, mineral oil, wood, and of course the inevitable cow dung in this country. Tidal power and solar energy are yet new fields of study and effort which are receiving careful consideration in many parts of the world. All these studies of the future must consider not only a projection forward of past and present trends, but indeed, and even more important, any serious effort must consider what the world in general, and India in particular, should produce and consume in terms of energy in years to come. If the *per capita* production and consumption of energy, particularly for industrial or otherwise productive purposes, is any index of the standard of living, India figures at or close to the bottom of the list of the countries of the world. The rate of growth in the consumption of energy for industrial purposes is, therefore, bound to increase, and is in fact increasing at a rate considerably higher than in countries which are industrially more developed. For instance, whereas in north America the estimated increase from 1957 to 1958 in the use of mineral oils is estimated at less than 2 percent, increases elsewhere range up to 20 percent, and in some cases even more. This is the increase over one year alone.

In the total energy picture, how does oil figure at present and in the foreseeable future? There has been much discussion as to whether oil and coal are likely to be replaced in the near future by other forms of energy materials. Without going into this particular argument, one may say that there is fair agreement among most people that in India mineral oil and its various products will for quite some time in the future continue to be needed in increasing amounts for industrial and economic development. This, indeed, forms the basis of the planning for and effort towards self-sufficiency in oil.

Wasting Asset

Oil, like coal, is a wasting asset. Nature has produced it through a process lasting many millions of years. Men search for it, bring it out of the earth and use it at a rate which has often tended to spread alarm in certain quarters about the adequacy of future supplies. It is now just about one hundred years since Drake drilled his first well in 1851, and since then nature's reservoir of oil has been tapped and used at a rapidly increasing rate. However, again somewhat as in the case of coal, the experience of the oil industry the world over has been that as more oil has been tapped, more reserves have been discovered. This applies even to the most highly developed oil-producing areas of the world. Undoubtedly, of course, one day the supply of oil must run out, if it is extracted long enough. India, however, is merely at the beginning of her search for the mineral. Without being unduly extravagant in one's assessment, it is fairly safe to predict that it will be found in increasing quantities. She should at least be able to meet her own requirements.

It may help set things in their correct perspective to mention that whereas the total world

consumption of petroleum products in 1957 was of the order of 800 million tons, the level of consumption reached in India was only about 5 million tons: one ton of oil to every 70 people, against the world average of about one ton to every three persons. While the population of India represents one-seventh of the human race, it uses only one part in 160 of the world's total oil consumption. This is a comparison with the world average, and not with the industrially advanced countries.

Oil Geology

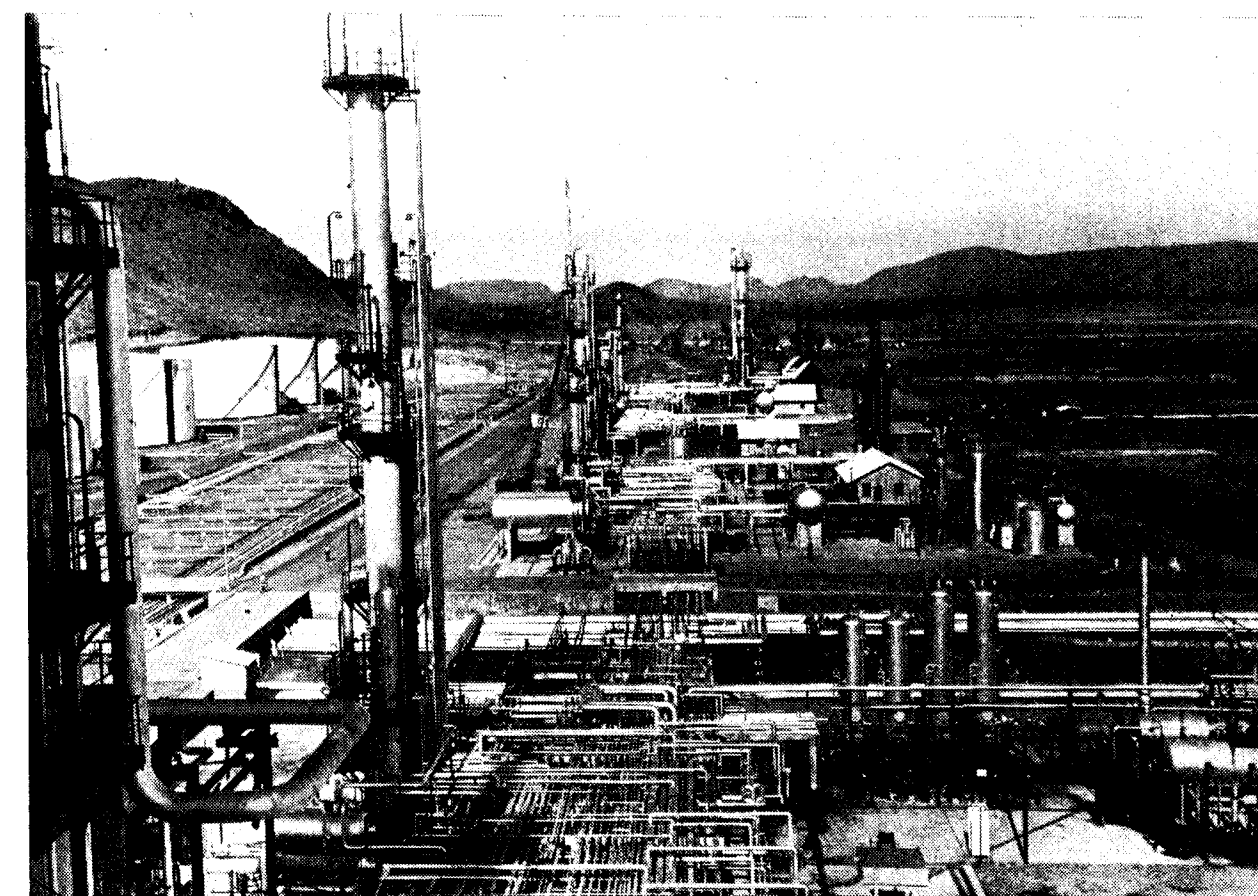
Of the total land mass of India, no less than 400,000 square miles, or nearly one-third of the whole, consist of sedimentary areas. Of this, 30,000 square miles are in Assam, 170,000 square miles lie in the Ganga valley, 70,000 square miles in the Cambay-Kutch region, 47,000 square miles in Rajasthan, and 35,000 square miles are spread along the east and south coast and the Andaman and Nicobar islands. Thus, not only is the total sedimentary area quite large, but it is also well spread out. The only portion where oil is actually being produced is Assam; the remainder still lies virgin, although, as has been reported in the

lubricants, from the thinnest lubricating oil to the heaviest of greases, is very large indeed. Then there is a wide range of petro-chemicals, chemicals derived from oil in its various forms, ranging from fine chemicals to fertilisers, rubber and now plastics. There is bitumen, the importance of which in road-making and water-proofing is well known. Finally, there is petroleum wax, which in the form of candles has replaced the old tallow candles almost entirely, and which may also again in turn be the starting point of new petrochemicals derived from it.

World Output of Crudes

In 1956, world production of crude oil was of the order of 835 million tons; during 1957, it went up to 875 million tons. In 1958, there should be an increase of about 6 percent over the 1957 figures. But the production of crude oil in India is at present just about 500,000 tons, while present requirements are running at 5½ to 6 million tons. The best estimates give a likely figure of 8 million tons required by 1962. When the new production in Assam begins to flow, between 1961 and 1962, an additional 2½ million tons or so should be coming from there.

It is useful at this point to see what constitutes the petroleum industry as a whole and in its various manifestations. The oil has to be found. The early days of "wild-cattling" for oil have given place to a systematic assembling and study of data in the laboratory and of experience in the field, and to evolving scientific methods of increasing precision. The general geology of an area may suggest a closer survey, such as the aero-magnetic surveys which were carried out a couple of years ago over parts of India. These in turn lead to a further narrowing of the search, and in the smaller areas thus selected, an elaborate programme is then taken up. With something like a checker-work pattern covering many square miles, the ground is systematically and painstakingly covered by teams of scientists with instruments that tell the differences in the pull of gravity, and differences in the magnetic pull of rocks that lie far below the surface. Holes are drilled all over the place, again in a carefully designed pattern. Explosives are set off in the holes to produce waves that travel much like earthquake waves, and these are reflected back from the different strata underground in different ways and are carefully measured. All these things provide information about the nature of the various rocks and



The oil refinery in Visakhapatnam

A-I-I.
flies to

LONDON..
everyday via
the Middle East and Europe

TOKYO..
thrice a week via
Bangkok and Hong Kong

SYDNEY..
once each week via
Singapore and Jakarta

JAKARTA..
twice a week via
Singapore

NAIROBI..
twice a week
via Karachi and Aden

MOSCOW..
once each week
via Tashkent

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other features underground, their thickness, and how they lie. With a knowledge of the underground forms and contours so discovered, the oil expert decides whether, where, and how deep to drill. Finally it is the drill, and only the drill, that can tell whether oil lies there in any quantity, or not at all. To drill a single hole to any depth can cost over Rs. 50 lakhs. Many dry holes are drilled for each one found productive. Only a year or two ago, in one of the most industrially advanced countries, in a known oil-bearing area where all the latest scientific and technological aids were duly applied before drilling, more than 100 holes were drilled without oil being struck. But the determination, persistence and reserves to support the work continued, and finally oil was struck, and struck rich.

Effort and Resources

It is thus apparent that the search for oil needs great effort and great resources. It is by far the biggest element of gamble in the oil industry. The industry, no more than any other, cannot and does not operate as a philanthropic mission. It must pay its way, and work for profit, so that finally the end-products of the crude oil and gas must, and inevitably do, contain in their prices an element, and a sufficient element, to provide the means of finding more oil. (New oil must be looked for all the time, and found, as existing producing fields are exhausted; and this exhausting often is a very rapid process). The oil having been found, an assessment is made about its composition (crude oil varies in many ways), the quantities available in the particular field, and the conditions under which it lies (for instance, the pressure under which it lies, and whether in association with gas or otherwise). These processes may take several months or a year or two. It is then necessary to bring the oil out to the surface, by drilling according to a pattern over the oil-field, to tap the reservoir for its oil or for the gas or for both.

At the surface, arrangements have then to be made for the crude oil to flow either through a pipeline or otherwise to a refinery, or perhaps to a tanker which will take it across the seas. The transport of oil, including pipelines, tankers and the attendant equipment and storage, represents one of the main fields of investment and activity in the oil industry as a whole. Pipelines are difficult and expensive to construct and often have to pass over difficult terrain. This is the characteristic, for example, of the pipeline constructed in Iran not long ago, passing over mountainous country. In India, the pipeline which will transport about 2½ million tons of crude oil from the Nahorkatiya oilfield in Assam will also have to pass through a quite difficult region. In the United States alone, well over \$2,000 million is invested in pipelines, whereas over the next ten years, one estimate provides for a further investment of not less than about \$5,000 to 6,000 million for pipelines in the country. The investment in transport is not much less than the whole of that in marketing the products of the petroleum industry, and is almost half the total investment in refineries and petro-chemical plants.

Besides transporting by pipeline, there are large tanker fleets. At the beginning of 1958, the different oil companies were operating about 1,230 tankers with a total tonnage of nearly 19 million tons. There were about 1,500 tankers operated by others, mainly a few owners operating large tanker fleets, with a total tonnage of nearly 28 million tons. Besides these, various Governments were operating about 250 tankers with a total tonnage of just under three million tons. There were at the same time nearly 1,000 tankers being built or on order, of a total tonnage of nearly 33 million tons (an indication of the trend towards larger ships), divided in about the same proportion between the oil companies and the others as is the case with the existing fleets. The tankers, as well as (more recently) pipelines, carry the finished liquid products of petroleum as well as the crude oil. Recently, there has been considerable laying up of tankers, to the extent of almost five million tons, due partly to the recession, and partly to other causes. After transporting, the crude oil has to be refined. There has been a marked trend over recent years to set up refineries as close as possible to the areas of consumption. Oil is not always found where it is most required; in fact, it is one of the wails of the oil man that he finds the oil in the most distant and uncongenial places, while it is consumed thousands of miles away.

Refineries and Petro-chemical Plant

Refineries, as well as petro-chemical plant, again account for a large chunk of the total investment and effort of the oil industry. All the crude oil produced must inevitably be processed in one way or another; so it is easy to see why the investment in refineries and similar plant for processing the crude oil comes to about the same amount as the whole of transport and marketing together. After processing and producing the

end-products of the crude, from aviation spirit and petrol to kerosene, diesel oil, furnace oil, bitumen, lubricating oils and greases, detergents, waxes and a whole array of petro-chemicals, some of which have already been mentioned, everything has to be distributed for use. The distribution arrangements and organisation, including tankage, transport, retailing and the rest represent a further heavy investment.

Four things seem to stand out from this description of the petroleum industry, namely, that it is vast, complex, and vastly spread; that it is a highly integrated and balanced industry; that it involves extremely heavy (the heaviest of all industries) investments; and finally, that all the money in the form of investment and for running the industry, as well as to provide for the necessary margins of profit on the investments, must finally come from the prices of the products.

The history of oil in India began towards the end of the last century according to one account, when the Standard Vacuum Oil Company commenced to market some products in India. Very soon afterwards, three other companies came into the field. The Shell Transport and Trading Company, the Royal Dutch Company and the Rothschilds entered the business in the Far East and in India. For some time, there was considerable competition throughout the eastern market. These three companies amalgamated in 1903 to form the Asiatic Petroleum Company, which subsequently became the Shell Petroleum Company. In 1923, this company merged with the Burmah Oil Company to form the Burmah-Shell Oil Storage and Distributing Company of India Ltd. There were thus two major companies in the field in India, Burmah-Shell and Standard Vacuum, and this continued until 1937, when Caltex entered the Indian market. Meanwhile, the Burmah Oil Company operated separately to distribute the products of the Digboi refinery in Assam. There was the Indo-Burman Petroleum Company, which shifted its headquarters to India during the second world war. Before the last war, there were three Indian companies operating, namely, the Western India Oil Distributing Company, the National Petroleum Company, and the Kutalia Oil Company; of these, only the Western Oil Distributing Company remains in the field in any active degree.

Oil Discovery in India

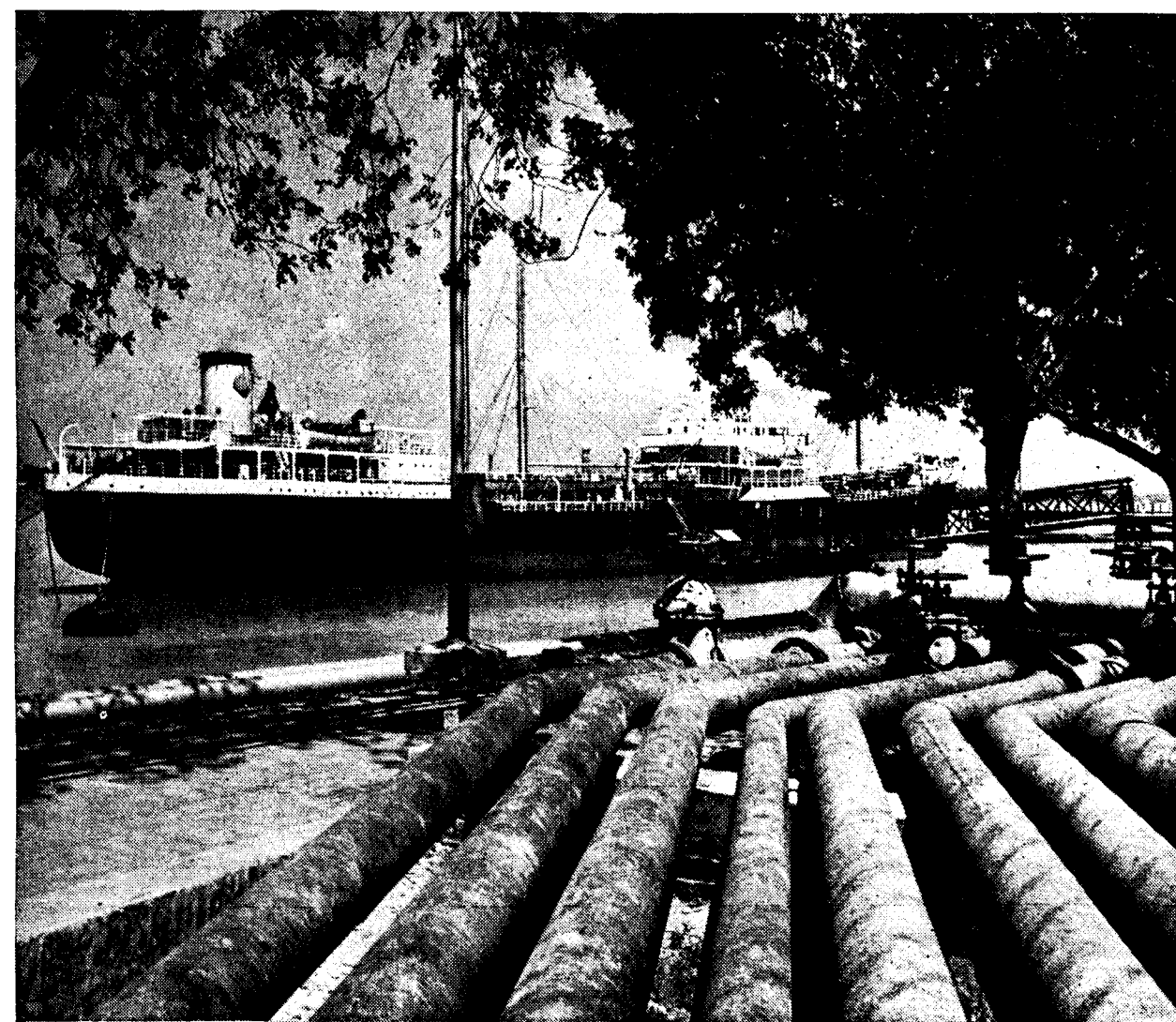
Apart from the marketing operations in India of the various oil companies, the upper Brahmaputra valley in Assam, which was known to contain oil-bearing areas, was opened up when the Assam Oil Company was formed in 1899. It took over the oil interests of the Assam Railways and Trading Company Ltd. A small oilfield was developed in the Surma area in 1915 and lasted for about 18 years before it was abandoned. In 1921, the Burmah Oil Company took over the commercial and technical management of the Assam Oil Company. Prospecting has been going on in the Brahmaputra valley for over 40 years, with geo-

physical and geological surveys and test drilling in a large number of places; and finally, oil was struck in the Digboi field, which is in the extreme north-east of the Naga hills in upper Assam. This field was developed after many borings over a period of about 30 years. The first well in Assam was drilled in 1889. It is said that the first clue to the existence of oil was provided by an elephant which came out of the forest with its feet covered with crude oil. This was in 1856. There were a number of small private concerns doing timber operations between 1866 and 1888. The Assam Railways and Trading Company took over in 1889. The first wells were drilled by hand and were very shallow ones. Once production was established, the Assam Oil Company set up a refinery in Digboi to process about 400,000 tons of oil a year.

In 1953, the Nahorkatiya oilfield was discovered, and it has been proved that this area will yield a production of about 2½ million tons a year, which might increase to as much as 4½ million tons a year. This oil is the subject of an agreement which was concluded in December 1957 between the Government of India and the Burmah Oil Company to set up a concern to be known as Oil India Ltd. and to be registered in India. This new company will develop the associated oilfields of Nahorkatiya, Hugrijan and Moran to produce about 2½ million tons of oil a year, and will establish a pipeline to transport this crude oil from the oilfield to a refinery of a capacity of 750,000 tons in the neighbourhood of Gauhati in Assam in the first stage, and later to another of 1.75 to 2 million tons capacity which will be set up in Barauni in Bihar. Both these refineries will be set up by a wholly Government-owned company, the Indian Refineries (P) Ltd. Oil India Ltd. will be owned two-thirds by the Burmah Oil Company and one-third by the Government of India. For the first stage of the pipeline, to transport crude oil from the oilfields to the site of the first refinery, Oil India will obtain a loan of £10 million from the Burmah Oil Company to cover the foreign exchange element of the pipeline cost.

Stanvac Prospecting Project

In the basin of the Ganga in West Bengal, the Standard Vacuum Oil Company, in pursuance of a participatory agreement concluded in December 1953, under which the Government of India contributes 25 percent of the expenses, has been prospecting over an area of about 6,000 square miles. The present arrangement was preceded by an aero-magnetic survey in 1951 and 1952, and by geophysical ground surveys. These showed that there was a series of gently dipping beds with thicknesses of over 20,000 feet in the central and south-eastern portions of the basin. More detailed gravity and magnetic surveys as well as seismic surveys were begun during 1954. These surveys were sufficiently advanced towards the end of 1956 for drilling to be started, and a series of test wells was accordingly planned. Drilling at the first well site was started in April 1957 and was given up in August that year after reaching



A tanker arriving in Bombay

about 9,000 feet. A second well was started in the same month further west of Burdwan, but like the first, yielded nothing. In November 1957, a third well was begun in Jalangi in a different part of the basin, and by March this year had reached below 9,000 feet. A fourth well was started thereafter. So far, however, all this drilling has not found oil. It illustrates what has been said earlier, that however great the effort and expense, and however much the time spent in applying the best available scientific techniques on the ground or from the air, ultimately only the drill can show whether there is oil or not.

Except for the areas already mentioned, exploration, survey and drilling for oil is concentrated in and through the Oil and Natural Gas Commission which was set up by the Government, first as a Directorate in October 1955, and then as a Commission in August 1956 for this specific purpose, among others. The Commission has been searching and investigating for oil in a number of places, particularly in the Kangra-Hoshiarpur region in the north, the Cambay-Kutch region on the west coast, Jaisalmer and Assam. The Kangra-Hoshiarpur region is considered by some experts to be an extension eastward of the Attock oil area in the west. The marks of this extension are regarded as consisting of various limestone, shales and marine sedimentary rocks, which are the common reservoir rocks of petroleum. The Commission has done intensive drilling in Jwalamukhi, Kangra, going through extremely difficult strata. The final results can only be known when more drilling has been done; the results so far obtained demonstrate the existence of sands and rock strata of the kind which may be expected to contain oil or gas or both. At one stage of the drilling in Jwalamukhi recently, there was a fair showing of gas. A Rumanian rig has been used for the deep drilling in Jwalamukhi. Rumanian technicians were engaged to operate the rig, and also to train Indian operatives.

The Jaisalmer area in Rajasthan as well as in the Kathiawar, Kutch and Bikaner regions, the jurassic rocks of western India, have been found to spread over large areas and to extend northward towards the Salt Range. The recent aeromagnetic surveys over about 17,000 square miles in Rajasthan have provided further information about the depth and the life of the basement rocks. Thereafter, the usual sequence of gravity and seismic surveys which the Oil and Natural Gas Commission has been carrying out will furnish more information about the structure of the rocks below the desert sands.

Find in Cambay-Kutch Area

The Cambay-Kutch area has attracted the determined attention and effort of the Oil and Natural Gas Commission. The usual sequence of surveys enabled the Commission recently to select drilling sites. As the Minister of Mines and Oil stated in Parliament, the drilling near Cambay has given indications of an oilfield there. Still more recently, at another drilling site near Baroda in the same region, some signs of oil have been found. It cannot be too strongly emphasised that between the discovery of the first signs of oil and the "proving" of any particular area or field, a considerable amount of drilling and scientific examination of the data brought up by the drill must be done. The work in Cambay has been carried out with the technical assistance of Russian experts and a rig supplied by Russia has been used to drill there. The results so far obtained in the Cambay-Baroda region by the O.N.G.C. with the technical advice and assistance of foreign experts give cause for cautious optimism at this stage, and justify pushing forward with all available speed and resources to complete the investigation of that area. The Commission has plans for drilling in Assam, and the first drill is expected to start working before the close of 1958. It may be mentioned that in the northern region,

besides Jwalamukhi, the Commission has also been drilling near Hoshiarpur.

Three Modern Refineries

Somewhat over 30 years after mineral oil first appeared on the Indian market, the first refinery in India was set up in Digboi in 1929 by the Assam Oil Company, with a capacity of about 400,000 tons a year. Although by present-day standards, this is a rather small capacity for a refinery, it was the first pioneering venture, and made possible the refining in India of the crude oil which had been discovered in Assam. About 35 years later, between 1954 and 1955, by which time the requirements of petroleum products of all kinds in India had gone up to several million tons a year, three new modern refineries were built, by Burmah-Shell and by Standard Vacuum in Bombay, and by Caltex in Visakhapatnam. These are all now in full production, and the country is now, at its present level of requirements, self-sufficient in motor spirit and in furnace oil. Indeed, there is an excess of these two products.

The Burmah-Shell refinery in Bombay has a capacity of over two million tons a year. It produces motor spirit, kerosene, diesel oil and furnace oil, besides a quantity of bitumen. The Standard Vacuum refinery, also in Bombay, adopts a rather different process, with a somewhat similar pattern of production, but without bitumen. This refinery has a capacity of over 1½ million tons. The Caltex refinery in Visakhapatnam, the smallest of the three, and the latest to go into production, has a capacity of nearly 750,000 tons, with much the same pattern of production. The three refinery companies have undertaken training programmes for Indian personnel, a feature of considerable importance to the future of the oil industry in India. The possibility has been under examination for some time of using gases from the two refineries in Bombay for the production of fertilisers. If this prospect materialises, it may result in the setting up of a fertiliser plant in Bombay of about the same size as Sindri. But there is still a heavy lag in kerosene, diesel oil, aviation spirit, and lubricants, and these continue to be imported as finished products on quite a large scale. The new refineries in Gauhati and Barauni, which are planned to go into production by 1961 in the case of Gauhati and by 1962 in Barauni, will between them provide additional capacity to refine about 2½ million tons of crude oil. These two refineries have been planned following careful project studies by a leading firm of consultants; and it is estimated that the completion will result in considerable savings in foreign exchange.

The total consumption of the various petroleum products in India has recently been running at about 5½ million tons a year. There is a marked annual increase, and according to present estimates (which may well be exceeded), the country by 1962 will be consuming about 8 million tons a year. The consumption of kerosene in India is the second largest in the world. The 500,000 villages largely depend upon kerosene for lighting, although electricity is becoming increasingly available in many parts. Certain kinds of tractors run on kerosene, while domestic cooking, especially in some of the cities, uses kerosene, although only a small proportion of the whole. The recent developments and trends towards jet aircraft are a new feature in raising the demand for kerosene not only in India but in other countries as well.

Thus, about 100 years after Drake drilled the first well, the world seems to be faced with the same problem as existed then, although in a rather different way. Then, before the internal combustion engine was known, the problem was to get rid of the high volatile spirit content of the oil and to get as much kerosene as possible from the crude. Between then and until quite recently, there was a vast expansion in the use of and demand for the high volatile sections, parti-

cularly motor spirit; in fact, the vast motor-car industry in the United States and elsewhere, as well as the great developments in aircraft until the jet age, were made possible by the availability of motor spirit in great quantities. Now again, the problem which faces the oil industry everywhere is how to produce as much kerosene as possible from the crude oil, and what to do with the motor spirit which is fast becoming excessive to needs.

In India, without taking into account much of the requirements for jets, the demand for kerosene continues to increase by about 10 percent a year; and since the refineries already operating cannot produce all the quantities needed, kerosene continues to be imported, and constitutes a heavy load on the country's foreign exchange resources. Investigations are currently being made to discover ways and means of substituting other fuels for kerosene. For example, the Assam crude oil has a high wax content and in the past it has been quite a problem to dispose of the wax. Now petroleum wax has taken the place of the old tallow candle all over the world; and may well provide, at least in some areas and to some extent, a substitute for kerosene oil for lighting. There are other possibilities also. The rapid dieselisation of motor transport has greatly increased the demand for high-speed diesel oil. In fact in 1957, the demand was no less than 33 percent above that of 1956, an increase which took many people by surprise, including some of those most closely connected with the oil market and industry. According to one estimate, the consumption of high-speed diesel oil by 1962 might be twice what it is in 1958.

While it is true that the proportions of the end-products processed from any particular crude oil in a refinery can be varied, the possibilities for variation are very limited. The ideal state of things would be for the consumption pattern to follow closely the production pattern; but, in the nature of things, this is at present far from being the case. One of the problems before the oil industry today is to achieve the greatest degree of conformity between the production and consumption of the different end-products of crude oil. Indeed, one of the main problems for discussion at the first meeting recently held of the newly-constituted Petroleum Consumers Advisory Council was the unbalance in the consumption pattern of petroleum products. There are several ways that suggest themselves for influencing the pattern of demand in the overall endeavour to achieve a balanced consumption of petroleum products produced in the country, towards a maximum degree of self-sufficiency and towards the use of commodities which are most economically produced. But a pre-requisite is a careful study and assessment of the whole problem.

Natural Gas

A feature of increasing interest in the oil industry is the development and use of natural gas. Weight for weight, crude oil and gas contain much the same amount of thermal energy; and recent developments in several countries indicate a trend towards increasing use of the gas which occurs both by itself as well as in association with crude oil. In India, the possibilities are being investigated at present of using the appreciable quantities of natural gas which will be available in the Nahorkatiya oil area. Natural gas can be used for burning, to produce heat, light and power, and also as the raw material for petrochemicals such as fertilisers. In conclusion, it may be said that India is making a fair start towards building an oil industry based on her own resources of crude oil and natural gas. She is still only just over the threshold, but the prospect is exciting and challenging.

(The pictures accompanying this article are published by courtesy of Caltex, Burmah-Shell, and the Oil and Natural Gas Commission.)

REDUCING THE FOREIGN TRADE DEFICITS

EXPORTS EXPECTED TO RISE AS DEVELOPMENT PLANS PROCEED

IN 1956, the first year of the second plan, India's foreign trade deficit exceeded Rs. 200 crores. In the following year, export earnings covered only three-fourths of the outlay on imports. In the first two years of the plan, India ran an adverse balance of Rs. 600 crores, a figure equal to one year's exports. This is not the first time that imports far outstripped exports. A big deficit appeared in foreign trade immediately after partition. In 1948-49, exports lagged behind imports by as much as Rs. 186 crores. In the following year, the deficit was only a little short of Rs. 150 crores, while in 1951-52 the balance was somewhat more adverse than in 1956. These huge deficits were caused by shortages arising out of Pakistan getting some of the principal sources of supply of raw jute, raw cotton, hides, skins and wheat. The shortages were accentuated by a succession of poor harvests in India. Thanks to wise planning, an industrious peasantry, enterprising irrigation engineers, selective control over imports and a favourable monsoon, a fair measure of balance was achieved in 1953, 1954 and 1955.

Since the beginning of 1956, the big deficit in foreign trade has reappeared. This time, it has been caused by large investments in industrial projects, a phenomenon which is neither unnatural nor peculiar to India. Many other countries seeking to raise productivity or step up national income have gone through this experience. Even highly developed countries ravaged by war have relied on import surpluses to rebuild their industrial potential. West Germany had an annual trade deficit of \$714 million during 1946-49. The United Kingdom's annual deficit during the same period amounted to £450 million, while Japan's exports lagged behind imports by \$344 million a year in 1946-49.

By

K. B. LALL

(Joint Secretary to the Ministry of Commerce and Industry)

A fortuitous combination of circumstances was responsible for the magnitude of India's latest deficits. Unfavourable weather conditions depressed agricultural production, with the result that imports of foodgrains rose again in 1957-58 to the high figure of Rs. 152 crores. At the same time, the programme of investment in industrial development could not be put off. In 1957, India imported machinery worth Rs. 233 crores, as compared with Rs. 4 crores in 1913 and Rs. 24 crores during 1937-38. In 1952, steel and copper cost Rs. 52 crores and Rs. 6 crores only, respectively; the outlay in 1957 on steel rose to Rs. 147 crores and on copper to Rs. 18 crores.

Increased Economic Activity

The last couple of years have witnessed a marked rise in the tempo of economic activity. The annual rate of public expenditure on development, as also of private industrial investment, has been nearly twice the average under the first plan. The succeeding three years will be devoted to building the industrial potential. The programme of investment has had to be curtailed. But if the country is able to carry into effect even the modified programme, capacity in most industries at the end of the plan will be substantially greater than it was at the beginning. Thus, the capacity for finished steel will have risen from 1.3 million tons to 4.5 million tons, for aluminium from 7,500 tons to 20,000 tons, for cement from 7.74 million tons to around 10 million tons, and for bicycles from 600,000 to 1.3 million. Prospects have been designed so as to reduce the dependence of further industrial progress on rising imports. Special attention has, for instance, been paid to making machinery for the manufacture of such important items as jute, textiles, sugar, cement, machine tools and even steel. Similarly, the expansion in the production of caustic soda, soda ash, refractories, dyes, sulphuric acid and cables and wires will help ease many bottlenecks in industrial production.

It is hoped that as a result it will be possible, in years to come, to cut back the outlay on imports, and at the same time to step up the rate of growth in economic activity.

Higher Consumption

For obvious reasons, during this period, it has not been considered practicable to hold consumption down at the low levels to which the people were accustomed when the country was not free. The people have had to be allowed to enjoy in some small measure the first fruits of increased production. The consumption of sugar has doubled, whereas the demand for cotton piece-goods has gone up by over 25 percent. The cup of tea brings cheerfulness to many more homes now, and more and more people are taking to coffee. More are moving about the country than ever before, more children are going to school, more paper is being consumed—and even food habits have changed, including a shift from coarse grains to wheat and rice and increased consumption of fruits, vegetables and vegetable fats. It has, therefore, not been possible to convert production increases into export surpluses. Indeed, the second plan did not provide for any sizeable expansion in exports, export earnings being estimated at an average of only Rs. 593 crores a year.

Changing Pattern of Exports

The actual performance in 1956 and 1957 held out some hope of improving upon the assumed average. This hope has, however, been somewhat shattered by the shrinkage of international trade

in the first half of 1958. On an overall view, Indian exports in the recent past may be considered to be inelastic. But a closer look will show that the superficial impression of stagnation is untrue. The composition and direction of exports has steadily changed. Grains, raw jute, raw hides and oilseeds have practically disappeared from the export list, although these accounted for about half of the country's earnings in the period preceding World War I and a fifth of the earnings in the period preceding World War II. The increase in earnings from a comparatively new item, such as cotton textiles, as compared with 1938-39, has been five-fold. There has been a three-fold increase in the export of iron ore and a 100-percent increase in the earnings from manganese ore. The virtual disappearance of oilseeds from the export list has been balanced by a seven-fold increase in the export of vegetable oils. The overseas sales of coir manufactures have been doubled and a host of new items, mostly products of new industries such as boots and shoes, leather manufactures, pumps, sewing machines, paints and varnishes, have begun to make significant contributions to external resources.

Raising Productivity

With the increased strength of the economy, the capacity to generate export surpluses will grow. But the bulge this time is much bigger and attention has also to be paid to raising resources to repay the borrowings which finance current import surpluses. Some limited progress has been made in agriculture, but yields remain depressingly low. The effort to raise productivity will help

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cut the import bill for wheat, rice, jute, cotton, copra and cashew. At the same time, increased yields will help raise export surpluses of such readily saleable items as oils, oilcakes, pulses, fruits, vegetables, short-staple cottons, tobacco, spices, tea and coffee. The multipurpose projects, such as those at Bhakra-Nangal and in the Damodar Valley, supplemented by minor irrigation works, are expected to increase production, and make it comparatively free of the vagaries of nature. An increased supply of fertilisers will help the cultivator, as will the use of more water and improved implements. Two new fertiliser factories are being planned and many more are likely to be provided for in the third plan. Thus, with greater knowledge of improved practices and better financial and other resources, many more cultivators may be expected to achieve what a small minority, scattered all over the country, has already shown to be within easy reach.

The effort in the factories needs to be concentrated on quality and costs. A sheltered home market has induced many entrepreneurs to overlook these essential prerequisites of industrial progress. But the experience of progressive industrialists has, over the past two years, shown convincingly that Indian industry can be highly competitive. The raw material for many export industries is, or will soon be, available at a low cost. Indian technicians, given the necessary

incentives and opportunity, have shown, as in the Hindustan Machine Tools Factory in Bangalore, that reserves of capacity exist, inferior to none either in productivity or in technical skill. Further, India's geographical position, with ports looking across the seas towards friendly countries in the West and in the East, makes it easier for the products of new industries to be delivered at competitive prices in markets where tastes and requirements are similar to those encountered at home. These natural advantages are persuading a growing number of European and American manufacturers to feed Asian and African markets from the production of their Indian collaborators.

Natural Assets

It is only a matter of years before the country's natural assets will contribute to the growth of its external resources. Industry is slowly gearing itself to cater to foreign markets, and the business community is trying to organise trade in new items. Operators of land, sea and air transport have recognised that anomalies in freights and inadequacies in services should be removed rapidly. It is to be hoped that, before long, Indian goods will be making an increasing contribution to the enrichment and development of countries in Asia and Africa.

With the notable exception of some countries of the Commonwealth, India's trade in 1957 has

been in deficit with almost every country. Imports from West Germany exceeded exports to that country by over Rs. 100 crores, while the difference in the case of the United Kingdom was as big as Rs. 77.4 crores. The balance was in favour of the United States by Rs. 33.4 crores, of Italy, Switzerland and France by Rs. 23 crores, Rs. 16.5 crores and Rs. 18.4 crores, respectively. The European Common Market poses a big question for the future: protectionist trends and bilateral tendencies continue to hamper the inflow from India of raw materials such as iron and manganese ore, mica and shellac, and of simple manufactures such as cotton textiles, gunnies, boots and shoes, leather manufactures and a variety of semi-processed materials, all of which India is in a position to supply on competitive terms.

Two-way Traffic

Sometimes, the preoccupation with a variety of extra-commercial considerations tends to distort the trading pattern dictated by the need for international specialisation. Nevertheless, it is being increasingly recognised by the more industrialised countries that trade is a two-way traffic, and unless countries like India are able to develop fully their inherent capacity to pay for the imports they need, the prosperity of the wealthier economies will itself be placed in jeopardy. It is true that inadequate organisation and lack of enterprise on the part of Indian merchants have not, in the recent past, made it possible for even the available opportunities to be gainfully utilised. For instance, although many of the artistic products of the traditional skills of Indian artisans have captured the imagination of discriminating consumers abroad, the effort to build an expanding network of overseas sales continues to be blocked by organisational deficiencies. Similarly, adverse balances have developed even in building trade with countries such as Russia and China, which seek to organise their trading relations on the basis of bilateral balancing, and the potentialities offered by the growing economies of South America still remain to be tapped.

In days of old, Indians acquired a well-deserved reputation for sea-faring and salesmanship, though in more recent times opportunities for participation in international trade have been somewhat limited. Now, the creative spirit released with the dawn of freedom is impelling even business men to reach new goals of efficiency and achievement. It is only in the last couple of years that the developmental rôle of international trade has been more fully appreciated, and it is hoped that governmental initiative will help private enterprise to achieve the same successes in overseas sales as have been, or are about to be, achieved in industrial production. The growing requirements of consumers at home are no longer being given precedence over the demands from abroad. Over 200 articles have been freed from the shackles of export control and the overburden of export duties has been removed from a very wide field.

New Institutions

Commodity boards and development councils are striving to step up production, improve quality and organise overseas marketing. Manufacturers and merchants are being encouraged to join export promotion councils, which are largely financed from public funds, in an organised endeavour to enlarge opportunities for exports and to build the confidence of foreign importers in Indian products. Indian commercial representatives abroad and the Government Directorates of Commercial Intelligence, Exhibitions and Publicity are addressing themselves to their respective tasks with new vigour. The Foreign Trade Board guides the export promotion effort and the Directorate of Export Promotion makes it easier for prospective exporters to utilise the facilities which are being rapidly got together for their benefit. Lastly, the State Trading Corporation has already had "some success in stimulating private traders, in getting contracts for bulk exports and in helping to organise new exports".

The outlook for months to come may be none too bright, for it is not on India's endeavour only that the success of the effort to improve export earnings depends. But as international trade again begins to expand, prospects will improve. Ultimate success is vitally bound up with similar attempts in other countries to reorientate their economies to suit the requirements of a brave new world, free from want and fear. Attempts are currently being made through a number of institutions and organisations so to order international co-operation in the field of trade and economic endeavour as to promote rising standards of living, effective demand and full use of the resources of different countries. If these efforts succeed, India will not only be able to repay all that she borrows from others, but will also be able in turn to make her contribution to the common quest for a better life.

PLANNED DEVELOPMENT IN A DEMOCRATIC SOCIETY MORE FREEDOM REQUIRED FOR PRIVATE ENTERPRISE

IN the life of a nation as in that of an individual, there are times when a pause is required from activity to appraise the experiences of the immediate past, to consolidate the gains, to draw lessons from mistakes committed in the past and to modify future plans in accordance with such experience. Two and a half years away as we are from the initiation of the second five year plan, I strongly feel that a time has come for such a pause. To trace the source of our present economic maladies, at the risk of being called egoistic, I cannot but refer to a statement I made as far back as February 1957. Addressing the Rotary Club of Surat at its golden jubilee celebrations, I said: "We have made the mistake in trying to have a plan which was unrelated to available resources in the country and the potential credit which could be raised abroad. We have to face the facts. We have to be realistic and cut our coat according to the cloth. We have to revise the plan, so that we do not bring about a disaster in our country. Even at present the whole economy is being subjected to serious stresses and strains."

At that time, this view was described as unpatriotic. It is fortunate that even at this late hour, the foreign exchange crisis and soaring prices of foodgrains have finally awakened the Government of India to the basic fact that ideological considerations cannot supersede economic laws which assert themselves over a long period although, in the beginning, they may appear to have been overcome. Ever since the second plan was formulated, there have been many revisions in the target—from Rs. 4,800 crores in the public sector to Rs. 5,500 crores, to Rs. 4,500 crores and to Rs. 4,650 crores. One is tempted to remark that the second plan has lost its character as a document for the planned economic development of the country and has become almost a detective novel in which the reader is left to go in search of the mysterious figure. I shall deal with only four major factors which are relevant in this context: (1) comprehensive planning; (2) new pattern of taxation; (3) free enterprise; and (4) democracy.

Comprehensive Planning

As there is a tendency to dub all critics of the second plan—I have been one from its very inception—as unpatriotic and as opposed to planned development, first of all let me make it clear that I have been one of the staunchest believers in planned development in this country. Politicians who claim today to have discovered in planning a panacea for the economic ills of the country, need a gentle reminder that as far back as 1944, it was eight business men, of whom I had the good fortune to be one, who prepared a national plan for economic development. That document is known as the "Bombay plan" and aroused, for the first time in the country, considerable interest in planned development.

Planning is no monopoly of socialists or communists. Russia showed some results by a comprehensive system of planned development, but at enormous and incalculable cost to human life and liberty. On the other hand, planning has been successfully resorted to by the democratic countries of the world while preserving individual liberty for their citizens. For instance, the rehabilitation programme in the United Kingdom after the second World War, import-export policies and other regulations in the United States and West Germany illustrate how planning can be used to further the economic development of a nation and to raise the living standards of the common man. But that type of planning is different from comprehensive planning, which was introduced in India with the second five year plan.

Two Conditions

Comprehensive planning can succeed under two conditions. First, democratic institutions should be thrown overboard and every citizen must be considered as a soulless unit in the huge machine of the State. Secondly, the planners themselves should be omniscient. A single mis-

take on their part can cause tremendous misery to millions, although one must hasten to add that planners have always been found to be a very clever set of men who are adept in finding scapegoats for their personal mistakes.

In India, comprehensive planning is neither practical politics nor practical economics. It is not practical politics because the love of the people for democratic institutions is too strong for those institutions to be jettisoned. It is not practical economics because we do not have adequate statistical data which are required for laying down targets, for determining priorities, and for co-ordinating various sectors of the economy. The history of the cement industry in the last few years illustrates the point. Within less than a year of the implementation of the second plan, the Central Railway Minister was complaining in Parliament that certain development programmes under his portfolio were being held up for the lack of cement supplies. There was an acute shortage of the material. However, within the next 12 months, there was such a glut that today one sees keen competition among producers for the sale of cement even to the ordinary consumer.

Fundamental Errors

In a perfect, comprehensive development plan, such fundamental errors like these are inconceivable. I shall not further illustrate the difficulties, nay, the virtual impossibility, of comprehensive planning in a country like India by referring at

By

A. D. SHROFF

President, Forum of Free Enterprise

length to the foreign exchange crisis. Suffice it to say that it was almost a built-in crisis, thanks to the totalitarian technique of physical planning which was applied in the formulation of the second plan. In brief, physical planning means the setting up of targets in accordance with the physical needs of the country and a desperate search for resources later on in order to fulfil them. The foreign exchange crisis, to predict which no astrologer was needed at the beginning of the plan, clearly indicates the folly of physical planning and the dangers of comprehensive planning because in the wake of the crisis, unemployment has increased and the economy has been receiving jolts on several fronts.

New Pattern of Taxation

The subject of physical planning and the search for resources lead one to the so-called new integrated pattern of taxation. Briefly, its implications can be summarised as follows. If you earn annually over Rs. 3,000, you pay income tax. As you go into higher income-brackets, you pay surcharge and super tax. If you save over Rs. 2 lakhs, you pay wealth tax. If you earn over Rs. 36,000 a year and spend Rs. 30,000, then you pay expenditure tax on what you spend. If you give away in gifts sums of over Rs. 10,000 a year, then you pay gift tax. If you are fortunate enough to possess an asset valued at Rs. 50,000 (which would have been worth barely Rs. 12,000 before the second World War) at the time of death, then your successors pay estate duty. Let us ignore indirect taxes for the moment. The implication of this new pattern of taxation is that apart from disintegrating healthy forces conducive to savings and capital formation so badly required for an under-developed economy like ours, the new pattern of taxation places a number of individuals in the unenviable position of having to surrender not only their entire assessable annual income, but also a slice of their capital in order to meet tax obligations.

This is a very serious matter. Apart from the disincentive to saving, and the blow to capital

formation, it goes to the very heart of social stability and progress. It means that taxation, when it is expropriatory in nature, is deemed as moral because the levying authority is the State and the imprimatur of a so-called majority is put on the Income Tax Act. It also means that the most fundamental civil liberty in any society for ensuring stability and progress, namely, the right to private property, is under the direct attack of the State which itself is supposed to guarantee it subject, of course, to social obligations of a reasonable character. Unless the new pattern of taxation is thrown into the limbo of oblivion and a reasonable pattern is devised, economic progress in India will be unnecessarily held up.

This brings us to the rôle of private initiative and enterprise in the development of the economy. In an atmosphere of growing frustration and class warfare—one of the most insidious by-products of the socialistic pattern of society and muddled ideas of Marxian dialectics introduced in a country where by tradition and history social harmony and love, expounded anew in our own generation by Mahatma Gandhi, have been the predominant theme—the right of individuals to display their initiative and enterprise has been severely curtailed. Apart from a number of regulations amounting almost to regimentation, the ideological bias of the second five year plan and the Industrial Policy Resolution of 1956 leave no doubt in the mind of any observer that the State is out to exterminate ultimately the most valuable component of any progressive society, that is, the individual entrepreneur. His rôle—whether as a small trader, or a small industrialist or as the director of a large industrial undertaking—has not been sufficiently appreciated.

Role of Free Enterprise

A glance at India's economic history will convince any fair-minded observer that the progress which this country has made during the last 50 years and which has entitled it to the eighth place among the leading industrial nations of the world is entirely due to the initiative and enterprise shown by private entrepreneurs. All our major industries such as steel, cement, shipping and textiles, owe their origin and growth to the vision, pioneering zeal and efforts of private entrepreneurs. I never tire of pointing out as an illustration the story of our cotton textile industry: "Only about 45 years ago we used to import every year Rs. 60 crores worth of piecegoods from abroad. Now we export cotton piecegoods worth nearly Rs. 75 crores to about 40 to 45 different markets in the world. The very fact that Indian producers should effectively compete abroad with shrewd and established exporters from Lancashire and Japan bears ample testimony to the efficiency with which the textile industry has been built up in this country."

The emotional condemnation of the profit motive may reap rich political dividends, but will never help the economic development of the country. A proper appreciation of profit as the legitimate reward for honest endeavour and as the impersonal indicator and regulator of the needs and demands of the community is urgently required. It is to the business man and industrialist what the ballot box is to the politician. The profit is the final judgment of millions of votes that all of us—whether an industrialist, a worker, a politician or a professional, or what not—as consumers cast for products of our choice. It is only the moral exercise of the freedom of choice that gives meaning to production and to the concept of standards of living. Mere repetition of figures of national income and the fulfilment of targets in the public sector are not indicators of economic progress.

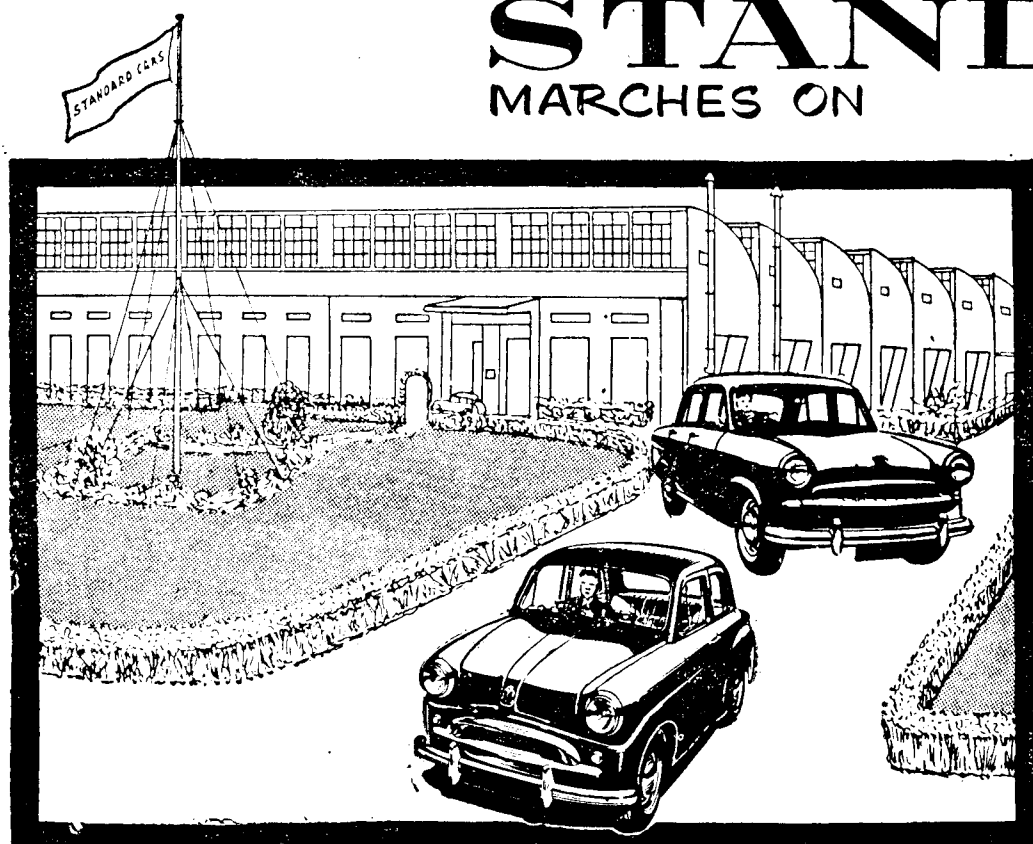
Future of Democracy

The reference to ballot box brings us to the vital question of democracy. It is agreed on all hands that the prime need of the economy is massive development at a rapid pace. It is also agreed by almost all that such development should take



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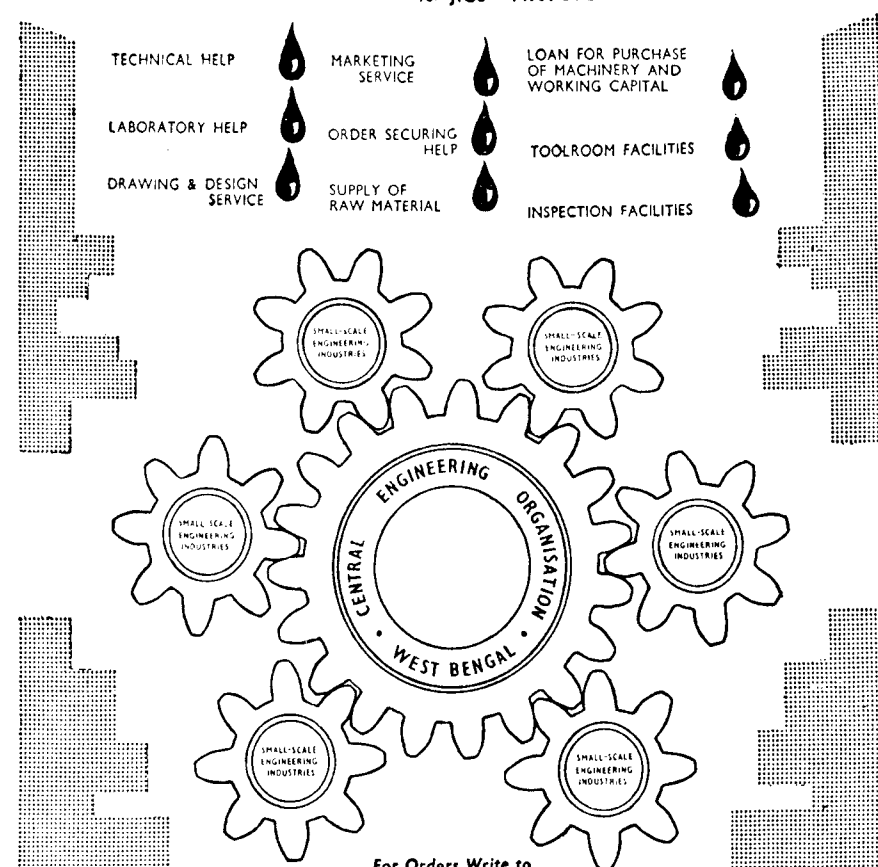
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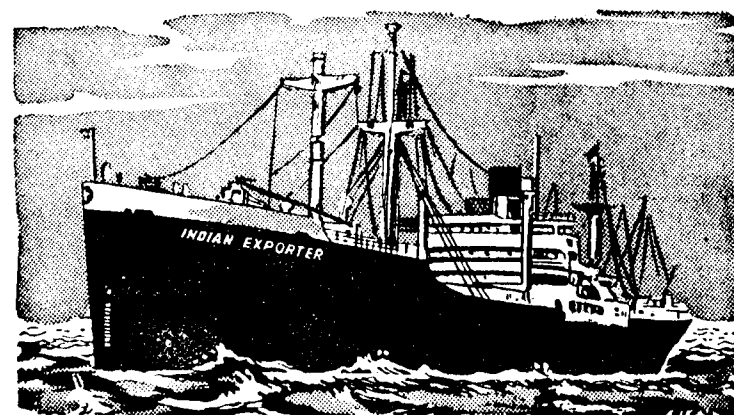
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place within the framework of India's precious democratic institutions which guarantee liberty to the individual. Part III of our Constitution enumerates the fundamental rights which have been seriously tampered with by the amendment to Article 31 making compensation for private property acquired by the State a non-judicial issue. The ideology of the so-called "socialistic pattern of society" is professed to bring about a revolution not only in economic but also in moral life while retaining our democratic liberties. It is necessary to recollect that socialism started as an ethical protest against the inequities of the nineteenth century laissez-faire capitalism. No man in the middle of the twentieth century would hold a brief for nineteenth century laissez-faire capitalism, nor would he dispute the ultimate object of socialists to create the society of the free and equal. But the experience of implementation of socialistic policies in the United Kingdom and other countries proves that the methods adopted by socialists do not lead to the society "of the free and equal", but to the very opposite result. It merely creates the Leviathan of a State and State capitalism. While the paraphernalia of parliamentary democracy may be retained, while all freedoms in the world may be guaranteed in a written Constitution, the substance of democracy will be lost.

Socialist Aim

In an economy where the State commands all avenues of employment and where every individual is dependent on the mercies of the State for his very livelihood, freedoms guaranteed turn out to be a farce because they cannot be exercised. Experience shows that the socialist aim of the society "of the free and equal" can be attained by free enterprise regulated by the State in the interests of society at large. Such free enterprise is not to be confused with nineteenth century laissez-faire capitalism. It is as far away from laissez-faire as socialism is from fascism. Free enterprise has proved to be responsive to the needs of the community. It uses the energy, talent, initiative and enterprise of the individual. It brings into being economic democracy in the form of the most wonderful of all co-operative institutions—the joint-stock companies. It creates various forces in society like management, labour, investors, small and large business men, consumers and producers, all of whom are enabled to contribute their best in a co-operative endeavour within the larger framework of a competitive economy which provides the requisite incentives for production. These forces and counter-forces prevent the concentration of economic and political power in the same hands and as such guarantee the maximum of individual liberty and freedom. Moreover, these forces and counter-forces can create mobility within society and remove all social stratification in course of time.

Individual Liberty

Why cannot our policy-makers throw overboard ideological considerations and release the forces of free enterprise for our economic progress? Otherwise, the obvious result will be that, with the growing public sector, all economic power will concentrate in the hands of the State; individual freedom will gradually diminish to the point of disappearance. It is very interesting to recall the wise words of Mr. R. H. S. Crossman, the eminent British Labourite, who observed: "The State bureaucracy itself is one of these concentrations of power which threaten our freedom. If we increase its authority still further, shall we not be endangering the liberties we are trying to defend? The growth of a vast centralised State bureaucracy constitutes a grave potential threat to social democracy. The idea that one will be disloyal to socialist principles if one attacks its success or defends the individuals against the incipient despotism is a fallacy."

With the growing public sector, forms of parliamentary democracy may remain, but the real democracy which consists in the supreme rule of law will disappear. The fate of the nation and that of countless millions will depend on a handful of individuals who control the State and their whims, wishes, caprices and mistakes will take an incalculable toll of human suffering and misery. As it is, the Bhodan leader, Acharya Vinoba Bhave, has pointed out: "We talk of democracy but actually power and responsibility have got concentrated in the hands of a very few at the apex. Today a handful of people, that is, not more than five or six, have all the initiative and power in their hands. The rest are just yes-men. A small mistake of judgment on their part can destroy and bring misery to countless individuals. The Government has power over the entire life of the people. There is hardly a sphere of life which is absolutely private and personal. This is a dangerous state of affairs."

It is not too late to retrace our steps from the wrong path of State capitalism. Mahatma Gandhi looked upon with dread the growing power of the State. He said: "I look upon an increase in the power of the State with the greatest fear, because although while apparently doing good by minimising exploitation, it does the greatest harm to mankind by destroying individuality which lies at the root of all progress." Recently his one-time secretary, Mr. Pyarelal, has expounded in an article Gandhi's views on democracy and planning. India can be the beaconlight of hope for countless millions of people in the vast underdeveloped areas of Asia and Africa if only the right lesson is taken from the unerring wisdom and insight of the Father of the Nation. Says Mr. Pyarelal in his article: "Gandhi defined democracy as 'the art and science of mobilising the entire physical, economic and spiritual resources of all the various sections of the people in the service of the common good of all.' It would be a negation of democracy, he said, if the Government did everything for the people and the people did nothing, or if the Government prevented them from doing anything they wanted to do. A Government worth the name had to show the nation how to face the handicaps of life through their own collective effort instead of its being effortlessly helped to live anyhow."

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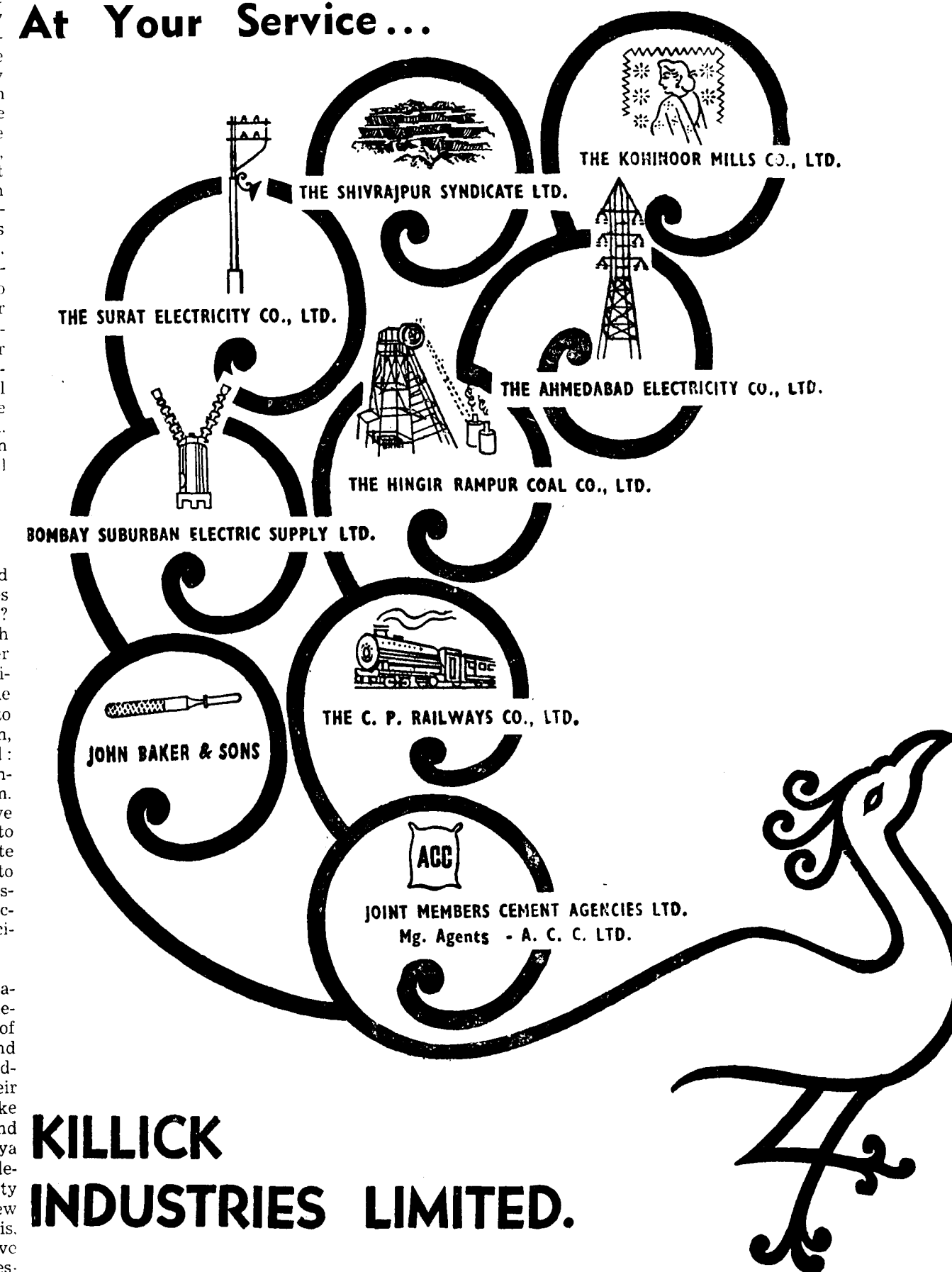
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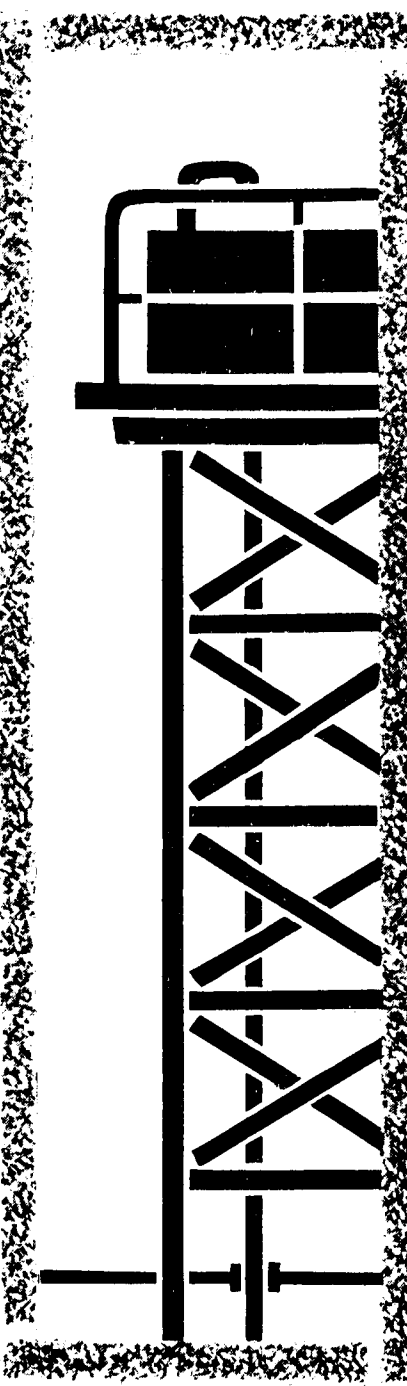
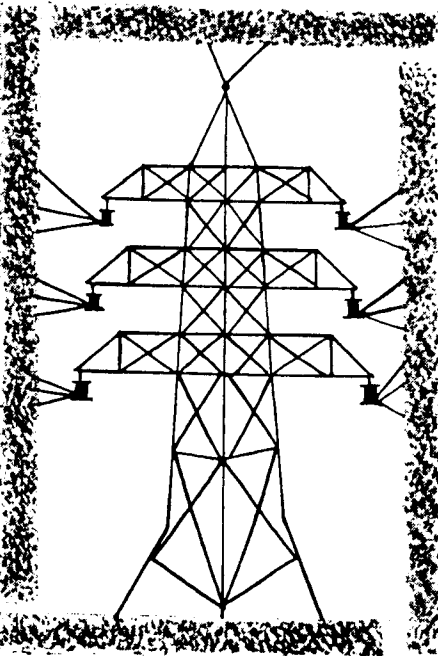
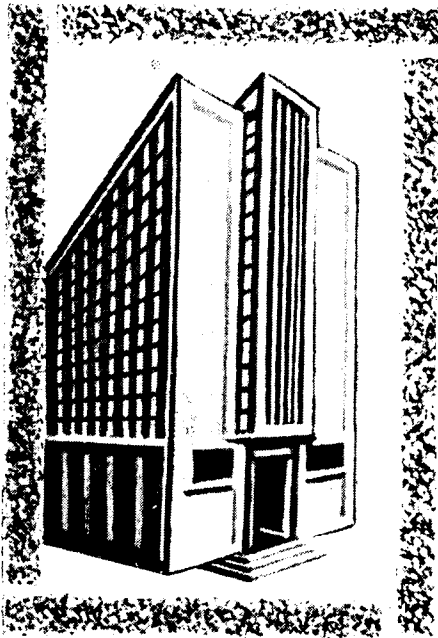
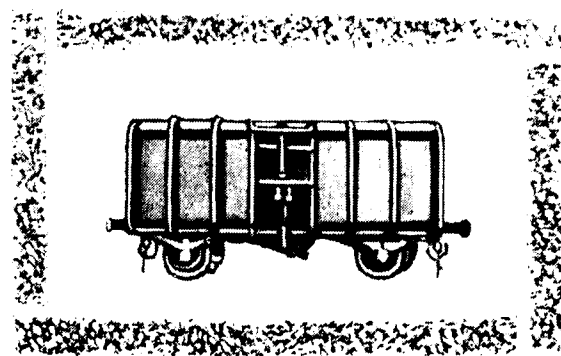
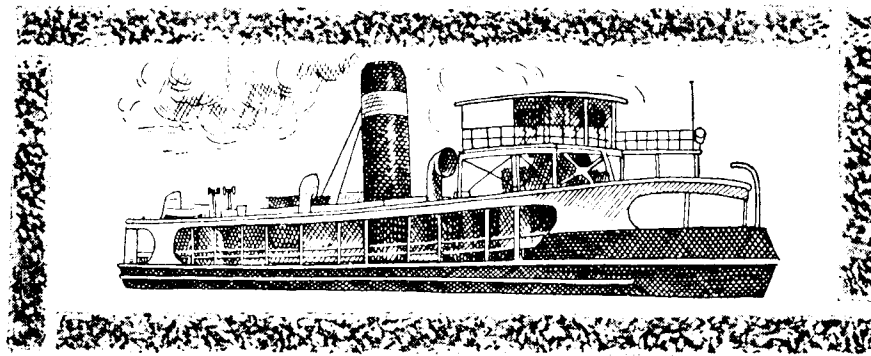
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Growth of Political Democracy in India

Factors Retarding Development

WE have done well, by and large, in the last ten years. As a new democracy, we certainly shine by comparison with our neighbours in Asia. Outside Japan, we can say that our young democracy has functioned as well as and better than most of the new ones in the countries of Asia and Africa. We have a fine Constitution, in the making of which I was privileged to have one-500th of a hand. We have had two elections which were certainly fair and free by the highest standards. We enjoy freedom of opposition. We have the rule of law and our courts are supreme. There are lapses from time to time. Sometimes, ordinances are issued to undo the effect of a judgment of the Supreme Court or a High Court or to legalise illegalities committed by a State Government. Again, some of us might feel that it is something of a stain on our otherwise good record that some of our fellow citizens like Sheikh Abdullah or Mridula Sarabhai should not enjoy their political freedom and at the same time not be called upon to face a trial on specific charges which they can meet. But these are only blemishes on a good record.

Now, what are the main problems which beset our attempts to build a sound democracy in our country? The very first that strikes one is the nature of our electorate. The fact that the large majority of our voters are illiterate is a fact which cannot be ignored and is bound to colour the working of our political life and our entire system. Its effect on politicians, on their behaviour, on the level of their activities and functioning is quite obvious.

Lack of National Unity

Another major handicap from which we suffer is the absence of an adequate degree of national unity. When the British left the country, we were a nation in the making. During the last ten years, some people might have thought that we are now a nation in the breaking. The fissiparous tendencies which are manifesting themselves, whether they be linguistic, provincial, regional, religious or caste, are a disturbing symptom and often raise the question whether this country will be able to hold together in the way we would like it to. The common bond of unity, that of opposition to foreign rule, having disappeared we find that our national unity and solidarity are not as well forged as we imagine they were.

Then come difficulties which derive from the fact that we do not enjoy a long democratic tradition—one of exercising democratic rights, of enjoying civil liberties, of asserting the rights of the individual against society and also respecting one's obligations to the latter. This manifests itself in two somewhat opposite or contradictory ways. On the one hand, we have a tradition of hero worship, of an acceptance of parental or Governmental authority, of a too easy acceptance of authority. That comes of our own indigenous tradition of autocracy which preceded British rule and also of a too ready acceptance in the early years of the *Ma Bap Sarkar* that the British provided. This tradition results in a continuance of hero worship that is nowadays called the cult of personality. Even if it is devoid of the brutality and the terror with which the cult is associated in Russia, the fact that without any threat or coercion, people subordinate their judgment too easily to that of a beloved leader is not a very healthy sign in a democracy. When Gandhiji used to say to us that this country had to learn to say "no", he was naturally thinking of the foreign rule with which we were then faced. But I wonder whether we can say we have learnt as a country how to say "no" to those who may be chosen by ourselves to be in authority. One finds too much of what George Orwell has called "double think" or "double speak" among people who are the élite of the land and represent the people at various levels. We need to develop a greater degree of what in Britain is called the non-conformist conscience—the ability of the citizen, even if he is in a minority of one, to say "this is what I believe and I shall stand by it", and to suffer the consequences for it in the spirit of a true *satyagrahi*.

Cult of Personality

While on the one hand there is the cult of personality and submission to leaders without

adequate discussion, on the other we find an extent of indiscipline in our public life which is absolutely appalling. This has many manifestations. There is student indiscipline. More recently, we also have become aware of trade union indiscipline. Illegal strikes are normal in our country and nothing very much happens to those who lead them, so there are more illegal strikes encouraged by the immunity the trade union leaders who ignore the law enjoy. This kind of indiscipline permeates almost every aspect of our national life.

Technique of Satyagraha

Mahatma Gandhi taught us very good lessons in the technique of *satyagraha*, of how the spirit or conviction of one man or a group of people can face a mighty dictatorship. The spirit of Imre Nagy and Pal Maleter in Hungary, of Milovan Djilas in Yugoslavia, keeps alive the tradition of Mahatma Gandhi against much more brutal authority than we ever had to face in our country. But how can *satyagraha* be used against the freely chosen Government of one's own country or State? The only alternative in such a situation is to educate the electorate to throw out the Government which one does not approve of and to replace it with a Government nearer one's heart's desire. There is no conflict between what I have said about the cult of personality on the one side and indiscipline on the other. These are only two sides of the same coin, because true discipline and true non-conformity go together.

By

MINOO MASANI

Member of Parliament

Gandhiji in his own person embodied this combination of true inner discipline and the most fearless defiance of authority. You cannot have one without the other. When you have an absence of true discipline, you get totalitarian regimentation, which is the obverse side of the coin. Anarchy and dictatorship are but the same thing turned inside out.

Lack of Balance

In a parliamentary democracy, the party system is important. In India, we have political parties, but I wonder whether we can say that we have a real party system, such as is needed by our political democracy. There are two ways in which our party system is lacking in balance. The first is the lack of proportion between one party and the other parties. Because of the historical reason that one party was the spearhead of our struggle for Independence and of the fact that it is led by a very popular figure with mass appeal, that party is strong out of all proportion to the strength of the other ones. We, therefore, have, at least in most States and at the Centre, a rather lop-sided parliamentary system. In our Lok Sabha, for instance, I believe there are about 365 Congress M.P.s, one for each day of the year, while all the Opposition put together numbers about 135. Now this is not a balance which is normally good for democracy. I think a little more balance, with 35 or 40 percent in Opposition, is a very good thing—even for the Government of the day. It keeps the latter on its toes, prevents it from becoming flabby and complacent, and stops it from becoming arbitrary and unresponsive to public opinion. It is on its mettle; it fights for its existence. This is what the lesson of the British Parliament and other free parliaments is. When the Opposition is too weak, not only does the Government suffer but the former also suffers. The Opposition becomes irresponsible. If I know that for the next 20 years there is no chance of my having to carry out the promises which I make to the electorate or to public opinion, then I can make very tall claims and I know that I shall never be found out because the time is very distant when I might be put to the test. Alternatively, if I feel that there is no chance of my upsetting the present Government, however much I try, then I might become frustrated and bitter.

I would know there is no chance for me, so I would become abusive and irresponsible and try short-cuts of the kind with which we have become familiar. So a lop-sided party system makes for irresponsibility on both sides.

The other way in which our party system is lop-sided is that it is not well balanced in ideological terms. We now have in Parliament three political parties, each of which claims to be "socialist" or professes a socialist programme. We do not have a single party which takes what may broadly be called a Liberal stand—one based on enlightened individualism. In the rest of the free countries of the world, there are strong elements which are opposed to socialism. We have the Republican and Democratic Parties in the United States, the Liberal and Conservative Parties in Britain, the Christian Democrat and Liberal Parties in all the Continental countries, many of whom are in a majority. The fact that no Liberal or Conservative or centre party exists, which is non-socialist, is in my view a weakness of our democracy.

The Industrial Class

There are people who say that that is the fault of our industrialists and business men. They should support a party which would reflect their enlightened self-interest. The industrial class is certainly one of the elements which should help in throwing up such a party. The landed peasantry is another class whose interests are bound to be affected adversely by socialism. The peasantry of all free countries is anti-socialist, because ownership of land is dear to the peasantry and a consistent State socialist policy will endanger private ownership of land by the farmer. It is a sign of the backwardness of our industrial class and of our peasantry that such a party or parties have not come into existence. The burden of forming a non-socialist democratic party in India will, therefore, have to fall on the shoulders of intellectuals—middle-class people who happen to believe in certain values which they think are endangered by a Marxist or a State socialist ideology.

One of the consequences of this absence of an alternative democratic party is that discontent with the Government of the day goes into wrong channels. Every Government must create discontent as it governs. People will say: "It is time for a change". There is a kind of law by which public opinion gradually swings against the Government of the day, because they are bound to do things which upset various sectors of society. In India, because of the absence of an effective alternative to the democratic socialist party in office, most of this discontent happens to go to the Communist Party. One would not have any objection to this if the latter were a genuine political party. But the Party in India, as of any other country, is not a genuine political organ. It is the apparatus of a foreign Government. It is a projection, or fifth column, or Trojan horse, of a foreign Government. It will not exist for one year if that Government disappears from the face of the earth. It will change its name within 12 months of the end of the communist dictatorship in Russia. But as long as there is one such dictatorship in Russia, there will be a Communist Party in every country of the world where the Kremlin can afford to have one.

Communist Party

As long as Moscow must have its own apparatus in India, the Communist Party is not an Indian political party. For one thing, it does not believe in democratic processes in spite of the Amritsar thesis. By its very nature, it believes in a one-party dictatorship. If it ever comes into supreme power, it will establish such a dictatorship in India as in any other country, whatever its professions may be. It is interesting that, even in Kerala, which is a subordinate State, where the police and military power is still not in its hands except in a small way, this essential nature of the Communist Party is breaking through the Amritsar thesis and the professions of the Chief Minister of Kerala. Whether it is the helplessness of the Cabinet to control the rank and file or whether it is double dealing, one does not quite know. The fact, however, remains that the

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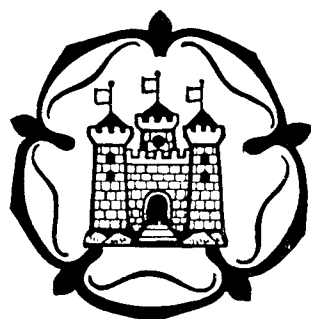
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average Communist Party member in Kerala cannot change his nature. This comes out in two ways—the domination of the Party over the State or the subordination of the State apparatus to that of the Party.

This is something which is so inherent in communism that every day attempts are made to put pressure on officials, to transfer judges, to change text-books. In other words, the Communist Party cannot change its nature. Its real nature comes out because the communists believe that the State is only an instrument for carrying out party purposes. This comes of Lenin's thesis *The State and Revolution*. Similarly, the communist cannot tolerate opposition, however much he may profess it in the Lok Sabha where he is in a minority. Where he is in a majority, as in Kerala, even momentarily he cannot tolerate opposition. This comes out in the assassinations and beating up of political opponents. A party like this, which is totalitarian in essence, is a threat to democracy. The fact that it is tolerated, is made respectable, given office and also the fact that in the absence of another democratic opposition party, the discontent is apt to polarise or channelise itself into communist channels is another great danger to India. The question arises whether the enemies of democracy should be allowed to use democratic processes for the purpose of destroying them.

Lofty Promises

The last problem, though by no means the least, is on the plane of economics. It has been said that newly-independent countries like India are going through a "revolution of unsatisfied expectations." While fighting for Independence, we, in our enthusiasm, held out to the people a picture which more or less suggested that if only the British went, everything would be beautiful. One imagined that the land would be flowing with milk and honey as soon as the exploiters left. Now, looking back on it, we must admit that we over-simplified the matter. We held out this picture of an immediate change-over from poverty to prosperity; and now people hold us to our word. Our intelligentsia, which is the natural leader of our people, is so corroded with materialism and secularism that it encourages this discontent. Instead of trying to reverse the mischief done and telling the people the fact that there can be no prosperity and equality overnight, that it simply cannot be done, we try to devise plans to tell the people that we shall find short-cuts to prosperity or equality. When we should tell them that materialism and material rewards are not the only important things in life, we ourselves become so materialistic-minded and so inclined to scoff at spiritual values that we lose the right to tell the less-informed people that man does not live by bread alone.

So a kind of new religion of materialism or secularism with its own superstitions is created—superstitions about "pulling ourselves up by our boot-straps" which is as much a myth as anything known to the old religions. "Getting even with the rest of the world", "catching up with the rest of the world" are myths which the student of economics knows cannot be fulfilled. Prosperity, as the Prime Minister nowadays reminds us, is the result of hard work, well-directed effort, increasing productivity, whether it is in agriculture, industry or business. But we have allowed our people to feel that by a planned economy we can find a short-cut, that somehow that method will give us quicker results. We are trying to fight the economic law which Sidney Webb, himself a socialist, described as "the inevitability of gradualness". Whatever system of society we may adopt, the progress towards prosperity or equality will be slow. It will take many decades to show marked results. If our leaders will only develop the courage to tell the people this, I, for one, believe that our lower middle class and our peasantry have the intelligence and the patriotism to accept it. So long as they see some small improvement and some hope for a better life for their children, they will be prepared to accept a measure of power and inequality in their own life-time.

Inevitability of Gradualness

Sidney Webb's doctrine of the inevitability of gradualness has been proved after his death by no country as well as by Russia. It is simply not true that the condition of the people there has improved materially in the last 40 years as a result of the Revolution. Two things have happened. A great deal of steel is produced—most of it goes into the making of jet aircraft, tanks and guns—and literacy has spread. But as far as housing, transport and consumer goods are concerned, and that is what the standard of life is measured by, there has been little improvement in the last 40 years. Collective farming has kept Russian agriculture among the most backward in the world. The yield of Russian farms an acre and a man today is lower than it was in 1913 under the Czar, and

lower than it is under any peasant economy in eastern Europe. As for equality, when Mr. Mikoyan, the Czar of Russian industry, came to Delhi in an interview which I remember having read in the Press, he confessed what many of us had known for the last ten or 15 years—that inequalities in Russia today are excessive. It is known to anyone who takes the trouble to find out that the difference between the pay of a Russian worker and a manager is greater than that in the United States, that the difference between the peasants' standard of living and that of a prosperous author or film-star or ballerina is much more than that between the most fabulous author in the United States or Britain and the poorest people in those countries.

Inheritance in Russia

During the last session in Parliament, we passed the Estate Duty Bill. When a communist member got up and said that the tax was too low and should be increased on people leaving Rs. 50,000 to their wives and children, I got up and asked a question to which, of course, there was no reply. I said: "Why does the communist member want us to follow America and Britain—these wicked capitalist countries? Why don't we follow the Soviet Fatherland? Let us impose whatever duty there is on inheritance or estates of people dying in Moscow." I said my honourable friend would not accept that advice because there was no inheritance tax or estate duty in the so-called communist society and every day Russian millionaires died leaving millions of roubles to their children and families and not one rouble was paid to the State.

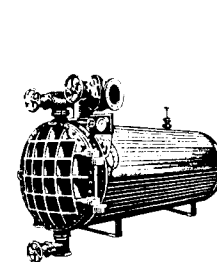
Instead of a classless society, what you do is to create a State capitalist monopoly which destroys political freedom. If any further proof is wanted of that, I would refer to the book by Milovan Djilas, the former vice-president of Yugoslavia, called *The New Class*, in which he describes how, in trying to create an equal society,

a new capitalist class has been brought into existence which is more ruthless and more exploitative than the old. For writing that book, Djilas is today serving a ten-year sentence of imprisonment.

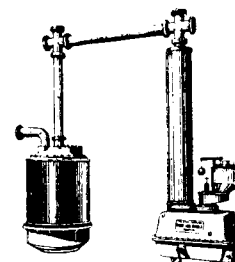
Checks and Balances

Our Constitution has very valuable checks and balances. But they can only exist as long as there also exist in society checks and balances to absolute power. If in society there are no classes which can stand on their own feet, if all of us become employees or servants of the State, then even the most democratic Constitution cannot preserve these essential democratic liberties. When Stalin died and Khrushchev, the new Stalin, tried to make a scapegoat of the old man by saying that he was a wicked tyrant and that was why things went wrong, Mr. Aneurin Bevan, a left-wing socialist himself, contradicted this analysis. He said it was not true that Stalin became all-powerful because he had a lust for power. He said Stalin became a wicked dictator because power was centralised in too few hands. In other words, though Mr. Bevan may perhaps not admit it, it was the nature of the Russian system of State capitalism—involving the abolition of private property in land, in industry and in business—which created the objective situation in which a Stalin could come to power. As long as that situation remains, we shall have Stalin II in Khrushchev, and perhaps Stalin III after Khrushchev goes.

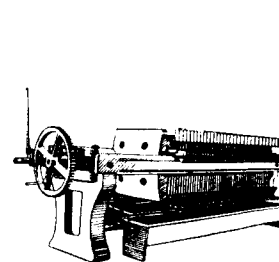
As long as there are in society peasants who own their land and are not the serfs or the tenants of the State or any other absentee zamindar, as long as there are the middle classes and a capitalist class which own factories and businesses and shops, as long as there are independent lawyers and doctors and professional men, a democratic Constitution is safe. But abolish the free professions, do away with business and industry, put an end to the system of peasant proprietorship, and even our wonderful Constitution will not preserve liberty for long.



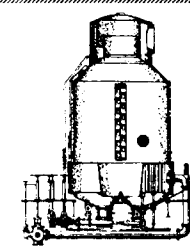
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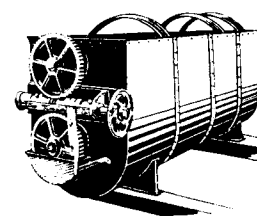
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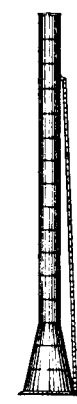
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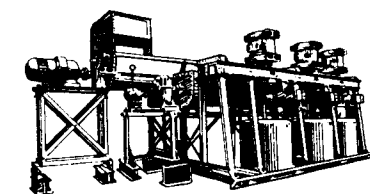
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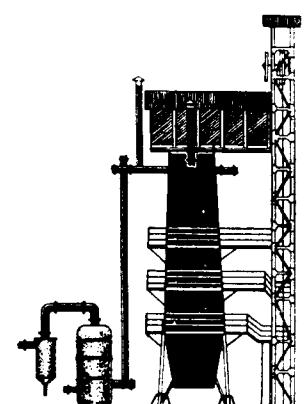
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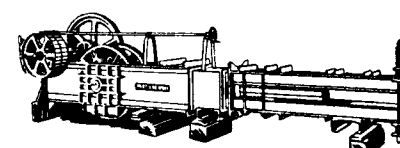
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Causes of the Decline in Foreign Private Investment

Changes in Borrowing and Lending Economies Since the Pre-1914 Era

HERE has been much discussion in the last decade of ways to increase the volume of foreign private investment, and yet the amount of private capital that has actually been placed abroad remains disappointingly small. Its total value, for all countries, has been estimated at about \$500 million a year, and of that far and away most has gone to one industry, oil; only very small amounts have been invested in other industries in the under-developed countries. Although U.S. Congressmen continually come up with plans to promote it and although the principal lenders—the U.S. and West German Governments and the World Bank—are dogmatically attached to its expansion, most economists are resigned to the impossibility of renewing in the contemporary world the flow of private capital that was achieved in the half-century before 1914. On the one side, the potential lenders mentioned are officially "liberal" and profess to believe in the special and pre-eminent virtues of private capitalist enterprise in promoting economic growth. On the other side, almost all the potential borrowers in Asia and Africa are "socialist" and have framed plans for economic growth that leave a small and uncertain rôle to private capital, either native or foreign. A senior U.S. official has declared: "The State Department is not disposed to favour large loans of public funds to countries not welcoming our private capital"; the Congressional debates on Mr. Truman's Point Four saw a string of witnesses, mostly official, pleading that private capital should constitute the main form of aid to backward countries; Mr. Stassen called this "an axiom of the foreign economic policy of the U.S.A."; Mr. Eisenhower says that the explicit goal of that policy is "to encourage the flow of private investments abroad"; and this has been the theme of the Gray Report, the Rockefeller Report, the Bell Report, the Paley Report and a dozen other such documents. As for the possible borrowers of this insistently offered private capital, we can repeat today what the authors of the Montagu-Chelmsford Report said in 1918 in a sad but masterly understatement: "There is evidence to affirm that the Indian intellectual has not learnt to appreciate the advantages of foreign capital".

Greater Flow

Getting away from official declarations and national plans, to the actual practice of offerers and seekers of international capital, we find that there is considerable general agreement about the desirability of a greater flow of foreign private investment. For example, Indian planners will deny that the "socialist pattern of society" implies any systematic hostility to foreign private capital, and will say that they would be only too happy to see the movement of such funds reach the proportions evoked in the above American declarations. And an Indian business man travelling in the West will encounter vast sympathy, and widespread general interest, in the possibility of investing privately in his country. But this agreement on generalities is misleading, and is belied by the limited movement of private capital in actual fact. It is not uncommon for men to approve a thing in general terms but to object to almost every particular instance of it. In this case, it turns out that both offerers and seekers of foreign private capital pose conditions to its investment which make any extensive movement of funds impossible. The offerers demand a very strict set of circumstances, somewhat evasively called "a suitable climate", before they will venture their capital. The seekers demand an equally strict set of conditions before they will consent to receive this capital, conditions usually expressed by some reference to national interest, plan requirements or public sector reservations. The objections of both sides are, unhappily, cumulative; that is, one party's "climate" does not suit the other party's "plan". The upshot is that the volume of foreign capital migration is quite small (outside the special case of oil) in an age that talks more about it than ever before in history. Much of this talk, admittedly, is at cross-purposes.

It would be useful, therefore, to set out, in an orderly way, the real causes for the decline in the

rate of foreign private investment, even at the cost of repeating some quite familiar facts among others not so familiar. By the real causes of this decline I mean the factors, both objective and psychological, that have in reality reduced the flow of international equity and which continue, and will continue as far as we know, to impede that flow. I am not "arguing against" foreign private capital, even if some of the limiting factors I shall point to are arguments against it which are accepted by many people in under-developed countries. And I am not pleading for the removal of "obstacles to private investment", even if some of the factors I shall point to are regarded as perfectly arbitrary impediments by people in the West. Unlike some Asian nationalists, I do not regard the payment of dividends to foreign residents as deplorable exploitation; and unlike some U.S. Congressmen, I see no special metaphysical virtue possessed by a factory built with private savings but not possessed by an identical factory built by a local government.

Passing of an Era

Nevertheless, to describe the causes of the reduced movement of private capital and to argue, as will be done here, that the process is largely irreversible, will perhaps be regarded as opposing or discouraging foreign private investment—particularly at a time when it is respectable and fashionable to speak enthusiastically but vaguely

By

NEIL MCINNES

about the important rôle of such investment. But surely it is wise to face squarely the fact that the era of large-scale foreign investment has passed and will not return, that no backward economy can rely on private capital from abroad to stimulate its rapid progress, and that the future contribution of foreign private funds to the expansion of under-developed economies will be marginal. When this truth is accepted, it will appear that there still remains an area of economic activity in which the rôle of foreign private capital could be vitally important. What this zone is, what scope there remains for foreign private funds, will be approached by a process of exclusion as we enumerate the zones from which it has been excluded, the limitations that have been placed on its movement and the causes of the fall in the offer and the demand for it. These limiting factors may be divided into those that operate from the lenders' side, and those that operate from the borrowers' side. We shall begin with the former.

Western Capitalism

1. *Western capitalism has outgrown its old age.* Around 1900, when the flow of private funds abroad was at its height, capitalism was said to have reached its "maturity", or its "senility", or its "last stage—imperialism". There was held to be over-saving in the satiated economies of the advanced countries; the rate of profit was, therefore, falling there and so the only outlet for "excess" capital was in forcing investment on colonial or semi-colonial peoples, as, for example, in the famous case of the Chinese railways. This analysis was due to a non-Marxist English heretic, John Hobson, but is best known today as plagiarised and exaggerated by the Marxists, Rosa Luxemburg, Hilferding and above all Lenin. Now there was a good deal of truth in this theory (for example, it is recognised that Hobson anticipated Keynes on several points), but only as applied to a phase of Western economic history that has now passed. It happens that this is the phase evoked by those who speak nostalgically of the great days of foreign private investment. However true it may have been of that one period, it is absurd to pretend, as the Leninists do, that this theory reveals a permanent character of the capitalist structure once it has reached a stage arbitrarily called

"maturity". The massive export of capital from Victorian and Edwardian Europe was a pathological condition, even for the stage of technological development then attained; and it has been cured since by further advances in technology which have made it patently unreal to speak of an "excess" of capital in the West, an excess that has to be disposed of by the aggressive lending programmes of competing imperialisms. The application of discoveries in electric power supply and in the construction of motor-vehicles and aeroplanes had made this theory outdated within a few years of its popularisation by Lenin. And the immense progress of industrial technology since then, particularly the latest and most capital-intensive technique—nuclear power—has made it accord less and less with reality.

We now have the position where the countries whose rate of capital formation is highest, such as the U.S.A. or West Europe, are also the countries where there is the highest effective demand for investment, in fact where interest rates and the rate of profit are so high as to attract large sums of capital formed in the under-developed areas. An instance is the investment of funds by the Middle Eastern oil potentates in the U.S.A. or in British securities. Just compare the capital requirements of France (a) in the period when the French *rentiers* could find nothing better to do with their savings than invest fantastic sums in Russian and other East European bonds, and (b) in the present, when the modernisation and extension of French industry absorb investment at a rate that exposes the country perpetually to inflation. Or compare the period when Britain was exporting much capital abroad to her colonies, with the postwar period when the colonies accumulated large sterling balances which were in fact being invested in Britain—to the extent that Professor Arthur Lewis can say that for the first time since the introduction of free trade, British imperialism has become a form of exploitation. Exploitation or no, it is certain that from any figure advanced for the investment of Western capital in the backward countries we should deduct the free flight or forced retention of capital accumulated in those latter countries to, or in, the U.S.A., Britain, Switzerland and West Germany. It should be obvious that there is, or is no longer, any ineluctable force in Western capitalism pushing excess savings towards investment in the backward countries. Those who speak of the heyday of foreign private investment before 1914 with any hope of restoring it need to take more account of this fact.

Distortion of Economy

2. *Massive capital export can distort the lender's economy.* Some economists would put this more strongly and say that international lending impoverished the big lenders of the Edwardian era. At all events, it achieved a transfer of resources away from domestic enterprise, with a consequent fall in domestic labour's real earnings and a stagnation of domestic technology, to overseas investment which profited mainly a class of *rentiers*. In the heyday of foreign private investment in Britain, there was no shortage of savings (the contrary rather) but 40 percent of those savings were diverted abroad instead of going to the replacement of British equipment, which was already obsolescent compared with American and German, and to the reconstruction of Britain's social capital. While British capital flowed abroad at a rate never known before or since, real wages in Britain fell, the expansion of employment was limited, the cost of living rose, the price of capital was maintained at a high level so that British housing, transport and public works were neglected while new British industries were denied finance. That the overseas investments brought in countervailing advantages is not of course denied—financially, the interest they yielded paid for British imports, and physically, the goods they produced were often the raw materials and food-stuffs that Britain needed. But there is room to argue that the balance of advantages was not in the favour of progressive British industries nor of all British entrepreneurs and workers, especially



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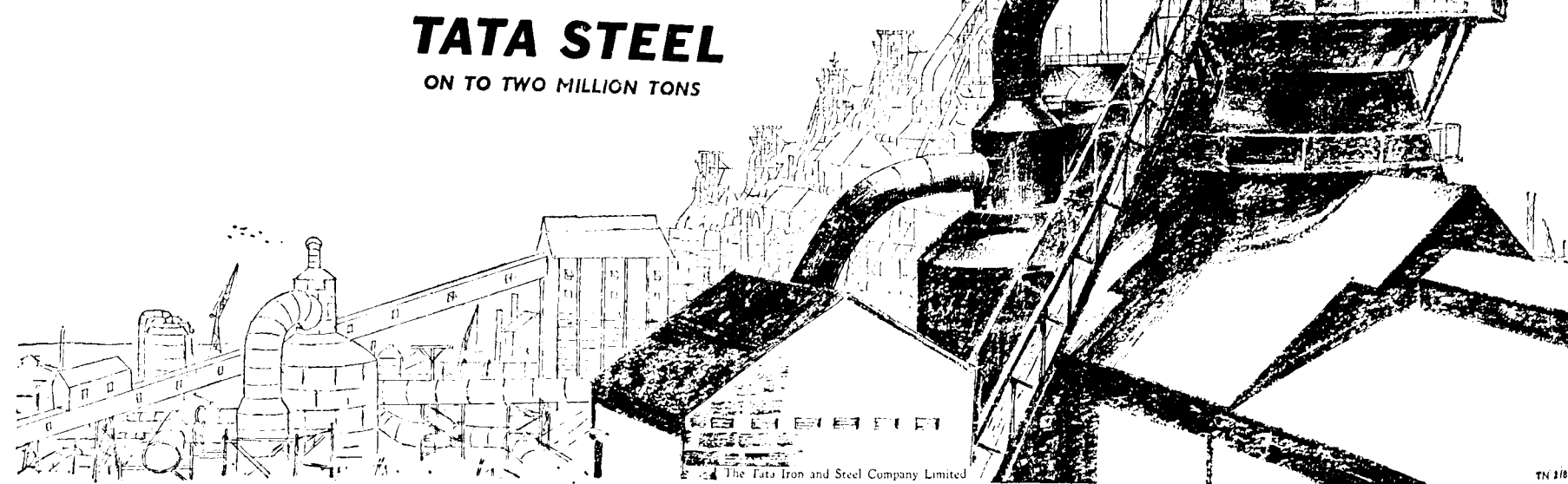
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when we remember that British capital was being invested in primary industries overseas while German and American capital was being invested in the most modern techniques at home. Cairncross, in a well known study called "Did Foreign Investment Pay?", concludes: "It was clear that foreign investments were likely to diminish the standard of living rather than raise it".

Socialists and all defenders of the welfare State in the West today are keenly aware of these facts. The same people are keenly aware of the necessity for the West to invest in the backward countries, and they are often the most passionate advocates of foreign investment, either private or governmental. But their passion need not mislead us. They would be the first to resist an increase in foreign investment beyond a certain limit. And in any case their policies, when they are in office, make such an increase virtually impossible. The limit where the advocates of foreign investment begin to protest in the name of domestic welfare and expansion has already been reached in the case of France, a country that has devoted a disproportionate amount of her capital to the development of Africa but which is now seeking to lessen her burdens there; significantly, it is exactly those French Leftists who urge that France has a duty to invest in Africa's future who have been the first to declare that de Gaulle's five year plan for Algeria will be the ruin of the domestic economy. The United States is frequently reproached for not undertaking foreign investment on the scale achieved by Britain before 1914—but if the U.S.A. were literally to do that, she would be carrying out the equivalent of the Marshall Plan twice every year. The absurdity of this hypothesis, and a thought for what its consequences would be for the U.S. economy, should remind us how vain it would be to hope for a return to the volume of foreign investment of the decades before 1914.

Disastrous Experiences

3. *The failures of foreign borrowers.* Foreign investment has often brought in astronomical profits, and every Asian and Latin American nationalist knows by heart the list of enterprises that have, in his own country, reaped extraordinary gains for the European or American investor. But the history of foreign private investment is full of disastrous experiences for the lender, and nowhere more than in its peak periods: the cases of France and Britain before 1914, and of the U.S.A. in the 1920's. Naturally these cases are as well remembered in the West as the contrary instances are elsewhere. The times of large foreign investments, when foreign governments easily raised loans in Western stock markets, were also times of wild folly, the bitter lessons of which will not be forgotten for several generations. Keynes remarked that the pre-1914 investments of the Western bourgeoisie showed that it simply did not know how to protect its money; the loans of the French public to Russia, the Balkan countries, Austria, Brazil and Mexico, he added, "reached the limits of imprudence....no investment has ever been made in so inconsequential and disastrous a manner. To lend large sums abroad for long periods, without any possibility of legal recourse if things go wrong, is madness". A senatorial commission in the 1930s said of U.S. foreign investments in the years before the great depression: "The record of the activities of investment bankers in the flotation of foreign securities is one of the most scandalous chapters in the history of American investment banking....The sale of these foreign issues was characterised by practices and abuses which violate the most elementary principles of business ethics....Far from exercising discrimination in relation to these issues, the bankers failed to check adequately the information furnished by foreign officials; ignored bad debt records and bad moral risks; disregarded political disturbances and upheavals; failed to examine, or examined only perfunctorily, economic conditions in foreign countries, failed to determine whether the proposed uses of the proceeds of loan issues were applied towards the purposes specified in the loan contracts; failed to ascertain whether revenues pledged for the service of loans were collected and properly deposited in accordance with the agreements; and generally indulged in practices of doubtful propriety in the promotion of foreign loans and in the sale of foreign securities to the American public".

These are not unfair samples from the history of foreign lending by a country, France, that is reputed to have the world's most prudent investors, and by another, the U.S.A., that prides itself on being the efficient centre of the world's capital market. That things could have been managed differently is of course clear, but this is what foreign private investment means for many people in the West today. Indeed, things are managed differently nowadays—and that is one reason why

the flow of foreign capital is as low as it is and will never again reach the proportions of the golden epoch, so tenderly recalled by the advocates of more foreign private investment.

Reputation of Commitments

4. *Nationalisations and expropriations.* There is no need to dwell on this cause of the decline in foreign investment, for its discouraging influence is obvious, familiar and spectacular. Leaving quite aside the expropriations that have occurred in China and the European communist countries, there has been in recent years nationalisation (or even complete expropriation) of foreign enterprises in India, Indonesia, Burma, Persia, Egypt, Ceylon, Cuba, Bolivia, Argentina and Guatemala. In view of this list, which is on the verge of being lengthened, protestations of good faith and technical measures to safeguard investments are useless before the distrust of potential lenders, who know that the commitments of one government can be repudiated by its successor—and its would-be successor is often preparing its way to power precisely by a campaign against foreign investments, like the Indian communists. It is not as though these measures against foreign investment were always the product of systematic hostility towards private, and especially foreign private, enterprise or undertaken in a spirit of aggressive spitefulness, as was the nationalisation of the Suez Canal Company. On the contrary, they are often (as in India's case) the work of democratic governments with a respect for legality, but who argue more or less plausibly that nationalisation of foreign investment is incidental to some domestic reorganisation or necessary for national planning. Identical policies have been undertaken in many Western countries since the war, notably in Britain and France. In other words, it is not the limited problem of occasional acts of banditry (such as planned by Dr. Mossadegh and as implemented by Colonel Nasser), but of a worldwide disrespect for what our grandfathers called, rather theatrically, the sacred rights of property. This atmosphere is detrimental to domestic investment in many parts of the world, and a fortiori to investment overseas. No technical invention of the lawyers is going to change this—least of all when Russia has promised in advance her full support to any government anywhere any time that is bold enough to pillage the foreign investor.

Higher Rates of Return

5. *Payment for the overseas risk.* For these and many other reasons (including the very fact that it is investment outside one's own country), the investor of funds abroad will always demand special payment for the risk he is taking. This payment will show up in a higher rate of return than he could get in his own country—and since, as has already been said, the rate of return in the advanced countries is high, the total profit is apt to look excessive. Thus the sort of dividends the West German investor would demand today for money sent abroad would seem extortionate to most people in Asia, particularly in countries where, in spite of the low rate of local capital formation, government policy has produced a quite inadequate return for domestic investment. And of course this is the main reason why West German funds have not gone abroad as much as would be expected by those who are impressed only by the success of the "the German miracle." A U.N. publication in 1951 pointed out that the average return on American capital invested abroad was 17 percent, and added that "many under-developed countries regard this remuneration as too high"—and yet at the same period, funds invested in the U.S.A. could earn 14 percent. Many Asian and Latin American nationalists would regard any excess of foreign dividends over domestic dividends as evidence of "exploitation", although without that excess, funds would not move across international frontiers except in special cases. In sum, the Western investor knows that usually he will not be able to earn the return he considers fair for the risk he takes in placing his funds abroad, or that if he does earn it he will be accused of exploitation and thereupon exposed to badgering and possibly expropriation.

Developing Raw Material Sources

We can now consider obstacles to the reception of foreign private investment, that is, limitations on the flow of capital that operate from the lenders' side. The factors that will be listed operate especially against the sort of investment called for in America on the basis of the Paley Report. It is that report that many U.S. business men and politicians have in mind when they advocate a vast extension of foreign investment. Its terms are familiar: in the foreseeable future the territory of the United States will exhaust its reserves of numerous natural resources and U.S. industry will have an increased need of materials that can only be obtained abroad, notably in countries now under-developed so American private capital must go abroad to begin the exploitation of those re-

sources, with a view both, to the exportation of raw materials to the United States and to the stimulation and expansion of the backward economies concerned. The authors of the report insisted on the benefits the borrowing country will derive from the appearance of capital-intensive American extractive industries in its economy: they will have a multiplier effect in raising the level of all economic activity, in addition to resolving balance of payments difficulties (both by the inflow of investment funds and, later, the sale of exports), they will reorient the backward economy towards the monetary exchange system, they will spread technical knowledge and business ability to the advantage of the internal market, they will provide employment immediately, they need have none of the political implications of imperialism while nonetheless promoting that democratisation and social progress that Americans, not unreasonably, associate with the flowering of capitalist enterprise. This is the perfect brief for foreign private investment, and while it is by no means untrue, there exist impediments on the borrowers' side to the realisation of such investment.

1. *National economic planning.* Whether we think it wise or not, most developing territories, once they get the management of their own economic affairs (and even before in the case of colonies run by the Portuguese and French bureaucracies), are committed to some sort of global planning of their expansion. Centralised planning limits the sphere of private enterprise and hence of foreign private enterprise. In countries which, while remaining democratic, attempt detailed and ambitious planning, the private sector might be severely restricted. But what is just as bad is that in countries that are unable to set up workable positive plans (such as Burma and Tunisia), the planning dogma produces negative and harassing limitations on private enterprise before it does anything else; sometimes that is all it does. There is no need to expatiate on the fact that most potential lenders do not like planning, socialism and controls on principle, whereas most potential borrowers think that these open the only way to economic progress. An American capitalist with interests in one of the Latin American police States said: "I don't know what freedoms there are here but at least there is the freedom to place my capital as I choose, and that's the most important freedom for me"; he was only franker than the rest. Furthermore, even though planners declare solemnly and in good faith that a certain area of the economy is reserved to private enterprise, the spreading, tentacular nature of global planning often makes it impossible to keep their promises; once a government launches on national planning, the limits between the private and public sectors are necessarily shifting and fluid. The infractions of the 1948 declaration of the Government of India (or at least the successive and varying interpretations it has received) are a good example. Although these shifts of policy may be understood within the country, looked at from the outside they inevitably give an impression of uncertainty and arbitrariness. This is one of the things foreign investors mean by an "unsuitable climate", but since it is the nature of planning that is involved it is not clear how this element of the "climate" can be improved.

Inferiority Complex

2. *Suspensions of colonialism.* The close association over several centuries of foreign private investment and imperialism (either overt or disguised) awakens suspicions of "neo-colonialism" (whatever that might be exactly) whenever foreign enterprise is active in a newly independent territory. Governments are usually more self-confident than their own peoples on this score; among the latter it is easy for demagogues to describe any useful contribution from outside to economic development as "a new East India Company" or "dollar diplomacy"; we saw how the Government of India had to keep looking over its shoulder while it signed the oil refinery agreements. These suspicions, often frankly ridiculous, are sedulously kept alive by Russia and her propaganda agents, by a prickly inferiority complex in new nationalism, and by the circumstance that foreign enterprise naturally employs some foreign staff and new methods. More reasonable attitudes spread as national self-confidence grows, and this we have seen in India. But the most powerful stimulant to national self-confidence is the progress and diversification of the domestic economy by its own means. When that process has reached a certain point, quantities of foreign private capital will be accepted that would have been denounced previously. In other words, foreign enterprise follows and depends on the growth of native enterprise—not the reverse as the authors of the Paley Report imagined. National development cannot start from scratch with massive capital imports, for that only leads to grave political complications. The present mood of the Canadians shows that even among an advanced people, devoted to private enterprise, full of self-

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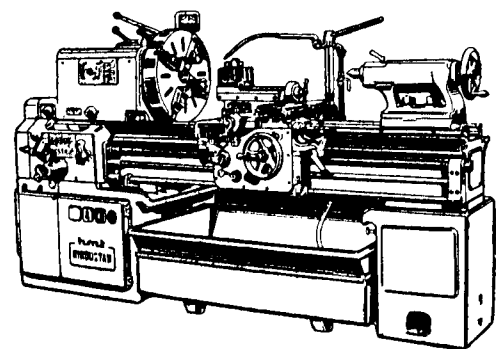
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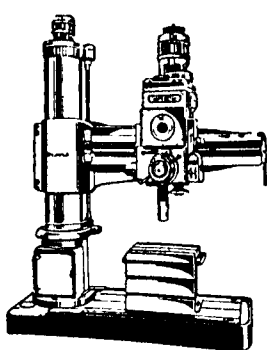
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confidence and possessed of flourishing national industries, foreign investment cannot exceed a certain limit without awakening political animosities that surprise the advocates of American capital migration.

3. *Repayment and debt servicing.* Not a lot of foreign capital, be it private or governmental, has to be received before borrowers begin worrying about the burden of servicing debts. The statement that the expansion stimulated by the loans must make it possible to service them when they fructify is all very well in theory, but it overlooks the fact that most under-developed countries must repay and service loans with one or two raw or semi-finished materials—and the price of these is at the mercy of slumps originating in the industrial countries. What happens in a depression in the West, even such a mild setback as has just been suffered in the U.S.A. and Europe, is that the outflow of new capital to the under-developed countries ceases (for all new investment declines), the repatriation of short and medium-term capital placed abroad is accelerated, and the under-developed country has to service its debts in this unfavourable balance-of-payments situation just when the price of its exports falls. The borrower (notably mono-export economies in Africa and Latin America) undertakes to reward and repay investment in physical commodities, for it has no gold and currency reserves, but what quantity of those commodities it will need to export to meet its commitments will depend on the state of world markets. As the numerous proposals for support and control of those markets, originating among the exporters, show, this problem obsesses the numerous potential borrowers of foreign capital. They are often thought to have a hunger after price stability that is rather curious, or which at any rate cannot be satisfied by competitive world markets. But the reasons for their anxiety should be clear: they want to borrow capital but want to be assured that they will not have to repay, in physical terms, much more than they borrow.

Stabilising Commodity Markets

The stabilisation of international commodity markets is closely connected with the problem of expanding foreign lending. This is especially true because of the proven tendency of foreign capital to migrate freely in times of prosperity (when commodity prices, and hence the facility for repayment, are high) but to shrink in times of depression (when commodity prices are low). A way of ironing out the extreme fluctuations in world commodity prices (I am not at all convinced that such a way will ever be found) would certainly stimulate the migration of foreign private capital by making borrowing countries readier to receive it. It has even been claimed by some economists, and not least by Indian economists, that when foreign private capital goes to an export industry in an under-developed country (as is recommended in the Paley Report), the lender gets the best of both worlds: in prosperous times, it gets both the physical commodities exported and the high dividends that go with prosperity in that industry—whereas in times of depression it gets no dividends but neither does it get the commodities, which it does not want. This has been called a system of auto-financing: the lender's higher profits pay for at least part of his higher imports in good times, so that the lender never has to export more goods and services to the backward country to get the commodities produced by his investments there. There is a good deal of exaggeration in this; international trade does not work so neatly in favour of the lender. But there is also a problem here that has been more carefully considered by economists in Britain and France, who have the responsibility of colonial economies, than in the U.S.A. where the most simple plans for more foreign investment originate.

Export Industries

4. *The low multiplier of foreign enterprise.* This is a question that has been quite misunderstood, not only in the lending countries but in the borrowing countries too. The investment of large sums of foreign capital in the export industries of a backward country (or, I would add, in industries that treat wholly imported material, such as oil refineries in the case of India) is usually expected to have a notable stimulating effect on the domestic economy of the borrower, and there is disappointment when this is not the case. The error is natural; it seems obvious that if a European or American company sinks millions and millions of pounds in the exploitation of mines in a backward territory, the whole economy must be stimulated. In reality, the amount of stimulation (or the multiplier effect) is usually quite small and in some instances insignificant. The spreading of money, technique and enterprise that the Paley Report regarded as inevitable does not occur, and it has been claimed that the recipient economy simply falls into a "dualist" structure—modern

capitalist enterprise run on foreign lines on the one side, and the antique subsistence economy on the other. Worse, it has been alleged that this division produces the "fossilisation" of the antique economy. Such expressions overdraw the picture, as do the familiar claims of Indian economists that this country "got nothing out of British investment in tea, etcetera, except the wages paid to the coolies". But the truth can lie nearer this end of the scale than the optimistic claim of the authors of the Paley Report, that foreign investment in extractive enterprise sets up a chain reaction towards progress in an under-developed economy. The reason for this is that the investment can consist almost entirely in the export of machinery from the lending country, and the fruits of that investment almost entirely in raw materials exported to the lending country, so that all the borrowing country gets out of the deal is the amount of local currency spent by the foreign company.

This local currency spent consists entirely of wages to labouring staff, taxes and internal transport costs. And this amount might be quite small in comparison with the value of exports. (Naturally it is infinitesimal in the case of the United Fruit Company in Guatemala, which controls its own rail and road network, pays low taxes and low wages.) The Central Bank of Venezuela, one of the chief recipients of foreign capital today, estimates that the local expenditure of petrol companies is only 20 percent of the value of exports, and of this amount seven-eighths is wages to lower-grade staff, from which no multiplier effect can be expected. When we learn that in 1937 North Rhodesia exported £12 million worth of copper, we cannot help thinking that that meant £12 million worth of resources available to the territory that would otherwise have not been available. We are ill prepared for the calculation of a British economist that £11 million of that sum left the territory (in dividends, royalties, imported machinery and goods for the mines and its staff), and only £1 million remained to exert the famous multiplier effect. The multiplier effect worked really in the lending economy, not in the borrowing economy. I have chosen, deliberately, a case that is as unfavourable to foreign investment as it could be, to show what sort of extreme instance Asian and African economists might have in mind when they deny that the stimulating effects of investment undertaken on the lines suggested in the Paley Report would be important. This would apply only in cases where the industry founded by foreign capital exported all or most of its output—but that includes much of the enterprise hitherto undertaken by foreign concerns in backward countries. Even where it is not an export industry that is involved, it is likely that, rupee for rupee, a domestic enterprise exerts a significantly higher multiplier effect because it lives off the land more, and of course its dividends and salaries remain in the country.

Effect Over-rated

Extreme cases apart, it is certain that the multiplier effect of foreign investment has been immensely over-rated in backward territories, in part because it is capital-intensive, efficient, employs foreign staff, imports its equipment and materials and is in general (this is precisely its main virtue) oriented towards the outside world as regards its supplies, its exports and its techniques. Yet it is just this sort of chain-reaction multiplier effect that the planning governments of developing countries are seeking to set off in their investment policy. No wonder that they are less convinced of the primordial importance of foreign investment than its American defenders. No wonder either that, in the case of foreign enterprises established within their territories, they seem to be constantly interfering in matters of employment, supplies (for example, Indian tea chests), the use of national transport and insurance, the processing of materials before export, etcetera. The managers of foreign enterprises properly complain that many of these measures gravely reduce their efficiency, when efficiency and the use of modern methods are the very *raison d'être* of foreign concerns in a backward economy. But when the foreign manager is thinking of efficiency, which is his business, the local government is thinking of the multiplier effect, which is its business. It would save a lot of misunderstanding if, at least for future foreign investment, these two questions were clearly separated. That is, it should be understood on both sides that the contribution to national employment and business activity that a foreign concern can make is limited (pace the classical defenders of foreign private investment), whereas the contribution it can make to the production of this commodity at this time is immense and may be vital to the execution of a complicated national plan, where everything hangs together. The foreign firm, in other words, is here to make metal containers, or chemicals, or to refine oil, and it is to do these things in the quickest, cheapest

way known to modern technology; it is not here to stimulate the whole economy at the cost of its own efficiency. That is the business of government investment and local enterprise. To import foreign capital for these purposes would be foolish and uneconomic—and ultimately disappointing. This is another way of saying what has emerged before, that foreign private investment cannot create economic progress, in the way imagined by some of its enthusiastic defenders, but it can usefully follow it and supply crucial links in the chain of progress.

We could add to this list two other limiting factors on the reception of foreign capital, but they do not happen to be important in contemporary India. One is the fact that if investment of the type recommended in the Paley Report is aimed at exploiting vanishing supplies of vital materials, then it is natural that the developing countries will want to have a say in the disposal of those materials, just because they are vanishing—a more effective say than if they handed over their exploitation to foreign private companies. The other is the immense discredited American private capital has brought on itself in the eyes of the under-developed peoples by supporting feudal and dictatorial interests. In Latin America and the Middle East, this has gone so far that some nationalists imagine that when American investors speak of a "suitable climate", they mean a military dictatorship, and when they speak of "stability" they mean opposition to that social evolution that is the most evident necessity in many poor countries. These strictures apply infinitely less to those foreign enterprises that have been at work in the countries of this region since the war, where they have shown an admirable ability to adjust themselves to the social revolution in progress.

Reliance on Local Enterprise

These are the factors responsible for the diminution of the flow of foreign private capital in our day. To compare our time with another age when capital moved about the world more freely, and to omit mention of the changes that have since occurred in economic structures, in economic knowledge and in political thinking, is to argue very much beside the point. Many of these changes appear to be irreversible, so there is little hope that, with minor technical inventions and goodwill, a return will be possible to the grand days of foreign private investment. None of this proves that foreign private investment is unimportant. Quite the contrary: by highlighting the domains that remain where it can operate, we see how vital its contribution can be in the process of economic development. What should be plain is that no developing nation can rely wholly or mainly on private funds from abroad to stimulate its economic expansion, although it can and would rely on foreign enterprise to supply certain crucial needs, without which that expansion will be slow or impossible. Foreign enterprise by itself cannot transform a backward economy. It can operate best in a country where local enterprise is already active and self-confident—and in countries such as India where the native *bourgeoisie* is still hesitant and inexperienced, local enterprise will only arise along with government planning and investment. So two policies are doomed to failure. On the lender's side, to demand the creation of a "suitable climate", that is, the business freedom obtaining in certain Western countries, as a pre-condition of foreign investment. On the borrower's side, to stifle local enterprise in the name of the public sector while wooing foreign capital for the sake of the balance of payments.

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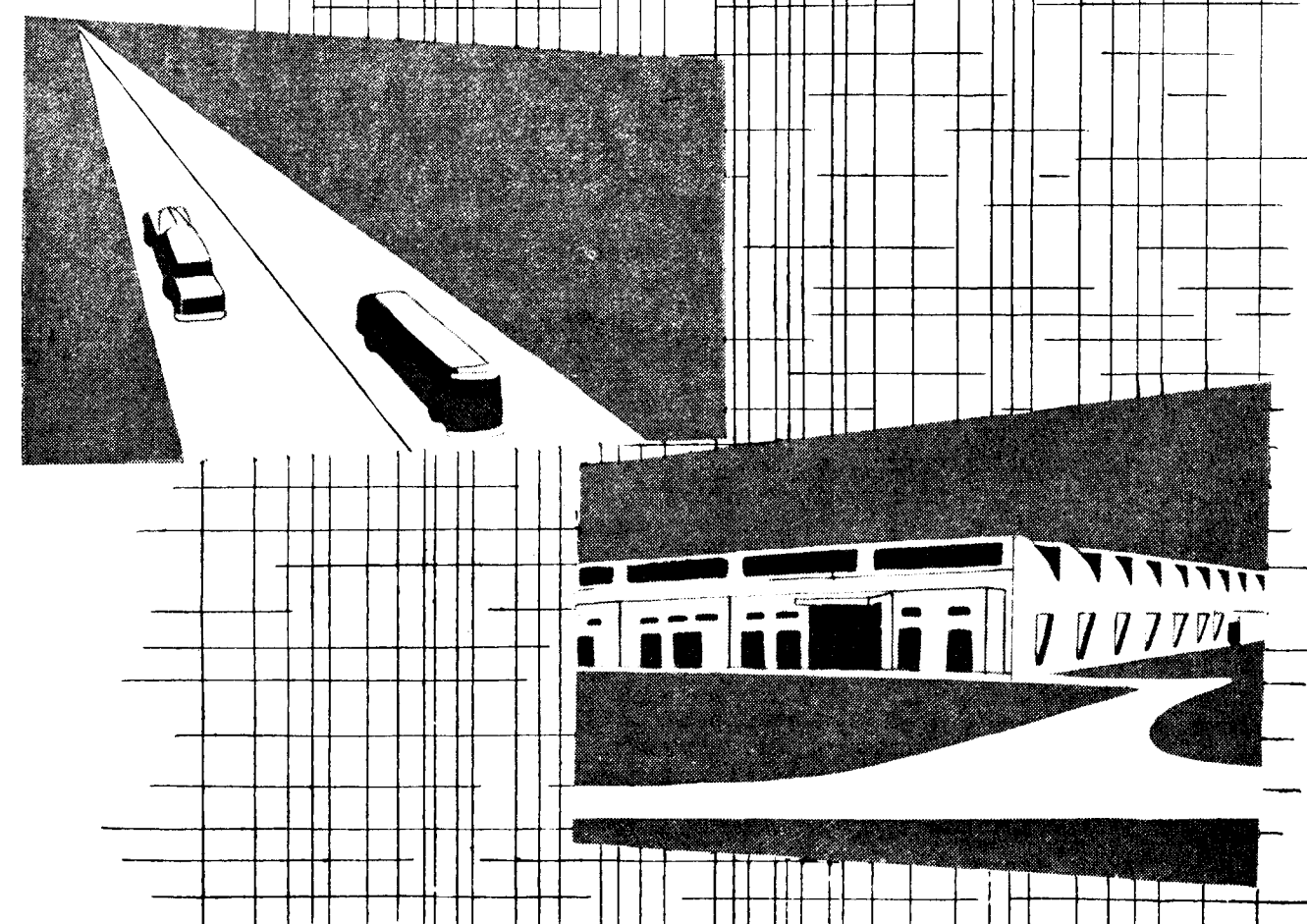
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THE POLICY FOR INDUSTRIAL DEVELOPMENT

ADVERSE EFFECTS OF HEAVY TAXATION ON PRIVATE ENTERPRISE

22 DEC 1958

THE main emphasis in the second plan is on industrial and mineral development. So the country is now producing a number of engineering and electrical goods, heavy chemicals, drugs and pharmaceuticals which in the past had to be imported. Yet the necessary conditions for rapid industrial progress are lacking. Industrial production and investment have slackened, and unless suitable conditions are created by removing the difficulties for industrial enterprise, it will not be possible to achieve a rapid rate of growth.

In 1958, the general index of industrial production is expected to show an increase of less than 1½ percent (on the basis of indices for the six months from January to June 1958), compared with 3½ percent in 1957 and over 8½ percent in 1956. The decline is disquieting. The deteriorating industrial climate is seen better from some statistics of industrial investment. The capital issues permitted by the Controller declined from Rs. 230.2 crores in 1956 to Rs. 153.3 crores in 1957, while the authorised capital in the case of newly registered joint-stock companies declined from Rs. 210.65 crores in 1953-57 to Rs. 102.71 crores in 1957-58. A clear idea of the deterioration is indicated by the fact that the net increase in the paid-up capital of joint-stock companies in 1957-58 amounted to only Rs. 66.46 crores, compared with Rs. 68.03 crores in 1953-57. Some of the difficulties, such as the shortage of machinery, equipment, essential raw materials, chemicals, skilled labour and technical skill, are inherent in an under-developed economy; but some others, such as the foreign exchange crisis, high taxation, high transport costs and a defective wage structure, which are hampering industrial progress, could have been avoided. Because of the foreign exchange crisis, industry has had to adjust itself to reduced imports of machinery, raw materials and chemicals as best as it could.

Heavy Corporate Taxation

The most important single factor which is impeding growth is the heavy taxation of company incomes, and the complicated tax system which requires the submitting of too many returns by companies. Not only does this waste time; it proves a costly affair. High taxation of company incomes has discouraged private enterprise and has scared away foreign capital. The income and corporation taxes on companies, with a surcharge of 5 percent on income tax, amount to 51½ percent of company incomes. The rate is high enough, but it is not this basic rate which is the real source of trouble. The difficulty is created by the penal taxes, such as the excess dividends tax, the tax on undistributed profits and the tax on bonus shares. Section 23A companies in India are in the unenviable position that they have to pay a penal tax if they declare a dividend and another if they do not declare a dividend and accumulate their profits. In the case of such companies which declare a dividend of more than 18 percent, the basic rate increases from 51½ percent to 71½ percent. If they issue bonus shares, the rate rises to a confiscatory level, the bonus issue tax having been increased from 12½ percent to 30 percent. Although the rates of capital gains tax and the wealth tax by themselves are not high, they impose an unduly heavy burden.

Ability to Pay

Company taxation is not based on the principle of "ability to pay". It is not helping companies to rationalise their assets and build their internal financial resources. The desire seems to be to raise as much revenue as possible for the second plan. It is recognised that both individuals and companies have to pay taxes for sustaining a rapid rate of industrial growth through planning, but such taxation defeats its own purpose if it becomes excessive and discourages the formation of new companies and the smooth working of the existing ones.

In the case of incomes of foreign companies, the rates of taxation in India are much higher

than in other countries. In a recent study, the National Council of Applied Economic Research came to the conclusion that "India's taxation of foreign company investment income is in general the highest in the world. With few exceptions, it is very much higher than that of other countries, both developed and under-developed, which are actively seeking to attract private foreign investment". The consequence of such excessive taxation has been to discourage the flow of foreign capital into India. According to statistics recently published by the Reserve Bank of India, the net inflow of foreign business investments into India from private sources in 1957 amounted only to Rs. 19 or Rs. 20 crores, compared with Rs. 24.3 crores in 1956 and an annual average of Rs. 25.1 crores between July 1948 and December 1953. Statistics for 1958 are not yet available, but there is reason to believe that the net inflow of private foreign capital will be smaller than in 1957. Foreign capital has an important part to play not only in the industrialisation of under-developed countries, but in the growth of all countries. Since the taxation policy of the Indian Government has discouraged its inflow, the rate of industrial growth has been slowed down, and the primary object of India's second plan has been defeated.

More Revenue

With a view to reconciling the need for greater revenues for the second plan with that for making the rate of industrial growth faster, one solution may be to accept the recommendation in the Kaldor report on Indian tax reform that "in place of all the present taxes on company income, a single uniform tax of 7 annas in the rupee (i.e., 43½ percent) should be levied on the whole income

By

Professor P. C. Jain

of companies, assuming the continuance of the current depreciation allowances and the development rebates". It might appear that such a course would cause a serious fall in Government revenues; the most vital consideration, however, is not the level of Government revenues, but the rate of economic growth. The proposed reduction in company taxation would be fully justified if it hastens the pace of industrial development, as is likely to be the case. Moreover, with increased industrial activity and the consequent increase in output and national income, Government revenues would rise, even with a lower level of taxation. There is plenty of evidence that taxes have reached the point of diminishing returns. Reductions and adjustments would not only help growth, but would also increase the total of Government revenues.

Other Imports

In addition to the income tax on companies, the corporation tax, and the taxes on bonus shares, excess dividends, undistributed profits, capital gains and wealth, industry has to bear the impact of high import duties on industrial raw materials and machinery, Union excise duties, the sales taxes of State Governments, the electricity duty and some cesses which are levied on industrial output. The rate of each of these taxes is not high, but in the sum total, they become excessive. In order to reduce the incidence of taxation on tobacco, sugar and cotton cloth, the sales taxes were replaced by additional Union excise duties with effect from 14th December, 1957. But the spirit of this reform was violated by some State Governments which imposed sales taxes on yarn and on the raw materials used by these industries. The electricity duty which some of them levy has increased the costs of production, thereby reducing competitive power and, in some cases, forcing the units to close down. In the case of these indirect taxes, the need of the Government for

greater revenues and the need of industrial units for further development will have to be reconciled by making suitable adjustments in the rates of taxes so as to bring them within the paying capacity of industry.

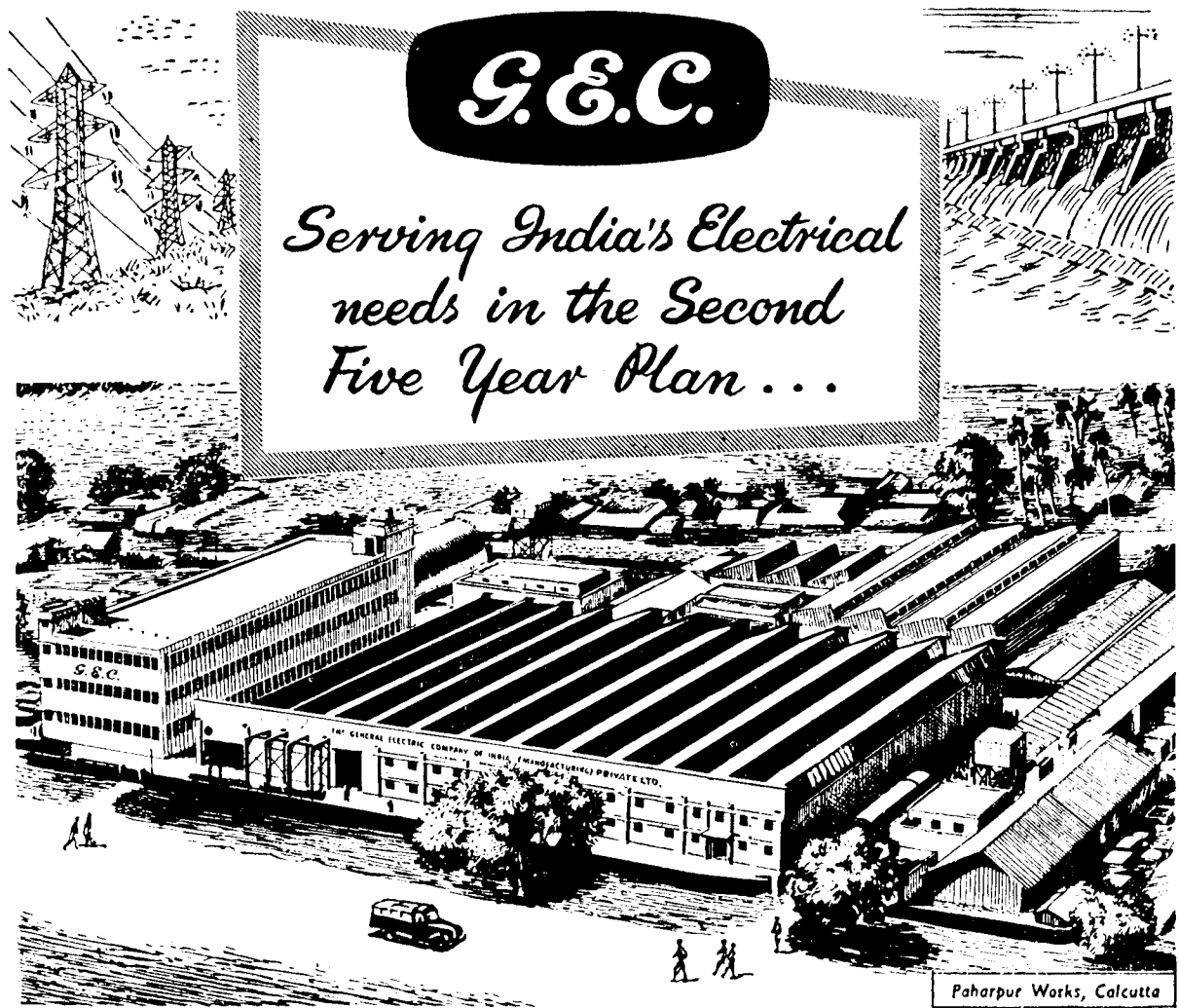
Next to the defective tax structure, a defective wage structure is responsible for slowing down industrial growth. Wages should be just and fair and should be commensurate with the productivity of labour. This means that, while the labourers should not suffer because of low wages, industry should not be handicapped by unduly high ones. This is true not only of India's iron and steel industry, but of all industries. Steel producers are "saddled with a most complicated wage structure which has been activated by the many divergent tribunal and adjudication awards in the face of constant demands for greater emoluments, in addition to new demands of every description. This threatens to disrupt entirely the wage and cost structure of the industry". This complaint is commonly heard. According to the Indian Cotton Mills Federation, the total monthly earnings of a cotton textile worker have risen from Rs. 69.87 in 1946 to Rs. 170.12 in October 1958, including Rs. 35.38 in the shape of benefits such as provident fund, gratuity, insurance and paid festival holidays, while the productivity of labour has not increased much. The net effect of this has been to increase the wage cost to such an extent as to render it necessary for many units in the industry to close down. The only way in which money wages could be increased without handicapping industry is to increase the productivity of labour through harder work as well as through rationalisation.

The Mistake

It is evident that a mistake has been made in the second plan by giving the public sector much greater scope than the private sector. It is only through the smooth working of private enterprise that the rate of industrial growth in India could be rapid. Whatever might be the theoretical arguments in favour of public enterprise, in actual practice and in the conditions prevailing in India, it has proved slow, inefficient and unenterprising. In the course of the first plan, while private enterprise completed the investment target expected of it, public enterprise lagged far behind. In the second plan, the original target of investment in the public sector in industrial and mineral development was Rs. 690 crores, but it had to be subsequently increased to Rs. 790 crores in the memorandum on "Appraisal and Prospects of the Second Five Year Plan", and yet again to Rs. 882 crores in the "Reappraisal". At the same time, the target of investment in the private sector was raised by Rs. 155 crores, from Rs. 685 crores to Rs. 840 crores. But the actual investment by the end of the second plan is expected to be about 70 percent of this revised target in the private sector and about 65 percent in the public sector.

Rationalising Wages

The Government's industrial policy recognises the importance of private enterprise. But that is not enough. In order to function smoothly and to deliver the goods, private enterprise will have to be allowed a suitable climate which unfortunately is lacking in India. "Suitable climate" means that in addition to reducing the level of taxation and rationalising the wage structure, unimaginative restrictions such as on the output, and even the types of cloth produced by the cotton mill industry, the selective credit control policy of the Reserve Bank which makes it difficult for private enterprise to raise money in the market, and the cut in imports of machinery and raw materials because of the foreign exchange shortage, will have to be suitably relaxed. It is not argued here that no restrictions should be imposed on private enterprise. Some Government control is inherent in a mixed economy. But the Government's control should be so exercised that it does not stifle the initiative and enterprise of the private sector.



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STATEMENT I

TRANSFER OF RESOURCES FROM THE CENTRE TO THE STATES

Year	Resources Shared Taxes	made available by the Centre Grants	Loans	Total	Expenditure of States Revenue A/C	Capital A/C	Total	Percentage of (2:3) to 6	(5) to (8)
1	2	3	4	5	6	7	8	9	10
1951-52	52.9	33.9	73.3	160.1	392.7	151.3	544.0	22.1	29.4
1952-53	73.8	36.0	111.8	221.6	417.0	155.5	572.5	26.3	38.7
1953-54	72.8	45.3	154.7	272.8	448.2	176.8	625.0	26.3	43.6
1954-55	71.6	51.4	220.7	343.7	495.6	205.9	701.5	24.8	49.0
1955-56 R.E.	73.6	97.7	261.7	433.0	605.1	342.3	947.4	28.3	45.7
1956-57 B.E.	74.5	122.0	283.1	479.6	630.7	410.0	1040.7	31.2	46.1
1957-58 R.E.	120.9	138.4	287.9	547.1	705.6	374.5	1080.1	36.7	50.6
1958-59 B.E.	157.5	146.1	284.5	588.1	754.3	379.6	1134.4	40.2	51.8

ever. In its appraisal of the position and prospects, the Planning Commission was compelled to point out that although the five-year yield of the additional tax measures adopted in these years meets fully the target of Rs. 450 crores in the plan plus the uncovered gap of Rs. 400 crores, the balance available from current revenues for financing the plan has remained more or less static around Rs. 140 to 150 crores.

Part of the responsibility for this position must no doubt be borne by the Centre itself largely because of the increase in its defence expenditure. But the defence budget, though it may afford scope for errors of judgment, is not a matter which is entirely under the control of the Central Government. The position is far different in the States where the Governments and the party in power could exercise considerable freedom of choice in the use of the additional funds which they obtain without incurring unpopularity.

Each State Government may understandably have a different view about the relative strength of the various claims on the revenues which it can obtain. But the informed sections of the public can have only two tests to apply in this context. The first is conformity to the general principles incorporated in the Constitution concerning the framework of Government in general and public finance in particular; this gives a fair guarantee of adherence to sound political and financial principles. The other is the impact on the plan. The importance of raising new taxes to the full limit of taxable capacity and devoting the revenues to the furtherance of the plan is obvious. Apart from its value for public morale, it will reduce the dependence on deficit financing and minimise the hardships of inflation. But the large scale on which new revenues have been raised by the Centre and the States has not helped reduce the extent of deficit financing.

Fatal Defect

The public has not so far asked for the reason, and even if it does, the legislatures are in no position to provide a remedy for the simple reason that, so far as the revenues handed over by the Centre to the States are concerned, the authority which raises the revenue is not the authority which spends it; and this division of function and responsibility must prove a fatal defect in any system of public finance. The fact that both at the Centre and in the States there are responsible Governments answerable to elected representatives of the people is no safeguard against the dangers of this division. For while the Lok Sabha would argue to itself that its vote for the railway passenger tax or any similar measure for the benefit of the States is only a matter of form, involving no special responsibility for specific judgment, State Governments can spend the money, free from all anxiety about the effects of this new taxation on their popularity with the voters. The electorate, too, would not stop to think of blaming the Congress party for these new levies or the manner in which the proceeds are used.

The result is that few people have asked why the Planning Commission should call for yet more taxes when its target of new revenues has been far exceeded. The real reason is the absence of any attempt to enforce proper priorities in the claims on new revenues. If the Centre freely adds to new taxes and the States cannot be forced to respect the paramountcy of planning, then the country is in for endless additions to tax burdens without any corresponding benefit in genuine economic development. The question may, however, be asked, whether the Constitution-makers did not contemplate such developments and accept them as being in consonance with their ideas of divisions of governmental functions and of financial resources.

Public Opinion

Indian opinion was never moored too closely either to the federal or to the unitary concept, whether in the constitutional or in the financial sphere. Historically, the British administration started with a high degree of centralisation and worked towards greater devolution. In later

times, the British recognised that the choice would have to be kept open for Indian leaders, but at the same time, they realised that the outlines of the Indian system of public finance would have to be as clearly marked as possible. The interplay of ideas and facts can be seen in the abolition of provincial contributions and the emergence, after some time, of the States' share in income tax.

First Enquiry

The first full-fledged enquiry into the financial aspect of political reforms was conducted by Sir Walter Layton, and his report, as already stated, is remarkable for the finding that financial and economic conditions in India and the distribution of taxable capacity and tax resources which could be tapped did not admit of a clear-cut system of federal finance and that India would have to manage with one which did not answer to the description of any of the accepted categories. The States' share of income tax arose out of the conditions in which they needed an elastic source of revenue and the transfer of income tax to the States would not only leave the Centre in want, but accentuate the differences between one State and another. West Bengal's vociferous claim to the jute export duty made for the grant of a part of it to the jute-growing States. The creation of Sind and Orissa brought in the element of subventions and aids and the fiscal agreements with the princely states made for new complications.

The whole hotch-potch was thus ready-made when the Constituent Assembly had to tackle this problem. Since it had little time to devote to it, it contented itself with drawing up the Seventh Schedule with its Union, State, and concurrent lists and providing for an enquiry into the question through a Finance Commission appointed by the President every five years. The long line of these commissions, with such interim enquiries as those of Mr. N. R. Sarker or Mr. C. D. Deshmukh and the hurricane campaigns of new taxation such as that of Mr. T. T. Krishnamachari, have determined the shape of federal finance today rather than the ideas which the Constitution-makers had in mind.

STATEMENT II

DISTRIBUTION OF INCOME TAX (ARTICLE 270 OF THE CONSTITUTION)

(Second Finance Commission's Recommendations)

State	Percentage
Andhra Pradesh	8.12
Assam	2.44
Bihar	9.94
Bombay	15.97
Kerala	3.64
Madhya Pradesh	6.72
Madras	8.40
Mysore	5.14
Orissa	3.73
Punjab	4.24
Rajasthan	4.09
Uttar Pradesh	16.36
West Bengal	10.08
Jammu and Kashmir	1.13

STATEMENT III

DISTRIBUTION OF UNION EXCISE DUTIES (ARTICLE 272 OF THE CONSTITUTION)

(Second Finance Commission's Recommendations)

State	Percentage
Andhra Pradesh	9.38
Assam	3.46
Bihar	10.57
Bombay	12.17
Kerala	3.84
Madhya Pradesh	7.46
Madras	7.56
Mysore	6.52
Orissa	6.46
Punjab	4.59
Rajasthan	4.71
Uttar Pradesh	15.94
West Bengal	7.59
Jammu and Kashmir	1.75

All these awards, interim or otherwise, have been made with a sense of urgency which did not allow a proper enquiry into the fundamentals of the problem. It was often a case of effecting a change in the basis of distribution of the divisible pool among the States in accordance with changes in their population. Sometimes pressures on particular States were also taken into account. The measure adopted by Mr. T. T. Krishnamachari over the railway passenger tax and the excise in lieu of the sales tax stand on a different footing. As a step to the rationalisation of the tax system through the avoidance of disparities in sales tax, they should be welcomed. But they separate the authority for raising and spending taxes to an extent that the Constitution-makers could not have foreseen.

The system of public finance contemplated in the Constitution was predominantly one of federal finance with such modifications as may be necessitated by the unity of the country, the disparity in State resources and the need for uniform development. In such a system, although a part of Central revenues would no doubt have to be handed to the States, there would be no significant or serious breach of the principle that responsibility for raising and the facility of spending taxes must remain with the same authority. In the present conditions, the limits of modification of an essentially federal system of public finance have been exceeded. It is arguable that although there has been nothing demonstrably unconstitutional, the system is not what was contemplated in the Constitution. It has been distorted by the heavy blows of successive awards made with an eye to the supposed exigencies and in disregard of the attributes of a healthy and permanent system.

Helping the States

This attitude is understandable only in the case of the authors of interim awards and not in the case of the Finance Commission appointed under the provisions of the Constitution. But the practice of increasing the allocation to the States in

STATEMENT IV

GRANTS-IN-AID (ARTICLE 275(1) OF THE CONSTITUTION) IN EACH OF THE FIVE FINANCIAL YEARS FROM 1ST APRIL, 1957.

(Second Finance Commission's Recommendations)

State	1957-58	1958-59	1959-60	1960-61	1961-62
Andhra Pradesh	4.00	4.00	4.00	4.00	4.00
Assam	3.75	3.75	3.75	3.75	4.50
Bihar	3.50	3.50	3.50	4.25	4.25
Kerala	1.75	1.75	1.75	1.75	1.75
Madhya Pradesh	3.00	3.00	3.00	3.00	3.00
Mysore	6.00	6.00	6.00	6.00	6.00
Orissa	3.25	3.25	3.25	3.50	3.50
Punjab	2.25	2.25	2.25	2.25	2.25
Rajasthan	2.50	2.50	2.50	2.50	2.50
West Bengal	3.25	3.25	3.25	4.75	4.75
Jammu and Kashmir	3.00	3.00	3.00	3.00	3.00

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response to their clamour for more had gathered so much momentum that no one thought of checking it. The Santhanam Commission hardly questioned either the expediency or the justice of helping the States to balance their budgets and adopted it as the guiding principle in making its recommendations. The necessary preliminaries to the adoption of such a view, such as an examination of the scope for economy in the States' expenditure or the political and financial consequences of helping them to reap what they did not sow, were not considered. But these consequences cannot be in doubt now, although only a short time has elapsed. Because they have been spared the unpopularity of raising new taxes and have got the advantage of spending large amounts of revenues, State Governments have strengthened themselves vis-à-vis the Centre. The Union Government, while it shares the brunt of the responsibility for economic development, education and public health, and general amelioration of the masses, often finds its path impeded by discontent and differences in the States. While the national leaders may put on a brave face over these difficulties there is no denying their existence. The picture of functional devolution is as hazy and confused as the picture of financial devolution. To bring them again into proper relation, some basic thinking is needed.

There are now three important directions in which Central finance impinges on State finance

in India: (1) through the powers and duties of Central check and audit; (2) through the rights and duties of redistributing certain percentages of Central taxes to the States; (3) through loans and grants from the Central funds. As for (1), State accounts are currently checked at the Centre and subsequently audited by the Central Audit Department on the same footing as the accounts of Central Ministries. This Central audit and the practice of interchanging personnel of the Administrative Service (I.A.S.) between Delhi and the States are two of the main ways in which the Indian federation is closely integrated. Further, the Centre by its lending powers controls the States' finances. As long as a State owes sums to the Central Government, it must first get permission to raise a loan directly in the market, and in practice, the Central Government has considerable control. The contact of Central and State finances may also be seen from the system whereby certain State funds are deposited with the Central Government and appear on the Union Capital Budget. These funds are those in the nature of loans to the Union Government and are available for general financial and monetary policy.

The States as well as the Central Government have their fiscal operations through the Reserve Bank. Since the Bank's policy is closely integrated with that of the Central Government, the fact that State reserves are also centralised pro-

vides a further closer integration of financial policy. As for (2), i.e., the extent to which State revenue is affected by the percentage distribution of certain taxes by the Centre to the States, the Central Government has complete control on income tax, and the taxes in which both the Central and State Governments have powers are taxes on stamps and advertisements. In practice, certain taxes are in fact competitive, e.g., State taxes on luxuries and sales taxes exploit the same field as Central Customs and excise duties; the same is true of State taxes on the movement of goods and passengers on railway and inland waterways, local octrois, etcetera. All the competitive levies are now proposed to be rectified.

As for (3), i.e., loans and grants from Central funds, there is as yet in India no unified policy of revenue allocations or grants-in-aid to the States. The sharing of income tax revenue and the grant made to certain States in lieu of the jute export tax are, in effect, block or unallotted grants of considerable size. Apart from these two block grants, the Central Government makes substantial grants for specific purposes to the States, both in the Revenue and in the Capital Budget. Besides these, there are special contributions made by the Central Government on matters of national interest, e.g., the Damodar Valley Corporation and the grow more food campaign, to stimulate and aid rather than to control the activities of the States.

The new Constitution of India, however, provides opportunities for the distribution of additional revenue to the States in the form of grants or subsidies. First, the present arrangements for the division of income tax (under Article 270 of the Constitution) are to be fixed by the Finance Commission. Secondly, under Article 272, Parliament may sanction the distribution of certain indirect tax revenue. Thirdly, there is the grant to the four jute-growing States, although only for a limited period. Fourthly, there is provision for special assistance to needy States. Fifthly, under Article 182, the Union Government is given power to make grants "for any public purpose" even where no specific legislation exists.

Future Shape

In conclusion, the shape of Indian federal finance in future will depend largely on the changes in Central and State finances in the years to come. Traditionally, the States were believed to have the primary responsibility for nation-building and the Centre's functions were regarded as being limited to defence and external affairs. Much has happened in the past to question this rather facile assumption. The technical requirements of economic development are often found to include the need for Central co-ordination and direction and the pull towards the Centre has been felt and yielded to only too often in the past. Against this, there is at present only the sentiment in favour of State autonomy. But unless that is strengthened by developments in the financial sphere which either make the States comfortable or leave the Centre with a large surplus, the domination of the Centre will be irresistible. The outlook, therefore, for the future of federal finance seems to be an indefinite continuance of the present expedient of divided heads of revenue, allocation to the States according to a number of accepted principles, and the predominance of the Centre in the financial scheme of things.

STATEMENT V

RESOURCES TO BE TRANSFERRED FROM THE UNION TO THE STATES THROUGH DEVOLUTION OF REVENUE AND GRANTS FOR FIVE YEARS BEGINNING ON 1ST APRIL, 1957.

(Second Finance Commission's Recommendations)

State	Shares of Taxes	Grants under Article 273	Grants under portion of Article 275 (1)	Total
Andhra Pradesh	8.50	...	4.00	12.50
Assam	2.75	0.45	4.05	7.25
Bihar	10.00	0.43	3.80	14.23
Bombay	14.75	...	...	14.75
Kerala	3.75	...	1.75	5.50
Madhya Pradesh	7.00	...	3.00	10.00
Madras	8.25	...	...	8.25
Mysore	5.50	...	6.00	11.50
Orissa	4.00	0.09	3.35	7.44
Punjab	4.25	...	2.25	6.50
Rajasthan	4.25	...	2.50	6.75
Uttar Pradesh	16.25	...	...	16.25
West Bengal	9.50	0.91	3.80	14.26
Jammu and Kashmir	1.25	...	3.00	4.25
	100.00	1.88	37.55	139.43

TECHNIQUES OF FINANCING THE SMUGGLED GOLD TRADE

HIGH INDIAN PRICES ENSURE BIG PROFIT MARGINS

THE gold problem can be examined under three heads: (1) the possible magnitude of smuggled gold; (2) the means and methods of financing gold smuggling; (3) the correctives, if any, to the wastage of savings in hoarding the metal. Available statistics of imports and exports for the past 90 years show the traditional importance of gold in the Indian economy. Part of the savings in the country has been always spent on the purchase of gold. As the output of Indian mines (530,000 tolas annually during the 12 years ended 1957, valued at Rs. 5.38 crores at current prices) meets the hoarding demand to a small extent, the major share of the offtake has been met by converting part of the country's habitual export surplus into gold. Annual average imports during the 45 years ended 1930-31 amounted to 2.2 million ounces (5,860,000 tolas). It is only in rare periods of general distress, as during the 12 years following 1930-31, that gold is dishoarded to cover deficits in the family budget and gold exports take place.

With a view to conserving foreign exchange for more essential items, gold imports were banned in September 1939, except under licence issued by the Reserve Bank. But the traditional habits of people cannot disappear overnight. With a general improvement in the economic condition of the rural people, a demand for imports was revived in 1943-44. During the three years, 1943 to 1945, a good part of the demand was met by the import and sale, on behalf of the Allied Governments (to meet their rupee expenditure), of gold amounting to 7.5 million ounces. Since then, virtually the whole of the hoarding demand has been met by smuggling, the issue of licences for import having again been stopped since March 1947.

Avoiding Detection

Estimates of smuggled gold are based on indirect data. Imported gold being usually of much higher fineness (99.9 percent) than the domestic metal, it has to be toned down to avoid detection. As under Indian market practice, all gold above 99 percent fineness is paid for at one rate, apart from security considerations, "skimming" the excess fineness is a profitable undertaking. Toning down is also necessary to meet Indian requirements, the demand in India being generally for guinea gold (91.7 percent fine) in the south and for yellow gold (about 97 percent fine) elsewhere. Prior to the 1955 amendment to the Sea Customs Act (discussed in greater detail later), smuggled gold used to find its way to the refineries for toning down; thus, the statistics of melting and assaying were a rough measure of the amount of smuggled gold. This averaged, during the eight years ended 1955, about 3.3 million tolas (1.23 million ounces) a year. At current prices it may be valued at Rs. 36 crores. With the 1955 amendment to the Sea Customs Act, the larger refineries are not freely used by the smugglers; the toning down is done secretly, on a cottage industry scale, by their agents. The later statistics of assaying and refining are, therefore, less dependable as indirect indicators of the amount. Even the figures until 1955 probably under-estimate the actual position. First, apart from excluding the melting done in the smaller (private) refineries, they did not include the metal which was sold without being brought to a refinery. Secondly, net imports of gold during the 'twenties of this century averaged 4.1 million ounces a year. Since then, although Burma and Pakistan have been separated from India, the economic condition of the rural population has probably improved somewhat. Estimates of smuggled gold (Rs. 162 crores) during the first plan period (1951-52 to 1955-56) were equal to about 80 percent of the (used) foreign aid for the plan, or nearly 6 percent of the domestic savings of the period, and about 14 percent of the world gold hoarding during 1951-55.

Stimulating Factors

Several factors have stimulated gold smuggling in the recent past. First, the rise in the internal price of gold from an annual average of Rs. 89.15 a tola in 1954-55 to an (annual) average of Rs. 108.46 a tola in 1957-58 (a rise of 21.66 percent) has corres-

pondingly enhanced the profit margin. Secondly, due to inflationary financing under the plan during the same period, the annual average prices of food articles rose by 29.60 percent and industrial raw materials by 19.34 percent. In August 1958, the price of gold declined to Rs. 107.84 a tola, but food articles rose by 17.21 percent and industrial raw materials by 4.25 percent. The price of gold having risen less, the same quantity of agricultural output enabled the acquisition of a bigger quantity of gold for hoarding. Thirdly, with the progress towards convertibility, gold was now available at parity prices against certain non-dollar currencies (that is, sterling, the Belgian franc, and the German D-mark). Fourthly, the tax proposals in the Krishnamachari Budget and the slump in the share market led to increased investment of savings in gold. Finally, the prevailing foreign exchange scarcity and apprehensions of another devaluation of the rupee stimulated the inflow of gold. It was thought that devaluation, by driving up the parity price of gold (the landed cost arrived at by multiplying the price abroad by the rate of exchange), would correspondingly reduce the profit margin in the traffic.

Finding Foreign Exchange

In the final analysis, smuggled gold must be paid for from the proceeds of exports. This raises the question how foreign exchange on so large a

By

Professor B. R. SHENOY

scale is found. The usual devices of finding finance for illicit traffic of all kinds are (1) to under-invoice exports and over-invoice imports, and (2) to smuggle out commodities. When exports are under-invoiced, a part of the proceeds is concealed from the Exchange Control; when imports are over-invoiced, more foreign exchange is acquired. The proceeds of smuggled commodity exports remain outside the reach of the Control. In all cases, the ill-gotten foreign exchange may be used to pay for the import of gold. But Indian bullion dealers insist that the smugglers of gold freely accept payment in Indian money and that foreign exchange does not visibly figure in the picture. But the real fact is that the initial payment for gold in Indian money does get ultimately converted into foreign exchange by the smugglers.

Limited Scope

The scope for applying the technique of over-invoicing and under-invoicing to invisible trade is generally limited (among the several heads under which this trade is classified in the Indian balance of payments statistics) to "foreign travel" and certain items under "miscellaneous", as the magnitudes of the other heads of classification are more or less precisely ascertainable. But the foreign exchange yield from these two categories would be but a fraction of the needs of the gold trade as the annual average of the transactions under them (with the dollar area), during the past ten years, was about Rs. 9.24 crores. On the other hand, the visible trade of the country during the past ten years averaged Rs. 1,395 crores (comprising Rs. 606 crores of exports and Rs. 789 crores of imports) a year. An average levy of, say, 3 percent to 5 percent through under-invoicing and over-invoicing, would yield from it Rs. 40 to Rs. 70 crores of foreign exchange, or somewhat more than the value of the smuggled gold estimated here. But the dealers in the "first station" gold markets, that is, in the western hemisphere and Africa, from where the other free markets obtained their supplies, have to be paid in U.S. dollars. The soft currency collections from this trade are, therefore, less attractive than U.S. (or Canadian) dollars as a means of financing the gold trade. As under-invoicing and over-invoicing involves a risk, traders cannot be expected (save in cases of themselves being interested in gold smuggling) to engage in it; nor would they be disposing of these exchange

earnings in free markets, except when the currencies concerned command premiums in terms of rupees. In the case of other currencies, which sell at a discount in free markets (in terms of rupees), conversion of foreign exchange at official rates, through the Control, would be more paying. These considerations limit the application of the device of under-invoicing and over-invoicing to the trade financed in hard (or nearly hard) currencies. India's trade with the dollar area averaged Rs. 309 crores a year during the past ten years. A 3 percent to 5 percent ratio through such devices may bring from it Rs. 9 to Rs. 16 crores of dollar exchange, and 10 percent Rs. 31 crores, or the bulk of the needed finance.

It would, however, be different in the case of the exchange proceeds of goods smuggled out of the country (that is, rice smuggled principally to Pakistan). Being smuggled goods, their exchange proceeds have necessarily to be disposed of in the free markets and, the temptation here being the large profit margins on the smuggled goods, the dealers would be willing to part with the soft currency receipts at a discount in terms of rupees. In situations such as these, soft currencies are likely to be used for financing smuggling operations.

Control of Inflation

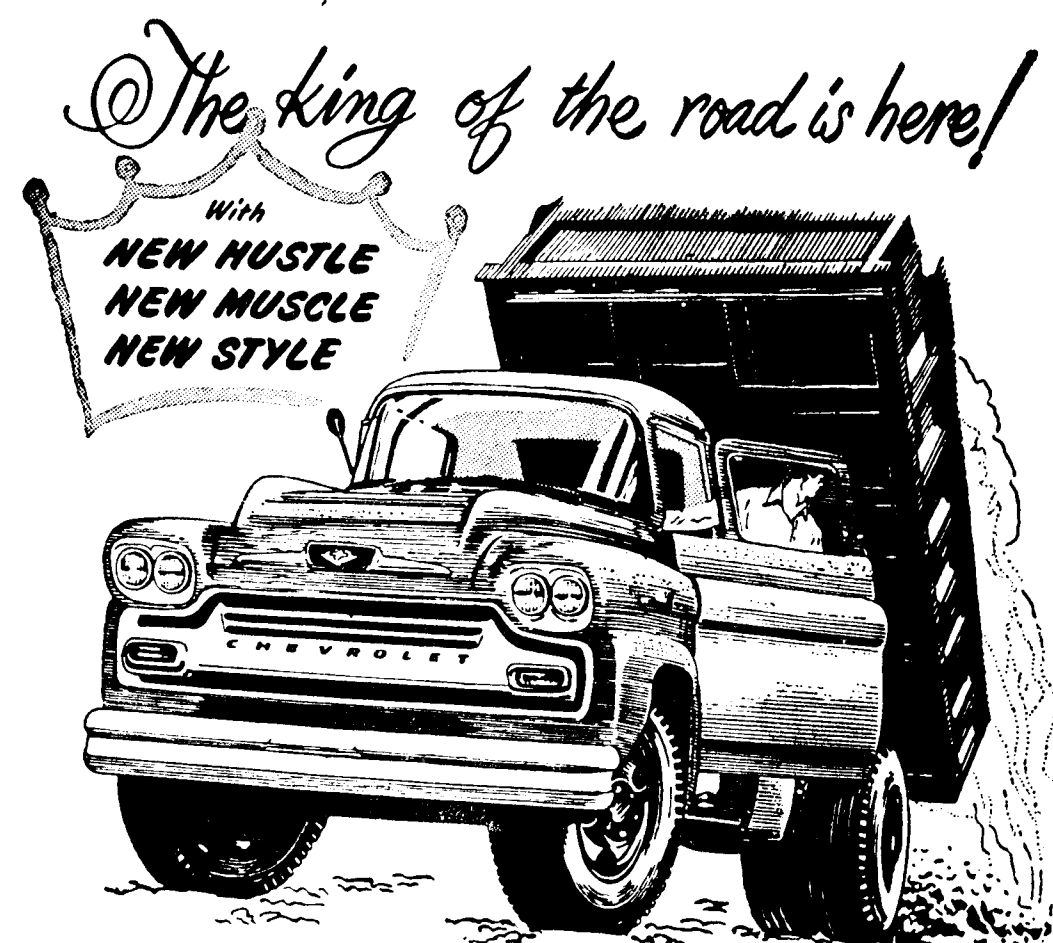
Lately, with the increasing control of inflation in the soft currency countries, the premiums in terms of dollars over their currencies (that is, the currencies of Belgium, West Germany, Switzerland and the U.K.) have practically disappeared. Between 1955 and 1957, the price of gold in London has generally remained fractionally below \$(U.S.)35 a fine ounce, compared with the U.S. official selling price of \$35.0875; thereafter, it has moved fractionally above the U.S. selling price and was at \$35.09 in June 1958. Moreover, while any individual (subject to such exchange control restrictions as still remain) may buy gold in London, U.S. official gold is available only to central banks and governments. These developments and considerations suggest a possible extension of the device of over-invoicing and under-invoicing to the trade financed in some of these currencies as well.

The foreign currencies acquired through under-invoicing, over-invoicing, or by smuggling goods out of the country represent funds (working capital) transferred abroad. The traders who own them would wish to bring them back to India (convert them into rupees) in order to repeat the operation—to buy more goods for export or for smuggling, or to acquire more foreign exchange from the Control through further over or under-invoicing. The opposite would be the requirement of gold smugglers. They would have rupees in India, acquired against the sale of gold, which they would be anxious to convert into dollars with which to buy more gold for transfer to India.

Free Markets

The two (the traders and the gold smugglers) would satisfy their requirements in the free markets for foreign exchange; the gold smugglers would secretly take (its export being banned) Indian money out of India and exchange it for dollars in these markets, and the traders would pick up the Indian money against the foreign exchange illicitly acquired by them. The latter may bring the Indian money into India openly, as the exchange control restrictions concerning that are inconsequential. But under-invoicing, over-invoicing and smuggling out commodities the export of which is banned, being in the nature of "black" transactions, the traders may smuggle in the Indian money without declaration at the Customs. Statistics of the imports of rupee currency into India may not, therefore, be a correct index of the amount of gold smuggled. Customs returns show that imports of rupee currency into India during the three years ended 1955-56 averaged Rs. 13 crores a year.

The requirements of the traders and of gold smugglers are thus mutually satisfied. The close relationship between the free market transactions in foreign exchange and in gold lends significance to the frequent existence, side by side, of free markets in gold and in foreign exchange. It shows, too, that although, in the first instance, gold may be paid for in Indian money, in the fina



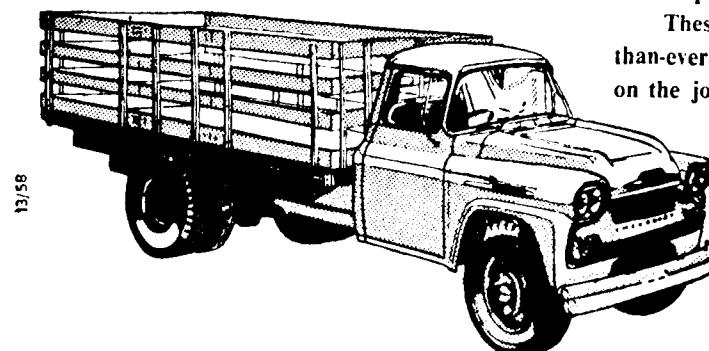
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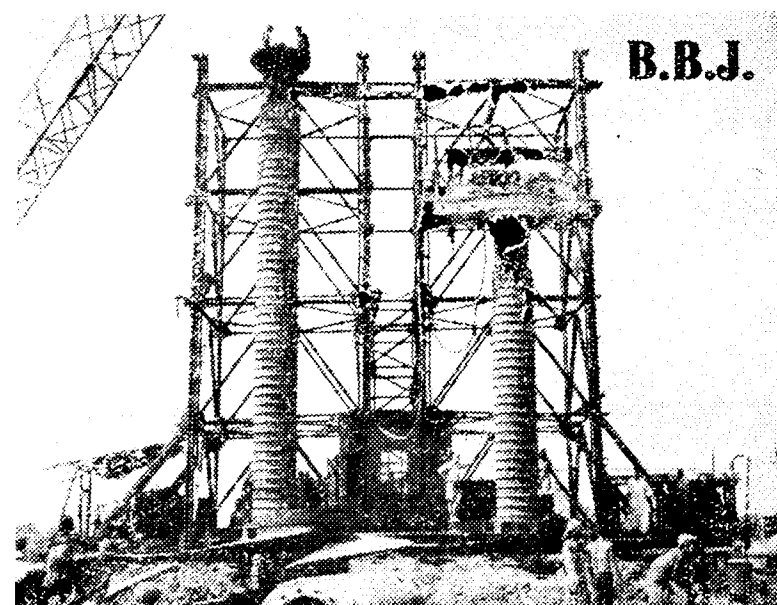
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analysis, it is a case of commodity exports financing gold imports. When gold imports were legal, Indian money, received against gold, was converted into foreign exchange through the exchange banks in India; the link between gold imports and commodity exports was obvious as the foreign exchange sold by the exchange banks represented the proceeds of exports. With the ban on the import of gold, the conversion of Indian money received against smuggled gold into foreign exchanges was affected outside India—in the free markets for foreign exchange.

Indian money is legal tender in the Persian Gulf area and throughout much of the Indian Ocean territories. The finances of gold smuggling into India are not dependent upon this fact. Withdrawal from circulation of the Indian rupee from these territories would not, in other words, put a stop to gold smuggling. Circulation of the Indian rupee there should be, in fact, encouraged as, apart from considerations of prestige, it is a case of invisible exports from the country and, therefore, economically beneficial. The mechanism to finance gold smuggling outlined above, which is more commonly in use, involves the smuggling out of Indian money and bringing it back into India. But to the extent the smuggled out Indian currency is taken up for internal circulation by these territories, the inflow of gold would be financed by the outflow of Indian money, the responsibility of providing the equivalent hard currency to the gold smugglers falling, in this case, upon the economies of the territories concerned. But such absorption of Indian money cannot be considerable and, not being always a positive figure, it cannot be relied upon as a steady source of finance. In India, which is incomparably larger in extent and population, the annual absorption of currency during the past ten years was about Rs. 21 crores.

Drawing out the Hoards

Interest in gold smuggling and private hoards of gold in India arises from the question whether the current flow and past hoards of gold may be drawn out for financing economic development. Trade statistics show that the total net absorption of gold in India between 1886-87 and 1947-48 (including domestic output) was about 83 million ounces, valued at Rs. 2,400 crores at the current price of Rs. 108 a tola. My estimate of the flow of smuggled gold in the post-war period is Rs. 36 to 40 crores a year. In the past, the movement of gold into and out of India conformed to the country's payments requirements, gold flowing in when there were payments surpluses, which was the usual rule, and flowing out, as between 1931-32 and 1942-43, in times of payments deficits. The asymmetrical imports of gold since 1946-47 have been taking place in the face of the acute shortage of foreign exchange.

Gold smuggling has been made possible by the large gap between the internal prices of gold, which have varied with market conditions, and the external price expressed in rupees, which varied (the dollar price being given) with the exchange valuation of the rupee and, looking to the past two decades, was at Rs. 43.42 until 18th September, 1949, and at Rs. 62.50 thereafter. Thanks to the artificial exchange value of the rupee, smugglers are able to make from the Indian traffic, at the current average rupee price of about Rs. 108 a tola, \$(U.S.)60.44 an ounce of gold, the highest price in the world today; the U.S. dollar equivalent of the price in Lebanon, the next highest price, is \$51.18 (June 1958). The Indian traffic brings smugglers a gross profit of Rs. 45.50 a tola. After allowing for the cost of transport, the share of middlemen and the concession price to dealers, supposing there was left a net profit of about Rs. 20 to 25 a tola, the smugglers would not have to go out of business even if one in every six consignments was detected by the police, which is, apparently, not the case. Even if the entire Customs and police forces were incorruptible, it is beyond their physical capacity to keep constant vigil over several thousands of miles of sea coast and land frontiers round the clock, year after year.

To assist the police in the prevention of gold smuggling, the Sea Customs Act, 1878, was amended in April 1955, shifting to dealers the onus of proof that the gold which the police may seize on reasonable suspicion was not smuggled. When every issue of fresh coins in a background of clipped and debased coinage disappeared from circulation, some irate monarchs of the Middle Ages clipped the fingers of the guilty. Such drastic measures, however, proved futile in the fight against Gresham's law until the coming of milled coinage and, what was more fundamental, the abandonment of debasement by the mints themselves. No amount of threat to the civil liberties of the bullion dealers could put a stop to gold smuggling while the inordinate gap between the internal and external prices of gold remains. The

Reserve Bank of India Bulletin, April 1958, p. 385

passing of the amendment made little impression on the price of gold in Bombay; the market was apparently satisfied that it may not make much difference to the flow of supplies.

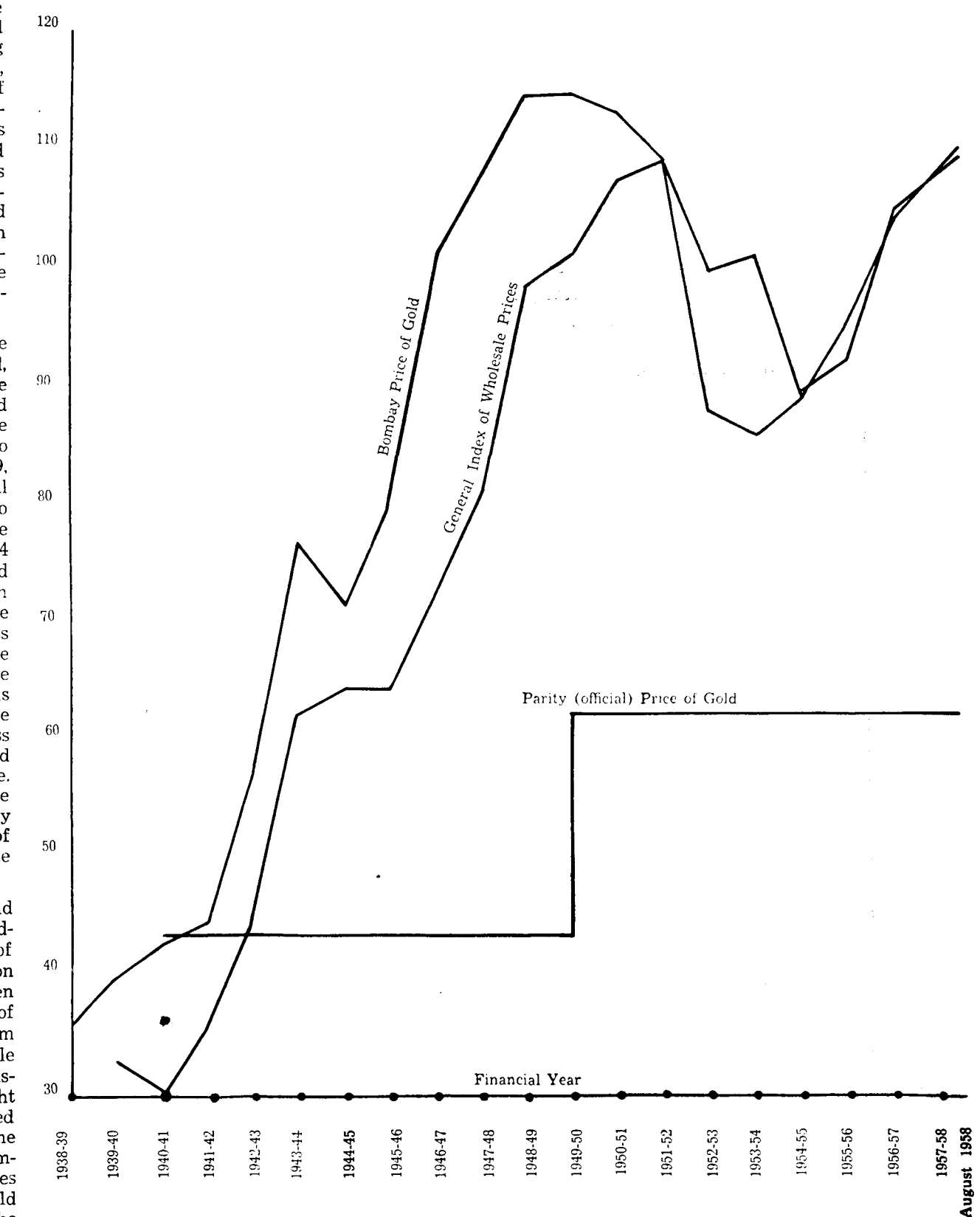
The price gap in gold cannot be covered except through, first, a prevention of further inflation and, second, an appropriate adjustment in the exchange value of the rupee to allow for the effects of past inflation or, alternatively, to leave the exchange rate free to fluctuate with the intrinsic value of the rupee. Elimination of the price gap, however, may not put a stop to gold hoarding although, as long as a large enough gap exists, gold smuggling will continue. The speculative demand for gold might cease with the establishment of monetary and exchange stability. But the savings demand for it may continue unless the investment habits of the people change. With the removal of the price differential, there is a chance of the ban on gold imports proving effective. If the rural population is then offered alternative investment opportunities at attractive returns, the preference for gold might diminish. In any case, monetary and exchange stability should, as post-war experience has shown more conclusively than ever before, lead to payments equilibrium and permit, as in the past, satisfaction of the savings demand for gold without undue strain on payments.

If there is to be no devaluation, then the only alternative appears to be the official import and sales of gold. On an annual offtake of 3.3 million tolas, at the current price of Rs. 108 a tola, the national exchequer may earn from the transactions about Rs. 15 crores a year on a working capital outlay of Rs. 21 crores (or a gross return of over 70 percent). This amount today is appropriated by smugglers and their collaborators. The foreign exchange is, in any case, being spent, so that official sales of gold need not place any additional foreign exchange burden on the economy. The sale of gold by the Allies during the war is a useful precedent. It would not conflict with the obligations of this country's membership of the I.M.F. as the purchase of gold at parity prices from central banks abroad and its sale in the internal premium market

would not violate the Fund ban against premium transactions in gold as *between* member countries (Article IV, Sections 2 and 4 of the Fund Agreement).

Attracting past gold hoards into current investment is no easy task. Apart from the fact that it is ill-gotten wealth which is generally invested in gold, the hoards as a whole are scattered in millions of tiny units in the form of trinkets which individually would be of small value. It is perhaps easier for a farmer to mortgage or sell his land than to persuade his women folk to part with their gold ornaments. If during the 12 years following September 1931, gold was exported on a big scale—the annual average exports in the period amounted to 3.6 million ounces—it was primarily because of the distress caused by the Great Depression. It would be difficult to draw out substantial amounts of gold hoards for purposes other than to prevent near starvation.

Some have suggested the issue of gold loans, to be subscribed in gold and repaid at maturity in gold, to meet the foreign exchange shortage. Each tola of this loan will bring in Rs. 62.50 worth of foreign exchange, while redemption of the (capital amount of the) loan at maturity will cost the Government an equal amount in rupees. Although the internal market price of gold is very much higher, the transaction may be worth while from the stand-point of the Government. If, however, the rupee should be devalued before maturity, the rupee cost of redemption will be higher by the extent of devaluation. If income tax penalties are not invoked on subscriptions from "black" wealth now held in gold and if the interest offered is attractive enough, this may bring out some gold hoards (principally "black" gold), although it is difficult to guess the magnitude. The recent French experience of a gold loan indicates the difficulty of inducing people to part with their treasure. Gold hoards in France are estimated at \$3,000 to \$4,000 million and the subscriptions to the loan last summer amounted to 2 percent to 3 percent of the hoards, although the loan has been officially described as a great success.

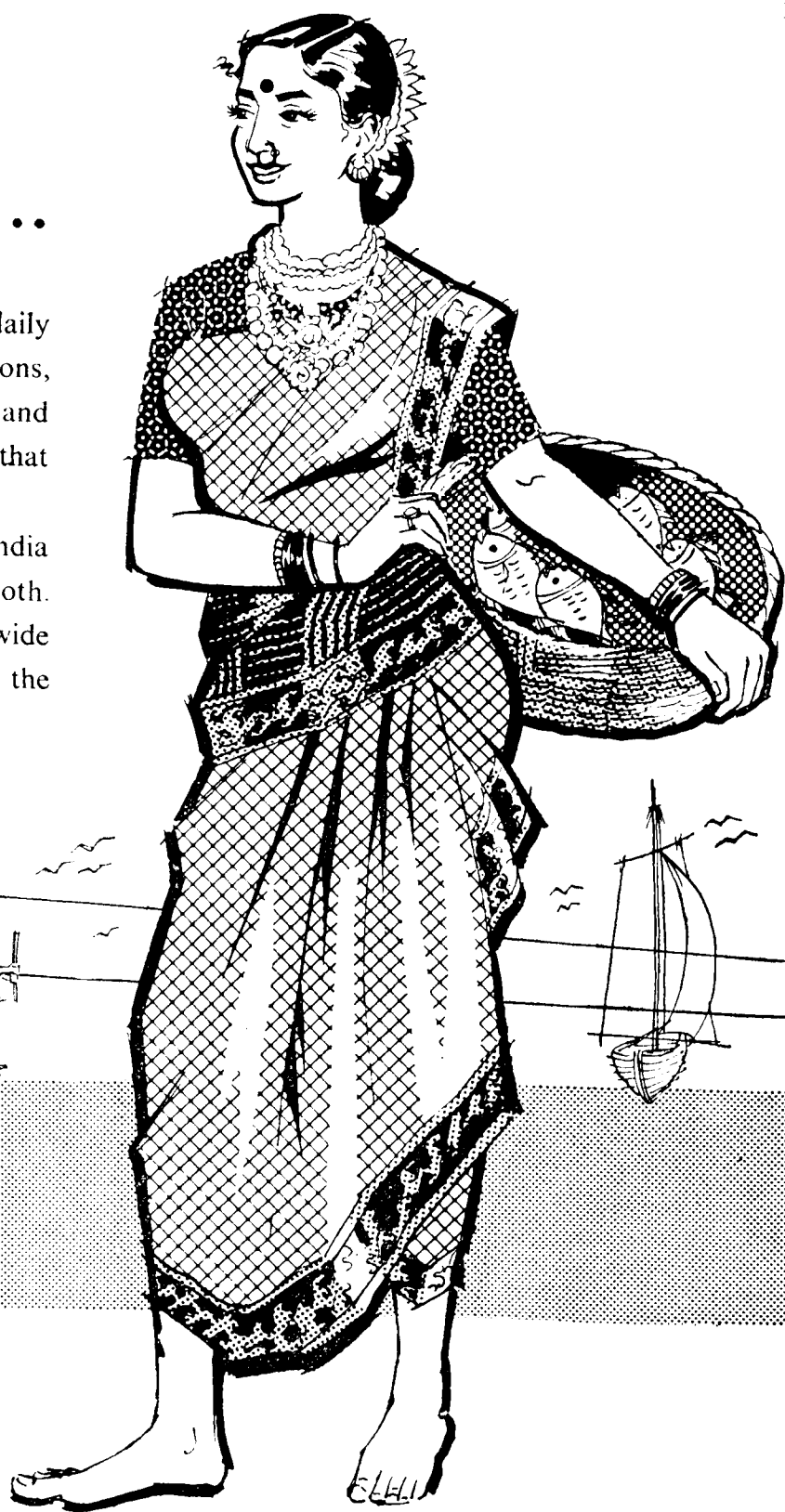


The price of gold in this graph is indicated in rupees a tola. The general index of wholesale prices is based on 1952-53 equals 100.

The dress of the people...

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THE UNBALANCED STRUCTURE OF COMPANY TAXATION

INDIAN RATES HEAVIEST IN THE WORLD

COMPANY taxation in India has undergone vast and sweeping changes in the past two years. An entirely new structure of corporate taxation has emerged which contains a number of novel taxes. The rates of tax have been sharply increased so that today they impose a burden of taxation which is the heaviest in the world. In this article, the main provisions of the tax laws applicable to joint-stock companies are outlined. Their total financial burden is assessed. Finally, the economic effects of the present structure of company taxation in India are discussed.

The assessed profit of companies in India is first subject to income tax and a surcharge at the rates of 30 percent and 15 percent, respectively. When companies declare dividends, their shareholders receive credit in their personal income tax of the corresponding income tax (and surcharge) paid by the companies. To this extent, the income tax paid by companies can be looked upon as a deduction of income tax at source on behalf of their shareholders. However, the income tax paid on undistributed profits is not refundable either to the companies or to their shareholders. It must, therefore, be considered as a direct tax which has to be borne by the companies. Next, the profits of companies are subject to super tax, the rate of which depends upon various factors. The flat rate of super tax is 50 percent of the profits. But a series of rebates are allowed from this rate according to different criteria. For the sake of simplicity in the analysis, the various net rates of super tax as linked to different criteria or provisions of the statute will be discussed.

The Corporation Tax

The basic rate of super tax applicable to companies is 20 percent of their profits. This is often termed as corporation tax. The tax is a direct tax on the profits of companies. It is not refundable to individual shareholders on dividends received by them. But the law provides for full and for partial rebates or exemptions from corporation tax on dividends received by companies from other companies. Full exemption from the tax is given on dividends received from companies engaged in certain specific activities covered by the Industries Development and Regulation Act. A rebate of half the basic rate of corporation tax is given on dividends received by companies from their Indian subsidiary companies. This is done to prevent double and triple taxation of inter-corporate dividends.

Under the provisions of Section 23A of the Indian Income Tax Act, a super tax is imposed as a penalty for non-distribution of the minimum statutory percentages of profits of certain joint-stock companies. These provisions apply to all private companies and to public companies which are closely controlled. Such concerns are required to distribute as dividends at least 45 percent of their annual profits if they are industrial or manufacturing companies and 100 percent of their profits if they are investment companies. Companies in which the accumulated profits or reserves (including capitalised reserves) exceed the subscribed capital or the cost of fixed assets, whichever is greater, are required to distribute 90 percent of their annual profits. Failure to distribute these statutory percentages attracts a severe penalty super tax at the rate of 50 percent in the case of investment companies and at the rate of 37 percent in the case of other companies falling within the scope of the provisions of Section 23A. This super tax is levied on the entire net undistributed profits for the year of these companies. Thus these provisions aim at a forced distribution of the statutory percentages of their annual profits because failure to do so attracts a most drastic tax penalty.

Handicap for Industrial Growth

The original aim of the provisions of Section 23A was to prevent avoidance of the personal super tax by individuals. Since the rate of super tax on companies was lower than the rate for individuals, it was possible to avoid paying the higher personal super tax by transferring personal assets to a private company which did not declare adequate dividends and accumulated the income as reserves. The provisions of Section 23A were originally aimed at foiling attempts to avoid personal super tax by such means. But unfortunately

today, these provisions apply in many cases where there is not the slightest intention to avoid the personal super tax. Under Section 23A, a company can be exempted from the penal super tax only on grounds of past losses and inadequacy of current profits. Under all other circumstances, the penal super tax has to be levied.

These provisions impose a most undesirable handicap on industrial growth and expansion. They limit the amount of profits which companies coming under this section can plough back into their businesses. Not only is growth retarded, but a ceiling is put on the growth of such companies. In India, where private capital is scarce and shy, it is almost impossible for small and medium companies to raise share capital through public subscription. Their borrowing power is also limited at best to a proportion of the capital invested in the business. The ploughing back of profits is essential for the steady growth of most businesses in India as also in any other part of the world. The provisions of Section 23A discriminate heavily against private companies and public companies which are closely controlled. These provisions confer an advantage on giant public companies which fall outside their scope and so are free to plough back their profits into the business without any restrictions. Thus they will promote the greater concentration of business, industry and economic activity in large public companies at the cost of smaller companies which are within the scope of Section 23A.

Penal Super Tax

Companies are required to pay super tax at various penalty rates on dividends which exceed 6 percent of their paid-up capital. The rates of this additional super tax are 10 percent on dividends amounting to between 6 percent and 10 percent of the paid-up capital of the companies; 20

percent of their paid-up capital and so have to pay the penal excess dividends super tax. This is an interesting illustration of the flagrant contradictions and the lack of consistency in the principles underlying company taxation in India today.

Tax on Bonus Shares

Companies have to pay a penal super tax of 30 percent of the value of bonus shares issued by them. The main justification for this tax is to prevent the avoidance of the excess dividends super tax by companies through the capitalisation of their reserves by the issue of bonus shares. However, this justification applies only because the basis of charge for the excess dividends super tax is a wrong one, namely, the paid-up capital of a company (including its capitalised reserves). The correct basis of charge for the excess dividends super tax—if it must be levied—should be the total capital employed in the business, that is, the paid-up capital plus the reserves of the companies. If this basis is adopted, the present justification for the tax on bonus issues to prevent the avoidance of the excess dividends super tax would not exist.

Moreover, there is a basic conflict in the principles underlying the taxation of excess dividends and the taxation of bonus shares. The excess dividends super tax penalises the distribution of high dividends and aims at encouraging the reinvestment of profits in the business. But the tax on bonus issues discourages the ploughing back of profits into the business and the building up of large reserves by companies. It tends to encourage high dividend distributions.

Exemptions and Deductions

The exemptions and deductions allowed under the Indian Income Tax Act should be considered especially in order to arrive at a proper assessment of the burden of income tax and super tax on companies. They mitigate the burden of the taxes on the profits of companies either by exempting them altogether or partially from the taxes, or by reducing the profits assessable for tax purposes. Under Section 15C of the Indian Income Tax Act, company profits or gains derived from any new industrial undertaking up to 6 percent of the total capital employed are exempt from income tax and super tax. This exemption is available for five years after the undertakings begin their manufacturing activities. Shareholders receiving dividends from companies covered by the provisions of this section do not pay personal income tax or super tax on such dividends. This appears to be a substantial exemption. But in practice, its importance has been minor because in the initial five years of any undertaking's operation, there are usually hardly any assessable profits. Most companies make losses or insufficient profits in the initial years. Moreover, even if profits are made, the exclusions from such assessable income by way of accelerated depreciation allowances and the development rebate (which are discussed later) reduce the assessable net profits subject to taxation to a very small figure or even nil in most cases. Hence the relief which the provisions of Section 15C have afforded is largely theoretical. Under the provisions of Section 56A of the Indian Income Tax Act, dividends received by companies from other companies are to be exempt from the payment of corporation tax if the paying companies are engaged in certain specified industries covered by the Industries Development and Regulation Act. These provisions provide some relief from taxation on inter-corporate dividends. But this exemption is of minor importance.

Depreciation Allowances

Companies are allowed to deduct depreciation on their plant and machinery, buildings and furniture from their assessable profits for income tax purposes. The depreciation allowed for tax purposes is based on the original or the historical cost of the assets and on their written down value. The last 20 years have witnessed a continuous rise in the prices of various assets used by companies. In such an inflationary period, depreciation allowances based on past historical costs do not measure the real loss in the value of the assets through use. The total amount allowed by way of depreciation by the tax authorities is insufficient to replace the

By
Professor R. J. TARAPOREVALA

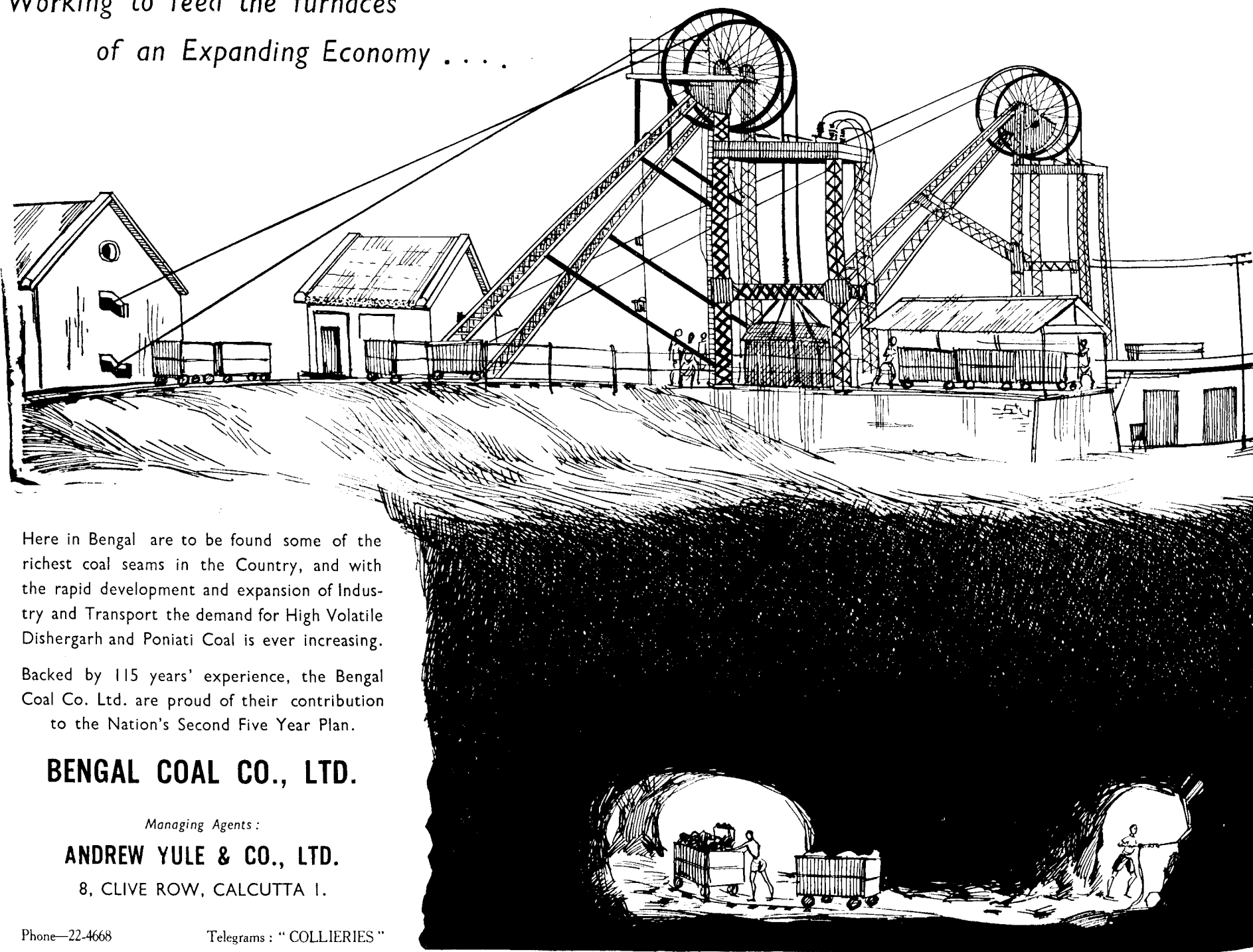
percent on dividends between 10 percent and 13 percent of the paid-up capital and 30 percent on dividends in excess of 18 percent of the paid-up capital. The object of these provisions has been to encourage companies to plough back as much of their profits as possible into their business. It is hoped thus to limit the rate at which capital gains can be made by shareholders on the value of their holdings which depends on the dividends distributed by the companies. However, this crude way of limiting capital gains has ceased to have any justification as a result of the recent introduction of a capital gains tax.

The super tax on excess dividends penalises the more efficient and, therefore, the more prosperous and successful companies which cannot be defended on any grounds of equity. Since the tax is levied on dividends calculated as a percentage of the paid-up capital and not as a percentage of the total capital employed in the business, it discriminates in favour of companies which capitalised their reserves in the past. It imposes an unjustified tax burden and disadvantage on companies which followed prudent and conservative policies concerning their finances in the past, and did not capitalise all their reserves. If the excess dividends super tax must be levied, it should be on dividends calculated as a percentage of the total capital employed in the business.

Distribution of Profits

The provisions imposing a super tax on excess dividends are not compatible with the provisions of Section 23A which compel a minimum distribution of profits. Thus companies covered by Section 23A have an unpleasant choice if they make substantial profits. If they fail to distribute the minimum statutory percentage of profits as laid down by Section 23A, they have to incur the drastic penalty super tax for not distributing profits. If they distribute their profits in accordance with the provisions of Section 23A, they have to distribute in most cases dividends in excess of 6

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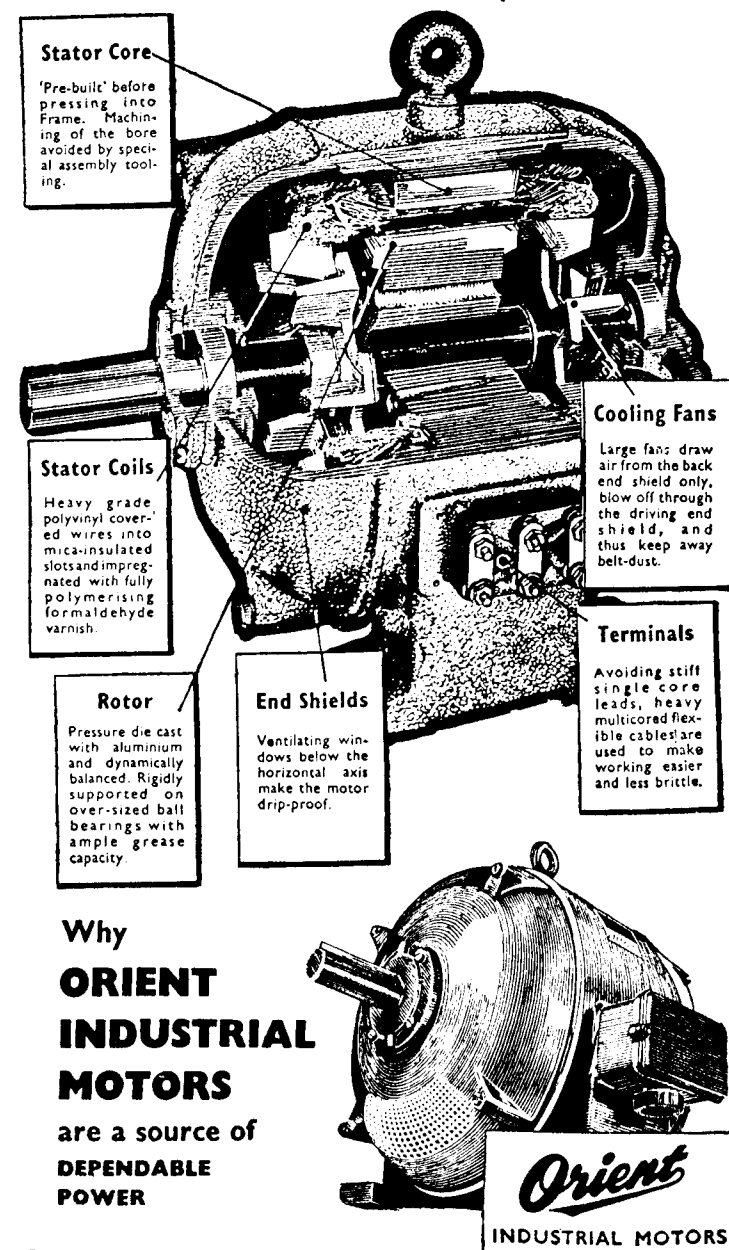
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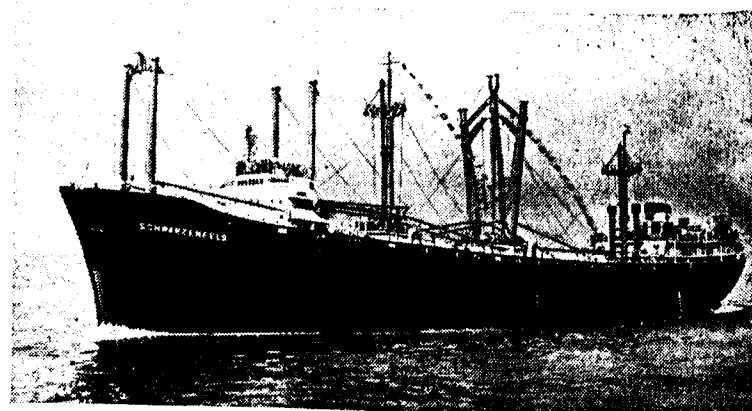
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assets at the end of their useful life because inflation increases the replacement cost often to many times the original cost of the assets. The allowance of depreciation on the original or historical costs of the assets artificially increases the assessable profits of the companies in a period of inflation and increases their tax burden in an inequitable manner. The correct basis of depreciation in an inflationary period should be the replacement cost.

The Government of India introduced special depreciation allowances in the Indian Income Tax Act in order to mitigate, at least partially, the hardships caused by depreciation allowances based on the original cost of assets. Companies are allowed to write off from the original value of their assets the normal depreciation plus additional depreciation which is equal to the normal depreciation during the first five years of the life of various assets. But the additional depreciation allowance does not solve the problem of providing for substantially increased replacement costs of assets in a period of inflation because it is calculated on the original or historical cost of the assets. At best the additional depreciation allowance is a tax-free loan given by the Government to the companies. It decreases the assessable profits of the companies during the first years of the life of various assets and, to that extent, increases the companies' profits and hence their tax liability in later years. Moreover, if the rates of company taxation rise over the years, the advantages of accelerated depreciation allowances may be nullified and they may even increase the average long-term tax burden on the companies. Thus the depreciation allowed as a deduction from the assessable profits of companies is totally inadequate for replacing their assets in an inflationary period. It artificially increases the assessable profits of the companies and enhances their tax burden in a most inequitable fashion.

The Development Rebate

A special concession granted in the taxation of company profits after 1954 is the development rebate. Companies can deduct from their assessable profits for income tax purposes an amount equal to 25 percent of the actual cost of new plant and machinery installed by them. This concession is available only in the initial year of installation of the plant and machinery which must be used only for the purposes of the business. The development rebate is not a part of the depreciation allowances. It is granted over and above the full recoupment of total costs by way of depreciation allowances. In the recent Budget, the Government of India introduced a number of onerous conditions which have to be fulfilled by companies in order to earn the development rebate. For example, it has been provided that 75 percent of the development rebate actually allowed has to be debited to the profit and loss account of the previous year and also to be credited to a reserve account. The development rebate is an important tax concession. But it applies only to the initial year in which new plant and machinery are installed. It is of little long-run significance.

It is difficult to assess precisely the total burden of income tax and super tax on companies since the rates of super tax are linked to many diverse and conflicting criteria. The minimum total burden of these taxes on companies amounts to 51½ percent of the assessable profits. At the other extreme, the maximum burden of income tax and super tax on companies can presumably be as high as 81½ percent of their annual assessable profits. The average burden of these taxes may be around 60 percent to 65 percent of the assessed profits. It has been shown that the exemptions and deductions allowed under the Indian Income Tax Act are minor and hardly mitigate the burden of these taxes to any appreciable extent.

Tax on Capital Gains

Companies have to pay a tax at the flat rate of 31.5 percent on all capital gains made by them. The tax applies to capital gains actually realised. It can be paid on two alternative bases at the option of the companies. The tax can be paid on the excess of the sale price of an asset over its original cost or on the excess of the sale price over its estimated value on 1st January, 1954. Capital losses can be set off against capital gains in later years. The calculation of capital gains for taxation purposes is done on the assumption that the value of money has remained stable since 1954. The historical or original cost of the assets or their value on 1st January, 1954, is taken as the basis of calculation for the capital gains tax. But in an inflationary period, the companies will be charged a capital gains tax on the sale of their assets which realise more than their original cost, even though the replacement costs of these assets may be much higher than their original cost or their realised sale price. Thus the capital gains tax will confiscate from the companies a portion of their funds which are required

for the mere replacement of their assets. The tax is wrongly based on money gains which in an inflationary period are different from the real gains. The capital gains tax on companies can be considered as a further unjustified tax burden levied on the corporate sector.

The Wealth Tax

A wealth tax is levied on companies at the flat rate of ½ percent of their net wealth in excess of Rs. 5 lakhs. New industrial companies are exempt from the wealth tax for the first five years. Inter-corporate investments are exempt from the tax. This avoids double or triple taxation of inter-corporate wealth. Banking, insurance, shipping and certain other types of companies are exempted from the wealth tax. Companies making losses or inadequate profits and not declaring dividends are given full and partial exemption, respectively, from the tax. The wealth tax on companies has been justified by the Government only on revenue considerations. It has not and cannot be defended on any grounds of equity or justice. The wealth tax takes away a substantial portion of the financial resources of companies and is a thoroughly undesirable measure. It imposes a heavy financial burden. The rate of the tax on companies is ½ percent of their net wealth. But this amounts to between 6 percent and 100 percent of their net annual profits after the deduction of income tax and super tax. The wealth tax adversely affects companies which earn a low rate of profits on their invested capital. The tax amounts to a very substantial proportion of their annual profits. It is, therefore, likely to aggravate the financial difficulties of companies which are making inadequate profits.

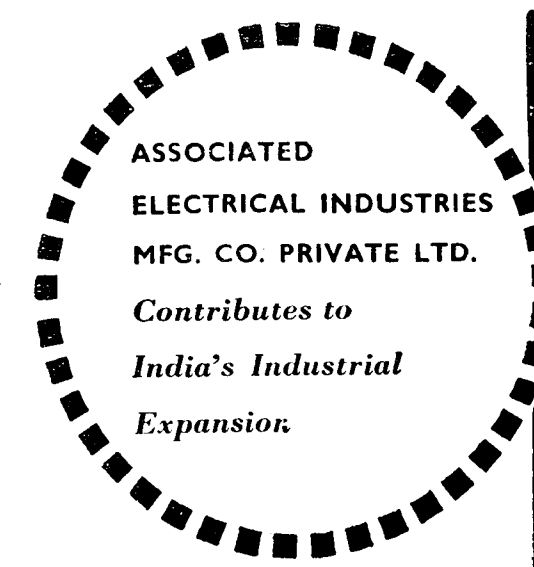
The Gift Tax

Under the Gift Tax Act introduced this year, private companies and closely controlled public companies will have to pay a tax on the value of gifts made by them. The definition of gifts under the Act is so wide and the discretionary powers granted to the tax officials are so sweeping that

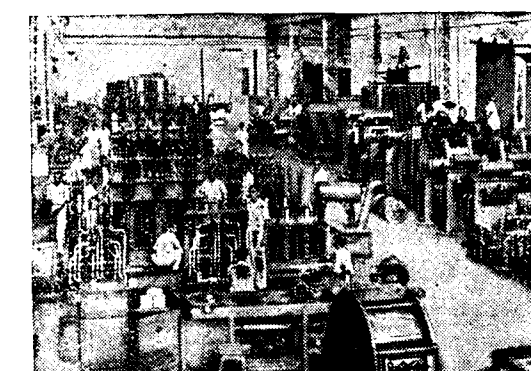
many normal business transactions which do not constitute the giving of gifts in the ordinary sense may be considered as being within the scope of the Act. They may, therefore, be taxed as gifts at rates ranging from 4 percent to 40 percent of their estimated value. Many companies may have to pay this tax and its burden may be quite heavy.

The total burden of all the direct taxes payable by companies varies according to a number of factors, which have been discussed. It may vary from 55 percent to 100 percent of their annual profits. Indeed when the wealth tax was introduced, it was realised by Parliament that the total of all the direct taxes on companies may exceed even 100 percent of the annual profits in some cases. Hence it was provided that for the purposes of the Wealth Tax Act, where the profits made by a company in any year are less than the wealth tax due for that assessment year and the company has not declared a dividend, the wealth tax payable is limited to the amount of profits. This means that in such cases, the total of all the direct taxes amounts to 100 percent of the annual profits made by the companies.

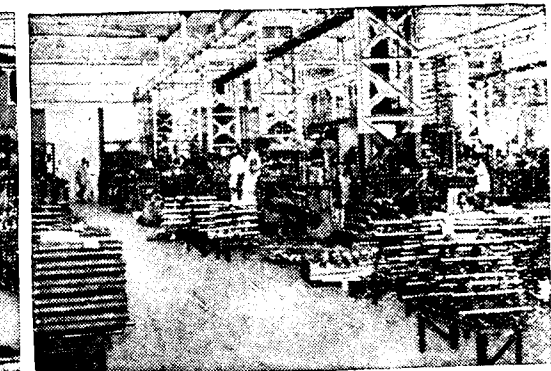
Companies in India today are burdened with excessively heavy tax liabilities. The various direct taxes confiscate most of the annual profits made by companies. Taxation makes it very difficult, if not impossible, for the companies to expand by ploughing back their profits into the business. The present structure of corporate taxation hampers the growth of corporate savings and investment. It, therefore, retards economic development and the industrialisation of the country. Moreover, the burden of company taxation in India is far higher than in any other country of the world. This discourages the inflow of foreign private capital—which is necessary for rapid industrialisation and which would also help mitigate the foreign exchange difficulties. The entire structure of company taxation needs drastic revision immediately in order to make it consistent with well-known economic principles of taxation and to make its burden reasonable and equitable.



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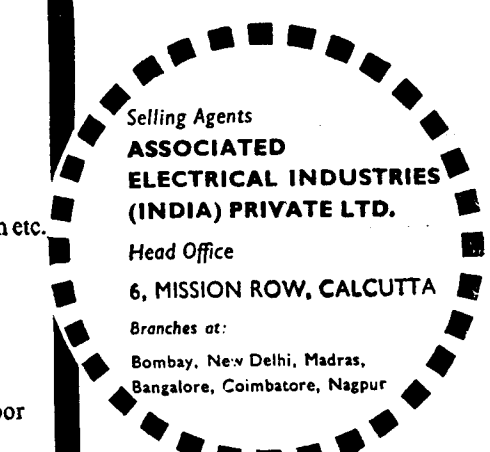
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Checking Corruption in Public Services

Popular Support as Necessary as Government Measures

HERE is general agreement on the need for integrity in public administration, especially in a country like India where activities in the public sector are steadily on the increase. There is, however, no unanimity of opinion either as to the extent of the lack of integrity among public servants, or the factors responsible for the corruption or dishonesty that exists.

Even before India got her independence, the subject had engaged the attention of the Government. As early as 1944-45, the Bengal Administration Enquiry Committee (better known as the Rowlands Committee) reported on this aspect. It observed that, while petty corruption among minor officials was almost endemic (not only in Bengal but also in most other parts of India), the higher ranks were almost free from it. The committee, however, noted with concern that the position had deteriorated during the war. The war created conditions which not only made money-making easy, but also placed great temptations before officials charged with granting permits, licences, etcetera. It was not, therefore, surprising that some of them succumbed to those temptations.

The war came to an end and, in due course, India became independent. The deterioration in moral standards which had set in, did not, however, disappear. The new Government felt that the situation demanded close scrutiny. Anxious to improve the efficiency and tone of the administrative machinery, it asked a number of experts (Indian as well as foreign) to go into the matter. Of these, the reports of at least two, Mr. A. D. Gorwala, a retired member of the Indian Civil Service, and Mr. Paul H. Appleby, an American consultant on public administration, have received considerable public attention. Extracts from them have often been quoted (or misquoted) to support particular points of view. The Planning Commission also took note of the need for an efficient and honest administrative machinery and, in the second five year plan, it devoted one whole chapter to the subject of administrative tasks and organisation.

Extreme Points of View

Broadly speaking, the Appleby report and the Gorwala report represent two extreme points of view, while the Planning Commission has steered a middle course. According to Mr. Appleby, "India is one of the dozen or so Governments in which honesty has been carried to its highest levels". He concedes that there are places where improvement is needed, but his overall theme is one of confidence and hope. Whatever irregularity and corruption exist can, in his opinion, be remedied "through better and more efficient structural arrangements".

Mr. Gorwala is not so complacent. After stressing the need for high moral standards for the administration ("moral standards must not only be observed but must be seen to be observed"), he goes on to cite a number of specific spheres where corruption exists. It is clear from this recital, as also from his other observations, that, according to him, corruption is not confined to the subordinate staff and that it occurs in the higher reaches of the Government as well. The remedial measures suggested by him are not, therefore, confined only to the improvement of the administrative machinery.

The Planning Commission does not make any direct comment on the extent of corruption in the various offices and departments of the Government. After stating that "at present, in several fields of administration, there are complaints of the lack of integrity in the official machinery", it underlines two broad causes of corruption. It then expresses the hope that an administrative vigilance division or a similar organisation, both at the Centre and in the States, should be able to check corruption considerably. Finally, it says that "an alert public opinion can do much to remove an evil whose continued existence is likely to do serious injury to democratic planning".

Popular Suspicion

In the face of this diversity of opinion, one should guard against the danger of drawing sweeping conclusions from isolated facts and circumstances. As has been pointed out even by Mr. Gorwala, many of the stories of corruption are often exaggerated. People spread them for such

diverse reasons as frustration which results from the present economic difficulties of the people, jealousy ("they have power, we have none"), political malice and lack of objectivity and an unfortunate trait in the national character, namely, we love to blame rather than to praise. It is also a fact that a kind of sensational journalism is growing which believes more in invented "scoops" than in an objective statement of facts. The habit of spreading sensational stories is not confined to this section of the Press alone.

Wherever one goes, one hears unfavourable comment on the standards of behaviour of many Government servants. It is also a fact that when a "scandal" is exposed (often at the instance of the Government itself), the reaction of the public is one of "I told you so", or "As against one case of corruption unearthed, at least a dozen go undetected".

Lack of Integrity

Few would dispute that there is a substratum of truth in at least some of the allegations of lack of integrity. It is possible that what the public call "corruption" is not "corruption" according to legal pundits, but there is no doubt that, in both the public and private sectors, there has been considerable deviation from accepted moral standards. Patronage (this includes nepotism and favouritism) and influence have spread into

By
N. DAS

spheres where such lapses of conduct were rare, and this has given a handle to the critics of the Government to level at it the more serious charge of corruption. Critics cannot be entirely blamed if they have stretched the usually accepted meaning. Even Section 161, I.P.C., which deals with the offence of offering gratification "for doing or forbearing to show favour or disfavour to a person", says that the word "gratification" is not restricted to pecuniary gratifications or to those measurable in money. The courts have further amplified the expression to mean that "gratification" includes all gratifications of appetite and all honorary distinctions; an officer is not protected even if his motive is to advance some public object, like charity, science or religion, and giving and receiving gratification is an offence even when the act done or the bribe accepted is a just and proper one (ref. the famous case of Lord Bacon).

How does India compare with other countries as far as integrity in public administration is concerned? As has been pointed out by Mr. Gorwala, this country certainly is not more corrupt than the U.K. a hundred years ago, or, for that matter, many other countries today. But the fact that integrity is lacking to a much greater extent among public servants in some other countries is no excuse for complacency. The high moral standards set by Mahatma Gandhi should make the country more circumspect.

More Honesty

It has been argued by Mr. Appleby that "more honesty and disinterested devotion are found to the administrative square inch in the Government here than in any large private organisation". This argument overlooks the point that the yardstick for integrity ought to be more rigid in the Government than in a private organisation. This is because the Government has to set a high moral tone for the rest of the country. Secondly, the acts of omission or commission by Government servants affect the entire nation, while those by individuals in a private organisation affect a relatively smaller number of persons.

Another point to be borne in mind is that the impact of corruption on public life and morality is not the same at all levels. While petty corruption at lower levels may be annoying or even irritating, it can sometimes be "excused" on the ground that persons at these levels are ill-paid and cannot, therefore, help making an extra income from those who approach them for favours or services. No such extenuating circumstance can, however, be put forward on behalf of the corrupt

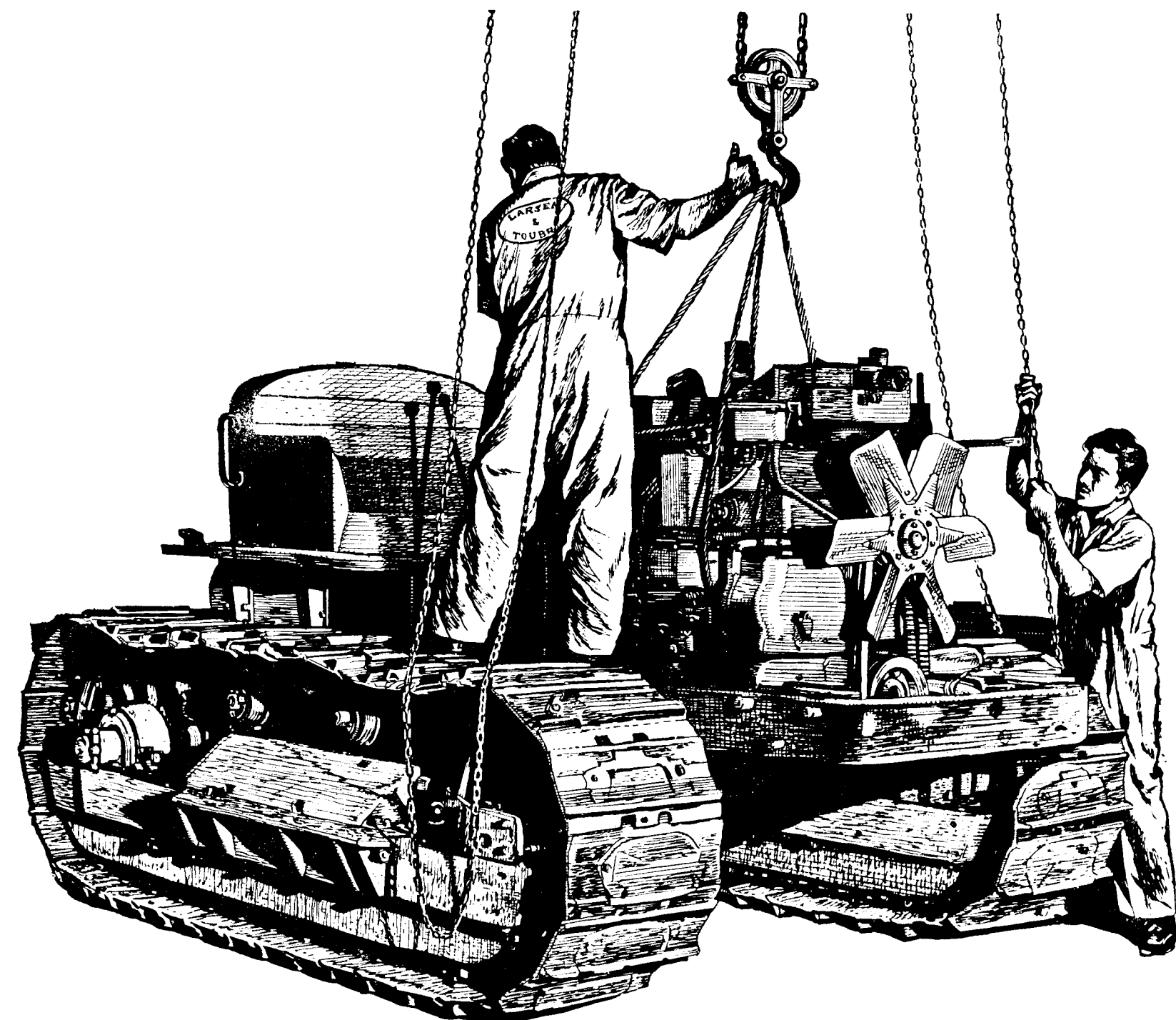
officer drawing a comfortable salary. And even an isolated instance of deviation from moral standards at this level is apt to bring much greater discredit to the Government as a whole than hundreds of instances of corruption at the level of the petty clerk or peon.

The question may now be asked why the standard of integrity has not improved in India. I am not one of those who believe in the alleged absolute (or even relative) incorruptibility of the old administrative cadres, but I do maintain that those who hold positions of trust and responsibility, whether they belong to the old cadres or the new, should be more vigilant and active. Above all, the tendency to "let sleeping dogs lie" should be eschewed.

Anti-corruption Measures

In recent years, the Government has tightened up its anti-corruption measures considerably. Apart from the fact that specific charges of corruption and other malpractices are promptly enquired into, penal measures have been enacted to meet the challenge. The Prevention of Corruption Act, 1947, for example, lays down that (a) when a public servant accepts gratification other than legal remuneration, motive or reward within the meaning of Section 161, I.P.C., is to be presumed until the contrary is proved; and (b) if an officer is in possession of pecuniary resources or property disproportionate to his known sources of income, and if he cannot satisfactorily account for the same, the court shall presume, until the contrary is proved, that he is guilty of criminal misconduct in the discharge of official duties. The rules for the conduct of Government servants have been made stiffer and other departmental measures have been taken to make it increasingly difficult for them to indulge in corrupt practices.

Yet, anybody who is in close touch with the administration must admit that corruption has not been completely checked, because it cannot be removed by stricter "police" methods alone. If the "tone" of public administration is to be improved, public opinion must assert itself in a much more positive manner, and members of the public must come forward to help the vigilance or anti-corruption departments of the Government. Secondly, those who are at the top must act without fear and must uphold high moral standards at any cost. They must beware of servile obsequiousness on the part of their subordinates and, above all, they must guard against being themselves in the delicious atmosphere of flattery. To borrow the words of Anatole France in another context, integrity should be like a young face, full of rare charm and delicate grace: it should speak for itself and be its own recommendation and its own introduction.



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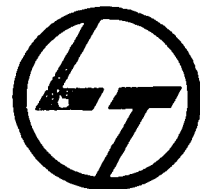
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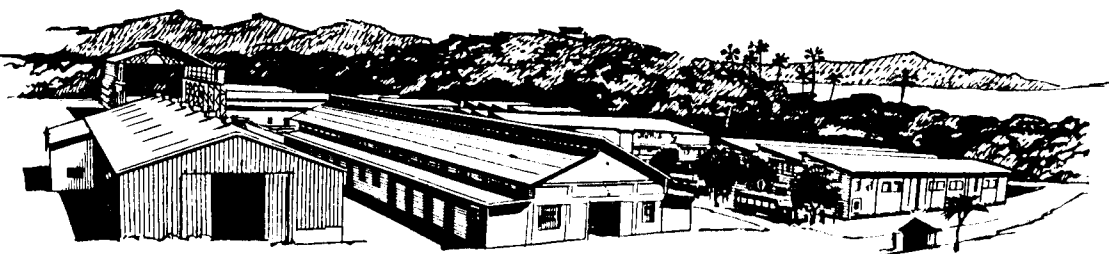
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THE MONTREAL CONFERENCE IN RETROSPECT

NEED FOR CLOSER ECONOMIC CO-OPERATION IN THE COMMONWEALTH

WAS the recent conference of Commonwealth Finance Ministers in Montreal really worth while? The answer to that question, if it is to be a categorical "yes" or "no" depends almost entirely on what the questioner expected from it. If, for instance, he expected that Montreal would be a logical follow-up to the Ottawa conference of 1932, which gave birth to the Commonwealth preference system as a means of strengthening the economic ties and ensuring mutual assistance to the trade of all Commonwealth countries—strange as it may seem under the conditions prevailing today, there were some who expected just that—then the time spent at the Montreal conference by all who went to make up the large delegations, was completely wasted. On the other hand, if he believed, as fortunately the majority of people involved certainly do, that it is vital to the maintenance of a good relationship within the Commonwealth and to its influence in the world that on all matters of common concern there should be the greatest possible measure of community of views and co-operation in action, then the Montreal meeting was undoubtedly an outstanding success and has already proved its worth at the meetings of the World Bank and the International Monetary Fund in New Delhi and of G.A.T.T. in Geneva. It is likely to be even more valuable in the not-too-distant future when the question of starting a free trade area in west Europe would overcome the hurdles it is now encountering as a result of French fears arising from her own economic difficulties.

Before turning to the achievements of the conference itself, it is desirable, for the benefit of the general reader, to give a brief background picture of what is involved when discussing Commonwealth economic development, for it must be appreciated that the Commonwealth has a population of 660 million people and covers an area of 12 million square miles. The ties which hold its members together reach into many parts of the world. At one extreme, there are fully industrialised and prosperous societies, at the other large populations exist at very low levels of income. But they are inter-dependent in that the progress of each is affected in greater or lesser degree by the prosperity of the others. In particular, the rapid advancement of the less developed countries is a matter of major concern to their more prosperous partners, and, therefore, a number of economic objectives are held in common. All the countries wish to see rapid economic progress in the world as a whole, since this is a condition for their own betterment. They all have a direct stake in the growth of world trade. They are all concerned that sterling, in which the trade of most of them is financed, should be strong. They all realise that these objectives call for close collaboration both between themselves and with other like-minded countries. For these reasons, the central theme, which ran through the discussions in Montreal, was of an expanding Commonwealth in an expanding world. It traced the implications of that theme in the sphere of trade, finance and economic development.

Empire Preferences

The Ottawa conference produced a system of Empire preferences to hedge around the Commonwealth. This served a useful purpose at the time, but that was over 25 years ago and during this time much has happened to attenuate the system and reduce its value. Some of the agreements have ceased to apply in their original form or have been re-negotiated. Furthermore, the margins of preference enjoyed have been considerably reduced in successive tariff negotiations and under the G.A.T.T. new preferences are not allowed. The Commonwealth is not a static organism. A product of evolution, it is capable of adapting itself, as it has done so successfully in the past, to changing circumstances and needs. The existing world conditions obviously called for some re-appraisal of Commonwealth economic thinking, and the Montreal conference offered the opportunity for a frank statement of the varying positions of the constituent countries, so that problems and difficulties were better understood. It pro-

duced in the end, as its major achievement, a large measure of agreement on a number of basic factors. The central theme of the conference, "an expanding Commonwealth in an expanding world," was shown not to be a pious platitude. It renounced any idea that inter-Commonwealth trade could be expanded at the expense of the outside trade of its members or that economics should deliberately be used as a device to tighten Commonwealth links. The aim was rather to expand the total trade of each member. This general expansion was to be achieved by deploying the forces of democratic capitalism, and by strenuous mobilisation of investment funds. In addition, the wealthy Commonwealth countries accepted a clear obligation to help the poor countries "even to the extent of some sacrifice." They recognised that if hope was too long deferred "the democratic institutions, which we all cherish, might be in danger." Britain made a start by offering cheap loans. Canada increased her contributions to the Colombo Plan. Efforts are to be made to reduce fluctuations in commodity prices and to bring down tariffs.

Technical Assistance

Another way in which Commonwealth countries are assisting in the economic development of the less developed countries is through the provision

By

OUR LONDON CORRESPONDENT

of technical assistance; and here again fresh measures were announced at the conference. The great importance of education and training as an indispensable condition of development was accepted and it was resolved to help each other as much as possible within this field. The supply and training of teachers is of special importance, and it was agreed in principle to establish a new scheme of Commonwealth scholarships and fellowships and to convene a meeting early next year which would work out its details and also consider what might be done to expand and improve mutual assistance between Commonwealth countries. Consultation and co-operation are of primary importance in achieving objectives in the economic field. The present machinery for consultation is working well; it is flexible and informal and is well fitted to the family character of the Commonwealth relationship. It was decided, however, that the existing arrangements should be co-ordinated under the name of a Commonwealth Economic Consultative Council. A Commonwealth House is to be made available for the constituent bodies of the council and for other Commonwealth meetings in London, and it says much for the co-operation engendered by the discussions that this proposal, which would have been looked upon with some suspicion as smacking too much of centralisation, was accepted with complete unanimity.

Basic Principles

If Montreal had produced no more than that general agreement on basic principles, as to the real value and importance of which time alone can furnish proof, the meeting would have justified itself. It went a bit further, however, and in doing so afforded a closer parallel with its Ottawa predecessor. The additional undertakings which the member countries accepted in the conference may be briefly summarised as follows: (1) In future trading decisions, Commonwealth Governments will "give full weight" to the recognition they had reached that "obstacles should not be placed in the way of the export of manufactured goods of the under-developed members of the Commonwealth." (2) There should be "adequate consultations" on the disposal of food and commodity surpluses on world markets at non-commercial terms. Such action benefited the less developed countries but care should be taken that the terms did not harm traditional suppliers.

(3) An unspecified number of Commonwealth countries have agreed that their Governments and central banks will contribute to the capital of the Commonwealth Development and Finance Company. (4) Further consideration is to be given to the idea of creating a Commonwealth Development Bank. But "doubts were expressed whether in existing circumstances the creation of such an institution would, in fact, help to attract additional capital." (5) An international study group should be established without delay to examine the current trade problems relating to lead and zinc. (6) The International Tin Agreement should survive and succeed. The Commonwealth countries should consult together, when necessary, on measures to strengthen it. (7) An examination should take place of cases where dumped or subsidised goods are alleged to be damaging the interests of Commonwealth suppliers.

The conference represented a group of countries of which the majority have rapidly growing populations and a need for capital. One of them—the United Kingdom—has a stable population and a great inherent capacity for creating new capital. Canada occupies a special position as a dollar, as opposed to a sterling area, country. These were the essentials which had to be fitted together, and they explained to some extent the emergence at the conference, without actually being a direct part of it, of a number of important announcements representing significant milestones along the road the Commonwealth countries hope to travel. The United Kingdom announced: (a) The immediate relaxation of almost all existing controls on imports from dollar countries of a wide range of goods, completing the freeing of materials, basic foodstuffs and "tools of trade;" (b) The intention to start next year on freeing imports of consumer goods and the remaining foodstuffs; (c) As part of the immediate moves, invitation to Colonial Governments to relax restrictions on a wide range of dollar goods; (d) Credits to be offered to independent Commonwealth countries under the Export Credits Guarantee Act, at the rate at which borrowed by the U.K. Government plus ½ percent, and legislation to be introduced to provide Exchequer loans to the colonies at the same rate; and (e) access to the London capital market to be allowed to Development Boards and similar subordinate authorities.

Canadian Assistance

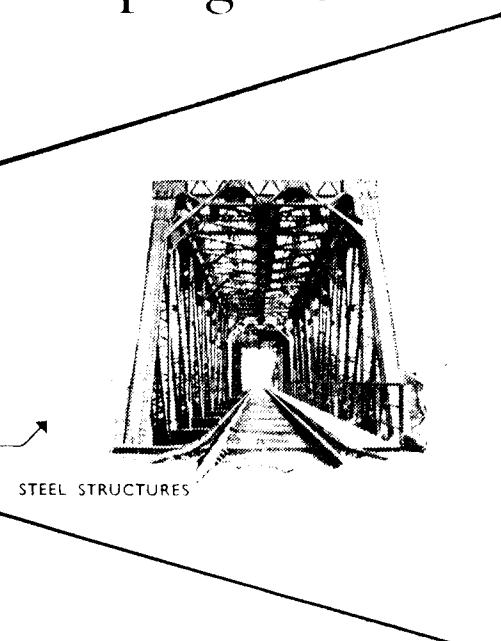
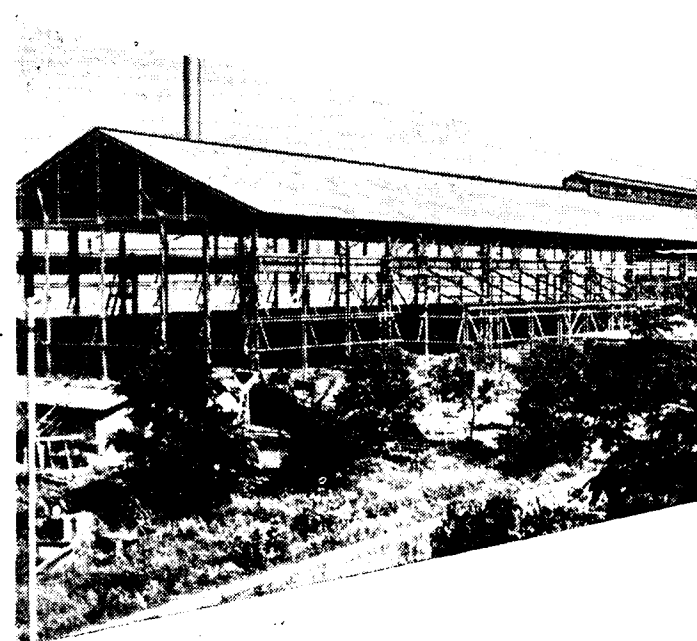
Canada announced: (a) Increased aid to other Commonwealth countries through the Colombo plan and other channels; (b) Doubling of her subscription to the World Bank and an increase by 50 percent of her I.M.F. quota; and (c) an undertaking not to increase existing preferential duties on an important list of U.K. products entering Canada, worth about \$150 million. In addition, the U.K. Chancellor of the Exchequer said that the \$150-million credit offered to the Commonwealth included \$108 million to India, some \$30 million to Pakistan and \$10 million to Ceylon. He added that in recent years, Britain's total contribution to economic development in the Commonwealth had averaged \$200 million annually, or nearly 1½ percent of the British gross national product. It was intended to keep that up "and do better still if we can."

Commonwealth Bank

Needless to say, discussions of ways and means of financing Commonwealth development took up much of the time at the Montreal conference. The British Government's original proposal for the setting up of a Commonwealth Bank was quite rightly put aside for further consideration at a later stage, in view of the possibility of it being regarded by other countries as an adequate substitute for the World Bank, one-third of whose lending to date has been to Commonwealth countries. The discussions, however, soon revealed a wide area of development not covered by the World Bank. The latter lends only on self-liquidating projects. This excludes essential works like roads, water systems, schools, etcetera. There is a great need for capital in these fields and a Commonwealth Fund will probably be created to

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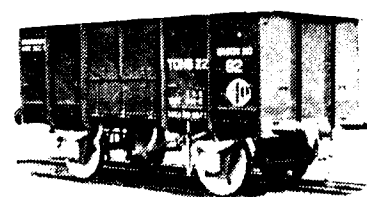
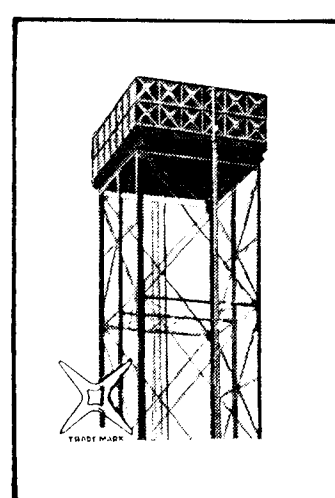


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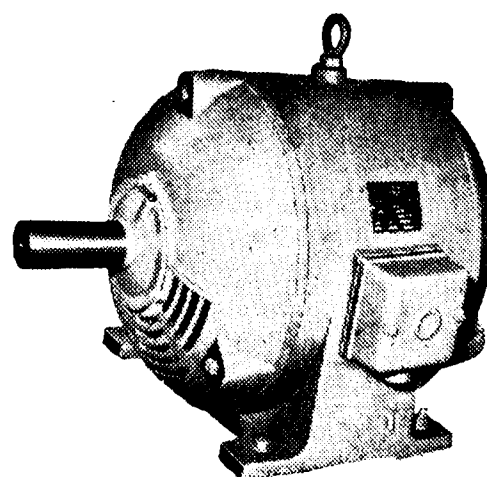
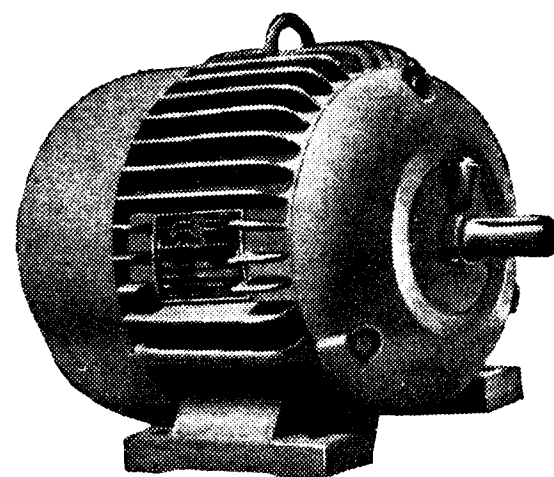
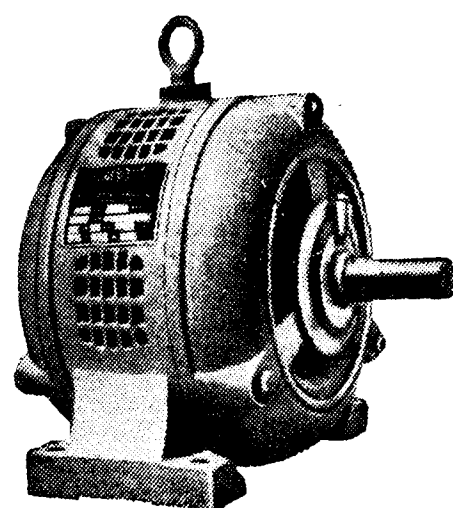
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The first practical results from these discussions were evident in New Delhi the following month, when, on the basis of the agreement reached at the Montreal conference, the U.K. delegation to the annual meetings of the World Bank and International Monetary Fund was enabled to put forward a well-supported proposal—Mr. Macmillan had earlier ensured the support of the United States in his Washington discussions with President Eisenhower—for decisions leading to an increase in the resources of the two institutions. The U.S. Government is studying the possibility of a new form of international development financing.

Freer Trade in Primary Products

Under the leadership of Australia and New Zealand, the primary-producing countries, who were in a majority at the conference, sought support for freer trade policies in raw materials and foodstuffs. These countries have been hard hit by the fall in prices and the shrinkage of markets, caused, firstly, by quantitative restrictions mostly imposed in contravention of G.A.T.T. and, secondly, by dumping of the surpluses so created on world markets. They believe that the postwar trade policy, as laid down in G.A.T.T., has worked well for industrialised countries but poorly for primary producing countries. Most of the Commonwealth members are in deficit and either have drawn or will soon have to draw heavily on their sterling balances. All of them face austerity in more or less extreme forms. Here again, it was possible to reach agreement on basic principles, and once again it was not long before that unanimity of opinion was shown in a practical form. At the G.A.T.T. meeting in Geneva, Sir David Eccles, president of the Board of Trade, set the tone of the subsequent discussions by proposing a "rigorous confrontation" of agricultural policies in G.A.T.T. Britain will take part in such a review on the assumption that all other G.A.T.T. countries will do so. "In particular, we ask the United States to take a full and leading part in such a discussion. For it is surely clear that no satisfactory arrangements could be made to secure orderly production and distribution of foodstuffs if the United States were to stand aside". It was largely as a result of this lead that of the four concrete results of the G.A.T.T. conference at top level, the first should have been the agreement to review agricultural policies and their effect on international trade. Sir David Eccles's speech was largely based on the decisions arrived at in Montreal.

Tariff Preferences for Colonies

Hitherto the Commonwealth countries have been most enlightened in their support of the various forms of British postwar association with Europe. Now, however, many of them express anxiety lest the European Economic Community and the proposed free trade area should result in the exclusion of their products from Europe. In the long run, the European countries cannot be indifferent to the value of prosperity and stability in the Commonwealth countries and colonies, while the French and Belgian overseas territories have an equal claim for consideration on the other side. Britain and the Commonwealth are determined to maintain their tariff preferences. The record of Commonwealth flexibility in the past gives hope that a solution can be found.

The stumbling block, if there is to be one, will be France. This is another question which Sir David Eccles raised at the Geneva conference. He recalled the concern expressed in Montreal that the six countries and members of larger free trade areas should not surround themselves by higher levels of protection than before. Sir David led up to his appeal to the United States by reviewing the inter-related problems of imbalance between developed and under-developed countries and anxiety about the six-nation European common market. He said the six, and other European countries negotiating a free trade area, could not reasonably object to the rest of the world asking them to justify their actions in terms of the spirit of their obligations to G.A.T.T.

Paul Bureau, the well-known economics correspondent of the *News Chronicle*, finds a possible answer to the problem in a recent article on the Montreal conference which he contributed to the *F.B.I. Review*. He wonders whether the free trade project could not be given wider scope. This is what he says: "Can the European free trade project be given an even wider and transatlantic flavour? The new Reciprocal Trade Agreements Act of the United States provides some basis for this hope since it gives the President power to negotiate tariff reductions for a four-year period, that is, for the same period as the first transitional phase of the common market.

It might thus be possible to negotiate tariff reductions between Europe as a whole and the United States and thus reduce the element of discrimination which a common market, even widened by a free trade area, would involve. It should not be beyond the wit of Commonwealth statesmen to devise some way in which the Commonwealth could also be associated with the European free trade system without sacrificing the essence of Commonwealth preferences." As far as G.A.T.T. is concerned, consideration of how the primary-producing countries can be assisted to develop will undoubtedly be based on an interesting report prepared by four eminent economists specially for the recent meeting. *Trends in International Trade* is strongly critical of the trade practices in leading industrial countries which, it contends, make difficulties for under-developed countries which rely on exports of food and raw materials. The main recommendations are more economic aid, more strenuous efforts to prevent business recessions in industrial countries, less agricultural protection in west Europe and North America, and the provision of money to help stabilise commodity prices.

Economic Development

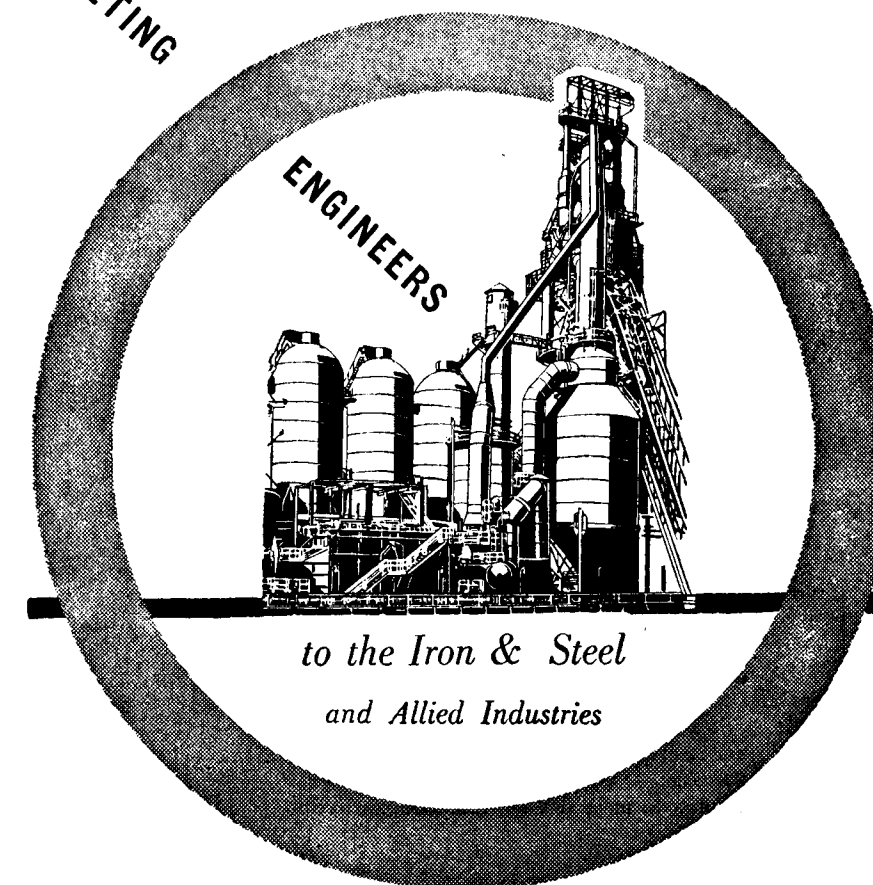
Not surprisingly, the Commonwealth is vitally concerned with these moves, for in spite of the great expansion of manufacturing industry in recent years, it is still probably the largest group producer of primary products, both agricultural and mineral, in the world. Furthermore, of its 650 million population, the standard of living of a large majority is not far above the subsistence level. On the other hand, about half of the Commonwealth's trade, which in turn is nearly one-third of the world total, is "within the family." Also, unofficial estimates show that about 70 percent of external investment in the

sterling Commonwealth during the postwar years has come from the United Kingdom, compared with 15 percent from the United States and 10 percent from the World Bank. The maintenance of Commonwealth ties is, therefore, an essential feature of all development planning in the area, or at all events ought to be. What is the best basis, then, for future action in this direction? The tenets laid down in 1952, and since reaffirmed at every available opportunity, provide as good a basis for advancement as ever. The Commonwealth Economic Conference of that year recorded its agreement on the principle that "sound economic development should be encouraged with the object of increasing productive strength and competitive power, providing employment, and raising the standards of life".

The communiqué went on to lay down a general policy for development in the following terms: "The conference agreed that in sterling area countries development should be concentrated on projects which directly or indirectly contribute to the improvement of the area's balance of payments with the rest of the world. Such projects should strengthen the economy of the countries concerned and increase their competitive power in world markets and so, by improving their balance of payments, bring increasing prosperity to their peoples. In some countries of the area, however, development plans have been, or are being, made to provide for some basic improvement in the standards of living, which is a necessary foundation for further economic development. Such social investment is also urgently needed in the more developed countries, some of which have rapidly increasing populations. The conference recognised the need in such cases for these types of investment". That will not be too bad a working hypothesis.

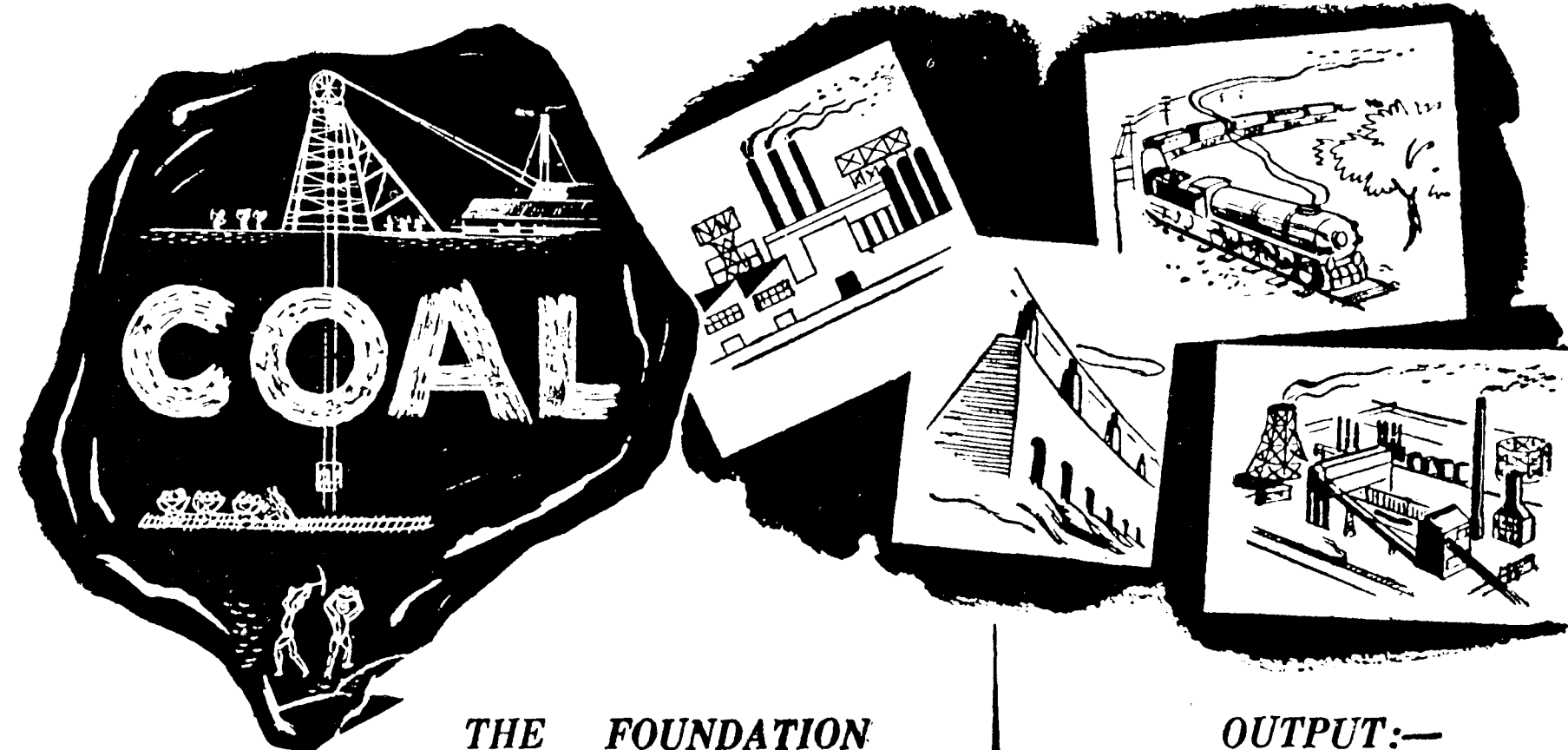
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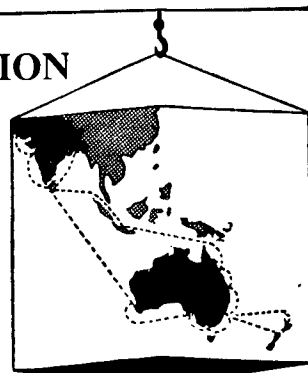
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Expansion of India's Steel-Making Capacity

Full Production From State Works Unlikely Before 1963

IN *The New India*, published by the Planning Commission earlier this year, the stepping up of the production of iron and steel and heavy chemicals and the development of the heavy engineering and machine-building industries are given as first priorities in India's industrial development programme. With in the period of the second five year plan, from 1956 to 1961, India's steel capacity is to be almost quadrupled, bringing it up to 6 million ingot tons a year or about 4.5 million tons of finished products. About half this capacity will be provided by two firms in the private sector—the Tata Iron and Steel Company and the Indian Iron and Steel Company—both of which are undertaking vast expansion programmes with the aid of substantial World Bank loans. The other half will come from three new steel works in the public sector now under construction—the Russian-built works in Bhilai, the German-built plant in Rourkela, and the Durgapur steel works, which is being put up by a consortium of 13 British firms, the Indian Steelworks Construction Company or, to give it the name by which it has generally become known, I.S.C.O.N.

Durgapur, 118 miles from Calcutta, not so very long ago was a typical small Bengali village. Today thousands of Indians and over a hundred European experts and technicians are hard at work there. In a progress report which Mr. R. J. Baritt, then managing director of I.S.C.O.N., gave to a Press conference in London in July, he explained that progress was according to schedule. The first blast furnace was to be blown in next autumn. The whole plant is due to be completed less than three years from now, by 31st July, 1961. Its rated capacity will be one million ingot tons a year and 300,000 tons of pig iron. The provisional annual programme for the rolling mill and railway, wheel, tyre, and axle plant will be 790,000 tons. Apart from wheels and axles, the plant will produce blooms, billets, sleeper bars, merchant bar sections and light sections.

Indo-British Negotiations

In August 1955, the Indian Government accepted the recommendation of a British steel mission, led by Sir Eric Coates, and sent out under the Colombo plan, for a third steel plant in the public sector to be sited in Durgapur. Negotiations were naturally protracted. The magnitude of the project apart, the financing provisions gave rise to considerable discussion between the Indian and British Governments. It was clear that the British Government was exceedingly anxious to en-

sure that one of the three new steel plants should be of British construction. Obviously, however, it was quite impossible for Britain to match the payment terms which the Russian Government had accepted for Bhilai. Agreement was reached in February 1956. To cover the foreign exchange cost—somewhat over £50 million—India was to receive a Government-to-Government loan of £15 million under the Export Credits Guarantee Act. Interest on this loan was fixed at the rate at which the British Treasury could borrow on the market plus a small management charge. Lazard Brothers arranged a credit of £11.5 million from a syndicate of British banks, to carry interest at Bank rate plus 1 percent. The remaining foreign exchange cost would be paid by India from her sterling balances. The financing obstacle removed, the final contract between the Indian Government and I.S.C.O.N. was signed on 31st October, 1956.

The British Government's decision to grant the Indian Government a direct loan for the project caused some astonishment. In 1955-56, Britain was enjoying an investment boom accompanied by strong inflationary pressure, which the Government was trying to curb by means of a credit squeeze. It was generally realised that assisting India in her development programme was a poli-

By

M. H. FISHER

(Diplomatic Correspondent of the "Financial Times")

tical objective of the highest importance. But at the same time, the fear was voiced that the construction of Durgapur would inevitably delay the steel expansion programme in Britain. Would it not be better to add one million tons to British rather than to Indian capacity? Today, with the British steel industry working well below capacity, the question is no longer being asked, and the £15-million loan for Durgapur has now been followed by one two-and-a-half times as large to help cover India's foreign currency needs up to March 1959. Nor is there much doubt that further substantial assistance will be made available for the final two years of the plan. However, it should be remembered that the aid which India is now receiving is the result of three distinct factors: (1) a quite genuine desire to help and the recognition that it is politically vital to do so; (2) the current strength of the pound sterling,

largely a result of the drop in commodity prices and the resulting shift of the terms of trade in Britain's favour; and (3) the spare capacity in British industry—not least the capital goods industry—following on the Government's restrictive policies.

India cannot count on such a—from her point of view—favourable combination of circumstances necessarily continuing. Foreign aid will surely continue to be given, but it is unlikely that it will be on the scale which will be reached in the final period of the second plan. Foreign exchange will remain a bottleneck in India's development. What contribution can Durgapur, and the Indian steel industry as a whole, make to economic growth in general and to a solution of the foreign exchange problem in particular?

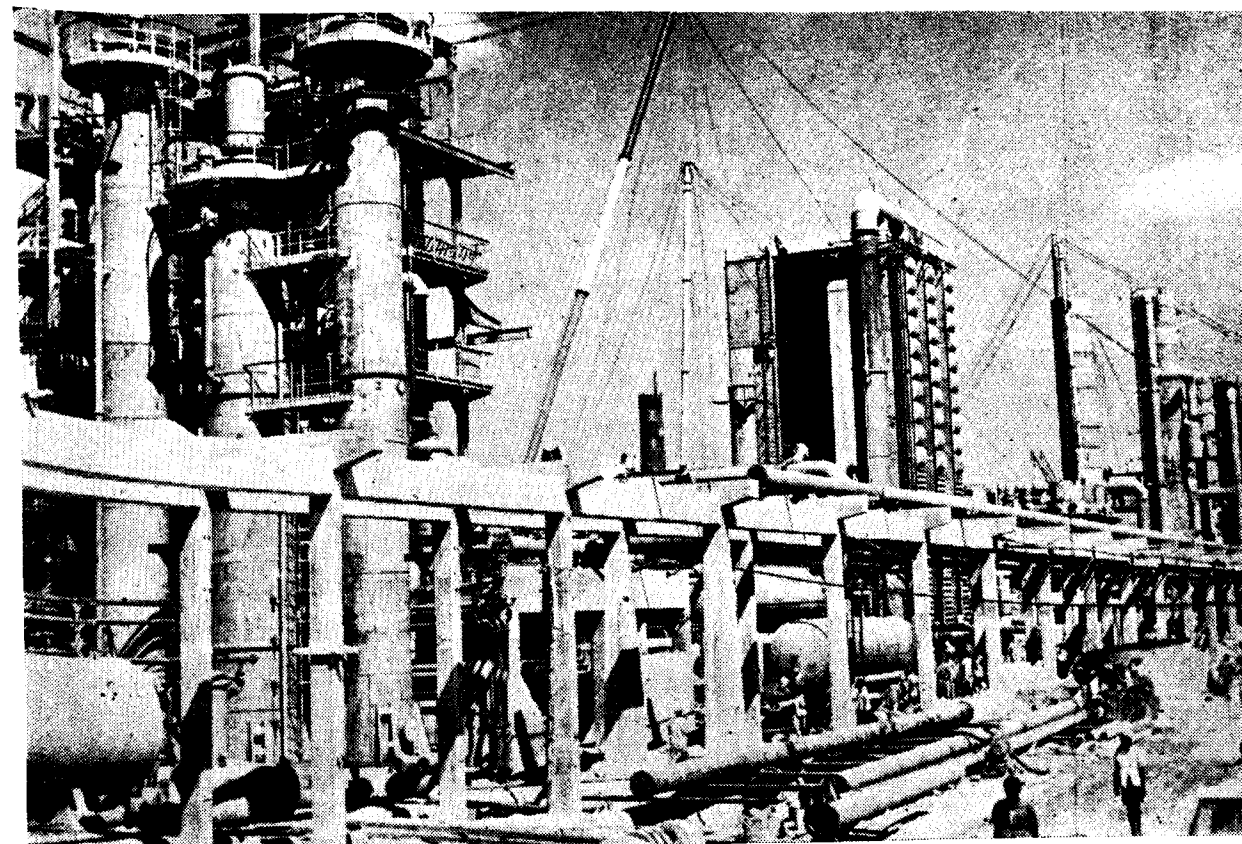
Views of Mr. Krishnamachari

It is essential to keep one's sense of proportion when attempting to answer this question. In January 1956, Mr. T. T. Krishnamachari, then Minister for Commerce and Industry and for Iron and Steel, stated that the objective must be to produce 6 million tons of steel by 1961 and no less than 18 million tons by the end of the third five year plan in 1966. Calling for "very bold and dynamic plans" for developing the machine tool industry, he added: "In ten years we should be able to make most of the machine tools that we want." Sixteen months later he defended the Government's plans for steel production on the grounds that steel was the only "staple commodity" on which India could rely for the repayment of foreign loans. There could be a drop in the demand for tea or jute, and textile exports might fall, but steel would be acceptable to all countries. There is every reason to expect that India will become one of the world's cheapest producers of steel, but statements such as the above must be considered unrealistic.

The assessment given by the Planning Commission is rightly much more cautious: "The requirement for steel by the end of the second five year plan will be very large; continual big imports of iron and steel would require large amounts of foreign exchange. India, moreover, has the resources for efficient, low-cost steel production. Dependence on imports means uncertainties of both price and delivery. India foresees, however, that as the economy expands, demand for steel will continue to require imports. India hopes at the same time, however, to expand its exports with trade in steel and iron to earn more foreign exchange. Heavy engineering and machine-building industries are naturally tied to iron and steel production. India's present emphasis on these industries arises not only from this fact, but from the desire to produce within the country the bulk of the nation's need for capital equipment and the machinery required for development. At present, India almost entirely depends upon foreign countries for heavy machinery like power plant equipment, furnaces and rolling mills to build steel plants, and other basic industries. India must begin the manufacturing of such heavy machinery although an expanding economy will continue to require imports for a long time."

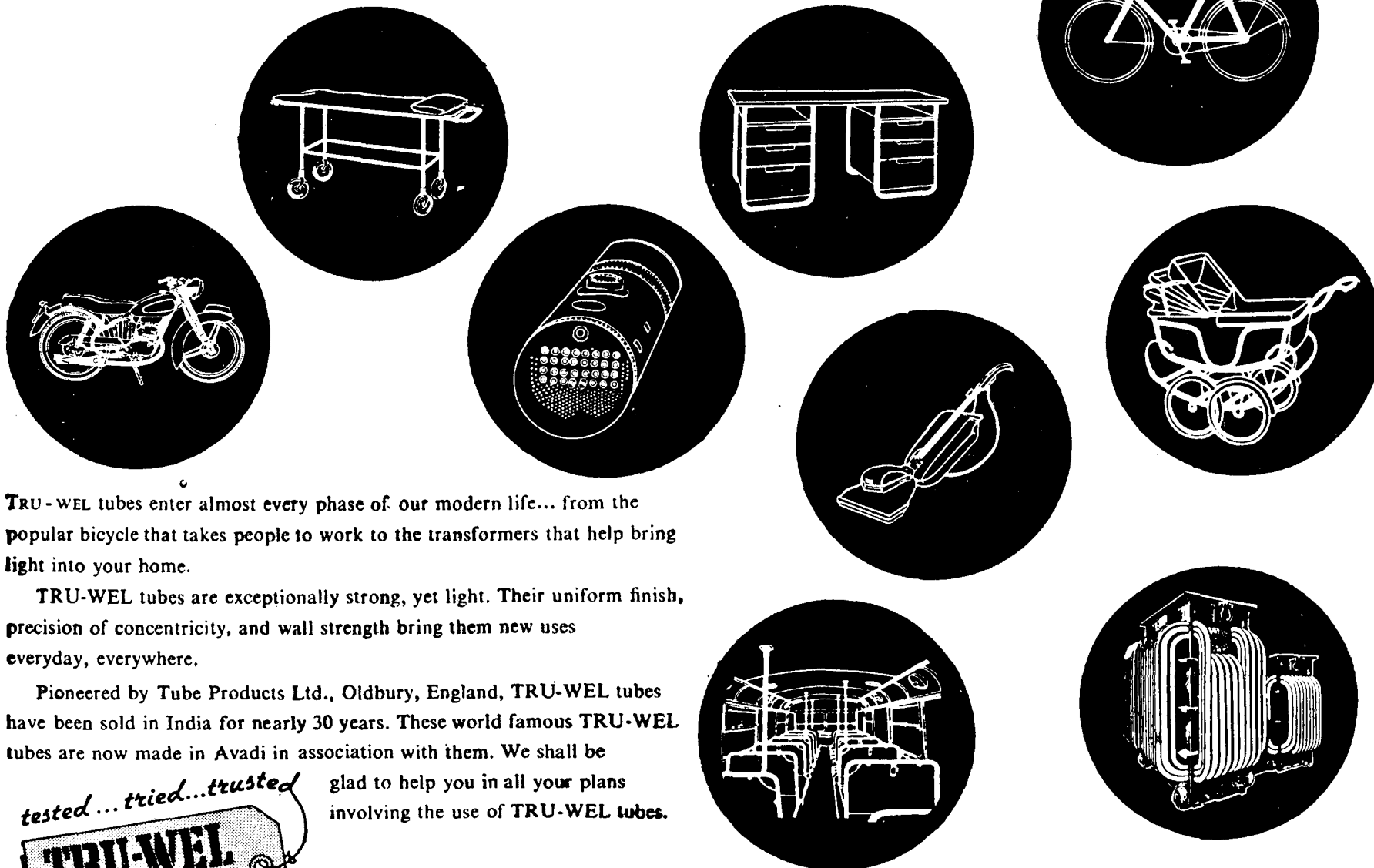
Foreign Exchange Savings

The initial estimates set the cost for the three steel plants in the public sector at Rs. 350 crores, of which Durgapur accounted for Rs. 115 crores. The total foreign exchange cost was to be Rs. 228 crores. These figures have been revised upwards since then to somewhere near Rs. 500 crores for the total cost and Rs. 302 crores for the foreign exchange element. Added to this must be over Rs. 100 crores for necessary mining and railway development and the three new townships. What will the foreign exchange savings be? Earlier this year, Sardar Swaran Singh, Central Minister of Steel, Mines and Fuel, stated in the Lok Sabha that the full production from one of the three new plants would cost about Rs. 50 crores to import. Thus the total foreign exchange expenditure from the plants would be recouped by the import costs of two years' full production. But at the same time, he stressed that practically the entire capacity



A view of the coke ovens and the by-product plant at the Rourkela steel project

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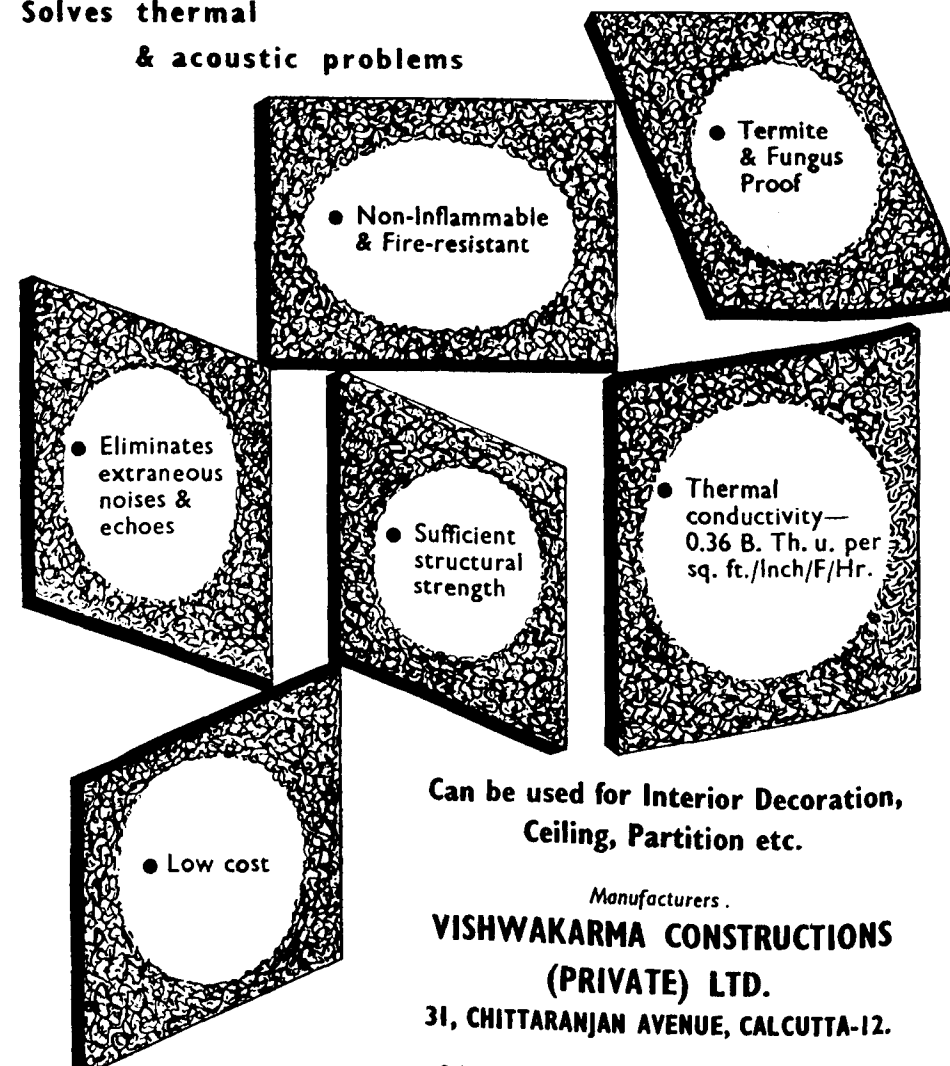
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available on completion of the present programme—i.e. 4.5 million tons of finished products—would be required to meet home demand. Other Government sources have stated that Rs. 10 crores might be earned from exports of pig iron in 1960-61, but this is almost certainly an optimistic assumption. Indian-produced steel will, for some time to come, be a foreign exchange saving commodity, and not a foreign exchange earning one. Present planning foresees a drop in imports from the 1956-57 level of about 1.7 million tons to less than half that figure by 1960-61, with a fall in foreign exchange costs from about Rs. 130 crores to Rs. 60 crores. But these figures are based on the assumption that total consumption would still be held down to somewhere around the present level of 3 million tons in 1959-60, the lowering of imports being made possible by the stepping up of output from Tata and Indian Iron and Steel to 3 million tons. Since the railways' needs for steel will rise, other users will receive less.

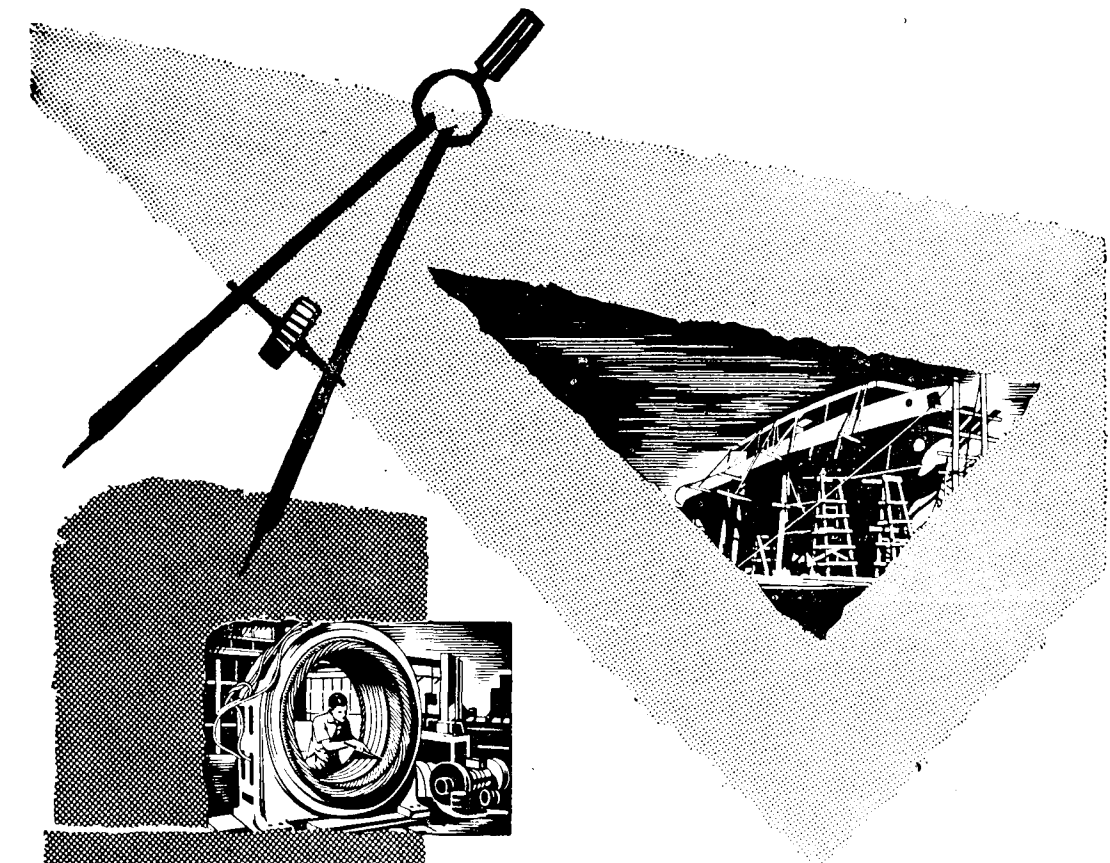
Manpower Difficulties

By 1961-62, the supply position should certainly be easing. However, even if all the three plants are completed to schedule—and Rourkela as things stand now may well be delayed by six months or so—full production will probably not be achieved until 1963 at the earliest. In part this will be due to manpower difficulties. Through the Colombo plan, 300 Indian technicians will be trained by I.S.C.O.N. with the help of the British Iron and Steel Federation. The training has been so planned that the majority of the men now in the U.K. are maintenance staff who, when they return, will be able to help install the plant they will ultimately maintain. But it will be difficult to fill the highest management posts, and it will inevitably take time before the 5,000 to 6,000 operatives required attain full efficiency. An additional limiting factor will be railway capacity. The heavy concentration of traffic on the lines serving the steel plants, iron ore mines and coalfields will present special difficulties which will take time and experience to overcome. On the other hand, of course, as the Durgapur wheel, tyre and axle plant comes into production, one limiting factor on railway expansion will be removed.

The decreasing need for high-cost steel imports and the easing of the supply situation will be vital factors in India's future development. But the cost has been high. Foreign exchange difficulties have forced the Government to reduce the second five year plan to hard core projects. This has been because the three steel plants and related developments in mining and transport are absorbing a larger share of the total resources available than had been expected, so that allocations for other projects have had to be cut. Among these are irrigation plans and fertiliser plants. What is now needed, as a recent World Bank report pointed out, is concentration on investment already in progress before new large undertakings are embarked upon. Mr. J. R. D. Tata recently warned in his annual statement that over-emphasis on steel production would prove a costly mistake. He said that there was scope as well as need for the continued expansion of the steel industry. But he emphasised the need to build up the secondary and finishing industries using steel, and the necessity of stepping up output of lorries, cars, machine tools and capital and consumer goods of all sorts.

Contribution to Economy

The steel industry is a capital-intensive industry using highly skilled manpower. India is on the way to becoming a major manufacturing country, and a sound steel industry is the essential basis for this. But an exaggerated emphasis on heavy industry would do little, if anything, to ease the employment problem and would almost certainly aggravate, instead of easing, India's foreign exchange crisis. The above-mentioned World Bank report concluded that agricultural development should be accorded higher priority in future, and a determined effort should be made to secure the break-through in agricultural production without which all plans for raising India's living standards must ultimately fail. This is the sector of the economy where there are the greatest opportunities to raise output with a minimum investment of foreign exchange. It goes on to say that the present drive to increase exports should be vigorously pursued. It will be many years before India becomes a major exporter of steel and engineering goods. Imports have got to be paid for in the meantime, and every opportunity must be exploited to expand overseas sales of agricultural products, raw materials and traditional manufactures. The more exports can be stepped up in the short run, the higher will be the rate of industrial development that India can sustain during the third plan. The rapid expansion of the steel industry will provide a firm foundation for economic growth. But it would be very dangerous to over-estimate the contribution the industry can make to the solution of India's economic problems.



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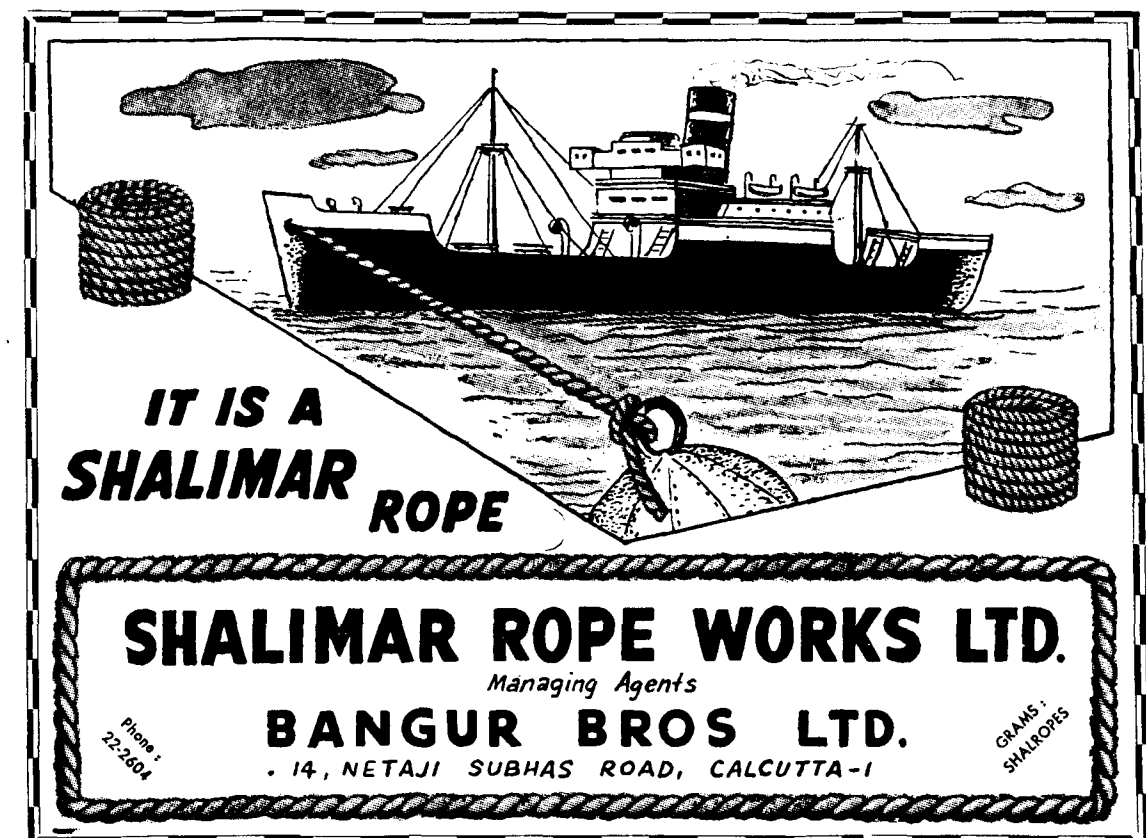
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ADJUDICATION IN LABOUR DISPUTES

CONDITIONS FOR A VALID REFERENCE TO TRIBUNALS

IN presenting this annual short selection of industrial cases reported during the past year, not already dealt with in *Capital*, we have endeavoured to select novel decisions which, though they relate to facts and circumstances in particular disputes, nevertheless raise principles with which the average employer is likely to be confronted at any time. The first involves a point which we have not come across before. Assume an employer, respected and of acknowledged eminence, commanding hitherto the loyal allegiance of the mass of his employees. He terminates the services of an employee. This raises a dispute which is referred for adjudication under the Industrial Disputes Act to the appropriate labour court by the Government. It is alleged by the union that the employee's dismissal was not *bona fide* and was an act of victimisation for trade union activities. The employer, knowing that an industrial dispute could be raised only by a substantial section of workers and knowing also his great influence with them by reason of the respect in which he is held, decides, after the reference to the industrial court has been made and while the proceedings are pending, to summon a conference of his employees.

The conference is held. He is personally present at it, explains his side of the case and, as a result, the support of the great majority of the employees is withdrawn from their dismissed colleague and transferred in the form of a signed, written declaration to the employer. Now we need not at the moment consider whether this intervention by the employer while the adjudication was, so to say, *sub judice* was wise nor even whether it was ethically right. The point is: was it unlawful? Of course, the more honoured and distinguished the intervener is—and in this case he was one of the most honoured and distinguished members of his profession in India—the more effective his intervention is likely to be. And counsel for the union later urged before the labour court that it is legally improper for an employer, when an industrial dispute is actually pending, to convene such a conference and express his views and reveal his mind to the workers. Counsel claimed that he being in a dominating position, if he did so, it would be tantamount to pressure or undue influence.

No Indian or British Precedent

It is curious but it appears that there is no Indian or British decision on the point prior to this case. Counsel for the union relied on an American decision in support of his contention, but as this case related to the construction of an American statute and in India, there is no such enactment, and as, moreover, several members of the board which decided the American case dissented from the majority judgment, the labour court, Madras, declined to follow it. "Personally," said the judge in the labour court, "I am inclined to think that there would be nothing wrong in an employer talking to his employees during the pendency of a dispute, provided he does so in a *bona fide* manner with a view to appraising them of the real position and to put forward his point of view for their consideration and appreciation. Of course, it would not be proper for him to exercise any pressure or to throw out any threats, so as to make them give up their demands or abandon their agitation. The question whether he exercised any undue influence or pressure is a question of fact to be ascertained from the facts and circumstances of each case." In this particular case, the court held that the calling of the conference by the employer or the expression of his views at it did not amount to undue influence or pressure. All the same, generally speaking, the calling of such a meeting and the attendance and putting one side of the case at it by the employer, once the dispute has been referred to the formal adjudication of a court, seems unwise from a practical point of view. One section of a largely attended meeting may interpret what the employer said as threatening or coercive and may later, with damaging results, press that argument before the court.

¹ *Workers in the "Hindu" v The "Hindu"*. 1958. (Sept.) ii L.L.J. 344.

There has been no more startling change in the law of master and servant than that effected in the last decade by the operation of the Industrial Disputes Act in relation to claims for bonus. You cannot open nowadays a monthly law report of industrial cases without coming across disputed claims of that class. The reports are simply cluttered up with them. Gone are the days, and a new generation of lawyers has grown up which knows nothing about them, when an employer, faced with a claim for bonus, had no need to consult a lawyer but only to look up the contract of service, written or oral, and ascertain whether the terms of employment included a specific right to bonus or not. If they did not, there was an end of the matter. Now a claim for bonus, where the Industrial Disputes Act applies, is altogether independent of the express terms of service, and provided certain conditions exist, the bonus becomes a legal right. The two conditions are that there must be: (1) a gap between actual wages and living wages, and (2) the availability of surplus profits. If these two conditions exist, the industrial court can go into the question of payment of bonus which, though it was no part of the contract between the parties, may nevertheless be deemed to be part of the terms of employment. The justification for this is the enforcement of what is loosely termed "natural

By

Our Legal Correspondent

justice" and we may be grateful for a decision of the Supreme Court for a reminder that the expression may cut both ways.

Appellate Tribunal

The Labour Appellate Tribunal in 1955 had awarded bonus to certain workmen on the ground that social justice required that the employees who were all piece-rate workers and had no steady and continuous flow of income and were not entitled to gratuity, provident fund and other benefits, should get a share in the incentive bonus. The employers, who were Government contractors for clearing and transporting imported foodgrains, appealed to the Supreme Court. The Attorney-General, appearing for the appellants advanced two arguments, of which we are concerned here only with one, namely, that the workmen were not entitled to bonus unless the appellants' business made profits and, in this case, there was no allegation, much less proof that the appellants made profits during the years in question. The Supreme Court upheld the employers' appeal. "The concept of the word 'bonus,'" said Subba Rao J., delivering the judgment of the Supreme Court, "has been succinctly defined and the circumstances under which it is to be paid to the workmen has been already laid down by this Court in *Muir Mills and Co. Ltd v Suti Mills Mazdoor Union, Kanpur* (1955. I. L.L.J. 1).....the definition of bonus (is) cash payment made in addition to wages as a stimulus to extra work and efficiency by labour. But to enable labour to earn the bonus, the following conditions are laid down: (1) 'When wages fall short of the living standard, and (2) the industry makes huge profits part of which are due to contribution which the workmen make in increasing production.'" In the words of Bhagwati J. in the case above cited, "The demand for bonus becomes an industrial claim when either or both these conditions are satisfied."

No Ex Gratia Payment

With these principles accepted, his lordship proceeded: "Bonus schemes vary with the conditions obtained in different industries. Though bonus is a cash payment made to the workmen in addition to the wages, it is no longer considered as an *ex gratia* payment.....One of the categories of bonus is described as 'incentive bonus'. The name indicates that it is given as a

cash incentive to greater effort on the part of labour. But the essential condition for the payment of incentive bonus, just like any other kind of bonus, is that the industry concerned must earn profits, part of which is due to the contribution which the workmen made in increasing production."

It had been contended on behalf of the employers that for workmen engaged on a piece-rate basis, there is no scope for awarding incentive bonus on the ground that, if the wages of the workmen were fixed and paid on piece-rate basis, they would earn more if they worked more and, therefore, it was neither just nor equitable to award any further incentive bonus to workmen. Their lordships neither accepted nor negated this argument, although such observations as they made seem to incline to its rejection. But they allowed the appeal on the ground that "even if payment of incentive bonus was legally permissible in the case of piece-rate work, the workmen would be entitled to it only if the appellants made profits in the business.....(and) there was no evidence placed before the tribunal or before us to prove that the appellants earned profits."

Standing Orders

Here is an odd point on "standing orders". Are they binding on workmen or other employees who were in the service of the employers before the standing orders came into force, who may have known nothing about them or their terms and conditions. In other words, do these old employees constitute a special class who can rely on their original contract of service, unenumbered by the standing orders to or from which they neither assented nor dissented? The point came up for decision in a case¹ in which one Sahib Singh was employed by the appellant company as a moulder. The company got certified "standing orders" in January 1951. For many years prior to 1951, this particular workman had been in the employment of the company and his case was that he knew nothing about any standing orders, and that even if he had known of their existence, they would not be binding on him if they purported to vary the original contract of employment under which he was originally employed. The Industrial Tribunal, Punjab, upheld the workman's contention and the employers appealed to the Punjab High Court.

The facts were that one of the standing orders was to the effect that, at the discretion of the general manager, a workman was liable to be transferred to any place which was under the management of the managing agents of the company. There was a dispute between the company and its workmen which had been referred for adjudication under the Industrial Disputes Act. This dispute was still pending at the time the employers' appeal against the decision that the standing orders were not binding on this particular workman was heard by the High Court. During the pendency of this dispute, the general manager of the company transferred Sahib Singh to Barakar Engineering and Foundry Works (West Bengal) in accordance with the relevant clause of the standing orders. Sahib Singh refused to go to Barakar. He contended that he was being victimised because of the part that he took in the dispute which had been referred to the Industrial Tribunal and that, though the standing order as to transfer would bind workmen employed since 1951 when the standing orders were certified, it did not affect pre-1951 veterans like himself who could rely on their original contract of service and its terms, express or implied. In consequence of the man's refusal to go, he was "charge-sheeted" for insubordination and was suspended pending permission for disciplinary action. The application for permission was refused by the tribunal on the ground that he was not bound by the standing orders. Hence the appeal by the employers to the High Court.

Useful Reminders

Before deciding the main issue, the High Court gave us some useful reminders about the

² *Mathurdas Kanji v L.A.T.* 1958. ii. L.L.J. 265.

³ *Bharat Starch and Chemicals v I.T. and others.* 1958. L.L.J. ii. 243.

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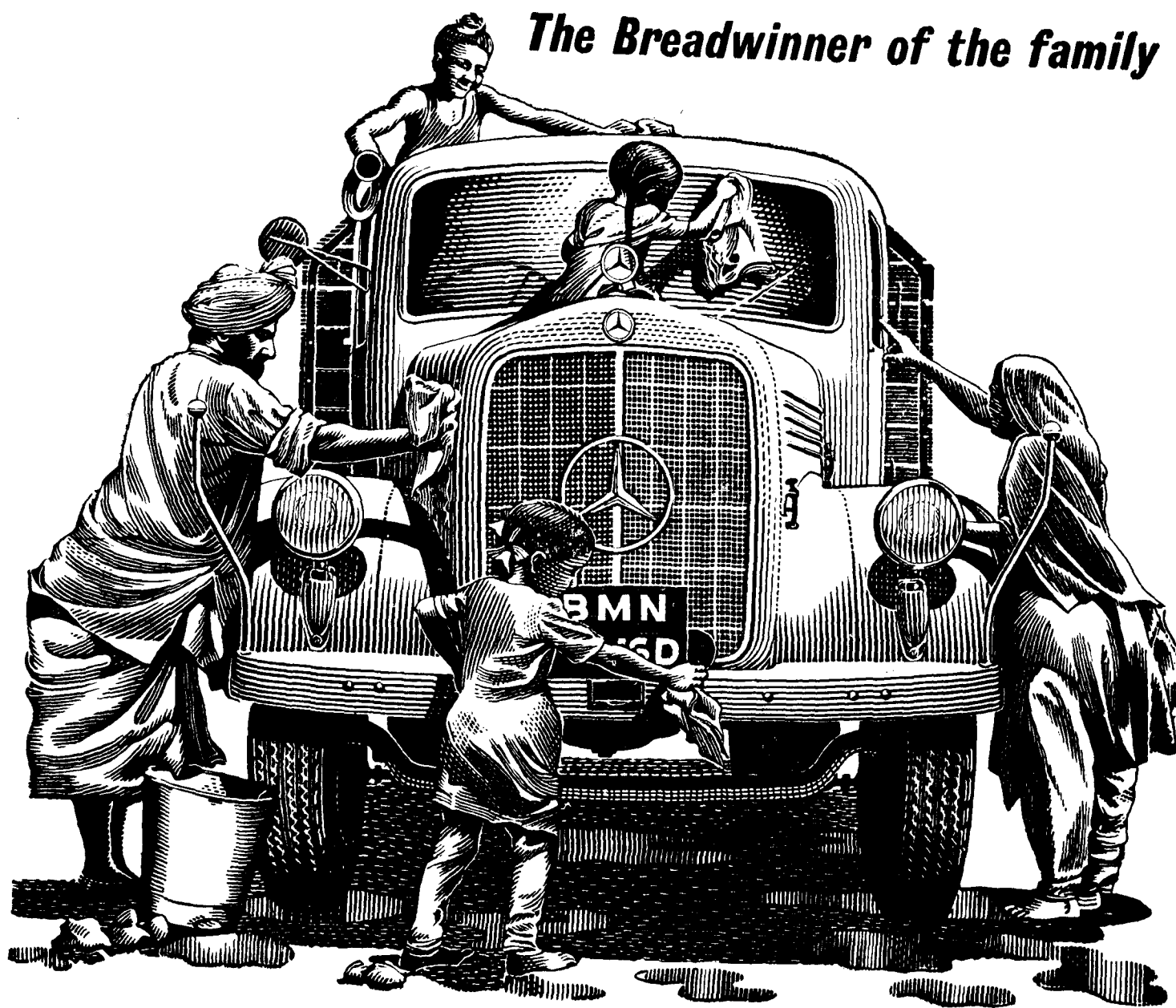
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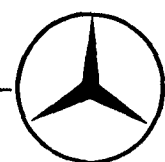


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authority of standing orders. Under the Industrial Employment (Standing Orders) Act, 1946, they are framed by the management and are submitted to the certifying authority. That authority, after giving notice to the workmen and after hearing both the employers and the workmen, decides whether the proposed standing orders conform to the provisions of the Act or not. This decision is open to appeal by any aggrieved person. But, once certified, the standing orders become terms of employment between the management and workmen. If the workmen are dissatisfied with the standing orders so certified, they can raise a dispute which can be referred to the industrial tribunal for settlement under the Industrial Disputes Act. So there are plenty of safeguards. The High Court held that the decision of the tribunal was wrong and that, moreover, it went to the root of all authenticated standing orders as far as their applicability to workmen in employment before the date of authentication was concerned. The tribunal's error "affects the basic principles underlying the Act and it is an error apparent on the face of it." Its order was quashed and it was directed to hear the employers' petition on the basis that the standing orders of the company were binding on Sahib Singh.

Perhaps this case may go further by way of appeal. Nevertheless, assuming that the order for transfer was *bona fide* and not for purposes of victimisation, which event would immediately bring the validity of the order within the discretionary jurisdiction of the industrial court, it is difficult to see how a workman would be any better off for resisting the order whether he was bound by the standing orders or not. If he is not bound by the standing orders, the workman is thrown back on the terms of his original contract of service. Unless there is a condition in this contract that a workman would not be bound to serve outside the place where the contract was made without his consent, then the ordinary law of the land would apply and that is that an order of transfer would be a lawful one which the employee would be bound to obey.

Badli Workers

There is no limit to the ingenuity with which optimistic claims are thought out and sought to be brought within the benevolent scope of the Industrial Disputes Act. Consider this one relating to badli workers. We all know what a badli is in the colloquial and everyday sense. But he is also a statutory person defined by Section 25(c) of the Act. "Badli workman means workman who is employed in an industrial establishment in the place of another workman whose name is borne on the muster rolls of the establishment but shall cease to be regarded as such for the purpose of this section if he has completed one year of continuous service in the establishment." We are not concerned with this type of badli. He is a servant for a limited period, that of another servant's absence, under a definite contract with the employer and during that period is a member of the staff, one of the firm's workmen.

The gentleman this case concerned was he who turns up at the workshop, day after day, on the off-chance of stepping into someone else's shoes. He is more or less recognised by the firm who registers his attendance so as to be able to call him in if the occasion arises. He has no other employment, so there he is outside the gate each morning, an Indian Mr. Micawber literally "waiting for something to turn up." He has no right to expect employment every day nor on any particular day, nor can he claim work as a matter of right. But if a permanent operative is temporarily absent, the badli's name is picked out from the register and he is fetched into the factory and given the temporary billet. With a hardihood which one views with respectful awe, the workers' union concerned essayed to bring this Micawberian clan, quite a large number of the same, within the scope of the Industrial Disputes Act and advanced their claims with those of some 600 employees, who had ceased to be badlis by completing one year of continuous service before the Labour Court in Hyderabad.

Case for an Allowance

According to the benevolent argument of counsel for these badli workmen, who had not completed one year of continuous service, they were entitled to, and should be awarded, an allowance on humanitarian grounds when there was a stoppage of work caused by a strike. According to him, the badli was bound to attend the factory every morning "in order to try his luck and to

find out whether he would be able to get work for that day. He had also to get his attendance marked in the attendance register." "If," said counsel, "after waiting one or two hours he is asked to go away without work, it is but natural that his whole day is wasted, as he cannot find work anywhere else at a late hour in the day." On this ground, it was contended that "the badli workman should, out of sympathy, be paid something by the management; otherwise, he would be thrown on the verge of starvation."

This may sound to you as sanctimonious nonsense. Yet there is something to be said for it. Some five years ago an industrial tribunal ruled and counsel in this case relied on the ruling, that each badli should be paid four annas for each working day, for which he was not employed subject to the condition that he was present in time at the gate twice a day in the morning and in the afternoon, got his attendance marked and did not leave till he was told to go away or till one hour after work began, whichever was earlier. But this astonishing decision was later set aside by the Appellate Tribunal in another case, with the observation that "from the mere fact that a company voluntarily maintains a register, it cannot be ordered to pay allowances to the badlis, who are not the company's workmen when they are unemployed." The Labour Court held: (1) that badlis cannot claim as a matter of right any compensation for days when no work is allotted to them, and (2) refusal to give work to badlis when there is no work available for them could not amount to lay-off.

Relationship of Employer and Workman

Before coming to the facts in our next case, we will emphasise the obvious; or rather what should be obvious but is quite frequently overlooked by those charged with administration and adjudication under the Industrial Disputes Act. What should be obvious, and often is not, is the simple fact that it is essential to a dispute between employer and workman that the relationship of employer and workman should subsist between them. Two brothers in Madras were the owners of a film theatre there called Sagar Talkies. They were exhibiting pictures in the theatre with a staff of about 27 workers. They leased the theatre and the talkie equipment to a Bombay firm, Isherdas Shami and Brothers. It was apparently contemplated both by the lessors and the lessees that the staff of the Sagar Talkies, who were working under the lessors, would be taken over by the lessees. But nothing about this arrangement was mentioned in the lease. After the lessees took possession, they named the theatre as Odeon Cinema. When some of the members of the old staff applied for service, the lessees refused to take them on the ground that fresh applications must be made, as if the applicants were new entrants.

On their refusal to submit such applications, they were told not to enter the premises. Thereupon, their union took the matter up with the labour officer, Madras, and during conciliation proceedings, the new management agreed to take back all the old staff except five of them. The union demanded compensation for these five workers and the claim having been rejected by the management, the labour officer reported failure of settlement to the Government. The latter referred the so-called dispute for adjudication under the Industrial Disputes Act at the instance of the union which contended that the old staff of the Sagar Talkies was entitled to be employed by the management of the Odeon Cinema, that is, the lessees, on the same terms of service as before. Before the tribunal, the management contended that there was no industrial dispute which could be the subject matter of a reference. The tribunal held otherwise. The Odeon Cinema was simply, it said, the old Sagar Talkies under a new name, and the management of the former was under an obligation, legally and contractually, to continue the staff of the Sagar Talkies under their old service conditions and such of the employees as had not been taken over by the lessees should be immediately taken into service and paid from the date when the Sagar Talkies was leased to the management of the Odeon Cinema, as if the workers continued in employment.

Arguing the Obvious

From this award, the management unsuccessfully appealed to the Labour Appellate Tribunal. We may mention in passing that consistently with the dignified leisure with which these proceedings are conducted, all this was way back in 1953. The management appealed to the Madras High Court. R. Ayyangar J., who heard the petition, allowed the appeal, found for the management and held that there was no industrial dispute

* 1953. i. L.L.J. 667.

* Nellimarla Jute Mill Co. Ltd. Chitavalsah Jute Mills Ltd and their workers. 1953. ii. L.L.J. 512.

within the meaning of the Industrial Disputes Act and that, therefore, the tribunal did not have jurisdiction to adjudicate. The workers, through their union, appealed further and now we have the decision reported of Rajamannar C.J. and P. Ayyar J. Their lordships upheld the decision of R. Ayyangar J. The point of principle decided is this: "There must be an 'industrial dispute' before such a dispute is referred for adjudication." Such were their lordships' words and they show how necessary it is sometimes to labour the obvious. By omitting to notice it, some five years of unnecessary litigation was caused.

To drive the point home, their lordships had to elaborate further what should have been obvious. "Before a dispute can be said to be a dispute between employers and workmen, the relationship of employers and workmen should be established between the parties. It was the essential condition for a person being a workman within the terms of the definition in the Industrial Disputes Act that he should be in the employment of his employers and that there should be the relationship between the employer and him as between master and servant." How transparently obvious all this is; and yet how necessary the emphasis. It reminds one of the true story of the imperturbable F.E. Smith narrated by his son, the present Earl of Birkenhead. The great "F.E." was at the time a young barrister under 30 and had the good luck to be appearing before the House of Lords in an appeal. He was even then renowned for his impudence, and never paid deference to a living soul. He was arguing the obvious at tremendous length. At last, the octogenarian Lord Chancellor asked him wearily: "Mr. Smith, cannot you give us credit for a little common sense?" "No, my Lord," said F.E., cheerfully, "that was the mistake I made in the court below."

Appellate Judgment Upheld

The appellate judgment of R. Ayyangar J., as has been said, was upheld. "At the most," said their lordships, "one can spell out a contract to employ the old workers of Sagar Talkies; but a mere contract by itself could not bring about the relationship of employer and employee or employer and workman. We agree with R. Ayyangar J., that the mere existence of a contract to employ does not constitute the relationship of master and servant between the employer and the person who has been promised employment, and until the contract is performed and the servant is actually employed, the relationship of employer and workman is not constituted." So there was no industrial dispute which could have been validly referred to a tribunal for adjudication. As one writes these lines, one wonders whether in such circumstances, the five workmen, instead of trying to invoke the aid of the Industrial Disputes Act, could have brought with more chance of success a suit under the ordinary law of the land for damages for breach of contract to employ them. The facts are not sufficiently set out in the law report to enable us to consider that point. Probably, a suit would fall as the men were, presumably, not parties to the contract, as were Sagar Talkies and the Odeon Cinema.

It will be noted that all or any of the above cases may be the subject of appeals, not yet decided or reported. Our comments are not intended to prejudice any such pending appeals, and are merely expressions of individual opinion.

* Workers of Sagar Talkies v Odeon Cinema. 1958. i. L.L.J. 639.

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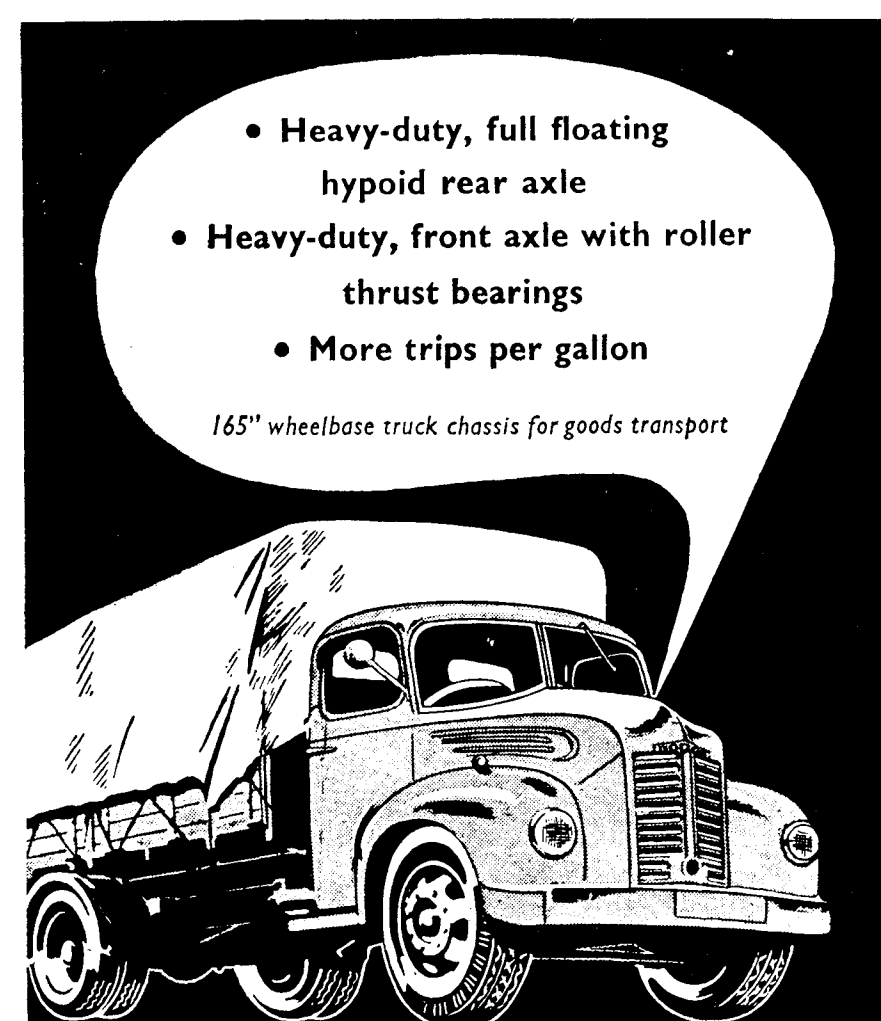
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AIYARS.

INDUSTRIAL RELATIONS IN INDIA

VAGUE GOVERNMENT POLICY HAMPERS ECONOMIC PROGRESS

EACH year as it passes contributes its quota of problems (and sometimes answers) to industrial relations, and 1958 has been no exception. Although the year has witnessed some constructive thinking on those major issues which remain to be solved, not all the achievements have been well received either by industry or the labour unions, and it is by no means certain that the answers which have emerged are correct. But they are at least attempts, although clumsy ones, to guide the ship out of the fog in which it is caught. As usual, there have been too many individual problems which have monopolised valuable planning time.

Perhaps the most acute problem the Government has had to face is the effect on public undertakings of past tribunal awards concerning the private sector. Since Independence, the burden on the latter relating to terms and conditions of service has been increased by wage awards, often based on somewhat uncertain principles. Certainly, there is a need for improvement in the standard of living, but it has never been appreciated that improvements could only be made in conformity with managements' capacity to pay, and that there must eventually be repercussions on the public sector. It has taken time for the full effect to be felt, but there is little doubt that the public sector itself is now in difficulty and it is to be hoped that this will lead to a fresh approach, which will help not only towards more stable economic conditions in the country, but may also encourage foreign investment which India so badly needs.

Political Control

The events of the year have emphasised the extent of political control over trade unionism in this country. Certain elements deliberately pursue this line for political ends, but even the more responsible organisations do not appear to grasp the fact that, unless they can set their own house in order, they cannot hope to represent their members effectively. Personal gain plays too large a part in the movement and prevents concentration on the work in hand. There are many schools of thought concerning what the organisation should be, but, generally speaking, it is agreed that they should decide whether they want national or regional representation. They must provide funds for their field workers. They must be determined to further the interests of the country as a whole. They must be prepared to appreciate the difficulties of their opponents. They must improve their own education and training and they must become aware of their responsibility to the economy in its entirety. One thing, however, is quite clear. The primary responsibility for finding a solution rests firmly upon the Central Government. The framework within which that solution can be built already exists in the shape of national bodies, but these require to have instilled into them a sense of purpose. There is need of a more lucid approach, an inspired leadership and a determination which has hitherto been lacking.

No year passes without its quota of strikes, and 1958 has been no exception. The history of the disturbances in Burnpur, Jamshedpur and on the docks, to take only the major ones, is too familiar to need detailed examination. But it is significant that these strikes sprang from political rather than trade union motives. That they failed goes to the credit of the managements of the concerns and the State Governments involved. Perhaps it is to be regretted that premature intervention by the highest authority prevented any real benefit accruing from the dock strike. Certainly, there were economic considerations which made a quick solution important, but for the Government or management to show weakness, encourages overt agitation and handicaps mutual settlement, while making the maintenance of discipline more difficult.

Productivity Council

In January, the Government of India set up the National Productivity Council to help increase the country's productivity and managements have promised their co-operation. It is not necessary to stress the benefits accruing from, or the necessity

for, rationalisation and reasonable schemes to increase productivity, if India's industrial development is to be fully effective. Yet in almost every case where managements seek to make improvements, labour opposes these efforts on the most nebulous grounds. This may be a political convenience, but unfortunately it does not always originate only from the side of the house one might expect. Certainly, rationalisation in the Indian context is an unpleasant word and one which has been abused, but this is no excuse for the reluctance of labour to co-operate when reasonable guarantees are given. The unions must be prepared to work with the management in genuine partnership. This co-operation is not one-sided, and managements must learn to play their not inconsiderable part. To do this they must be convinced that the unions are genuine and in earnest and that

cation is the answer the country is seeking, but the move in that direction must be slow and cautious. It should be allowed to grow from the examples that have been set, rather than being given statutory force.

It is unfortunate that lawyers have been allowed to become involved in labour matters in spite of the best intentions of the Industrial Disputes Act. The results have been that too much attention has been paid to fine legal arguments and precedents and too little to seeking a practical answer to a practical problem. This has resulted in a mass of conflicting judicial decisions which conceal and prevent any useful answer. If there is to be any improvement in the handling of labour disputes by Government machinery, steps must be taken to exclude lawyers completely and to allow disputes to be settled by hard-headed, experienced men. Arbitrators and adjudicators should be practical men with industrial experience rather than those with judicial training.

By

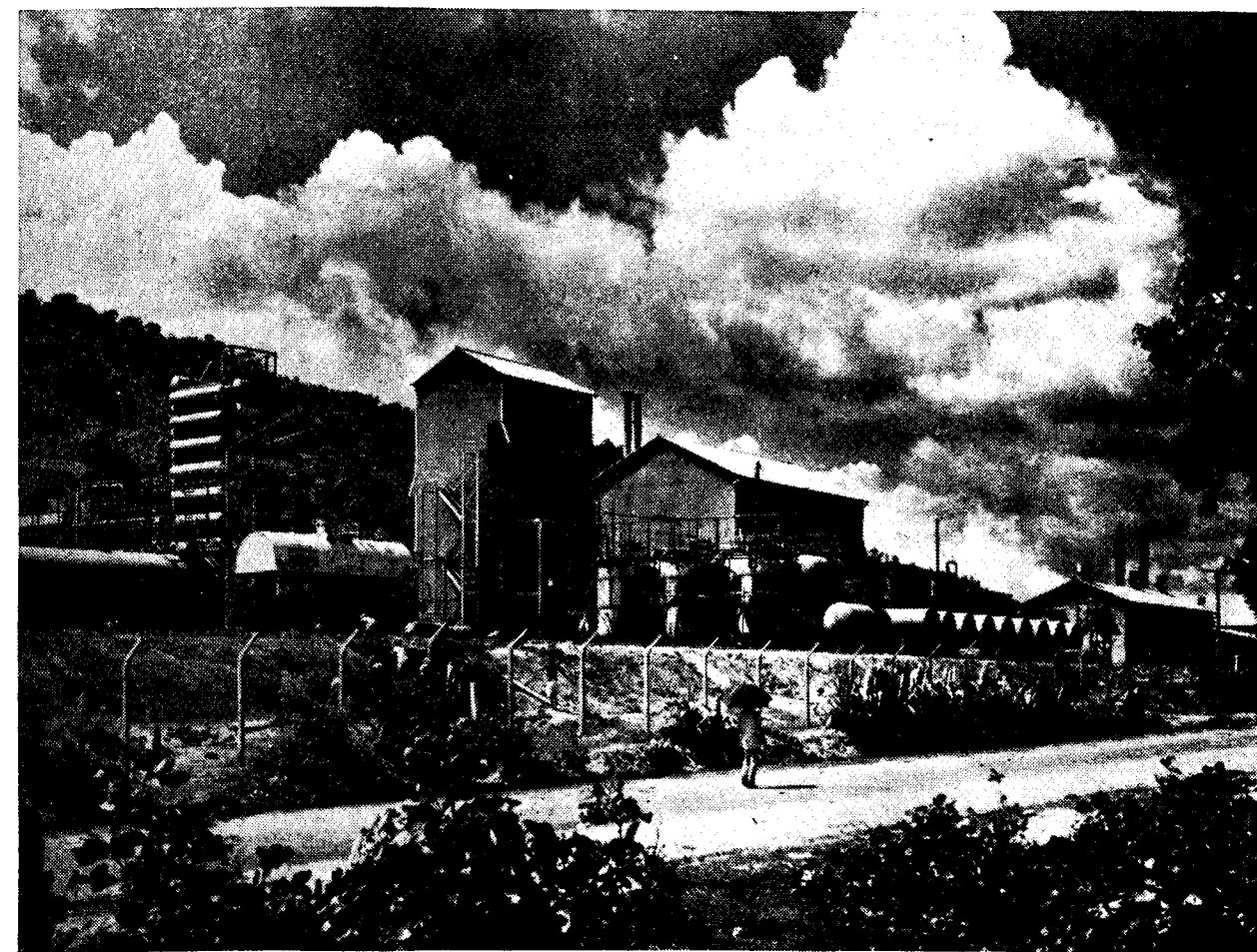
L. G. Smeathman

Workers in Management

the results which accrue from co-operation are worth while. The frustrations which arise from strife between the management and unions are not conducive either to good staff relations, efficiency or productivity. Given patience, it is possible to work even with people having the most extreme political thoughts within certain limits; and indoctrination by co-operation may eventually modify attitudes—at least there is nothing to lose.

It was only this year that the full impact of the abolition of the Labour Appellate Tribunal was felt, and although it has not achieved the desired ends, there are indications that direct negotiation is gaining favour. In this context, the year was noteworthy for the open clash of opinion between Mr. Giri and Mr. Nanda as to whether adjudication and the Government machinery should be abandoned completely in favour of collective bargaining. The ex-Minister argued his case with some heat while the Minister's cautious approach was necessary because the country can ill afford to risk the serious industrial unrest which might result from Mr. Giri's approach. There is much to be said for less Government interference in internal affairs, and for a more practical approach to problems. It may well be that arbitration as opposed to adjudication

There has been a great deal of talk about workers' participation in management and some tentative steps have been taken towards this end. What appears to have been overlooked is that other more advanced countries are attaching less importance to it, and it is doubtful not only whether it will work but whether it is desirable. Its practical application presents many difficulties and results cannot be achieved unless workers are equipped to play their part. They must be prepared to accept, and be capable of accepting, the full measure of the responsibilities they would assume. It is difficult to see how this can happen in a country where industrial development is in its infancy, a proper sense of responsibility not developed, and education so far behind the times. This question of education includes not only raising the general standard, but also educating trade union leaders to their responsibilities and ensuring that plans are prepared for the training of their successors. In western countries, this is receiving considerable attention and trade union organisations are taking active steps to ensure the continuation of a powerful, well-organised movement. To do this they have established training programmes and schools of their own which will train the leaders of the future at all levels to play a proper part in a country's development. This is an example which might well be followed by the movement



A view of the area where raw materials for explosives are manufactured at a Bihar factory

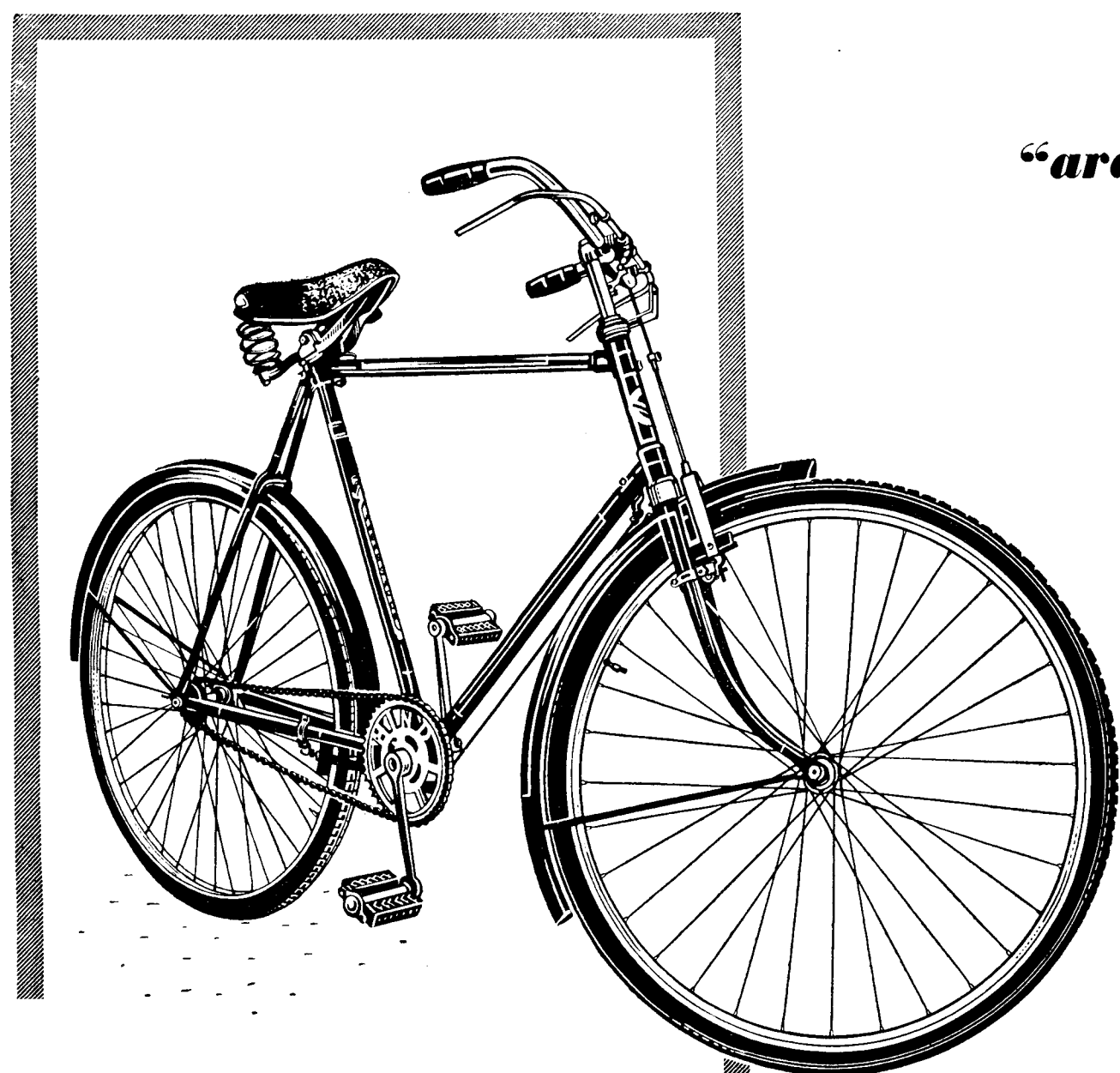


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in India, and one in which both the Government and managements have responsibilities.

Another serious problem is the lack of discipline. In the year that has passed, this has received much thought and an attempt has been made to devise a code of behaviour. Unfortunately, the code has no statutory force and is likely to be of little value. It has been adopted by the Standing Labour Committee and managements and unions have pledged their support. Whether the unions will stick to their pledges remains to be seen, but no code can be made to work effectively unless proper conditions of understanding are established between the management, Government and labour. This is not the case at present. Lack of discipline can make serious inroads into industrial efficiency and the Government should legislate firmly to ensure that coercion, intimidation, go-slow, strikes, lock-outs and unilateral action become impossible. There are many lacunae in the labour laws of this country, but probably the most glaring is that which fails to prevent split representation of a body of workers by more than one union. The management can be faced with the problem where, having come to an agreement with one union whom it believes to be representative, another minority union puts up new claims before the Government machinery with the result that the agreement is often reversed. State Governments appear to be unwilling to take a firm stand, so managements' efforts to order their affairs properly are brought to nought and their hold on their workers is further weakened. At the sixteenth session of the Indian Labour Conference at Naini Tal in May 1958, this question was considered, and labour and management representatives agreed: (1) that there should be no recognition unless the union has been registered for at least a year, (2) that there should be no recognition unless at least 50 percent of the workmen are members, (3) that the unions accept the agreed code of discipline and (4) that where there is more than one union, the one with most representation should be recognised and should continue to be recognised for two years. It was also agreed that during this two-year period, the minority unions should not create difficulties. They could carry on their activities, but would be bound by all agreements entered into by the recognised union, and would be so bound until the two-year period had elapsed.

Labour Code of Conduct

It was hoped that this code of conduct, to which the A.I.T.U.C. subscribed, would remove the difficulties. But again, it has no statutory force and already there are signs that the unions do not intend to honour their pledges. Statutory action must be taken and it is something which the Centre should consider urgently, if reasonable industrial peace is to be established. At the end of the same Conference, four national labour bodies, the I.N.T.U.C., A.I.T.U.C., U.T.U.C. and H.M.S., met separately and evolved a code of conduct intended to minimise inter-union rivalry. This code includes: (1) freedom to join any union, (2) no dual membership of unions, (3) no violence, coercion or personal vilification and (4) a joint machinery to implement the code. If this code is followed, there will be a chance for the movement to establish itself on a basis which is acceptable to both the Government and management, but it remains to be seen whether those who subscribed to the code intend to implement it in full. Until this is proved, it plays little part in finding a solution to the general problem.

During the year, the Central Government attempted to lay down a grievance procedure. The principles upon which this code is based, and the speed of action it prescribes, are highly commendable, but, like so many systems evolved by the Government, it is ponderous and is far from perfect. Furthermore, if no solution is possible by using the procedure, the matter will still be referred to Government machinery, and, therefore, there is still the opportunity for unscrupulous unions to frustrate the Government's intentions. What is required is a procedure that is quick and simple, while allowing for proper enquiry and representation, and one which establishes the management as the final arbiter, after due consultation, except where glaring injustice exists. This procedure should be evolved by the management, within the principles which the Government may have laid down, and after due consultation, as the people knowing the needs of their particular industry. From the individual procedures which would result, there would eventually emerge a pattern to which the Government could give statutory force, if it were still necessary.

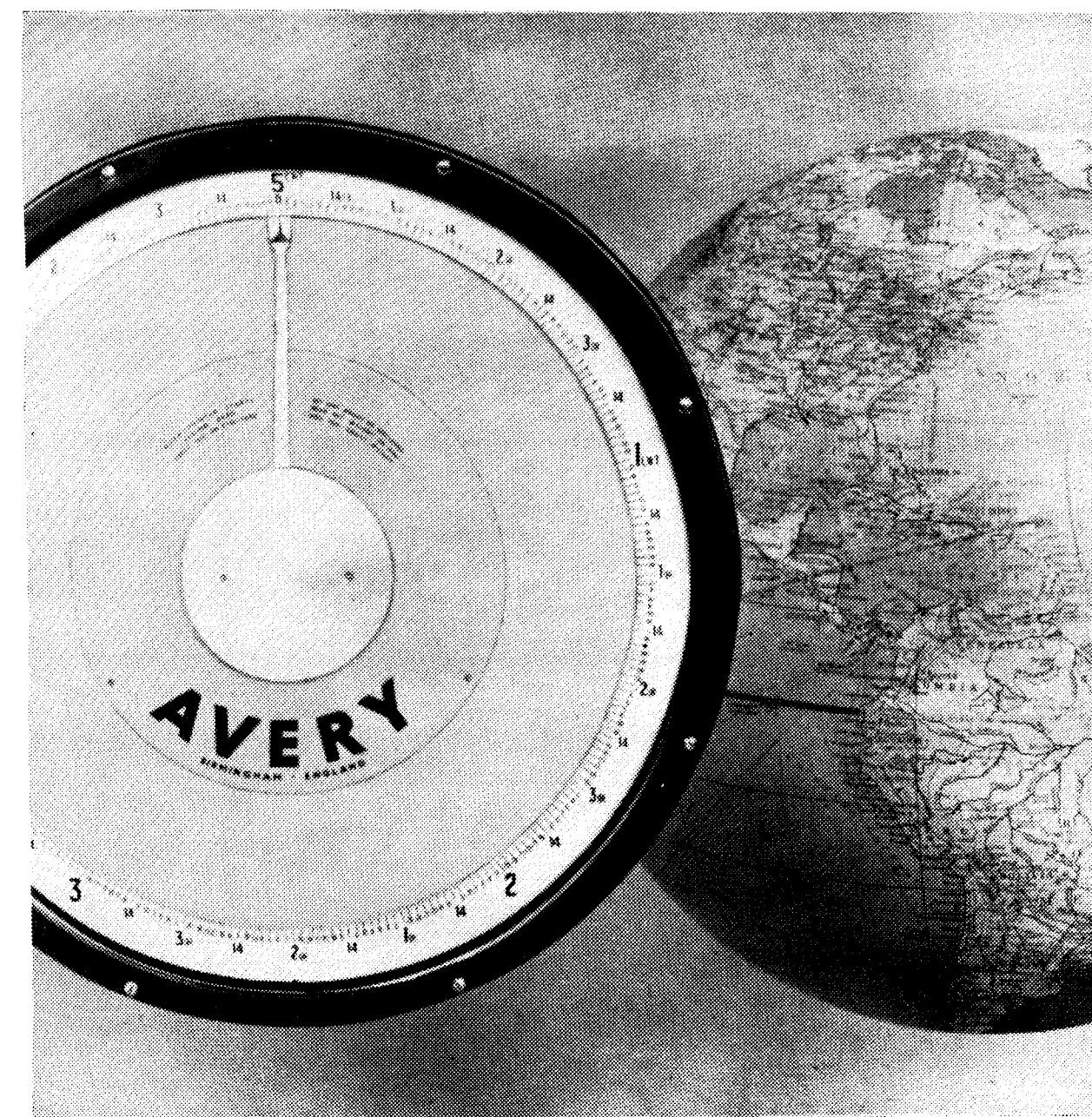
The year has seen the announcement of several bonus schemes, particularly in the area of Bangalore. All these schemes introduced are production bonus schemes, and payments are related directly to actual output. They are based on principles which have been applied in western countries, but which are gradually being abandoned in favour of

a more progressive approach, and it seems unfortunate that India should introduce schemes which it is likely to regret at the end of five years. The danger is that the schemes make no allowance for the gradual improvement of any manufacturing process by which a time is eventually reached when production is increased, not because of any extra effort by the operator, but purely because of increased mechanical efficiency. Although it is highly desirable that operators should be rewarded, western thinking is turning more and more to the conception of basing that reward on the amount of work that he does over and above a fixed minimum, thus helping to make better use of manpower and improve productivity. This method achieves an immediate saving on overheads, and enables a reward to be given even though there may be no corresponding increase in production.

Freedom for Management

To summarise, 1958 has produced some forward steps in the field of industrial relations, but these have merely scratched the surface and the basic problems have not been tackled with any real concentration. In a country which is becoming progressively more industrialised, a stage will be reached at which progress will cease if the problem of proper industrial relations is not tackled reali-

stically, and the need at the moment is for the Centre and the States to clarify their ideas about the policies they wish to follow and the plans for implementing these policies, and to see that these plans are put into effect swiftly and firmly. There is one further point which deserves real attention. The Industrial Disputes Act and the methods it established, together with the attitude taken by organised labour, have resulted in a weakening of the management's control and its ability to introduce improvements in terms of service and working conditions which do not conform to the limited principles that have been established, for, unless it can win union support, it is faced with adjudication and its hazards. To attempt to codify and familiarise every benefit the management wishes to give, is to strangle initiative, development and healthy competition. Improvement in working conditions and all that is linked with them, is very necessary, but the management must be allowed freedom of development, and must have the support of the Centre and the States. To prescribe the management's moves in this direction is to stultify the promise of industrial development, and to weaken the management's control over its own affairs is to remove any incentive towards progress. If this incentive is removed, then Indian industrialisation will eventually grind to a halt.



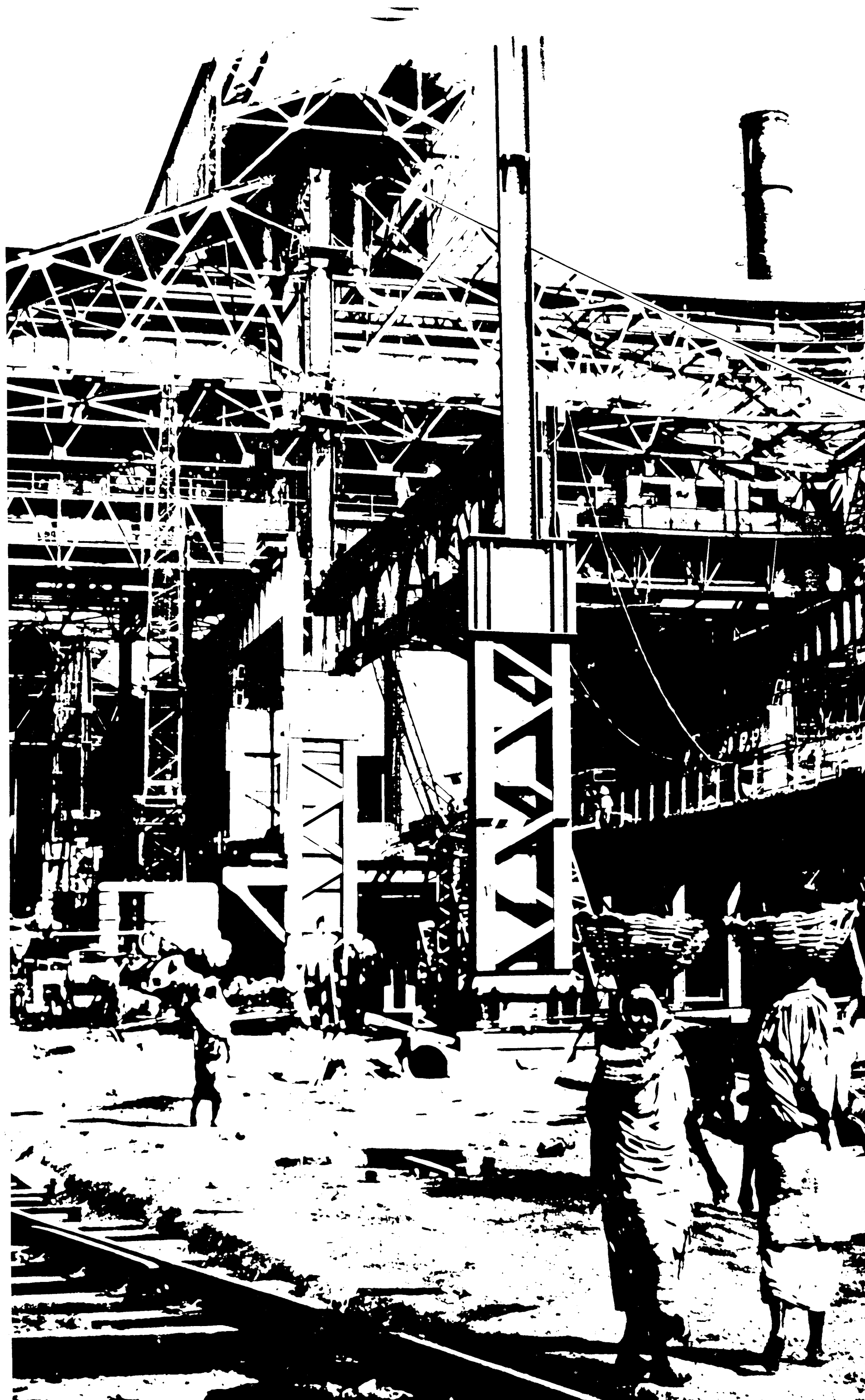
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PAID-UP CAPITAL	..	..	66,19,625
RESERVE & OTHER FUNDS (Including Share Premium)	..	..	91,61 883
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TOTAL WORKING FUNDS	..	..	46,05,11,811

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Advertising—the Additional Sales Force

Reflections on an Address by Lord Heyworth

At a time when top management in India (as elsewhere) is becoming increasingly concerned about the unsatisfactory ratio between turnover (up) and profits (down), and about the constant increase in basic material, manufacturing and marketing costs which it is no longer "realistic business" to absorb totally into the selling price, it is indeed a "topical note", as Lord Heyworth suggested, that in the 1957 directors' report of Unilever Ltd he indicated: "We were compelled to increase our advertising expenses with a consequent reduction in net profits despite a greater turnover". The word "compelled" is significant, particularly when related to the full text of the highly important speech from the chair delivered in London by Lord Heyworth and in Rotterdam by Mr. F. J. Tempel in April this year. Later, in fact, the word "compelled" is explained in part, in two paragraphs devoted to "Advertising's Contribution to Economic Stability". "Indeed, many economists now think that in a recession advertising expenditure should be increased, not cut down". The "recession" may, of course, be national or particular to an industry or only a company; it may be the result of increased competition, it may not necessarily have been the compulsion behind Unilever's decision; but the fact to be emphasised is that compulsion can exist and it can be at a time when many would advocate an opposite policy. As Lord Heyworth continued: "In a time of depression, anything that helps to re-animate economic activity is of enhanced value". It is a statistical fact that the period of greatest expansion for advertising in the U.K. was the 1929-32 depression.

The great, inevitable and as inevitably ill-pur-sued criticism is that the "consumer always pays" for the advertising. Although in essence this is true, for the cost of selling a product, whether by advertising, the employment of salesmen, or dealers' discounts, etcetera, is as much a part of the cost of the product itself as are the raw material costs and the costs of processing them, it must be acknowledged that without the ability to "mass communicate" to potential consumers, the prime rôle played by advertising, they would be unaware that the product actually existed (at any rate on a mass scale) and so not be able to buy it. *Ipsa facto*, having no market, the manufacturer would have to cease production. In the process, therefore, of passing on the cost of making known the existence of a product, one is in effect claiming payment from the consumer for a service. That is hypothetical and not even correct, for the counter-claim, the costing factor, is that only through mass selling is it possible to mass produce—and only mass production will enable costs to be lowered. In fact, advertising directly related to manufacturing costs is one of the factors that make large-scale production possible, and so also the lower costs that are inherent in the economics of mass production. One can almost see Lord Heyworth's shoulders shrug when quoting his: "and who would deny that large-scale production leads to lower costs?" The consumer, therefore, pays very little, if anything, for sound advertising (and we are at present con-

By

C. H. GATES-REED

In a developing economy such as India's, it must be equally true that advertising is essential as a stimulus to development, an aid to material progress; it is essential as an educator, as a means of helping people to become receptive to new ideas, new services, new products, and a change of thoughts and habits. In fact, if an economy is to advance, those participating are "compelled" to advertise, to educate.

Not an Apologia

Lord Heyworth emphasised that he was not apologising for advertising; but in view of the fact that Unilever spent £83 million on it in 1957, "a sum of sufficient magnitude in its own right—almost equal to the trading profit for the same period—to warrant the choice of advertising as the subject" for his address, he felt entitled to explain in some detail why "advertising has played, and will always play, a vital part in the growth" of the company. One would like to reproduce the greater part of his speech, for whereas advertising must expect to be criticised ("it is a part of our daily life.....it is a matter of public interest"), there is little doubt that most of the criticism is emotional, instinctive and ill-informed. Lord Heyworth speaks with an authority backed by the experience of an international organisation with an £83 million advertising budget, spread over nearly 200 companies in more than 100 countries, using every form of advertising medium, the Press, magazine, radio, television, the cinema, exhibitions and point-of-sale display—an organisation which has achieved its present almost unique position because of the first Lord Leverhulme's passionate belief in advertising. It is less than 80 years since soap first appeared in tablet form.

In the context of this article, which is concerned with selling problems particular to India where the mass production and marketing of consumer goods (apart from tea, soap, cigarettes, cooking fats and one or two other items) has only recently assumed a real significance in the overall economy with the indigenous mass production of many products previously imported on a limited scale (bicycles, fans, fountain pens, razor blades, etcetera) and the need to create purchasing power and consumer interest, it can do no harm to relate these remarks to the voice of an authority, to relate the answers to the almost time-honoured criticisms of expenditure on advertising to conditions obtaining here.

cerned only with reputable marketing); in effect, it cancels itself out. A sales team attempting to do the same job as quickly and over as wide an area at the same time is impossible to visualise as a unit and an expense; and how much more so in India than in compact countries such as Britain or Holland.

An American industrialist, Dr. J. T. Dorrance, defined it well when he stated: "Advertising is the principle of mass production applied to selling", or to be more classical about it and quote the historian Macaulay: "Advertising is to business what steam is to machinery". As far as Unilever is concerned, "1,800 million consumers—the whole population of the free world—make up the potential market for our goods and there is no other

way to communicate with them". Elementary, indeed, and yet in India, how many manufacturers are willing to face up to this aspect of selling on a rational basis right from the word "go", when the product is being designed, formulated or compounded, so that a potential offtake related to the selling and advertising effort is in the initial stages related to production capacity and costs? Advertising, its need and cost, its implementation, too often comes as an after-thought.

Particular to India

In India, the need to use advertising to assist the sales force is undeniable, although often denied. Where markets for most products are separated by great distances and demand is still limited by the low purchasing power of the people, personal selling by the sales force is expensive and restricted by time, distance and cost factors. Only through the planned use of advertising media, the Press (for a "newspaper can drop the same thought into a thousand minds at the same moment" as Alexis de Tocqueville said), direct mail, hoardings, the cinema and the radio is it possible, at a relatively low cost, to keep a product name not only constantly in the public mind but in that of one's agents, distributors, dealers and retailers. Advertising in the general Press in India plays by necessity the rôle of a salesman reaching out to the company's selling channels throughout the length and breadth of the land, by making calls, as it were, during the gaps between the salesman's visits which are inevitable because of the circumstances outlined above. This is not to deny the need for the sales force, as infantry on the ground, to follow up and consolidate.

As an example of the cost of dropping "a thought into a thousand minds at the same moment", a single 10 inches by 3 columns front-page solus advertisement (double the rate of an ordinary advertisement) released simultaneously in each leading English-language daily published from Calcutta, Bombay, Madras and New Delhi will take one's message to 335,000 readers throughout the length and breadth of India for an approximate cost of Rs. 5,240. A front page solus advertisement is hardly likely to be missed, so that at a cost of only 1.56p a head, one's message reaches a vast potential of purchasers.

Advertising and Sales Co-operation

The rôle of advertising as an active adjunct of the physical sales force and the need to make use of it as such cannot be over-emphasised. One might almost suggest that when computing the advertising budget, over and above the recognised "x" percentage of the turn-over particular to the product as the basis of that budget, a further appropriation based on what would be the annual cost to the sales organisation of the equivalent of "y" number of "hypothetical" additional salesmen should be added to the advertising budget without prejudice to the cost of the publicity department—or it might even be debited to sales.

A further important link between advertising and sales particular to this country and related to the need to sell in "many languages" is the ability of advertising material to co-ordinate the presentation and selling approach of the sales organisation itself. It is only in the written word, through carefully prepared translations in all the languages as used by the advertising department, when presenting multi-lingual Press campaigns, that one is able to ensure uniformity of selling approach, to canalise the person-to-person interpretation of the company's message about policy and the general and technical data about its products. Granting that for the present English continues, in commerce at any rate, as the main language of inter-communication between all parts of India, it must still be recognised that there can be very considerable variations in the interpretation of the original message in English as it passes down the line and on its translation into the various regional languages used by the sales force as their *lingua franca* and means of com-

TARGETS

FOR STEEL

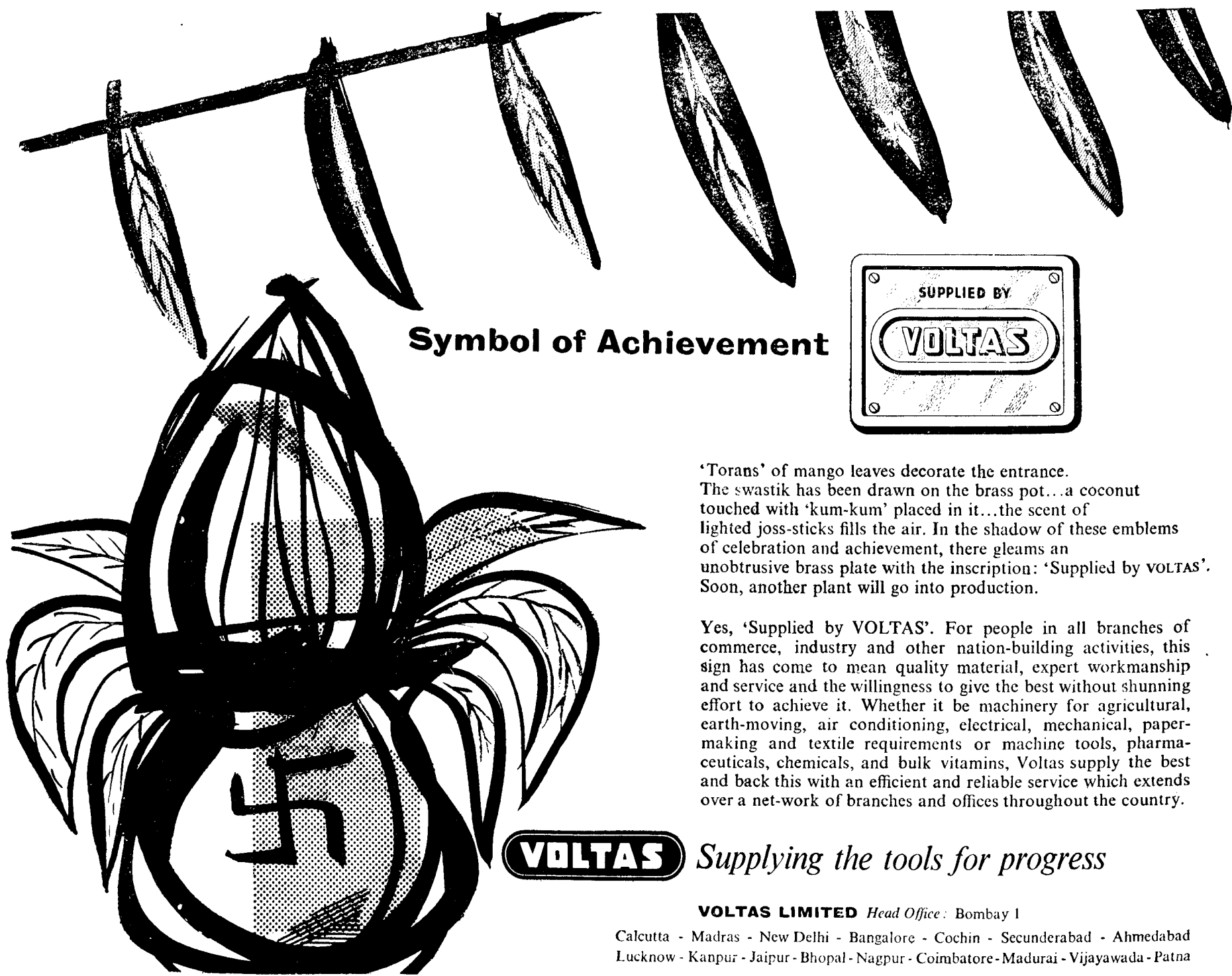
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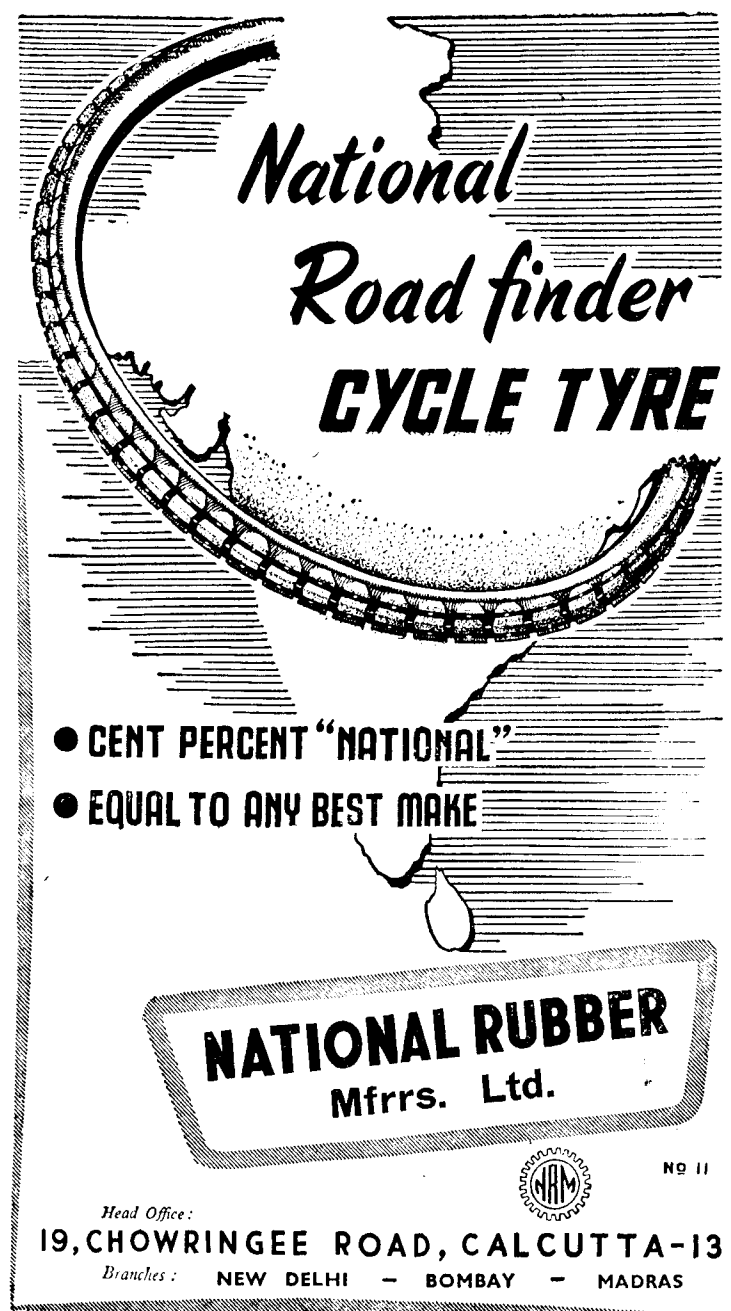
Symbol of Achievement

'Torans' of mango leaves decorate the entrance. The swastik has been drawn on the brass pot... a coconut touched with 'kum-kum' placed in it... the scent of lighted joss-sticks fills the air. In the shadow of these emblems of celebration and achievement, there gleams an unobtrusive brass plate with the inscription: 'Supplied by VOLTAS'. Soon, another plant will go into production.

Yes, 'Supplied by VOLTAS'. For people in all branches of commerce, industry and other nation-building activities, this sign has come to mean quality material, expert workmanship and service and the willingness to give the best without shunning effort to achieve it. Whether it be machinery for agricultural, earth-moving, air conditioning, electrical, mechanical, paper-making and textile requirements or machine tools, pharmaceuticals, chemicals, and bulk vitamins, Voltas supply the best and back this with an efficient and reliable service which extends over a net-work of branches and offices throughout the country.

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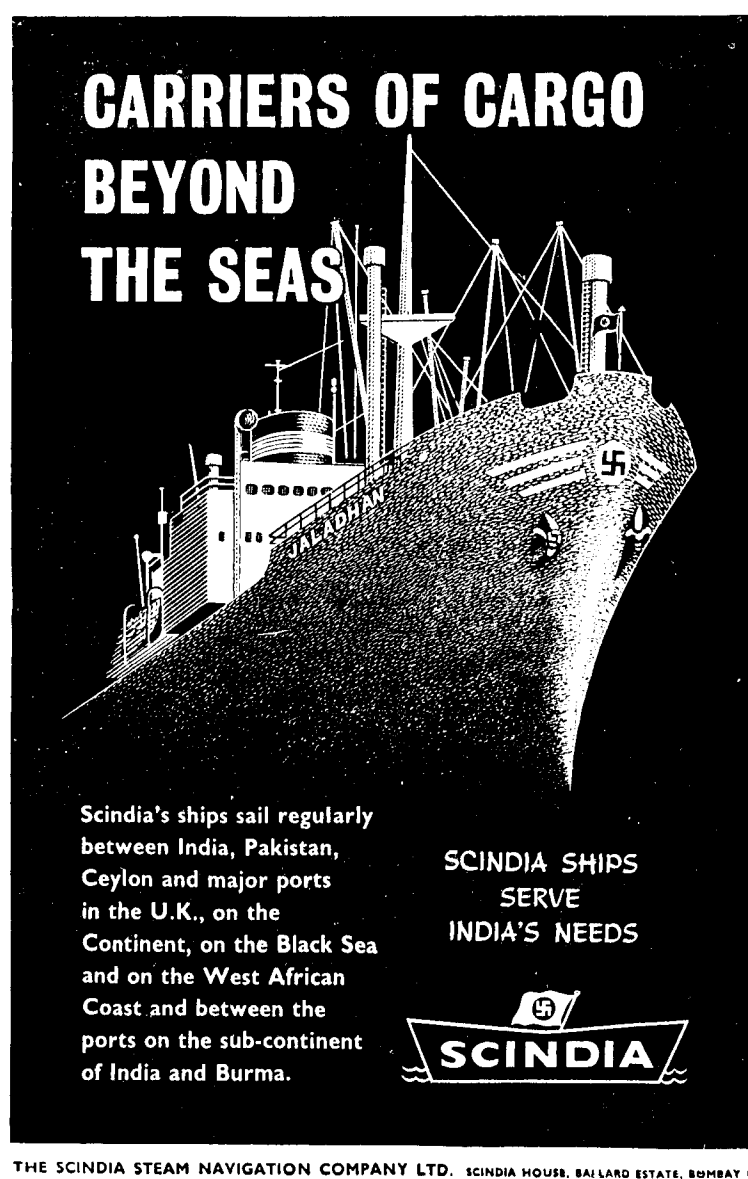


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ESTD 1914

He studies the future with a slide-rule!

Charts in front of him; graphs behind him, facts and figures all around him! He is the marketing research expert who studies, and evaluates your growing needs, your changing ways of life... and gives us a clue as to your future demands.

Yes, we are always asking questions... finding out your likes and dislikes, your suggestions and ideas. What's more, marketing research guides us in making better products. Facts about raw materials, for instance, help us to ensure continuous supply.

In this way, Hindustan Lever provides you with the quality products you want, at economical prices.



munication with their customers and so through to the customers' (dealers') customers. The careful preparation of promotion material whether in the form of Press advertisements or literature by the publicity department, and the correct indoctrination of the sales force by internal sales promotion, can do a great deal to help obviate the many pitfalls of misinterpretation, sometimes serious in their consequences, inherent in selling in 13 or more languages within one vast sales territory. It is imperative to work in close conjunction with the regional sales forces in the preparation of such material or the equally serious danger of an excessively academic approach to interpretation will result from reliance only upon professional translators. However, it is an aspect of selling and advertising co-ordination that merits much more serious attention than it at present receives. It is certainly an advertising service which the consumer can hardly resent having costed into the product price.

There are occasions when advertising can ensure that the full value of the product reaches the consumer and is not dissipated in excessive discounts and long-term credits to middlemen. It is simple enough to flood the market with goods on loose credit terms, but someone, the consumer, must pay the interest on those trading loans and cover the bad debts, etcetera, which such a policy can produce. To fight such competition, the more orthodox distributor will need to use advertising to create sufficient consumer demand to ensure that his goods will have to be stocked by dealers, etcetera, in spite of the fact that his terms are more rigid than those of his competitors.

Educational Advertising

In *Capital's* Annual Review for 1957, the writer dealt at length with the uses of advertising as an educational force in a developing economy. Over the last two years, noticeable and increasing use of advertising has been made to this end by new and expanding industries. The iron and steel companies may not need to create an immediate demand—they cannot keep pace with their order-books—but they do need to keep the public informed about the good job they are doing, why they are doing it, and, most important of all, why they should be allowed to continue to do it. If we believe in the need for private enterprise, then we must expect its exponents to tell us why we should, what it has achieved, how its efforts compare with those of the Government which constantly uses the full fanfare of propaganda to make a case for itself. No reasonably well informed person will argue that this is money wasted; that the cost of a ton of steel or of a piece of heavy equipment is appreciably affected by the cost of a public relations campaign that tells us that Tata Steel is "on to two million tons" or how Texmaco serves India's basic industries, etcetera. Conversely, and this is a positive return for that relatively trifling expenditure, the knowledge thus disseminated stimulates confidence in "India's ability to do it", to conduct a bloodless industrial revolution successfully. It makes us, the masses, the very people who make those goods, "receptive to the idea of change", and helps us to overcome inertia "to see that the old ways are not necessarily the best ways" (Lord Heyworth). As the Marketing Director of Hindustan Lever suggested, "it is desirable to impress on the sort of people who are influencers of public opinion that one's company is contributing to the country's well-being", and, in his company's particular case, "is raising the standards of health and of hygiene".

Yes, it is a story that has to be told, that is worth telling—and the least expensive, most

immediately effective way of doing it is through advertising. As Franklin D. Roosevelt said: "Advertising brings to the greatest number of people actual knowledge concerning useful things, it is essentially a form of education". What greater second need has India than to educate her people about all aspects of her present and future development, including that of the rôle being played by private enterprise. As Neil M. Borden, the economist, has said: "Since advertising has in large part been associated with the promotion of new and differentiated merchandise, a substantial part of advertising costs should be looked upon economically as growth costs. They are the costs incurred in raising the economy from one level to another. From the standpoint of social welfare, these costs have been far more than offset by the rise in national income which they have made possible. Such costs should not be prevented or decried. In the future, if man's material welfare is to be raised to higher levels in our free economy, the spark of enterprise must be kept glowing brightly; the chance to profit from the new should continue to exist. So long as individual enterprise flourishes and a dynamic economy continues, advertising and aggressive selling will play a significant social rôle."

Ethical Advertising

The critics of advertising accuse it of being unethical, of hitting below the belt, as it were, by appealing to our baser instincts, by encouraging us to spend more than we can afford on articles that, on second thoughts, we would not have bought. And now the great bogey of "hidden persuasion" based on "motivational research" stalks the camp, offering a new target for those who are in truth not willing to see that even out of all the evils they read or wish into advertising, and which to a limited degree are indeed there, much good comes nonetheless. It is true that the charlatans, the hucksters and the mountebanks very naturally take to "advertising"; but it is equally true that those who are aware of the positive rôle it has to play in a free enterprise society see to it that controls are introduced and exercised.

It was Calvin Coolidge who warned those who direct advertising policies that a great power has been placed in their hands "and power is always coupled with responsibilities". In India, although it would be ridiculous to claim perfection, it can be said that in relation to general development, self-imposed controls on advertising by the principal users are possibly much ahead of the other aspects of development. The Audit Bureau of Circulations,

very successfully modelled on its Western counterparts, is celebrating its tenth year of ensuring that the circulations of its publisher-members' journals are all that they are cracked up to be, with an exhibition in Bombay; the advertising of drugs, medicines, etcetera, is governed by well-framed laws; the trade mark and patent laws have been brought up to date; and the Indian Society of Advertisers voluntarily ensures among its sixty-odd members, leading users of advertising and sales promotion in their most advanced forms, that the "ethics" of advertising are pursued. There will always be defaulters—but undoubtedly in India advertising wears the top hat of respectability.

Where it is lacking is in its failure to put over this fact and the case for advertising (the Indian Society of Advertisers is looking into this very seriously now). If the *Advertisers' Weekly*, London, can write that "advertising calls for constant mental growth and absorption of new ideas and methods, and where it appears to be failing at the moment is in practising for itself what it does so well for its clients, namely, to convince the cynics and critics that it is a concomitant of economic change", then we surely need to do something about it here. Mainly because advertising did not require to be pursued very seriously in the past and today because most manufacturers are faced with over-full order books, it is difficult for many to adopt the wider, long-term view in their approach to the uses of advertising and sales promotion scientifically. But that they must do so is a fact that must be faced, a story that needs to be told.

To rejoin Lord Heyworth, this is certainly not intended to be an apology for advertising but rather a brief attempt to indicate the multi-purpose rôle it can and indeed must play in India's present and future if private enterprise is to survive and if India is to achieve industrial self-sufficiency. Although having possibly over-indulged in quotations from the great, a few lines from Sir Winston Churchill provide a fitting conclusion in the context of what has been written here and express in Churchillian phrases points made with equal determination in Lord Heyworth's speech which has very obviously been "our text for today": "Advertising nourishes the consuming power of men. It creates wants for a better standard of living. It sets up before a man the goal of a better home, better clothing, better food for himself and his family. It spurs individual exertion and greater production. It brings together in fertile union those things which otherwise would never have met".



MODERN DESIGNS

the Tea Industry

Factories, Withering Houses, Hospitals, Bungalows, Quarters for Staff and Labourers, Fencing and Gates.

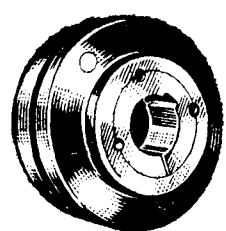
Designs and Estimates given on Application.

Fabrication and Erection under Expert Supervision.

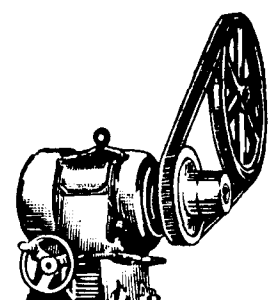
A & J. MAIN & CO LTD
GLASGOW LONDON NAIROBI

16, NETAJI SUBHAS ROAD, POST BOX 36
CALCUTTA 1.
(Incorporated in Great Britain with Limited Liability)

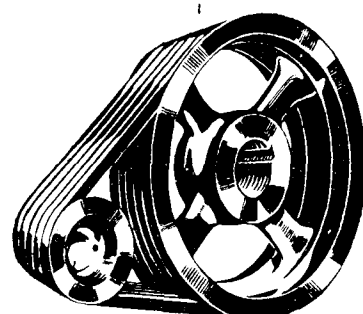
Fenner PRODUCTS



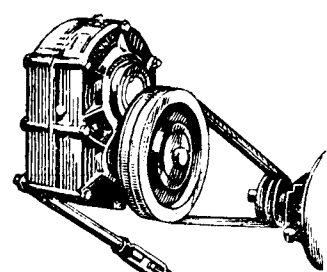
FENNER
TAPER LOCK FLEXIBLE
COUPLINGS.



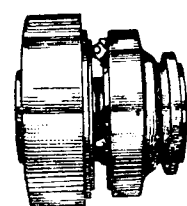
HAINSWORTH
VARIABLE SPEED DRIVES



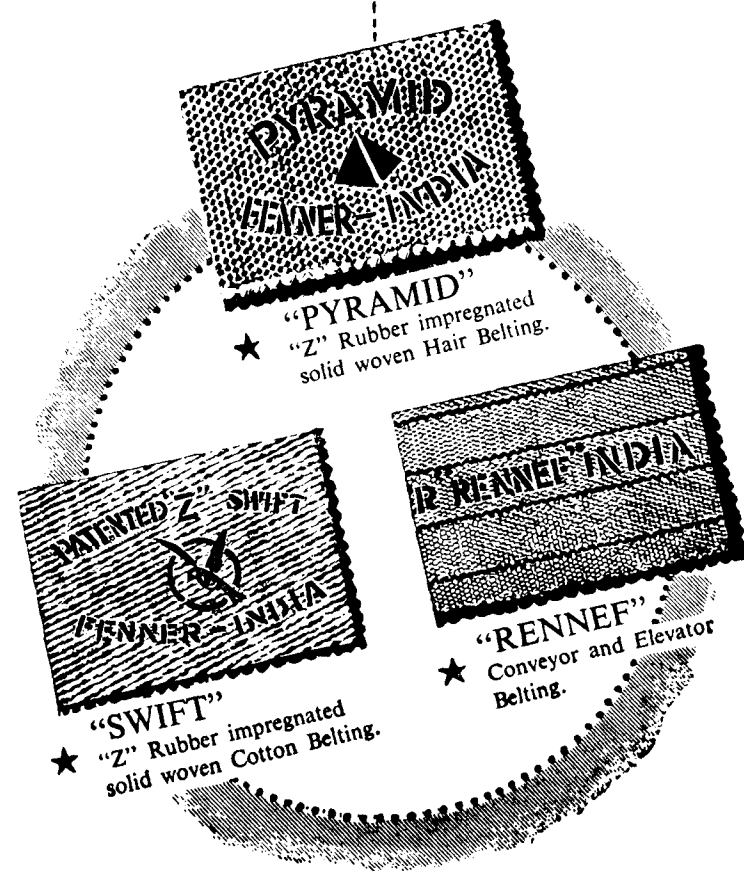
FENNER
High Tenacity Rayon Cord
V-BELT DRIVES



FENNER
TORQUE-ARM SPEED
REDUCER.



PLATT
CLUTCHES.



Also Jute Lining and Spindle Tapes.

Supplies available from:

**J. H. FENNER
& CO. (INDIA) LTD.**

(INCORPORATED IN ENGLAND; LIABILITY OF MEMBERS IS LIMITED)
MERCANTILE BUILDINGS, LALBAZAR, CALCUTTA-1

India makes them...

...these coated rods of metal, so indispensable in the fabrication of ships and locomotives, penstocks and blast furnaces, trucks and railway coaches, pipelines and structural, that form the very foundation of our Second Five Year Plan. Ranking with Power and Fuel in importance, they are a vital tool for industry. In metal fabrication...

...there is an **ADVANI-OERLIKON** WELDING ELECTRODE for every PRODUCTION & MAINTENANCE job.

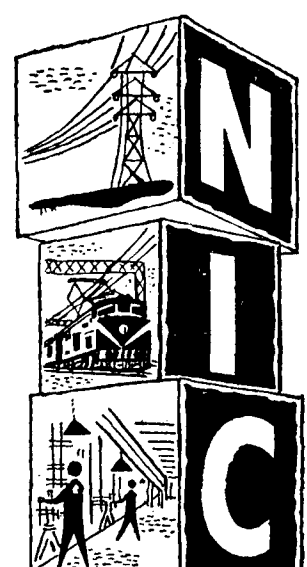
ADVANI-OERLIKON make a range of over 40 types of welding electrodes for mild steel, high tensile low alloy steel, stainless steel, cast iron & non-ferrous metal. There are electrodes for hardfacing & even an electrode for cutting.

ADVANI-OERLIKON electrodes

on par with the best in the world!

J. B. ADVANI-OERLIKON ELECTRODES PRIVATE LTD.

46, Old Advani Chambers, 51, P. M. Road, Bombay 1. Phone: 244327
Factory: Bombay Agra Road, Bhamburda, Bombay 40. Phone: 47209



Power to India's Homes, Farms and Factories

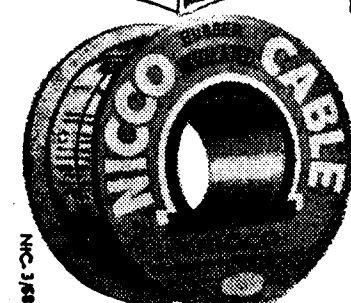
NICCO produces a wide variety of Wires and Cables for carrying Power. From thin Winding Wires to robust Power Cables all NICCO products are tested and retested for guaranteeing quality.

NICCO PRODUCTS:

All types of
Copper and Aluminium
Conductors including A.C.S.R.;
Grooved Trolley Wires;
Synthetic Enamel Covered Wires,
Paper and Cotton Covered
Wires and Strips;
Rubber Insulated Cables;
Varnished Cambric
Insulated Cables;
P. V. C. Insulated Cables etc.



NICCO products are manufactured strictly according to appropriate ISI specifications.



NICCO
WIRES & CABLES

INDIA'S OWN
INDIA'S BEST

THE NATIONAL INSULATED CABLE CO., OF INDIA LTD.
STEPHEN HOUSE, DALHOUSIE SQUARE, CALCUTTA-1 Works: SHAMNAGAR (24 PARGANAS)

DETERIORATION IN THE PAKISTANI ECONOMY

TASKS BEFORE THE NEW GOVERNMENT

THE economic situation in Pakistan was not satisfactory even in earlier years, but since the crisis of 1952, it has been a continuing cause of anxiety. Industrial progress, on which were pinned the nation's hopes of future prosperity, has failed to impart that degree of stability and soundness to the economy, which is essential for its steady expansion. Food shortages, financial stringency and deficits in the balance of payments provided the most convincing evidence of the failure of economic policies pursued by successive Governments. The process of deterioration had already reached a stage in 1957 when bold and drastic remedies were called for to avert an impending crash. The revenues of the Government were insufficient to support its mounting expenditure. There was outcry against fresh taxation and a universal demand for economies. This was the main reason for the appointment of the Economy Committee by the National Assembly. Heavy imports of foodgrains, at a tremendous cost in foreign exchange amounting to nearly Rs. 50 crores a year, widened the gap between external receipts and payments to the tune of Rs. 26.66 crores in 1956-57. A sharp decline in agricultural production and meagre imports of consumer goods, combined with the increasing outlays of the Government on its development programme and non-developmental activities, gave rise to acute inflationary pressures, which inexorably pushed up the internal price level. This was amply borne out from the increase in money supply of Rs. 45 crores in 1957—an increase which was not matched by a corresponding addition to the national product.

The production of industrial goods and agricultural commodities was shrinking, there was a constant increase in the money supply, which rose by more than Rs. 35 crores in spite of the assurances given by the former Prime Minister, Malik Feroz Khan Noon, that his Government would not resort to deficit financing on an extensive scale which was the practice followed by his predecessors. The inflationary pressure, which was already severe, was further accentuated, resulting in still greater increases in the price level. The Government's decision to remove controls from a wide range of essential commodities was taken in complete disregard of the realities of the economic situation. It had not reduced its inflated expenditure both on non-development and development account. The recommendations of the Economy Committee were not even partially implemented. Expenditure on the development programme was not substantially curtailed, and as a great part of it had to be incurred on the procurement of machinery and equipment abroad, its impact was felt most acutely on the foreign exchange position. The deficit in the balance of payments rose to

crores and taxation of hitherto untaxed wealth are two other measures designed to serve the twin object of replenishing the Government Treasury and sucking out a considerable portion of the excess purchasing power.

Along with the improvement in the internal revenues, attempts are being made to augment external assets. Self-sufficiency in food is the key to the economic situation, on which the greatest emphasis is being laid. Both long and short-term measures have been either adopted or contemplated to close the gap between resources and requirements. The Government's efforts to unearth hoarded stocks of foodgrains have met with remarkable success. The procurement drive is accompanied by a campaign for greater production. Chemical fertilisers now produced in the country from the Daudkhel factory, which went into production early this year, have been subsidised to the extent of 40 percent. Vast tracts of arable land which were lying idle are being rapidly brought under the plough, and a commission has been appointed to report on the possibilities of land reforms within the shortest possible time, keeping in view the need for greater production as well the demands of social justice.

By

A Special Correspondent

about Rs. 40 crores in the first half of 1958—a figure higher than in any previous year for the same period.

Five Year Plan

The five year plan has apparently failed in achieving its objectives. In fact, it is responsible for some of the very forces which are undermining the economy, not the least important among them being the enormous investment in the public sector. The resources, both external and internal, available for development were grossly over-estimated. A downward revision of the targets had, therefore, become inevitable, and the plan, consequently, was revised more than three years after it began. Even the execution of the projects already undertaken was not proceeding according to schedule due to the lack of technical and administrative personnel, to which not much attention had been given in drafting the original proposals. In the new version of the plan published on 23rd May, 1958, the size of the development programme has been reduced to Rs. 1,080 crores (Rs. 750 crores for the public sector and Rs. 330 crores for the private sector), against Rs. 1,160 crores initially provided for (Rs. 800 crores for the public sector and Rs. 360 crores for the private sector). Foreign exchange for the plan cannot be found out of the country's own earnings, which, in the Board's words, are barely adequate to meet the normal requirements of the economy. These have largely to come from external assistance, mostly from the United States. Greater emphasis has been placed on the development of agriculture in the new allocations in the light of recurring food shortages. There is one important aspect in which a serious departure has been made in the policy laid down, namely, in land reforms. Mr. Zahid Hussain's approach to the problem was guided by considerations of social justice as well as with the object of providing incentives to agriculturists. The Republican administration, however, rejected the suggestion for radical changes in the agrarian system, ostensibly on the ground that they would be a deterrent to production, but actually due to the influence of the landed gentry on its policies and actions.

Downward Trend

Even the revised plan has not succeeded in arresting the downward trend of the economy. There has been an all-round decline in production. According to official estimates, the output of rice last year was smaller by 517,000 tons, and although wheat production increased by 247,000 tons over the previous year, it was less than the quantity produced in 1953-54. Cash crops showed no appreciable improvement. Industrial production fell due to the shortages of raw materials and spare parts for want of foreign exchange. While

Painful Legacy

The new régime has thus inherited a most painful economic legacy. Not only in number, but also in nature, the problems are formidable. By a series of quick and courageous decisions, the Martial Law Administration has attempted to rid the economy of the unhealthy forces that were systematically undermining its strength and stability. Controls have been reimposed on a large variety of essential commodities, whose prices were artificially raised to a level far beyond the reach of the common man. A vigorous enforcement of controls which were never faithfully enforced before has had the immediate effect of bringing down the cost of living. Prohibition of the sale of licences is another measure designed to lower prices, particularly of imported goods. Recovery of tax arrears amounting to several

Food Imports

These steps will diminish the dependence on imports of foodgrains, which used to cause the heaviest drain on foreign exchange earnings in the past. Besides eliminating all avoidable and unnecessary claims on the balance of payments, the Government is seriously engaged in reclaiming foreign exchange either concealed at home or accumulated abroad by Pakistanis. These assets, believed to be very large, would greatly strengthen the foreign exchange reserves, but their precise value cannot be known until after the expiry of the date for declaration and surrender.

The Government will undoubtedly be in a happier position to make liberal allocations for the more urgent task of reconstruction, both out of its own resources and foreign assistance. Much of the latter had in the past been devoted to imports of foodgrains. Preoccupied with the problem of ridding the economy of the malpractices and abuses, the new régime has not yet had time to direct its attention to the wider issues of policy. These will probably find their full expression in the Budget for next year, which will also reveal the result of the administrative action so far taken on the state of national finances in more concrete terms.

BOLTS, NUTS, SPIKES and RIVETS

Just check with us for your requirements. The products of our modern factory, precision engineered to international specifications will be found uniformly satisfactory.

Made to any required specifications.



STEEL MOULDERS

18A, Rupchand Roy Street,
Calcutta-7



Stocks and Shares

A MONTH-BY-MONTH SURVEY OF PRICE TRENDS FROM JANUARY TO OCTOBER, 1958

	JANUARY		FEBRUARY		MARCH		APRIL		MAY		JUNE		JULY		AUGUST		SEPTEMBER		OCTOBER	
	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.	H. Rs.	L. Rs.
CENTRAL GOVT. LOANS																				
1946-86	71 05	71 03	71 05	71 03	71 05	71 00	71 25	71 05	71 30	71 03	71 18	71 03	71 10	71 05	73 00	71 05	74 45	73 00	74 05	73 05
1961	94 25	94 45	94 75	94 55	94 85	94 75	94 55	94 75	95 55	95 35	95 70	95 65	95 70	95 85	97 25	95 85	97 30	97 25	97 30	97 15
1962	94 77	94 65	94 85	94 75	94 95	94 85	95 25	94 95	95 45	95 30	95 55	95 45	95 65	95 55	96 70	95 65	96 80	96 70	96 80	96 77
1964	97 75	97 75	97 75	97 75	98 10	97 75	98 25	98 10	98 25	98 10	98 25	98 10	98 25	98 10	98 60	98 50	98 70	98 60	98 70	98 60
1968	—	—	—	—	—	—	—	—	99 50	99 50	99 50	99 50	99 50	99 50	100 15	99 60	100 25	100 15	100 20	100 25
1968	85 75	85 70	85 95	85 70	86 25	85 95	86 60	86 25	87 10	86 60	87 45	87 10	87 85	87 45	89 00	87 90	90 05	89 00	90 10	90 05
1970-75	100 05	100 00	100 00	100 00	100 15	100 00	100 15	100 00	100 25	100 15	100 40	100 25	100 35	100 35	100 45	100 35	100 50	100 45	100 60	100 50
1972	—	—	—	—	—	—	—	—	100 05	100 00	100 05	100 00	100 05	100 05	100 25	100 05	100 30	100 25	100 40	100 30
1973	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
PREFERENCE SHARES																				
Anglo-India Ltd (7%)	90 00	89 00	87 00	86 00	83 00	83 00	84 00	83 00	85 00	85 00	90 00	87 00	99 00	93 00	100 00	100 00	101 00	100 00	101 00	98 00
Alkali & Chemical (3%)	97 00	97 00	97 00	97 00	98 00	97 00	98 00	96 00	98 00	98 00	99 00	98 00	99 00	98 00	100 00	100 00	101 00	100 00	101 00	98 00
Bengal Assam Steamship (7%)	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00	60 00
Burn & Co. (2%)	111 00	110 00	111 00	111 00	112 00	111 00	113 00	113 00	114 00	113 00	117 00	115 00	115 00	115 00	118 00	117 00	120 00	118 00	120 00	112 00
Burn & Co. (6%)	105 02	104 00	106 00	105 00	107 00	106 00	107 00	107 00	108 00	107 00	110 00	109 00	108 00	110 00	112 00	110 00	112 00	110 00	118 00	115 00
Dunlop Rubber (6%)	96 50	96 00	97 50	97 00	99 00	98 00	100 00	97 00	99 00	98 50	100 00	99 50	100 00	99 50	101 50	100 50	101 50	101 00	103 00	100 00
Indian Iron (5%)	93 00	94 00	96 00	94 00	100 00	99 00	101 00	101 00	103 00	103 00	104 00	103 00	104 00	105 00	105 00	105 00	107 00	105 00	108 00	100 00
Kesoram Cotton (7%)	129 00	129 00	129 00	129 00	129 00	129 00	126 00	125 00	127 00	127 00	128 00	127 00	128 00	127 00	130 00	130 00	140 00	135 00	140 00	130 00
Tripathi Paper (5%)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
BANKS																				
Allahabad Bank (Fully Paid)	360 00	360 00	360 00	360 00	360 00	360 00	353 00	353 00	353 00	353 00	360 00	360 00	367 00	367 00	370 00	370 00	362 00	362 00	362 00	367 00
United Commercial	62 25	58 50	59 00	58 50	60 00	50 00	62 50	59 50	59 62	58 50	60 25	60 00	60 75	60 50	63 00	60 50	69 00	62 25	69 00	68 75
RAILWAYS																				
Ahmadnagar Katwa	50 00	50 00	50 00	50 00	50 00	50 00	50 00	50 00	50 00	50 00	50 00	50 00	47 75	50 50	50 00	50 00	50 00	50 00	50 00	51 00
Arrah Sasaram	57 00	57 00	57 00	57 00	55 00	55 00	54 00	53 50	53 40	53 40	53 00	53 00	53 00	53 00	53 00	53 00	51 00	51 00	51 00	51 00
Howrah Area	50 00	50 00	50 00	50 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00	52 00
Shahdoli (Delhi)	120 00	118 00	116 00	116 00	111 00	110 00	106 00	107 00	106 00	106 00	107 00	106 00	107 00	107 00	107 00	105 00	102 00	102 00	102 00	100 00
ELECTRICS																				
Agra	119 00	136 00	130 00	130 00	134 00	134 00	135 00	134 00	134 00	134 00	134 00	134 00	137 00	134 00	140 00	137 00	139 00	145 00	143 00	143 00
Banarasi	13 87	13 87	13 87	13 87	13 62	13 56	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81	13 81
Calcutta	13 81	13 06	13 62	13 06	13 44	13 50	13 44	13 50	14 25	13 81	14 25	13 81	14 44	14 37	15 00	14 75	15 33	14 87	15 31	14 87
Patna	11 25	11 00	10 87	10 87	10 75	10 69	11 00	10 50	11 19	11 00	11 19	11 00	11 37	11 05	11 69	11 25	12 00	11 81	12 00	11 81
Jalbabulore	11 25	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50	11 50
U.P.	116 00	115 00	129 00	124 00	129 00	120 00	124 50	123 00	120 00	119 00	120 00	119 00	121 00	119 00	143 00	132 00	144 00	142 00	145 00	132 00
JUTES																				
Agartara	7 12	6 94	7 12	7 00	7 25	7 09	8 18	7 62	8 44	7 50	8 37	8 19	9 75	8 37	10 12	9 06	10 81	9 00	10 87	10 19
Anglo-India	137 00	130 00	130 00	127 00	137 00	130 00	131 00	143 00	154 00	141 50	165 00	150 00	181 00	158 00	179 00	174 00	205 00	178 00	200 00	201 00
Belvedere	74 00	63 00	67 50	63 00	78 00	64 50	81 00	75 00	102 00	78 00	102 00	99 00	124 00	107 00	124 00	122 00	138 00	110 00	138 50	127 50
Barnagore	60 00	73 00	75 00	74 00	82 00	74 00	88 00	81 00	98 50	81 50	109 00	88 00	110 00	96 00	118 00	109 00	138 00	110 00	141 00	115 00
Champanya	100 00	96 00	96 00	95 00	95 50	94 00	94 00	93 50	96 00	91 00	98 00	89 50	108 50	96 00	108 00	103 00	120 00	98 00	125 00	99 00
Dalhousie	57 00	55 00	56 00	55 00	68 00	57 50	69 00	64 75	65 00	63 00	66 75	66 75	68 00	66 50	68 00	66 50	68 00	66 50	68 00	66 50
Empire	14 50	15 12	14 50	15 12	14 62	15 75	15 37	14 75	16 25	15 25	16 75	16 75	19 12	18 25	18 50	18 00	21 12	19 06	21 00	428 00
Fort Gloster	207 00	284 00	275 00	273 00	295 00	273 00	318 00	310 00	320 00	319 00	335 00	313 00	371 00	367 00	365 00	365 00	345 00	380 00	368 00	330 00
Gouropore	215 00	208 00	210 00	208 00	222 00	215 00	231 00	228 00	262 00	240 00	261 00	260 00	273 00	260 00	265 00	260 00	338 00	320 00	368 00	330 00
Howrah	13 44	12 75	13 44	12 75	13 94	12 81	13 94	12 81	16 56	14 95	16 12	15 12	18 50	16 37	19 31	18 00	21 62	18 25	21 50	14 94
India	99 00	95 50	96 00	95 00	103 00	90 00	117 00	105 00	130 00	111 00	134 00	124 00	140 00	131 50	139 00	131 00	171 00	140 00	171 00	140 00
Kamarhatti	81 00	77 00	74 00	74 00	82 00	71 00	84 00	81 84	93 00	82 00	95 00	88 50	114 00	97 00	124 00	116 00	156 00	112 50	156 00	112 50
COALS																				
Amalgamated	17 25	14 87	15 75	15 25	16 00	15 75	17 00	17 00	17 87	17 37	18 50	18 12	19 17	18 50	21 12	19 00	22 31	19 62	22 87	21 75
Bengal	251 00	227 00	237 00	201 00	216 00	206 00	225 00	212 00	242 00	229 00	246 00	233 00	239 00	232 00	270 00	241 00	294 00	264 00	300 00	281 00
Equitable	23 75	24 21	24 37	24 21	27 62	25 25	27 62	27 81	27 62	26 00	26 81	25 87	25 19	24 94	28 87	26 25	28 87	26 25	24 12	23 62
East Indian	21 00	19 87																		

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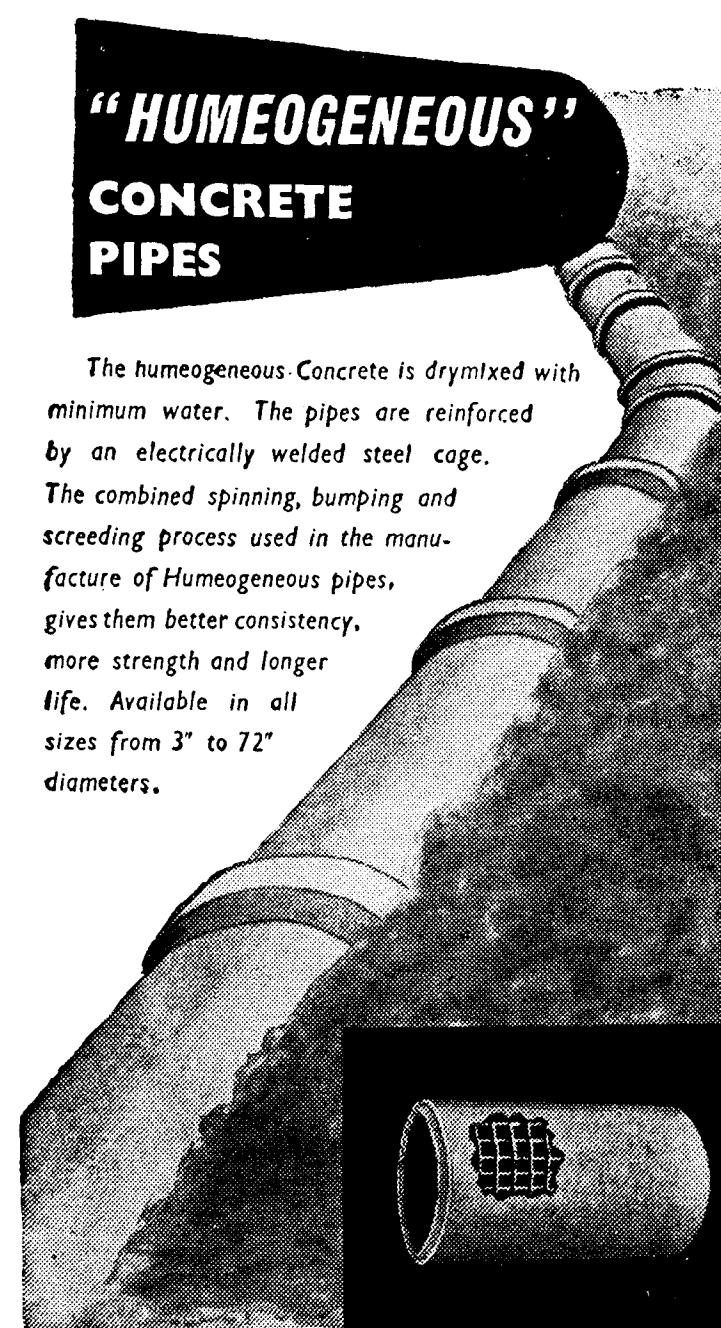
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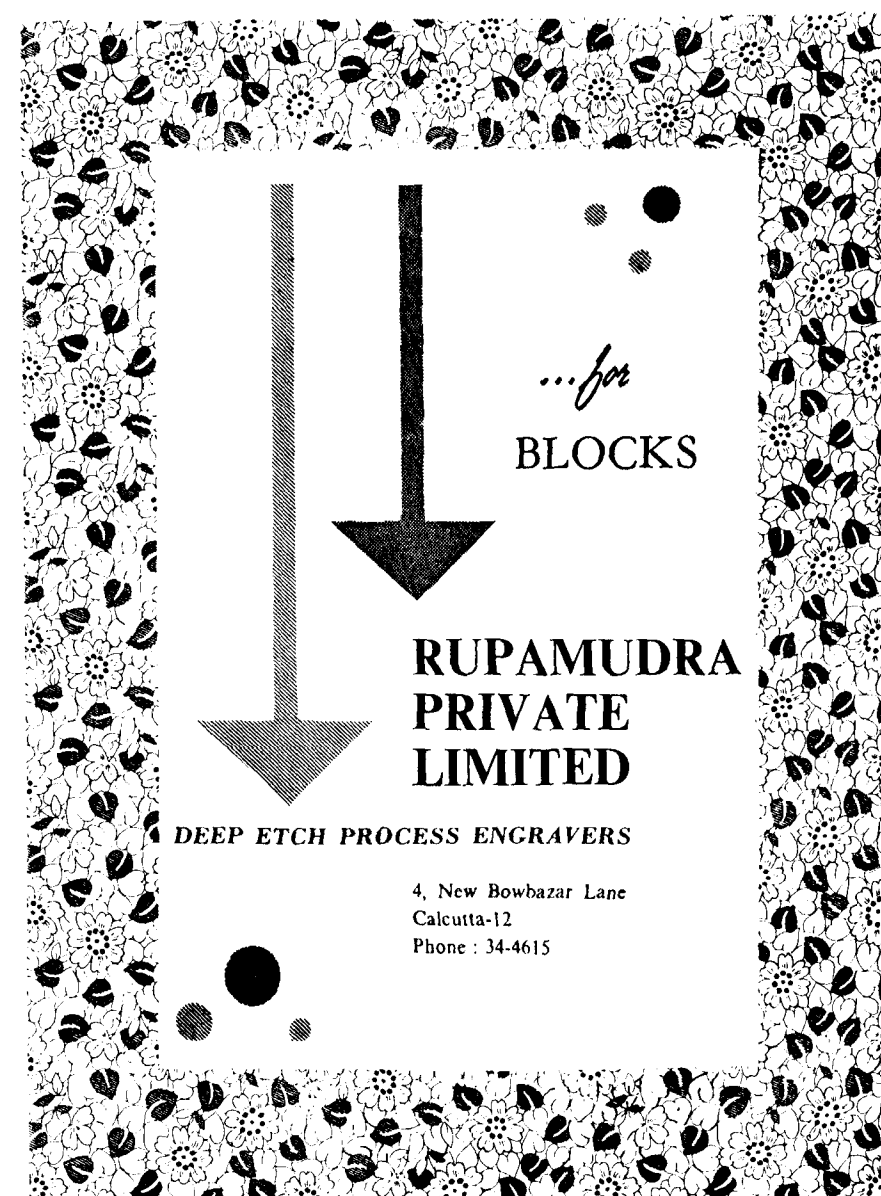
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generated and employment and technical know-how are being spread over wider sections of the people, compared with the rate of growth of population. The pace of the advance may appear inadequate and the attempt to force the tempo of development may create fresh strains, both internally and in the international payments position. But with all this, the national income has been rising, not only in the aggregate, but also per capita, showing that economic development has been keeping ahead of the growth in population. With the strengthening of the sub-structure of the economy represented by steel, machinery, power and transport, it should be possible to accelerate the progress of development in future. Once the initial impediments are overcome, there is virtually unlimited scope for profitable investment.

Foreign Aid

The generous, almost lavish, scale on which foreign aid has been made available has exceeded the hopes of even optimistic observers. The foreign exchange requirements of the revised plan now seem likely to come. While no substantial relaxation of import restrictions can be hoped for, there is less danger of a deterioration in the payments position to the point where the devaluation of the rupee will be unavoidable, or the fear that the whole plan will founder on the rock of foreign exchange. It is perhaps natural for investors in India to argue that if foreign investors, governments and international financial institutions consider this country worthy of aid on such a scale, it must be intrinsically a good investment. There is thus a very close and direct relation between the improved prospects of foreign aid and the recovery on the Indian stock exchanges. Even from the point of view of the domestic capital market, it was a happy idea to make New Delhi the venue of the 1958 meetings of the International Monetary Fund, the World Bank and the International Finance Corporation. This experience, together with the trend towards the eclipse of parliamentary democracy and the rise of military dictatorship in the East—from Cairo to Djakarta—has given Indian investors an increased awareness of the significance of democratic planning in this country. India has emerged as the sheet anchor of democracy in Asia and investors, foreign and Indian, have a stake in the success of the experiment that is going on here.

The other major influence which has brought about the recovery is that there was more money about in 1958 than in the previous year, or in other words, increased development expenditure has put more money into circulation. Some of these funds have flowed directly into stock exchange securities. Some have gone to swell the volume of bank deposits, and as credit became more easily available, those who took an optimistic view of share prospects, found banks more accommodating than in the past. To some extent, investment by the banks themselves has helped sustain the market, though this applies mainly to gilt-edged securities.

Investment Habits

There is still far too much of investment capacity which runs to waste, because the habit of investing in shares is restricted to a very small section of the population. The great majority of those who receive the new incomes generated through development expenditure know nothing of the stock exchange and its ways and so, even when savings are made, they are not available for productive investment. Unlike in 1957, those who put their savings into gold this year fared very much worse than those who bought shares. But most of those who hoard bullion do not usually base their decision on an assessment of the probable relative profitability of the two ways of storing value. The great challenge which the stock exchanges in India face is that of adapting their organisation and practices to the new social and economic environment in which they have to function. Their task is to devise ways of channelling the savings of millions of small investors into the market and to help in the creation of a real shareholding democracy. The Government, on its part, must refrain from policies which will create violent fluctuations in share prices and scare away those timid savers who have to be persuaded to believe that it is better to hold productive shares than barren gold.

Without a flow of new savings into investment, the revival of stock market activity will be based on insecure foundations. Now that the problem of external resources for the plan is causing less anxiety, interest has shifted to the inadequacy of internal resources. With taxation at saturation point and deficit financing showing evidence of being at or beyond the safety limit, the key to the problem is saving. At present this is the limiting factor on the rate of economic growth. Stepping up the rate of development expenditure, without a parallel rise in the rate of saving, will bring only inflation, the signs of which are already evident.

And inflation is the great destroyer of savings. Up to the present, the stock market recovery does not appear to have been accompanied by any substantial flow of new savings into investment. It is true that the new issue market has been somewhat more active than in the past and flotations by established concerns, such as Guest, Keen, Williams and Dunlop, have been subscribed several times over.

It has long been established that there is plenty of money ready to respond to a really first-class issue, but it is by no means certain that such funds represent genuine new savings to be channelled into investment. To the extent that they come from expanded bank credit, they merely add to the growing inflationary pressures. There is little evidence as yet of that extension of the saving and investment habit to the masses of the people, which alone can bring a democratisation of the ownership of capital. This may appear to be a wholly impracticable ideal in conditions where the majority live at or below the subsistence level. But even if such meagre savings as are made now could be channelled into productive investment, not only the share market, but the economy, as a whole, will be changed almost beyond recognition. There is at present about Rs. 3,500 crores of potential investment capital which is locked up in gold alone.

Yield Spread Narrows

The rise in equity prices has tended to narrow the yield spread between fixed interest and variable dividend securities. In this aspect, the experience in 1958 has strikingly been different from that of 1957, when the heavy fall in share prices pushed up equity yields and brought about a substantial widening of the yield spread. The normal tendency for equities to function as a hedge against inflation was reversed in 1957, when investors in ordinary shares lost doubly: first, because of the depreciation in share values, and, second, on account of the fall in the value of money. Fortunately for the future of private investment, such conditions no longer hold good. Equities have recovered their attraction as a hedge against the continued depreciation in the value of money. Yields on them have fallen comparatively less than the rise in share prices indicates, suggesting that dividends have tended to be higher.

It would be difficult to imagine a more unpropitious beginning for a year which was to witness such a dramatic change in stock exchange conditions. At the end of December 1957, share prices were at their lowest level in recent years, confidence was conspicuously lacking and there seemed little hope of a reversal of the Government's policies which were responsible for such a sorry state of affairs. The Life Insurance Corporation, which was almost the only source of substantial investible resources, was in difficulties over the Mundhra affair. The foreign exchange situation was deteriorating from bad to worse, the U.S. economy was experiencing the symptoms of recession, industrial production in India was slowing down and the food situation remained grave.

Monthly Survey

Yet January witnessed a smart recovery from the low levels touched during the preceding months. The announcement that the Tata Iron and Steel Company would distribute bonus shares in the ratio of one new share for every five shares held, together with reports of record steel output at Jamshedpur in December, created a cheerful sentiment. This was reinforced by the news of a \$225-million U.S. loan and reports of aid from France and Japan. Further encouragement was provided by hopes of an increase in the retention price of cement and an increased offtake of cloth. But uncertainty about the forthcoming Budget tended to induce a note of caution. Jessops weakened from Rs. 22.12 to Rs. 19.75 on the decision to pass over the dividend, but recovered subsequently to close the month at Rs. 22.25. In the jute section, slightly easy conditions prevailed in sympathy with the decline in sacking prices and there was not the least sign of the rise that was to take place a few months later, and was to become a striking feature of the Calcutta Stock Exchange in 1958. The success of the Indian Oxygen flotation, which was more than three times over-subscribed, showed once again that, whatever the state of the market, investors could be relied upon to take up a good issue.

The recovery that began in January could not be maintained in February. Prices generally weakened. Sentiment was adversely affected by the intemperate criticism of stock exchanges by the Prime Minister at the jubilee meeting of the Indian Merchants Chamber. Budget uncertainties induced a note of caution, though it was not seriously believed that there would be any substantial increase in direct taxation. Only the most optimistic cherished hopes of concessions. The course of the Chagla Enquiry into the Life Insurance Corporation's Mundhra deals was followed with avid

interest, for it was realised that the state of the share market would be governed by the L.I.C. investment policy. But it was several months before the policy was defined. Mr. Krishnamachari's resignation and the temporary assumption of the Finance portfolio by the Prime Minister gave rise to conjectures about the possible effect of the change on the Central Budget. As far as the share market was concerned, Mr. Krishnamachari departed unwept. The consensus of opinion was that he, more than anyone else, was responsible for the débâcle in share prices. In the general uncertainty created by these events, the opening of the blast furnace in Burnpur and, a week later, the commissioning of the second spun pipe plant, failed to make an impression on the price of Indian Iron. The entry of the L.I.C. into the market on the eve of the Budget was interpreted as a favourable sign, but operators were too nervous to extend commitments.

Central Budget

The Budget, when it came, held few surprises. The gift tax had been announced in advance. There was disappointment at the absence of the expected relief for the cotton textile industry. Other changes were relatively minor, with the exception of the proposed restrictions on the grant of development rebate. The increase from 25 percent to 40 percent in the rebate for new ships was welcomed, but the market did not take kindly to the suggestion that an amount equal to the development rebate claimed by a company on new plant and equipment should be debited to the profit and loss account and credited to a special reserve which could not be drawn upon for the payment of dividends and that the assets on which the rebate was claimed should not be sold, except to the Government, for a period of ten years. It was felt that these restrictions would greatly reduce the value of the development rebate as an incentive to investment in machinery and plant. On the whole, it was, as promised, a "pedestrian Budget." Its significance lay chiefly in the fact that, with the addition of the gift tax, the proposed integrated system of direct taxation was complete and, therefore, in coming years, there might not be more spectacular additions to the tax system. As events in succeeding months showed, even this belief that the market would be spared further Budget shocks like that in 1957-58 was enough to infuse new hope and confidence. Corporate working results showed that the existing taxes were not intolerably burdensome and were quite compatible with satisfactory profits. It was believed that, as development got into stride, the capacity to carry the tax burden would progressively increase.

March may be regarded as marking the onset of a definite upward movement, which has persisted up to the time of writing. The initial disappointment over the absence of any substantial measures of tax relief in the Budget was followed by a more constructive view of tax changes. The market was already on the way up when it received a fillip from the announcement on 19th March of two important measures—a reduction in excise duties on cotton cloth and the suspension of the system of compulsory deposits. These were attributed to the new Central Finance Minister, Mr. Morarji Desai, and interpreted as signs of a more liberal, sympathetic and friendly attitude towards the private sector. Their importance lay not so much in the actual benefits accruing, as in the spirit which induced them. Jute shares attracted interest as a result of reports of better working results of some jute companies and the fixing of minimum prices of jute goods by the Indian Jute Mills Association. Indian Iron rose by about a rupee on 7th March on hopes of a bonus issue, then reacted following the news of a partial strike in Burnpur, but later recovered on the news that the strike had been settled. There was some disappointment at lower dividends of National Carbon and Indian Aluminium but the excellent results of Dunlop Rubber infused confidence and the rise was resumed.

Development Rebate

April witnessed a strengthening of the upward trend. The import policy for the April-September half-year was favourably received on the ground that with the tightening of imports, indigenous industries would receive a fillip, though this optimism was qualified somewhat by the realisation that shortage of raw materials, such as steel, components and accessories, would seriously affect the working of some units. Another welcome development was the relaxation of some of the restrictive conditions included in the Budget proposals in connection with the development rebate. In particular, it was provided that only 75 percent and not 100 percent of the development rebate need be debited to the profit and loss account and credited to the special reserve account; that the special reserve could be drawn upon for any legitimate purpose, except the payment of dividend;

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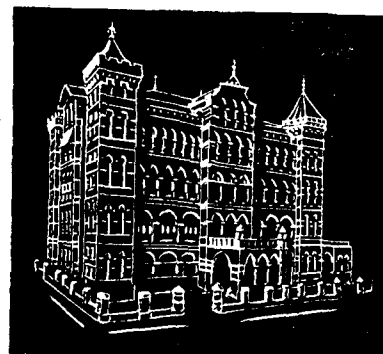
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and that where the profits of a concern are less than the amount to be credited to the reserve, the contribution to the reserve should be limited to the whole of the profit and the balance may be carried forward for eight years as long as the same condition recurs that profits are less than the amount to be credited to the reserve. Even though the Government did not go all the way in meeting public criticism of the Budget proposals (in particular, the provision prohibiting the sale of the asset on which development rebate is claimed for ten years), the concessions were interpreted as further evidence of the Government's new spirit of conciliation and readiness to meet criticism half-way.

Another favourable event was the reference to deficit financing by the Central Finance Minister. He placed the magnitude of deficit financing at Rs. 1,200 crores for the entire second plan, against Rs. 900 crores indicated by Mr. Krishnamachari. Coal shares received a boost from the Government's concessions to collieries in West Bengal and Bihar in relation to mining leases and royalties. Reports of a strike notice by a section of the Indian Iron and Steel Company's labour force caused the quotation to be marked down slightly but the loss was more than made up on the news of a settlement of the strike. The closing price for the month was Rs. 21.90. The recovery in jute shares was carried further on hopes of an improvement in overseas demand. Tea shares were easier because of the delay in granting the promised relief in export duty.

Labour Trouble

May witnessed a temporary interruption of the upward movement which had started in March. The labour trouble, accompanied by violence, at Jamshedpur, caused grave anxiety. In addition, apprehensions of increased taxation were created by the Planning Commission's memorandum on the "Appraisal and Prospects of the Second Five Year Plan." The pruning of the plan was welcomed as a realistic measure since the original version was over-ambitious in relation to both external and internal resources. The magnitude of the shortfall in resources was shown by the fact that even for an outlay of Rs. 4,500 crores, internal resources were short to the extent of Rs. 240 crores, out of which it was proposed to raise Rs. 100 crores from additional taxation. In spite of a steadier tendency towards the close, following the termination of the Jamshedpur strike, share values showed a net decline over a wide front.

On 31st May, the Government announced reduction in excise duties on teas which are not used in the manufacture of packaged teas, from 6nP to 3nP a lb, and in the cess leviable on tea exported outside India from Rs. 4 to Rs. 2 a 100 lbs. Brooke Bond rose by a rupee to Rs. 17.06. The Government's decision to raise the price of coal by 75nP a ton and of coke by Re. 1 a ton, announced on 17th May, had little effect on coal shares, in view of the increased labour costs resulting from the higher dearness allowance payable to workers under the Labour Appellate Tribunal awards. Two scrip, Indian Cable and Indian Aluminium, were included in the clearing list of the Calcutta Stock Exchange, bringing the total number on the list to eight.

Central Loans

Three new Central Government loans were floated during the month on a cash-cum-conversion basis, for a total of Rs. 135 crores. (1) The 3½ percent Bonds, 1963, at an issue price of Rs. 98.75 percent (yielding to redemption 3.78 percent), (2) the 1 percent National Plan Bonds, 1968 (fifth series), at an issue price of Rs. 99.50 percent (yielding to redemption 3.81 percent), and (3) the 4 percent Loan, 1973, at par. The maturing issues offered for conversion into the above loans were the 3 percent Loan, 1958, and the 4½ percent Loan 1958-68, which were accepted for conversion at Rs. 99.75 percent and Rs. 100.10 percent, respectively. The subscription lists were opened on 12th May and were closed on 14th May, the loans having been fully subscribed. Total subscriptions, including conversions, amounted to Rs. 141.87 crores, of which Rs. 58.06 crores were for the 3½ percent Bonds 1963, Rs. 34.34 crores for the 3½ percent National Plan Bonds, 1968, and Rs. 49.47 crores for the 4 percent Loan, 1973. Subscriptions in cash amounted to Rs. 132.40 crores and conversions to Rs. 9.47 crores. The new floatations were in line with market expectations and did not have any perceptible effect on gilt-edged prices.

June witnessed the end of the slight pause which began in May and the emergence of a strong upward movement, which took the variable dividend industrial securities index to 133.2 by the month-end, a rise of 9.1 percent since the end of February. The termination of the strike in Jamshedpur towards the close of May removed

one of the principal sources of anxiety, but the worsening foreign exchange situation and the dock strike kept sentiment depressed in the early part of the month. But the second half of June brought a revival of confidence and a considerable expansion of business. Several factors contributed to the change. The tax concessions on cotton textiles and tea, announced earlier, were interpreted as further evidence of the Government's sympathy for private enterprise. There were hopes (subsequently realised) of further concessions on cotton textiles, increased retention prices for cement and further foreign aid. Tata Steel closed at Rs. 181.25, the highest level touched after 1st December, 1956. Indian Iron rose from Rs. 21.51 to Rs. 22.80, partly on expectations that the company would follow the example of T.I.S.C.O. and distribute bonus shares out of the share premium account. This too proved to be a correct forecast.

State Loans

On 24th June, ten State Governments announced their decision to float new loans for an aggregate amount of Rs. 47.50 crores. All the loans carried a uniform rate of interest, but the amounts and terms varied. Of the total amount, Rs. 10 crores were on account of Bombay which offered two issues, one a 12-year loan maturing in 1970, issued at par and the other a 13-year loan maturing in 1971 and issued at Rs. 99.75 percent. The redemption yield on this loan was 4.28 percent. In the case of the remaining nine States, namely, Andhra Pradesh Rs. 5 crores, Kerala Rs. 3 crores, Madhya Pradesh Rs. 2 crores, Madras Rs. 5 crores, Mysore Rs. 5 crores, Orissa Rs. 3 crores, Rajasthan Rs. 2.5 crores, Uttar Pradesh Rs. 7 crores and West Bengal Rs. 5 crores, the loans were to mature in 1970. The issue prices were Rs. 99 percent in the case of Kerala, Madhya Pradesh and Orissa and Rs. 99.50 percent in the case of Andhra Pradesh, Madras, Mysore, Rajasthan, Uttar Pradesh and West Bengal. Conversion facilities were offered by five States: the 3 percent 1958 Loans of the Government of Bombay, Madhya Pradesh, Madras and Uttar Pradesh and the 3 percent Cochin Loan (1955-58) of the Kerala Government were to be accepted at par for conversion into the new loans of the Governments concerned.

The loans were opened for subscription on 15th July and closed on 17th July on being either fully subscribed or over-subscribed. Five of the loans were closed on 15th July, four the next day and the remaining one on 17th July. Total subscriptions amounted to Rs. 62.7 crores, the subscriptions in cash being Rs. 57.5 crores. Since the terms of the new loans were in line with market expectations, their announcement had little effect on prices of existing State loans. On 29th July, the Reserve Bank resumed the sale of Treasury bills, which had been suspended since April 1956.

Bullish Factors

The general advance in share prices continued in July. The variable dividend industrial securities index rose to 137.4 by the month-end, bringing the rise since February to 12.3 percent. The upward revision of retention prices of cement on 1st July, the further reduction in the excise duty on cotton textiles on 3rd July and expectations of substantial measures for export promotion created a strong bullish sentiment. Political developments in the Middle East and the Anglo-American intervention in Jordan and the Lebanon created nervousness and caused a temporary setback. Market opinion was definite that the intensification of international tension and the danger of a world conflagration were to be interpreted as bearish factors. As the danger of war receded, confidence returned and the market resumed its upward course, aided by prospects of substantial foreign aid, expectations of an early increase in the retention price of steel, reports of improved cloth off-take and the recommendations of the Textile Enquiry Committee whose report was released on 28th July. Jute shares, which had eased somewhat during June, came into prominence again, following expectations of better export prospects and the sustained firmness of gunny prices, and rose by 11 percent. Tea shares were active during the first half of the month, on expectations of an early announcement of the long-promised but long-delayed relief in export duty. When such hopes failed to materialise, an easier trend set in. Indian Iron rose from Rs. 22.80 at the end of June to Rs. 24.87 at the end of July, on hopes of a bonus issue and expectations that the dividend would be maintained at 10 percent or Re. 1 a share, in spite of the increase in the paid-up capital on account of the rights issue. Both these hopes have since been realised.

The rise continued in August and by the month-end the variable dividend securities index moved

up to 142.6, a rise of 16.5 percent since the end of February. The dividend announcements by T.I.S.C.O. on 7th August and Indian Iron on 12th August confirmed market expectations and were not, therefore, followed by an immediate rise.

L.I.C. Investment Policy

The major event of stock market interest during August, was the announcement by the Central Finance Minister on 25th August of the long-awaited investment policy that was to be followed by the Life Insurance Corporation. The nationalisation of life insurance in January 1956, and the subsequent formation of the L.I.C., had resulted in the concentration, in one monolithic organisation, of the investible resources of some 240 companies which carried on the business before nationalisation. At the end of June 1958, the Corporation's investments amounted to Rs. 381.75 crores and it disposes of Rs. 30 crores of fresh investible funds every year. It was obvious that without support from the L.I.C., the stock market would be short of funds.

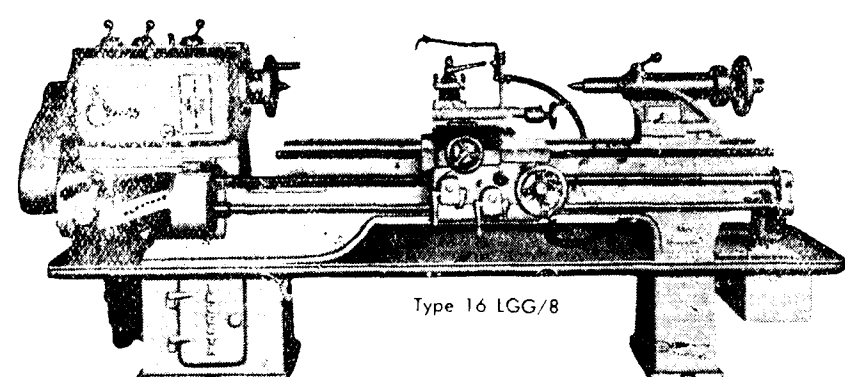
The new policy has, as its basis, Section 27A of the Insurance Act, 1938, which has, however, been modified in certain aspects. This section defines, in fairly precise terms, the ambit within which an insurer can operate in the matter of investments and, while ensuring the safety of the policy-holders' money, it also affords the possibility of augmenting profits. Under the new investment policy, the investments of the controlled funds of the L.I.C. will continue, as in Section 27A, to be divided into three broad categories: firstly, Government and approved securities, which generally mean gilt-edged securities; secondly, investments approved under Section 27A, which mean, in the main, stock market securities; and thirdly, "other investments." The limitations are that 25 percent of the controlled funds should be held in Government securities, a further sum equal to not less than 25 percent in Government or other approved securities and not more than 15 percent in other investments. Thus, about 35 percent is to be held in "approved investments" as defined in Section 27A.

Important Modifications

Two important modifications have been made in Section 27A concerning approved investments. Previously, a private insurer could not hold more than 10 percent of the subscribed share capital and debentures of any one company (other than a banking company or an investment company). This has been modified so as to allow the L.I.C. to hold up to 30 percent of the equity share capital, with a further provision for exceeding this limit with the prior approval of the Central Government. This higher ceiling is considered necessary because each individual insurer could formerly hold up to 10 percent of the subscribed share capital and debentures of a company, while now, it is the common pool of 240 odd companies that the L.I.C. has at its disposal to invest. The second modification is that, whereas under the old section the insurers were prohibited from investing in private companies, the amended clause permits the L.I.C. to invest in private limited companies with the prior approval of the Central Government.

On the whole, the new policy was welcomed by the market, which had reconciled itself to the fact that support for share prices was desirable, wherever it came from. As now enunciated, the policy makes it possible (but not obligatory) for a very substantial flow of funds from the L.I.C. to stock exchanges. If the former should decide to limit its investment in Government and approved securities to the statutory minimum of 50 percent of the controlled fund and since "other investments" are limited to a maximum of 15 percent, the Corporation could, if it so chose, devote 35 percent of its fund to stock exchange securities other than gilt-edged. Of the Rs. 30 crores a year which the Corporation receives, something like Rs. 10 crores a year or Rs. 85 lakhs a month could be used to invest in shares. This would mean a very substantial accretion of strength to the market.

Much depends on whether the L.I.C. will, in practice, support the market on the scale on which it is legally empowered to do so. Operators took heart from the Central Finance Minister's statement that, whereas the Corporation will always keep in mind that its primary obligation is to its policyholders, whose money it holds in trust, and will work as far as possible on business principles, it will never lose sight of the fact that, as the largest single investor in India, it has to keep before it the interests of the community as a whole. More significant was the explicit statement of the Finance Minister on the L.I.C.'s investment operations vis-à-vis the stock market. While emphasising that there is not the slightest intention that the Corporation should indulge in speculation and thus take advantage of temporary market fluctuations, as its investment must necessarily be on a long-



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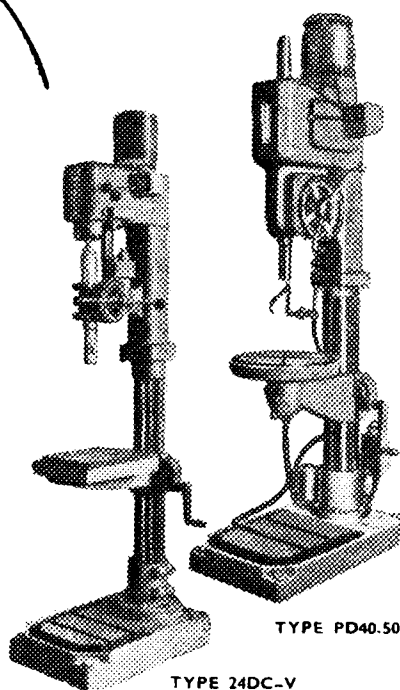
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(from a speech in New Delhi in October, 1958)

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term basis, this should not preclude it from buying and selling when circumstances warrant.

Backdoor Nationalisation

From the market's point of view, these are admirable principles, but the welcome which the new policy received was qualified in some ways. First, the domination of the stock market by the L.I.C. is scarcely compatible with the former's traditional rôle as an independent barometer of the climate for private investment. Second, the new policy does not remove the fear entertained at the time of nationalisation of life insurance that it would result in a diversion of investible resources from the private to the public sector. Third, the power to invest in private limited companies looks like a device to enable L.I.C. funds to be used in financing the growing number of State-owned enterprises. Fourth, if private limited companies in the private sector are eligible for support, the door seems open for further malpractices and scandals. Even in relation to other types of investments, it remains to be seen whether incidents like the Mundhra affair can be effectively prevented in the future. Fifth and last, the fear of "backdoor nationalisation" through the L.I.C. remains, particularly in view of the power conferred by the new policy to hold 30 percent instead of 10 percent of the equity share capital of a company, and an even larger share with the prior approval of the Central Government.

The following table gives the investments of the L.I.C. at the end of July 1958. Its total investments were Rs. 383 crores, against Rs. 361 crores at the end of June 1957, and Rs. 341 crores on 31st August, 1956. The percentage distribution among different types of investments was as follows:

	End August 1956	End June 1957	End July 1958
Government and approved securities	73.1	72.1	71.9
Debentures, preference and ordinary shares	16.8	18.1	19.0
Other miscellaneous investments	10.1	9.8	9.1

An important development in the Calcutta share market in August was the imposition by the Stock Exchange Committee, with effect from 6th August, of margins of 5 percent on aggregate purchases and/or sales in clearing shares in excess of Rs. 5 lakhs up to Rs. 10 lakhs and 10 percent on the amount in excess of Rs. 10 lakhs. The committee was also empowered to ask for the deposit of margin for business done in clearing shares, even for amounts less than Rs. 5 lakhs. This decision had a temporary bearish effect on speculative shares, but later in the month, prices moved up under the leadership of Indian Iron.

In view of the persistent demand for Government loans, the Central Government announced, on 26th August, two new loan issues, namely, the 3 1/2 percent Loan, 1968, (Rs. 30 crores) at Rs. 98.50 and a further issue of the 3 1/2 percent Annual Plan Bonds, 1967, (Rs. 30 crores) at Rs. 98.80. Both issues were taken up initially by the Reserve Bank on its own investment account and are being made available through the usual procedure for sale of special issues at prices to be ascertained from the Bank.

September began with a slight reaction, following the Reserve Bank circular to scheduled banks advising them to exercise vigilance when making advances against big blocks of shares, in order to prevent a purely speculative boom. But as the month progressed, the bullish trend reasserted itself. Plentiful money, good dividends from the Bird group of jute companies, lifting of export controls on over 200 items and the favourable response to India's efforts to secure foreign aid, helped keep up the spirit of confidence and sent prices to new heights. The excellent response to the two new issues, Rs. 1.5 crores of 6 1/2 percent debenture stock 1961-71 at par by Guest, Keen, Williams and Rs. 1 crore of 6 1/2 percent debentures of Dunlop Rubber at par, redeemable at the same rate on 31st December, 1973, with the option of the company to redeem, in whole or in part, at any time on or after 31st December, 1968, bore witness to the state of the market and the soundness of the issuing concerns.

Tisco Bonus Issue

In the steel section, Mr. J. R. D. Tata's speech at the T.I.S.C.O. annual meeting was favourably received, but the event of the month was the announcement that the directors of the Indian Iron and Steel Company had applied to the Government for permission to distribute bonus shares in the ratio of one new share for every five held. The distribution would be made mainly out of the share premium account of the earlier rights issue and, to that extent, would not attract the tax on

bonus issues. The market had long anticipated both the issue and its terms and so the actual announcement created little excitement. It set off a bout of profit-taking which lowered the price from Rs. 27.20 to Rs. 25.56. But soon afterwards, a surge of fresh buying again lifted the price to Rs. 26.75 at the end of September. Attention centred on the prospects of increased retention prices. The recovery might have gone even further, but for some anxiety caused by the Planning Commission's reported estimate that even the rephased plan would cost Rs. 150 crores more than the Rs. 4,500 crores calculated earlier. The complicated system of tax relief for tea failed to impress operators. The general opinion was that the concessions were too meagre to achieve the desired object of stimulating exports of common teas and, in some cases, the burden of taxation would be increased under the new zonal system of excise duties. The variable dividend securities index stood at the end of September at 144.7, or 22.3 percent higher than at the end of February.

In October, till the market closed for the Puja holidays on 18th October, prices were on the whole maintained, but business shrank as a result of the usual pre-Puja slackness. The onset of the busy season in the money market has so far caused hardly any reduction in the volume of funds seeking investment in the stock exchange, and the resources of import houses will not find their normal outlet since the latest import policy has not made any substantial relaxation of the present stringent restrictions. Hopes of tax concessions in the next Central Budget appear remote, in view of the shortage of internal resources to implement even the core of the plan. There is perhaps a strong case for the reduction or even the abolition of the tax on bonus issues. There are several companies, which are under-capitalised in relation to reserves, and which, in consequence, offer an attractive target for cornerers. But the 30 percent tax on bonus issues is an almost insuperable obstacle in the way of establishing a more normal relation between capital and working funds. The chairman of the Indian Iron and Steel Company has made it clear that any further bonus issues by the Company depend on a modification of the tax on such issues. There is no justification for a fiscal drive which perpetuates such distortions in the capital structure of companies. The increase of Rs. 14 a ton in the

retention price of steel was welcomed by operators, but did not bring any notable improvement in the price of Indian Iron because, as in the case of the bonus issue earlier, the market expected an increase of about this size and the effect had been discounted well in advance. The Rs. 14 a ton increase payable to T.I.S.C.O. and Indian Iron is in addition to the Rs. 12 a ton rise which was announced last year. This further increase will be applicable to the five-year period, 1955-56 to 1960-61.

Fund-Bank Meetings

The Delhi session of the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation highlighted the problem of economic development in under-developed countries. The establishment of a military dictatorship in Pakistan has shown the importance of India as an outpost of democracy in Asia. The proposals at the Delhi meetings to increase the resources of the Fund and the World Bank and to establish an International Development Association might help increase the flow of foreign aid and foreign private investment to India. The market closed for the Pujas on a note of confidence.

The same mood of buoyant optimism continued when business was resumed on 29th October and persisted in November. But serious thought was directed to whether the pace of economic development would have to be slowed down in the third plan. The commitments already entered into for financing the second plan will involve a payment abroad of about Rs. 100 crores a year. This leaves little scope for projects involving heavy foreign exchange expenditure in the third plan. The problem is less one of inducing foreign countries to grant loans than of adjusting India's rate of borrowing to her capacity to service the foreign debt. One way out would be to depend more on foreign private investment than on Government loans or those from international financial institutions. But, as has been repeatedly pointed out, prospects of attracting foreign private investment are intimately connected with the domestic investment climate. If the exigencies of the situation induce the authorities to examine the practical steps needed to attract such investment, hopes of some substantial fiscal concessions to domestic investors may prove to be well founded.

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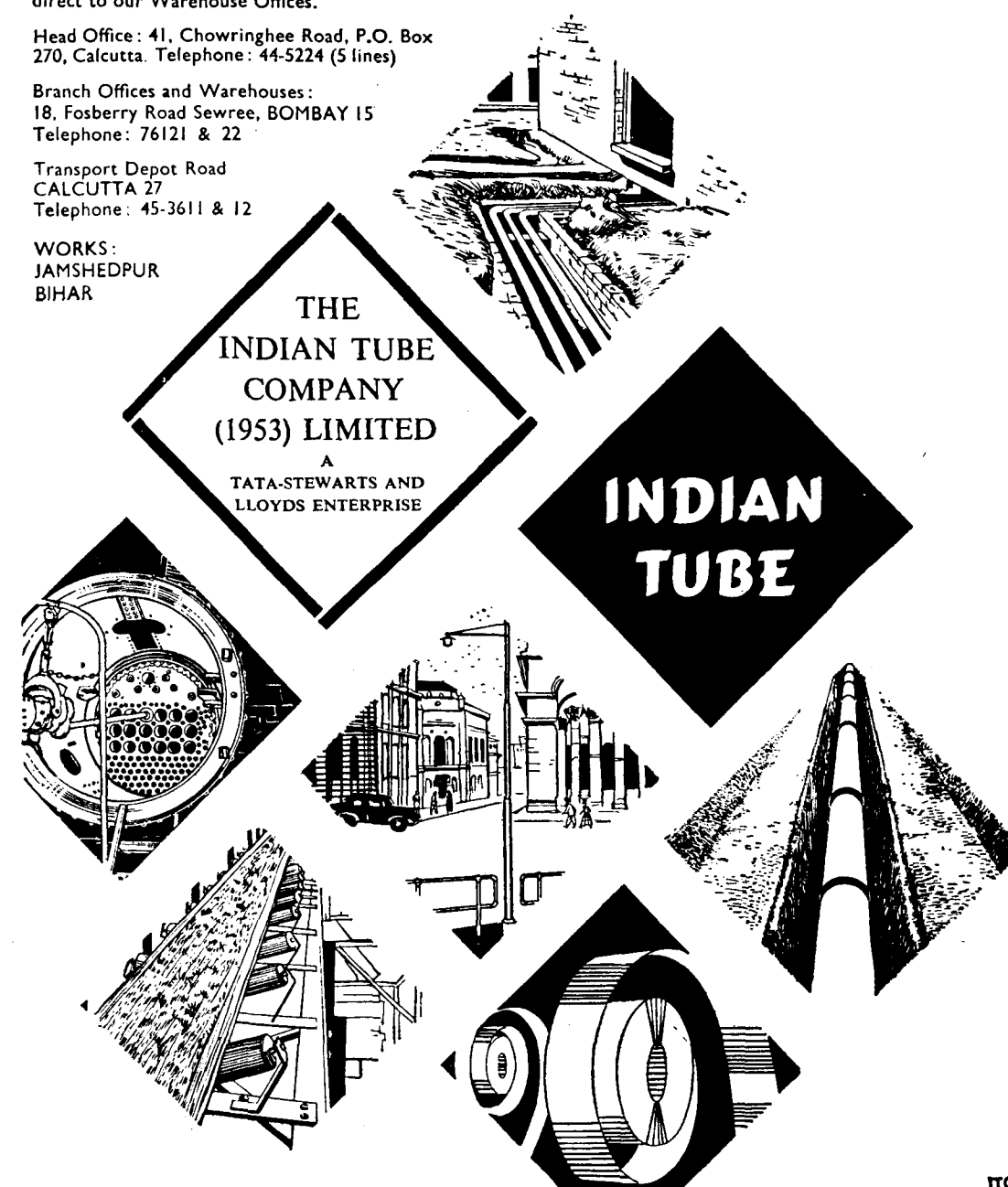
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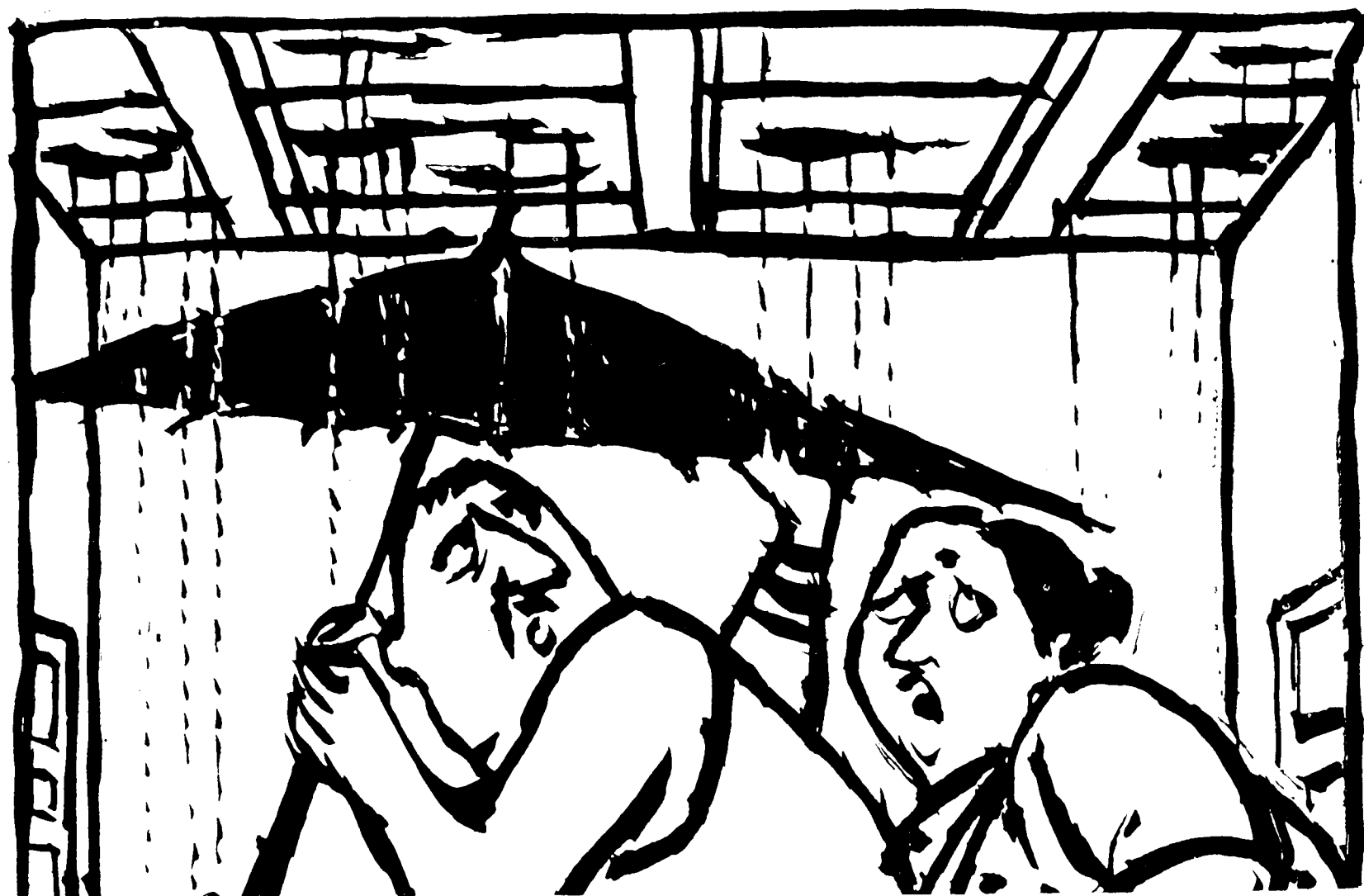
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STP 30

IMPLICATIONS OF THE BIG RISE IN BANK DEPOSITS

ADAPTING MONETARY TECHNIQUES TO CHANGING CONDITIONS

THE rise in bank deposits and the fall in foreign exchange reserves have been the two outstanding features of the Indian monetary situation. It is generally accepted that a deficit in the balance of payments causes money supply to shrink. Although money supply has not decreased, it is noteworthy that in spite of mounting deposits, there has been very little change in it. It might, therefore, be plausibly argued that the persistence of the import surplus in foreign trade is exercising a restraining influence on money supply. Money supply rose by Rs. 264 crores during the period April 1955 to March 1956—from Rs. 1,920.63 crores to Rs. 2,184.32 crores. A considerable increase, though not of comparable proportions, also took place in 1956-57; the figure rose by Rs. 129 crores to Rs. 2,312.39 crores. But from April 1957 to March 1958, the increase amounted to Rs. 76 crores only. After a brief spurt from Rs. 2,388.83 crores in March 1958 to Rs. 2,446.94 crores in the following month, money supply started to shrink and reached Rs. 2,308.04 crores in August 1958. This trend does not represent a new phenomenon, as increases in money supply during the busy season are apt to be reversed in the following slack season. But it is worth noticing that money supply started falling even before the busy season was over, while bank deposits continued to rise in spite of temporary fluctuations.

Price Stability

The interesting question arises whether the relative stability of money supply has been promoting price stability. It is also worth considering whether the rise in bank deposits might offer a potential threat to the equilibrium of money supply. It will be noted that money supply rose by 5.9 percent in 1956-57 and by 3.2 percent in 1957-58. National income at constant prices (1948-49) increased by about 5 percent, from Rs. 10,480 crores to Rs. 11,010 crores, during the period April 1956 to March 1957. The index number of wholesale prices rose from 99.2 to 105.1 (base year 1952-53 equals 100). Figures relating to national income are not available for the period subsequent to March 1957. But it is observed that the index number of wholesale prices rose (with periodical interruptions) to 116.2 in August 1958, while money supply fell slightly from Rs. 2,312.39 crores in March 1957 to Rs. 2,308.04 crores in August 1958. Although production and employment have been affected in some sectors of the economy, it may not be incorrect to assume that there has been no decline in national income in physical terms. The point which emerges, then, is that the restraint in money supply has failed to control price movements.

Time Liabilities

The substantial rise in bank deposits has important implications for the future course of money supply itself. While money supply increased by Rs. 129 crores during 1956-57 and Rs. 76 crores during 1957-58, deposits and other liabilities of scheduled banks (other than borrowings) rose by Rs. 132 crores and Rs. 276 crores in the respective periods. The reason why the increase in deposits has not been reflected in money supply is that banks' time liabilities are not taken into consideration in computing the latter. The structure of bank deposits in India has undergone a notable change. Demand liabilities, which formerly represented about 60 percent of banks' total liabilities, have been declining in relative importance since about the middle of 1957; they amounted to Rs. 730.65 crores on 28th March, 1958, thus being only about 50 percent of the total liabilities of Rs. 1,451.24 crores. Time liabilities showed an increase of Rs. 249 crores, as against one of not more than Rs. 27 crores in demand liabilities, during the period April 1957 to March 1958. The steady decline in the relative importance of demand liabilities appears to be gathering momentum, and their proportional superiority which was maintained until April 1958 has now been lost; at Rs. 694.64 crores on 17th October, 1958, they were less than 45 percent of total liabilities, which aggregated Rs. 1,545 crores.

It appears, therefore, that the equilibrium in money supply is attributable mainly to the new

trend in the deposit structure. It is not wholly unlikely that the trend might be reversed; the apparent stability of money supply would in that case be seriously disturbed. A quicker turnover of deposits (although they do not enter into the composition of money supply) could also have the effect of an increase in money supply. Signs are not lacking that a fall in the quantum of demand deposits might be counterbalanced by the increasing velocity of both demand and time deposits. It is noted that while demand liabilities fell from Rs. 737.81 crores in April 1958 to Rs. 737.25 crores in July 1958, the monthly total of cheques passing through the clearing houses in India increased from Rs. 791.04 crores to Rs. 831.97 crores during the same period in spite of the onset of the slack season. The rate of total turnover of current deposits other than on Government accounts increased from 41.3 in 1953 to 47.6 in 1957.

Expenditure under the Plan

The forces affecting the monetary situation in India are well known. The five year plans determine the nature and scope of economic activities, which influence the amount of created money and the direction in which money flows. It was expected that internal savings, mobilised principally through taxation and borrowing and partly

By

R. M. MITRA

through the projects of State-owned or sponsored business, would provide Rs. 2,800 crores towards the originally estimated total expenditure of Rs. 4,800 crores under the second plan; external assistance would furnish Rs. 800 crores; and the balance of Rs. 1,200 crores would be produced by "deficit financing". But the plan was revised in May 1958. After a reappraisal of the resources likely to be forthcoming, it has now been divided in two parts. Part A comprises "projects and programmes directly related to an increase in agricultural production, 'core projects' and projects which have reached an advanced stage". This part is estimated to involve an outlay of Rs. 4,500 crores. The schemes and projects included in the original plan which are not covered by Part A are to be grouped in Part B, whose implementation will depend on the availability of further resources.

Additional Taxation

It has been rightly observed that leaving aside the question of implementing Part B, the fulfilment of Part A alone "would require an intensified effort to mobilise resources by additional taxation and loans". It is obvious that the original plan will not be fulfilled. For Part A of the revised plan, it is calculated that current revenues will yield Rs. 899 crores and loans and small savings will bring Rs. 1,044 crores, as against the Rs. 1,200 crores originally assumed under each head. It is now estimated that the total contribution of internal resources (including the railways' contributions and miscellaneous funds) will amount to Rs. 2,262 crores, compared with the Rs. 2,800-crore target of the plan. In spite of a reduction of Rs. 300 crores in the total expenditure under Part A of the plan, therefore, deficit financing will be necessary up to the original figure of Rs. 1,200 crores and dependence on external assistance will rise from Rs. 800 crores to Rs. 1,038 crores.

According to informed estimates, however, actual achievements at the end of the plan might represent 80 to 90 percent of the monetary targets, and 70 to 80 percent of the physical targets. The ratio of physical output to monetary outlay indicates a price level corresponding to a rise of 12 to 14 percent over the price level of 1952-53 on the basis of which the monetary estimates of the plan were prepared. The index number of wholesale prices, which was 99.2 (1952-53 equals 100) at the end of March 1956, rose to 116.2 in the week ended 30th August, 1958. The average of index numbers was, however, 105.3 in 1956-57 and 108.4 in 1957-58. If the price level is stabilised at 116, representing the average for August 1958, the average for the year 1958-59 may work out to 114.4, yielding an

average of 109.7 for the period April 1956 to March 1959. The plan outlay increased from Rs. 635 crores during 1956-57 to Rs. 861 crores during 1957-58, and is expected to amount to Rs. 960 crores during 1958-59, leaving Rs. 2,044 crores to be spent during the last two years. The average price level for the plan outlay, therefore, will not be less than 112.5, even if it is assumed that the wholesale price index for the last two years will range around 115 and that the expenditure already incurred has conformed to the average price levels for the relative periods. The prices at which expenditures under the plan have been made would not, of course, conform to the average index number of 109.7, for the obvious reason that the amounts of expenditure at different price levels have not been uniform. The relation between physical results and monetary outlay is not, therefore, likely to be much better than 8 to 9 even on the assumption that prices will be stabilised around the current levels.

Deficit Financing

If the position is viewed from the standpoint of the popularly known relationship between money supply and prices, it is important to try and assess the influence of deficit financing on the volume of money supply during the remaining period of the plan. It has been calculated that deficit financing amounted to Rs. 702 crores during the first two years of the plan; the money supply increased by Rs. 204 crores and currency with the public rose by Rs. 102 crores during this period. The recent reappraisal of resources for the plan places deficit financing at Rs. 215 crores for 1958-59 and Rs. 283 crores for the subsequent two years. But it needs to be realised that the effect of deficit financing on money supply need not necessarily be in keeping with past experience, because deficit financing has hitherto largely involved the drawing down of the sterling reserves, leading to the substitution of rupee securities for foreign securities and balances held abroad, without resulting in a corresponding addition to the currency in circulation. The Reserve Bank's foreign assets were reduced from Rs. 746.1 crores in March 1956 to Rs. 267 crores in March 1958. Even if its holdings of gold and foreign assets are allowed to fall to the statutory minimum of Rs. 200 crores (including the present gold holding of Rs. 118 crores), without having regard to the requirements of current finance for foreign trade, there is scope for using sterling reserves of the order of Rs. 185 crores against deficit financing of Rs. 498 crores estimated to be required for the period April 1958 to March 1961. Deficit financing supported by fiduciary issue may then lead to an increase of Rs. 313 crores in money supply.

Savings and Prices

According to the revised estimates, savings in the public sector representing the revenue surplus and the railways' contributions will amount to Rs. 781 crores during the three-year period 1958-61. Savings accruing in the private sector but directed to the public sector in the form of public loans and small savings will aggregate Rs. 717 crores. If it is further assumed that private industry will use about Rs. 1,200 crores of savings accruing in the private sector, savings productively used during the three-year period may total Rs. 2,698 crores, yielding an annual average of about Rs. 900 crores. National income has been estimated at Rs. 11,400 crores for 1956-57 at current prices, and the plan expects that it will rise to Rs. 13,480 crores in 1960-61; it may, therefore, be reasonably assumed that national income will reach an annual average of Rs. 12,440 crores during the four years subsequent to 1956-57. So, annual savings of Rs. 900 crores represent about 7.2 percent of national income, which is slightly more than the 7 percent in 1955-56 but much less than the 9.7 percent calculated for 1960-61. There are thus possibilities of deficit financing inducing an increase in money supply, on the one hand, and of savings falling short of the desired level, on the other. The effects of these developments on prices will, however, be determined by the adequacy of the supply of consumer goods and services available to absorb the money income comprising not only wages, rent, interest and profits but also the purchasing power



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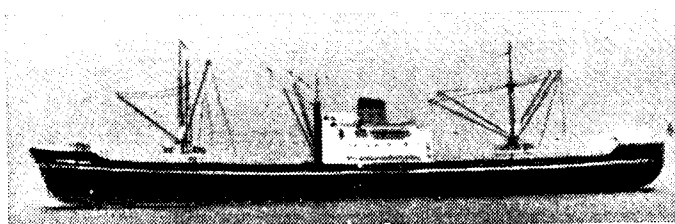
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released in the process of deficit financing and flowing not through investment channels, but in the form of outlay on social services.

It has been repeatedly emphasised that the habit of saving is not properly developed in this country, and that energetic efforts are needed to stimulate it. While this is correct to a certain extent, it would not be prudent to ignore the fact that the propensity to save grows slowly among people hungering for the bare necessities of life. Mere propaganda does little to create the desire to save. A wide network of financial institutions, which inspire confidence and operate on the basis of personal contact with individual money-holders, is required. Banking plays a significant part not only in stimulating savings but also in correctly guiding the production of consumer goods and services. Its development since 1954 shows the noteworthy contribution it has made in maintaining a stable money supply and directing the forces of production into healthy channels.

It is true that the collection of savings is usually regarded as the function of specialised financial institutions other than banks, and the regulation and flow of money supply through the mechanism of cheques is prominently associated with the working of the modern banking system. But the miscellaneous services which a banker provides (such as the purchase and sale of bonds, debentures and other securities, collection of interest, and holding of securities in safe custody), combined with the confidence which modern banking alone can create in the value of money, are an essential support to the working of the specialised financial institutions. Moreover, although the management of money supply is the principal function of modern banking, the extent to which it directly serves the functions of a savings institution is not inconsiderable.

Ratio Reversed

It has been noticed that the steady rise in the time liabilities of the scheduled banks noticeable for some time past has now succeeded in reversing the usual ratio of time and demand liabilities: time liabilities, which exceeded demand liabilities for the first time in May 1958, have since continued to increase. It is arguable, however, that the "savings" content of the time deposits with banks is an illusory element. A large portion of them are of a flighty nature, constantly shifting from "time" to "demand" deposits and vice versa; they can at best be regarded as being in the intermediate stage between cash and savings. Furthermore, it is widely known that a fair amount of the growing "time" deposits represents "money at short notice" and really belongs to the category of "demand" deposits. Yet it may be safe to assume that about 50 percent of fixed deposits and savings bank deposits are not intended for current consumption or revenue expenditure, and may, therefore, be regarded as money saved and available for investment. Scheduled banks' fixed deposits in India were Rs. 505.06 crores and savings bank deposits Rs. 203.73 crores on 31st December, 1957, whereas the total deposits of co-operative banks stood at Rs. 222.65 crores and the principal items of small savings, including savings bank deposits at post offices (but excluding the Indian Union's share of pre-partition liabilities) aggregated Rs. 434.20 crores on the corresponding date. It appears that even on the assumed 50 percent basis, the amount of savings accruing in the banking system acquires significant proportions. The rôle performed by the Indian banks in holding the money supply in equilibrium, therefore, deserves special mention.

It is necessary, however, to realise that the apparently deep-rooted theory of a quantitative (or even sympathetic) relationship between money supply and prices is fallacious. The wide disparities in the ratios between money supply, gross national product and prices in different countries, show that the assumption of *ceteris paribus*, is the keystone of the quantity theory. The strength of the relationship between money supply and prices is, in the last analysis, determined by the proportional distribution of money income between consumer goods and producer goods.

Production and Prices

There is substance in the conventional belief that bank money plays a two-fold part in the mechanism of money supply. While demand deposits feed the supply through the operation of cheque currency, deposits held by the banks enable them to make loans and advances which, in turn, serve either to inflate deposits or to add to the volume of currency in circulation. According to the principle of the quantity theory, therefore, the manner in which bank money issued in the form of loans and advances is used should considerably influence the course of prices.

The paradox of rising bank advances accompanying falling prices and rising prices following falling advances (frequently witnessed in recent

years) is often explained away on the ground that price trends either way would have been greatly accentuated if bank advances had not followed the course they did. Scheduled banks' advances (including bills purchased and discounted) fell from Rs. 962.73 crores in the last week of March to Rs. 856.71 crores in the last week of August 1958; but the index number of wholesale prices rose from 106.1 to 116.2 during the same period. Again, scheduled banks' advances against food articles fell from Rs. 19.64 crores on 28th March to Rs. 14.84 crores on 14th August, 1958, while the index number for food articles rose from 103.4 to 120. The position becomes more intriguing if it is noticed that the money supply also decreased from Rs. 2,388.83 crores to Rs. 2,308.4 crores during the relevant period, and that both currency in circulation and banks' demand liabilities contributed to the decline. A contrary picture emerges if the position in July 1957 is compared with that in March 1958. Bank advances rose from Rs. 886.14 crores to Rs. 962.73 crores, and money supply increased from Rs. 2,307.41 crores to Rs. 2,388.83 crores, while the index number of wholesale prices fell from 112.4 to 106.1. The position of food articles, however, did not follow this contrary course: advances against them diminished from Rs. 27.44 crores to Rs. 19.64 crores and the index number for food articles fell from 112.1 to 103.4.

Negative Defence

Such opposite movements in prices and money supply (including bank money) call for a more satisfactory explanation than the negative defence of the quantity theory noticed above. It tends to be overlooked that the malaise from which underdeveloped countries suffer is not attributable simply to the quantitative insufficiency of purchasing power, but mainly to the insufficiency of production of essential items and to the unequal distribution of purchasing power. Therefore, as long as the production of essential goods is inadequate and different elements of income are not related to productivity, the instruments of monetary control employed by modern banking systems may not succeed in stabilising the price level. While discussing the theory of prices, Lord Keynes denounced "the division of economics between the theory of value and distribution on the one hand, and the theory of money on the other hand". He suggested that the right division would be between "the theory of the individual industry or firm and of the rewards and the distribution between different uses of a given quantity of resources on one hand, and the theory of output and employment as a whole on the other hand". Keynes further observed that the attempt to explain the movements of prices by the quantity of money, or its velocity, or even "by hoarding, by forced saving, by inflation and deflation *et hoc genus omne*" without assigning due importance to the implications of "the elasticities of supply and demand", tends to create "a haze where nothing is clear and everything is possible". Whether or not one agrees with Keynes, it is comforting that it is generally admitted that financial resources should be so directed that essential production may have priority over inessential production and distributive channels may function with ease, free from the diversionary influences of speculation and hoarding.

Banking Expansion

When money flows largely through an organised banking system, it becomes easier for the monetary authorities to watch and guide its use. The Indian banking system has been showing signs of rapid expansion. But this expansion does not appear to be based on genuine economic forces; it seems to arise mainly from the transient sources of deficit financing and unrequited imports from the U.S.A. reflected in the P.L. 480 deposits of the U.S. Embassy. Moreover, bank money in India does not represent a widespread system of cheque currency comparable to that in operation in the U.S.A. Total deposits of scheduled banks, at about Rs. 1,500 crores, are less than 14 percent of national income (net), whereas deposits of commercial banks in the U.S.A., at \$200 billion, work out to more than 45 percent of gross national product.

Although the outlook for banking becoming the main source of money supply in India is, therefore, uncertain, its influence in setting patterns for correct monetary behaviour and prudent financial transactions, nevertheless, is making itself felt. Banks in India continue so to direct their credit creation activities as to promote sound production and distribution, and not to stimulate speculation. The rise in scheduled banks' advances during the busy season of 1957-58 amounted to Rs. 89.3 crores, as against Rs. 148.4 crores in the corresponding period of the previous season. A number of factors were responsible for slowing down the expansion. Agricultural output fell, imports were curtailed, investment in industry slackened, the price level was comparatively stable and seasonal variations tended to flatten out. But the restraint exercised by banks in resisting the pressure of speculative

borrowers, and their readiness to co-operate with the Reserve Bank in implementing the policy of selective credit controls, played a decisive rôle.

Although there were smaller rises in advances for each of the three principal groups—foodgrains, industrial raw materials, and manufactures and minerals—there were variations among individual constituents in the different groups in accordance with the respective economic needs pertaining to them. Manufactures and minerals showed a rise of Rs. 14.78 crores, which was small compared with Rs. 54.61 crores in the previous season; but the advances against iron, steel and engineering products decreased by 12 percent, as against an expansion of 8 percent in the previous season. Advances against cotton textiles shrank by Rs. 22 lakhs, as against a rise of Rs. 16.34 crores; but the amount advanced directly to the mills showed a rise of Rs. 1.3 crores, perhaps because the mills had not succeeded in fully recovering from the strain imposed by the considerable accumulation of stocks which reached a peak in December 1957. Again, advances against sugar and gur showed a larger rise in 1957-58 (Rs. 35 crores) than in 1956-57 (Rs. 29 crores), as production of sugar increased from 1.8 million tons in 1956-57 to 1.9 million tons in 1957-58. Advances against industrial raw materials recorded a rise of Rs. 52.44 crores, as against Rs. 59.05 crores in the preceding busy season; the slower pace in this case was mainly attributable to raw jute, which was responsible for an expansion of only Rs. 94 lakhs as against Rs. 7.61 crores in the busy season of 1956-57. Food articles accounted for a rise in advances of Rs. 9.15 crores between October 1957 and April 1958, whereas the rise under this head during the corresponding period of 1956-57 was Rs. 18.06 crores. In addition to the factors mentioned earlier, purchases made by the Government, particularly in surplus States, accounted for a smaller rise of Rs. 9.75 crores against rice and paddy, compared with Rs. 17.78 crores in the busy season of 1956-57.

Industrial and Term-finance

It is interesting to note, however, that advances against fixed assets of industrial concerns showed a rise of Rs. 1.14 crores during the busy season of 1957-58, as against a fall of Rs. 4.30 crores during the corresponding period of 1956-57, while advances against bullion experienced a decline of Rs. 1.72 crores, as against a rise of Rs. 8 lakhs. Those against shares and debentures showed a smaller rise of Rs. 49 lakhs as against Rs. 2.12 crores. In this connection, it is significant that advances of scheduled banks as "classified by purpose" continue to show a rising percentage in the case of "industry" which accounted for 45.3 percent of the total advances in April 1958 as against 34.2 percent in June 1954, while similar percentages relating to "commerce", "agriculture" and "personal and professional" showed falls from 48.7, 2.8 and 8 to 42.4, 1.9 and 6.6, respectively. It is estimated that the contribution of bank credit to capital formation in industry has increased from 4 percent in 1953-54 to 35 percent in 1954-55 and 30 percent in 1955-56 (year ended June). Although figures relating to banks' share in industrial capital formation for periods subsequent to 1955-56 are not available, it is obvious that the increasing emphasis on industrial advances continues to be a characteristic of bank credit. It is not clear, however, whether these developments in bank credit are the result of a deliberate move to introduce methods of term-finance in the Indian banking system, or are simply a secondary consequence of the planned promotion of industrial growth.

Personal Loans

The controversy over the propriety of term-finance, which started in Britain after the Macmillan report of 1931, is still going on. Definite steps have been taken by leading British banks in the recent past to associate commercial banking with hire-purchase finance and personal loans. The Midland Bank, acting jointly with its affiliate, the Clydesdale and North of Scotland Bank, has offered to acquire the entire share capital of the Forward Trust. The National Provincial Bank proposes to purchase all the ordinary share capital of the North Central Wagon and Finance Company. Other banks will also invest their money in hire-purchase finance houses in varying proportions, ranging from 20 percent to 40 percent of the latter's share capital. (Lloyds Bank proposes to be directly and indirectly interested in three houses—Bowmaker, Olds Discount and the Industrial Banking Corporation.) The British banks are reported to be streamlining their personal loan departments and planning energetic measures to extend bank facilities to wage-earners. It has been suggested that the efficiency of the American banking system and its adaptability to changing times have influenced the tradition-bound British banker. Commercial banks' loans against real property in the U.S.A. represent about 25 percent, and those against consumer purchases about 16 percent, of their total loans; besides, other forms of personal loans account for about 5 percent of commercial banks' loans. There is a strong feeling in



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It is proper that the Indian banking system, and for that matter any other banking system, should follow such policies as will enable it to shift loan assets quickly and build safeguards against losses arising from the uncertainties of industrial projects. Therefore, as long as a system of collective or co-operative absorption of losses and taking over of illiquid assets similar to that evolved in the U.S.A. is not brought into operation, the schemes for long-term finance, however carefully prepared and influentially organised, may not succeed. It is encouraging that the soundness of the Indian banking system has been maintained. It reflects great credit on bank managements and the Reserve Bank's policy of control and guidance that in the midst of the uncertainties arising from technological developments, shifting markets and unpredictable economic forces, the Indian banks continue to maintain their assets properly and to make profits sufficient to provide for bad and doubtful debts, and yet to contribute towards rising reserves. Net profits earned by the Indian scheduled banks represented on an average 1.5 per cent of their total deposits in 1957 as against 1.9 per cent in 1956. The allocation of profits continued to show a healthy pattern: 15.1 per cent of net profits was

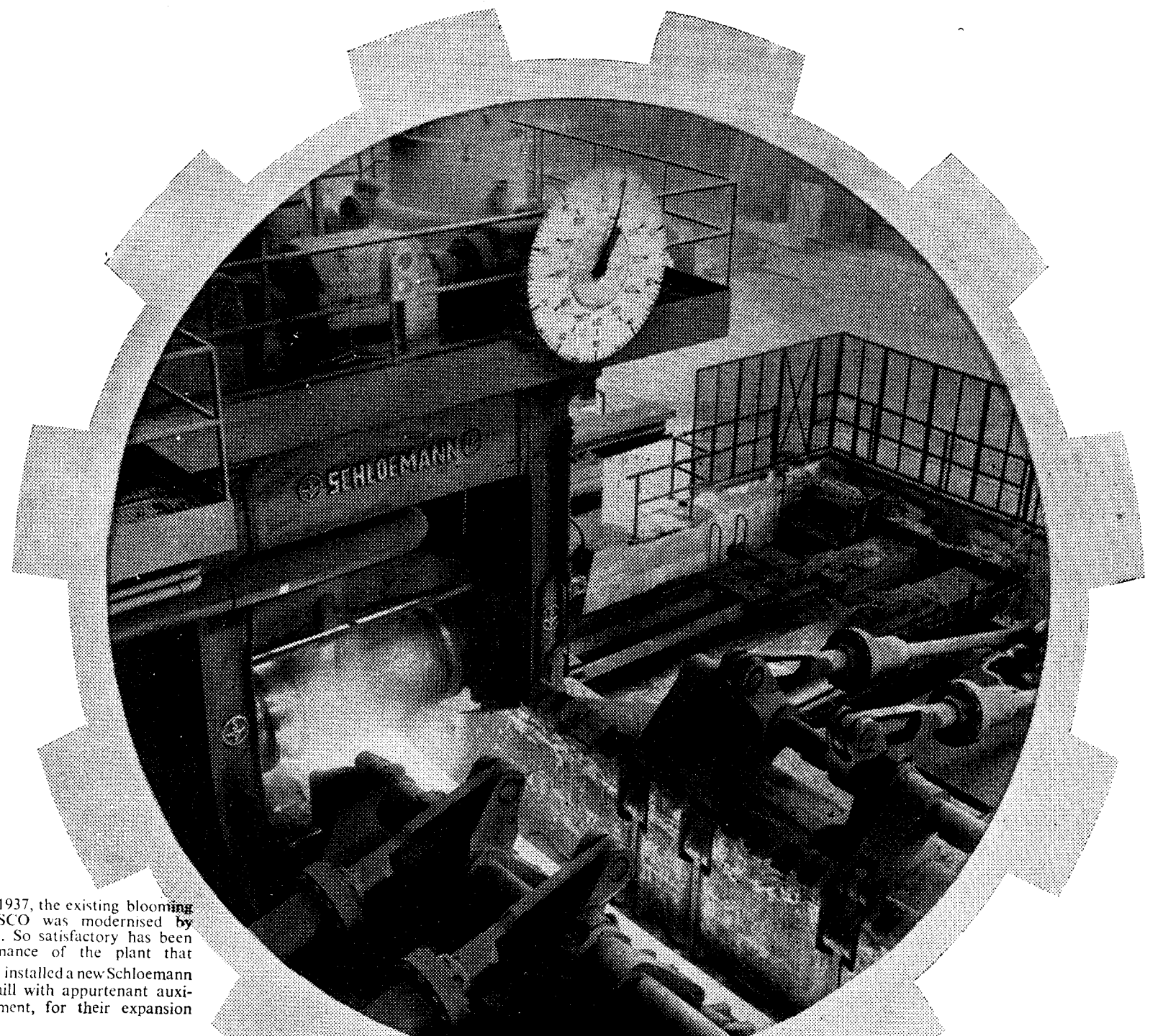
It may be noted, however, that the increase in the U.K. Bank rate from 5 percent to 7 percent in September 1957 did not push up call money rates in India. The U.K. Bank rate has since been brought down in stages from 7 percent to 6 percent on 20th March, 1958, $5\frac{1}{2}$ percent on 22nd May, 1958, 5 percent on 19th June, 1958, and 4½ percent on 14th August, 1958 and 4 percent recently. The easier monetary conditions in the U.K. and the progressive rise of deposits in India have now combined to push down money rates in this country. It is significant, however, that the fall in deposit rates, which are still around 4 percent, is not as

The present soundness of the Indian banking system does not, however, justify complacency. It has been said that we are living in an age of "technocracy". It may be suitable for the "technocrats" in the banking industry to learn that rigidity is not a virtue in applying monetary techniques and banking formulae, but that they require to be adjusted to changing conditions. The soundness of the banking system depends less on an extensive use of techniques like term-finance or an application of orthodox banking formulae, than on a process of evolution of "built-in stabilisers" to ensure that banking assets can be shifted when necessary and losses absorbed. J. E. Wadsworth, in a review of the new edition of Dacey's book on *The British Banking Mechanism*, observes that "we have moved on from steam banking", and suggests: "Today, it is not so much that new monetary arrangements are needed, still less a return to old ones: what is required first is a clear understanding of how the existing banking and monetary system operates under modern conditions. We shall then be able to determine with better judgment the monetary measures appropriate to particular situations".

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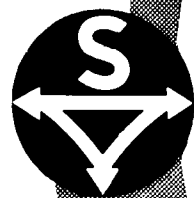
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LIFE INSURANCE PROBLEMS SINCE NATIONALISATION

TEETHING TROUBLES ENDING: DRIVE FOR NEW BUSINESS

THE Life Insurance Corporation has been in existence for over two years. During this brief period, it has had to face numerous unforeseeable difficulties of a varied nature. In overcoming them, it is gaining valuable experience to enable it to improve its organisation and working. The Corporation is tackling the problems of servicing the existing business transferred from the previous insurers and securing new business separately. For the former, the head and branch office units of the insurers were retained largely undisturbed, and new business is being tackled through the newly set up divisional and branch offices. The setting up and staffing of these new offices has placed a great strain on manpower resources, especially on persons with technical qualifications and experience.

Part of the difficulties at the outset were due to the procedures the Corporation had to adopt in day-to-day working which were comparatively new to a large majority of the staff and officers. Recent experience shows that they have been more or less overcome and the offices are settling down gradually. The head office and branch office units of the old insurers, however, continue to follow their former individual practices although, wherever possible, the procedures are being standardised. In the initial period, the reorganisation necessitated by the setting up of the divisional and branch offices resulted in some deterioration of the policy servicing rendered in the case of old policies. The Corporation has, however, strengthened its machinery since to supervise the old policies. Improvement has already been made and it is hoped that it will continue.

Record New Business

The transition from the life companies to the Corporation, involving the preliminary organisational and procedural troubles, adversely affected new business in 1956. In the following year, however, new business forged ahead and new life business in India reached the all-time peak of Rs. 276 crores. Only in 1954 and 1955 did the new business in India cross the Rs. 200-crore mark. In these years, it was Rs. 236 crores and Rs. 238 crores, respectively. During the last ten years, new life business in the country has been as follows:

Year	New Business (Rs. crores)	Year	New Business (Rs. crores)
1948	135	1953	155
1949	142	1954	236
1950	140	1955	238
1951	148	1956	188
1952	147	1957	276

Area-wise the new business in 1957 in India was as follows:

	(Rs. crores)
Western Zone	64.69
Eastern Zone	68.06
Central Zone	35.71
Northern Zone	33.90
Southern Zone	74.13

New business in the Calcutta and Bombay divisions, which cover the city and suburbs of Calcutta and Bombay, was Rs. 33.75 crores and Rs. 28.37 crores, respectively. These figures give a total of Rs. 62.12 crores, which compares with the new business of Rs. 276 crores in the entire country. There has been a gradual increase in the average sum assured a policy in India. During the last ten years, the average was as follows:

Year	Average a Policy Rs.	Year	Average a Policy Rs.
1948	2,462	1953	2,769
1949	2,488	1954	3,256
1950	2,652	1955	3,090
1951	2,804	1956	3,416
1952	2,728	1957	3,502

Zone-wise, the average was as follows:

	Rs.
Western Zone	3,906
Eastern Zone	3,517
Central Zone	4,144
Northern Zone	4,536
Southern Zone	2,751

The achievement of the Corporation in the new business field, viewed against the preliminary difficulties of a nascent organisation, is commendable. The rise in business may indicate increasing insurance-consciousness, but much ground has yet to be covered in this direction. The increase in business may, however, appear to be much less important if considered together with the rise in population since 1954 and 1955, the previous peak years for life insurance, and the fall in the value of money in recent years.

Increasing industrialisation leading to increasing urbanisation and employment, the gradual breaking up of the joint family system and the lessening of the possibilities of dependence on inherited properties are affecting the social life of the country. Such changes are conducive to the development of life insurance. The expected capital outlay in the development plans, the improvement in the standard of living of the people which

By

N. T. RAJU

will result, and a consequent pressure on the available goods from a larger section of the population will keep alive the fear of a possible fall in the value of money. The fear of inflationary pressures will reduce the propensity to save, and consequently to insure, especially as a life policy is not a suitable medium to carry forward the value of money through time. The changing economic and social structure of the country thus has two underlying trends: the increasing necessity for life insurance cover for a larger and larger section of the population, and the capacity to save which probably does not in most cases keep pace with the need to insure. The middle classes and the fixed income groups are still the mainstay of the life insurance business. Its development in the rural and semi-urban areas leaves much to be desired.

Insurance Plans

Even among the insuring classes, the tendency to view a life policy mainly as a medium of saving is easily discernible. Even among well-educated

persons, some compare the amount of premiums payable during the currency of the policy with the sum assured to assess the profitability of insurance. Endowment assurances constitute nearly 90 per cent of the policies issued by the Corporation and nearly 80 per cent of the new sums assured. Most of them are for medium and short terms. In comparison, straight life, limited payment life or family income policies are insignificant both in volume and number as the table below shows.

TABAE I

CLASSIFICATION OF NEW POLICIES ISSUED IN INDIA DURING THE PERIOD 1ST SEPTEMBER, 1956, TO 31ST DECEMBER, 1957

Zone	Number of Policies				
	Straight life and limited payment life	Endowment Assurance including joint-life, marriage and endowments	Multi-purpose (i.e. with family income benefit)	Miscellaneous	Total number of policies issued
Northern	4,771	87,838	1,622	2,253	96,484
Central	7,236	96,043	1,971	4,869	1,10,119
Eastern	14,930	2,03,329	3,433	5,282	2,26,974
Southern	10,496	2,94,408	1,947	7,850	3,14,701
Western	10,383	1,67,499	8,968	13,825	2,90,675
Total	47,816	8,49,117	17,941	34,079	9,48,953

The average sum assured under the straight life, limited payment life and family income plans is much higher than under the endowment assurance group, which indicates that the more well-to-do prefer the former group of policies. As a rule, the lower middle classes and the still lower income groups resort to endowment assurance policies as the commonest form of insurance protection. Life annuities are less popular. The number or the amount of annuities a year hardly shows any appreciation of the point that vitality or longevity is as real and important a risk to be provided for as mortality or premature death. The same tendency is apparent in the almost universal preference for provident funds among employed persons as against pension provision.

Increasing insurance-mindedness should, to a greater or less extent, be reflected in the increase in the popularity of policies containing a larger insurance cover. Such policies are usually subject to low premium rates as the savings content in the premium rate is limited or negligible or even absent. A large proportion of such policies would mean a higher insurance cover for the same amount of premium paid. The high per capita insurance cover in the U.S.A. and some

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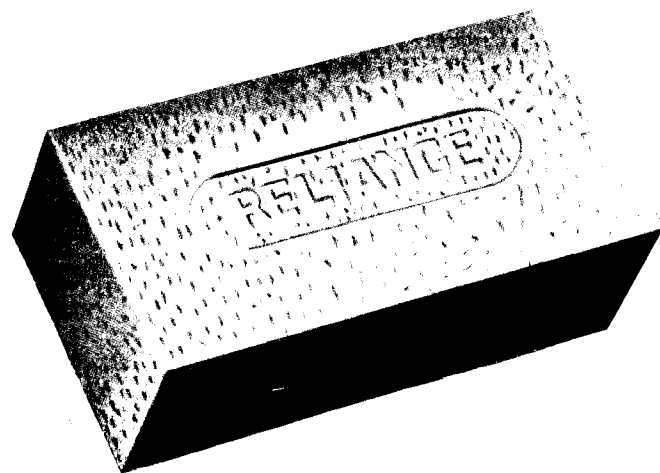
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Western countries is to an important extent due to the composition of the business and not due to a relatively larger volume of premium paid. A direction in which the Corporation could develop the business to the advantage of the community is by popularising term insurance policies, combination policies with a high content of term insurance and decreasing term insurance to match mortgage loan repayable in instalments and life annuities.

Decentralisation

To improve administrative efficiency and to ensure that a larger number of decisions are taken at lower levels, the Corporation has embarked upon a programme of progressive decentralisation. It has also posted higher grade officers to some of the important divisional offices, thus conferring larger powers on the latter. The divisional offices are being gradually provided with the machines necessary to maintain policyholders' services at an efficient level. More and more of them are being furnished with punched card equipment which is the corner-stone of every large life insurance organisation, although severe import restrictions are retarding progress in this direction.

As a result of the availability of facilities as well as of experience gained, the divisional and branch offices are now able to render satisfactory service to policyholders. In case of old policies inherited from the former life offices, now called units, difficulties still seem to loom large. Numerous complaints about the delay in attending to letters or even complete neglect of letters received by the units, inordinate delay in the issue of premium-receipts or even their non-issue for long intervals of time used to be received by the Corporation. It has of late been able to devote greater attention to these old policies. A high-powered officer has been appointed at the central office to look after the units. Arrangements have been made to ensure that complaints from policyholders are immediately attended to, and that steps are taken to prevent a recurrence of similar complaints in future. Much improvement has already occurred and it is confidently hoped that it will continue to be made.

The Corporation has solved two outstanding administrative problems during the year. Firstly, it has made plans to assess the achievements of field officers and to fit them at various stages in

the standard scale of remuneration prescribed for them. The work has largely been done. The magnitude of the problem can be visualised from the large number of these officers, exceeding 5,000, which had to be dealt with. They were employees of the former life offices and before fitting them into the Corporation scale of pay prescribed for them, 600 of them were getting less than Rs. 100 a month and 4,000 were receiving less than the minimum of the new scales of pay. Thus a vast majority of them were enormously benefited by the categorisation formula. Next was the problem of the gradation of the officers. This was done on the basis of a report submitted by a committee headed by Mr. S. Lall, a retired I.C.S. officer, and reviewed by the Senior Services Committee of the Corporation. This part of the work was mainly completed by the end of June 1958. With the solution of the administrative problems and the improved efficiency in the offices, the Corporation can devote all its attention to the development of the business and to extending its operations to areas and people hitherto left uncovered.

Elaborate Organisation

Even in countries where life insurance is highly developed, life policies have to be sold. They are not voluntarily bought to any appreciable extent. It may be that the elaborate field organisations, built by life companies, establish contacts with the bulk of the persons who are likely to buy policies, effect sales by successfully persuading some of the unwilling and by hastening the time of purchase of some others, thus giving a chance to very few voluntarily to buy a life policy. Where a rapid spread life insurance among a larger section of the people is desired, as in India at present, sales have to be all the more aggressive, especially in view of the still low insurance-consciousness among the public. In the process, larger sales may be expected to be accompanied by a rise in the number of policies prematurely terminated because the marginal business might be from persons who do not view insurance cover with much seriousness and are liable to give up policies when they face even minor financial inconveniences. But in the end, larger sales, though aggressive, will leave behind a larger body of insured population than when sales policies are relatively conservative.

Therefore, a rise in the policies prematurely terminated, or lapsed policies as they are called,

need not necessarily be viewed with alarm or associated with a craze for new business with inadequate consideration for the after-effects. They should be regarded as a necessary by-product of achieving a rapid spread of insurance among the people, the losses, if any, incurred on such policies should be regarded more as an outlay in the interests of increasing business than as an avoidable waste.

TABLE II

(Rs. lakhs)

Zone	1957-58	1958-59	1959-60	1960-61	1961-62
Northern	3.38	35.77	1.26	1.64	42.45
Central	1.57	35.88	1.28	2.13	44.86
Eastern	7.62	63.28	2.28	3.63	76.81
Southern	7.23	14.71	1.19	4.26	87.39
Western	7.83	55.32	5.16	8.19	76.50
Total	30.63	264.96	11.17	20.85	327.61

TABLE III

JANATA POLICIES UNDER THE ENDOWMENT ASSURANCE PLAN INCLUDED IN THE ENDOWMENT ASSURANCE GROUP

Zone	Number of policies	Sum assured in thousands of rupees
Northern	3,185	20.92
Central	1,545	8.67
Eastern	6,918	37.70
Southern	474	1.96
Western	6,283	38.68
Total	18,505	1,07.93

TABLE IV

LIFE ANNUITIES EFFECTED DURING THE PERIOD 1ST SEPTEMBER, 1956 TO 31ST DECEMBER, 1957

Zone	Number	Amount of annuity a year
		Rs.
Northern	9	12,153
Central	18	22,200
Eastern	275	4,29,060
Southern	59	1,78,979
Western	214	3,52,177
Total	575	9,94,569

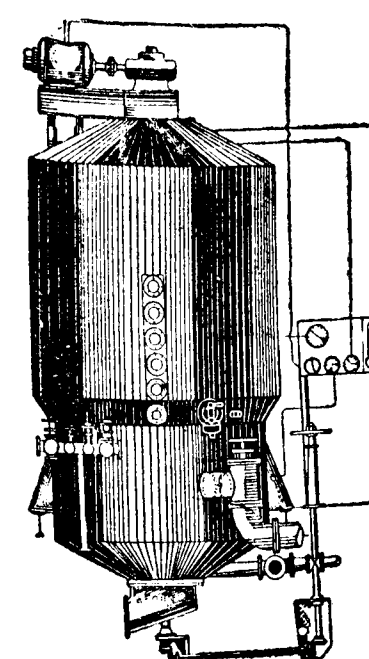
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Enforcing the Code of Conduct in General Insurance

Steady Rise in Premium Incomes of Indian Concerns

FOR general insurers in India—both Indian and non-Indian—the past year was primarily one of constant endeavour to act up to the terms of the Code of Conduct formulated in 1956. The Code was evolved by the Executive Committee of the General Insurance Council. It was first administered by local administrative sub-committees with the help of investigating officers until 2nd September, 1957. Since then the work has been taken over by an organisation called "the Administrative Machinery," set up by the Executive Committee. The Controller of Insurance in his capacity as a member of the Committee is the head of the new machinery. Each meeting of the Executive Committee was devoted to an examination and assessment of the Code of Conduct, resulting in various amendments, elaboration and amplification of the terms. The resulting effect on insurers was, on the whole, onerous. They have had to establish, like the Executive Committee, their own administrative set-up to ensure that the terms of the Code, as far as practicable, are adhered to. The Code, on the whole, seems to be, even today, at an experimental stage. The Executive Committee, in the light of experience gained, is endeavouring to plug the various loopholes which have been detected. The companies, on the other hand, by virtue of the undertaking they have given to the Government, are reorganising their administrative machinery on the basis required by the Code, although to most insurers many of the requirements seem superfluous and divorced from the actual context of the business in which they are engaged.

ment were held in 1958 under the directive of the Executive Committee. They were conducted by the Federation of Insurance Institutes, Bombay, in various parts of India. The examinations consisted of two parts. *Viva voce* tests were held for those inspectors who were on the rolls of the companies on 1st January, 1957. For those who were enrolled after that date, a written examination was held. Unsuccessful candidates had a further chance to appear in the written examination in November this year. For some unaccountable reasons, the *viva voce* test for them or for those who could not appear in the first one, has been postponed. The failure to pass the second test, it is understood, will disqualify an inspector from further field service. This, again, is part of the formalities introduced by the Code. While some sort of eligibility test for the field force seems, on the whole, reasonable and fair, it re-

affected the marine business of the insurers. It has also adversely affected the turnover, resulting in loss in fire premium income. Import restrictions, again, have seriously affected the sale and purchase of new cars, with the result that there has been a substantial reduction of premium income in the motor department. It is claimed that loss of business in the private car section has been offset by the insurance of public and private carriers, but the unfavourable claims ratio in this particular sector has to a large extent offset the gains. Since 1st January, 1958, motor insurance premium rates have been revised, and, in fact, have been substantially raised in all the regions of India. The increase has been necessitated by the adverse claims ratio, and the high repairing charges demanded by the garage owners all over the country. How far the adverse claims ratio is due to the negligence of the owners and/or drivers, or due to inadequate road facilities over which the owners have no control, cannot be precisely determined from the insurers' point of view. The increase was called for by the statistics they compiled, and since the computation of premium depends on statistics, the insurers felt it necessary to increase the rates for comprehensive insurance. At the same time, while revising the rates, the present basis has been entirely discarded, and replaced by the cubic capacity basis of rate, as this method of rating is more scientific in view of the changes in engine design in recent years.

By

A. C. GUHA RAY

mains to be considered whether it would do the industry any good if an inspector who has been in field service for several years, but has failed to pass an examination devised by the Executive Committee, is suddenly disqualified for the job. It is unlikely that this issue will be disposed of as simply as the Executive Committee wishes, without prolonged controversy.

Checking Rebates

The attempt to eradicate the so-called evils of rebating and payment of illicit inducements to divert business to a particular account has not, on the whole, succeeded, although it is claimed that they have been appreciably checked. No categorical assessment of this controversial question is possible and it remains equally a matter of controversy whether the trade would not have been better off without the Code. Under the Code, elaborate audit machinery has been arranged to investigate the affairs of the companies and to submit reports on them to the Controller of Insurance. This audit is distinct and separate from the statutory annual audits of the companies. It is primarily designed to ensure that the terms of the Code are observed by general insurers. The special audit is now about to be completed. Reports on most of the companies have been submitted. The examination of the audit reports on the companies will enable the Executive Committee to decide the future course of action necessary to promote sound practices in general insurance. It was originally intended to have special annual audits, but their high cost, it is understood, has led the Executive Committee to examine whether the audits are of value, considering the expenses which have been incurred or will have to be incurred if they are to continue. An alternative suggestion has been mooted in view of the high cost, namely, departmental audit from the office of the Controller of Insurance. It is understood that if this idea takes shape, it will come into effect from the beginning of next year.

Examinations for Field Staff

For the first time in India, examinations to test the eligibility of field workers for employ-

Voluntary Nature

These regulatory provisions, apart from the statutory requirements under the Insurance Act, 1938, continued to govern and guide the general insurance business. The Code has been characterised as voluntary in the sense that it is not a law. In the *Insurance Year-Book, 1957*, the Controller of Insurance has summarised the position by stating that the Executive Committee has, on further consideration, decided that the revised Code of Conduct should be implemented on a voluntary basis, and legislation should be enacted only if voluntary efforts fail. It is somewhat premature to claim success or failure of the Code from a review of its working for the last two years. Undoubtedly, the premium payment clause has succeeded. But the same cannot legitimately be claimed for the other principles underlying the Code. Legislation, if enacted, is not likely to be of any material value, for the breaches of the Code, if there are any, are not in form but in substance. It must, however, be pointed out that stringent police measures sometimes have the contrary effect by driving the malpractices they are designed to check more and more underground. These measures curb the freedom of business methods and restrict the free play of supply and demand.

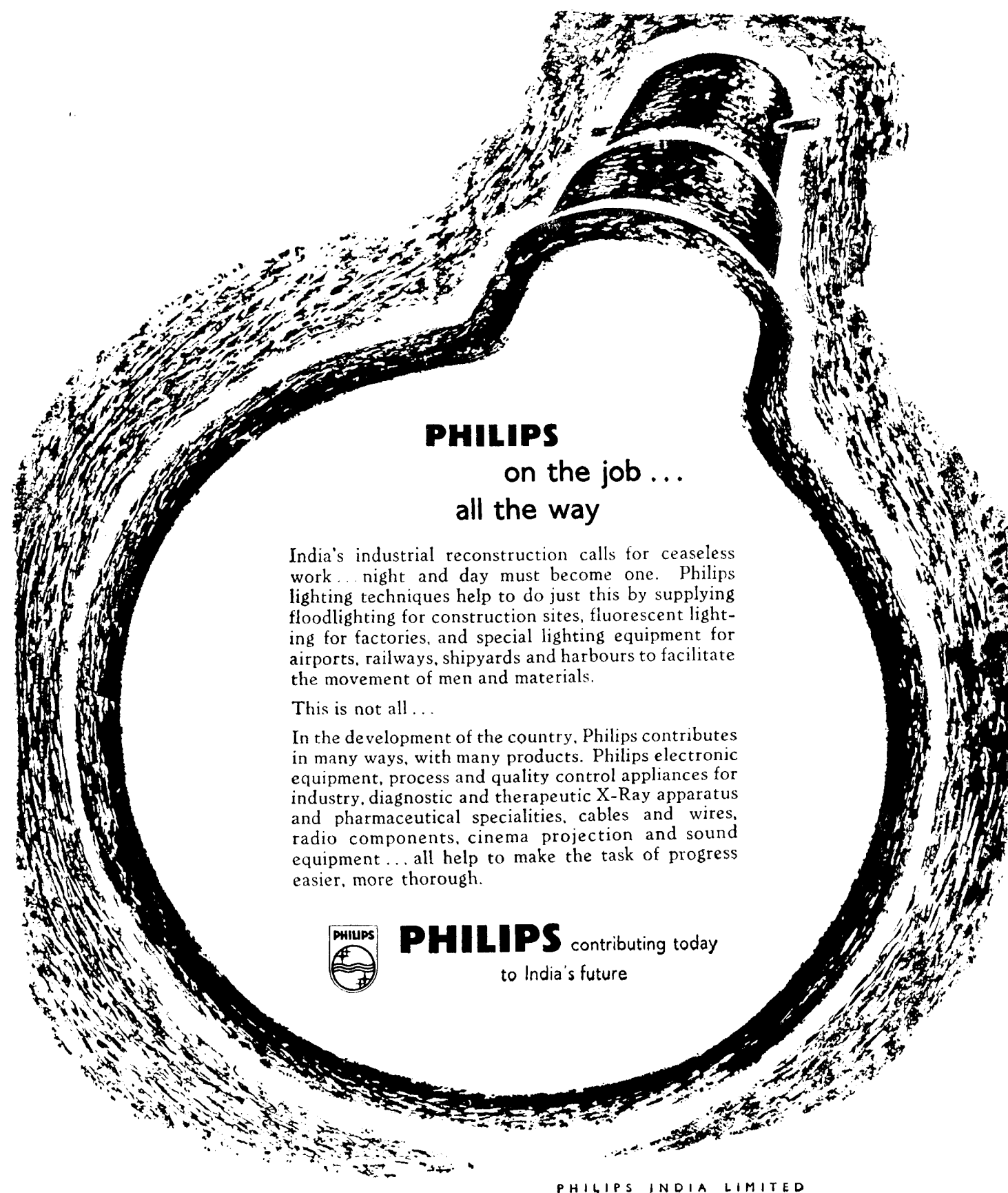
Restrictive Climate

In a restrictive climate, general insurance business was unlikely to have fared better during the past year. The economic disequilibrium and the foreign exchange difficulties had their impact on general insurance. This business is an index of economic activity. Import restrictions and the fall in exports (including tea, the principal export item in north-east India) have adversely

During the past year, the rates in fire insurance were subjected to an examination for making appropriate reductions. The examination was undertaken in accordance with the agreement between the Insurance Tariff Committee and the Government of India. The last revision was made in 1954, so the next revision was due in 1958. It was claimed on behalf of the Tariff Committee by its outgoing chairman, Mr. Setalvad, that a change of rates in 1958 would be premature, as the Committee did not have adequate statistics to determine a correct revision. The spadework had already been completed, but the announcement of a decision could not be made. It is unlikely that a reduction will be effected soon.

It is difficult to make a correct assessment of the premium income of the companies in the year under review, as the only authoritative documents available are the year-books published by the Controller of Insurance. In the year 1958, the Controller published the *Indian Insurance Year-Book, 1957*, but it contains figures only up to the end of 1956. The statistics for 1957 are not available, nor is there any basis to determine the premium income for 1958. Nevertheless, a review of the figures incorporated in the *1957 Year-Book* will be useful as it will show the trend of premium income and claims of general insurers.

As at 31st December, 1957, there were 189 companies registered under the Insurance Act, 1938, of which 91 were Indian and 98 foreign. Of the Indian insurers, 51 companies originated from Bombay and 17 from West Bengal. Of the non-Indian companies, 56 came from the United Kingdom out of a total of 103. Some 202 companies transacted insurance business during the year ended 31st December, 1956, including ten Indian and seven non-Indian insurers whose registration stood cancelled on 31st December,



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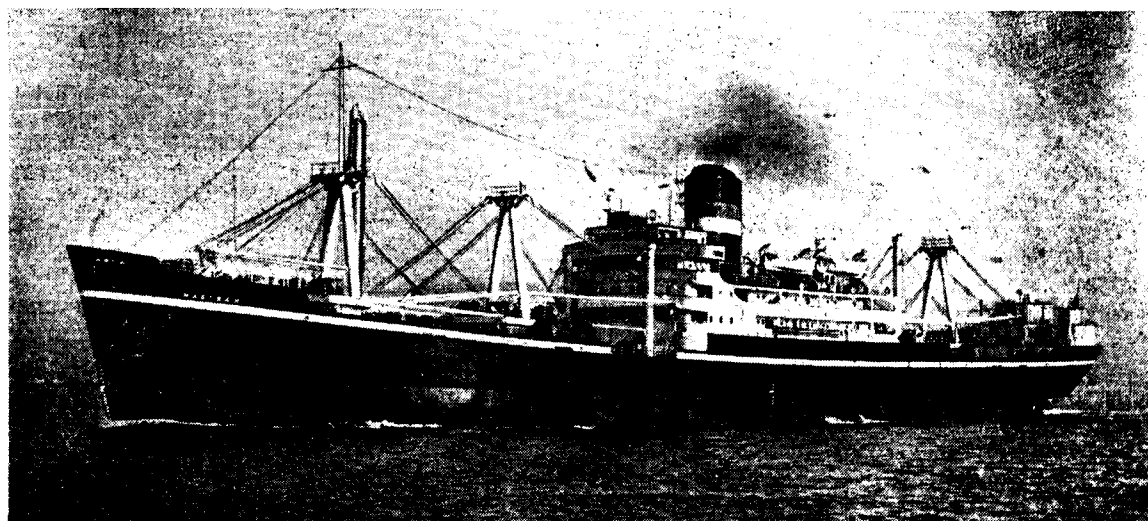
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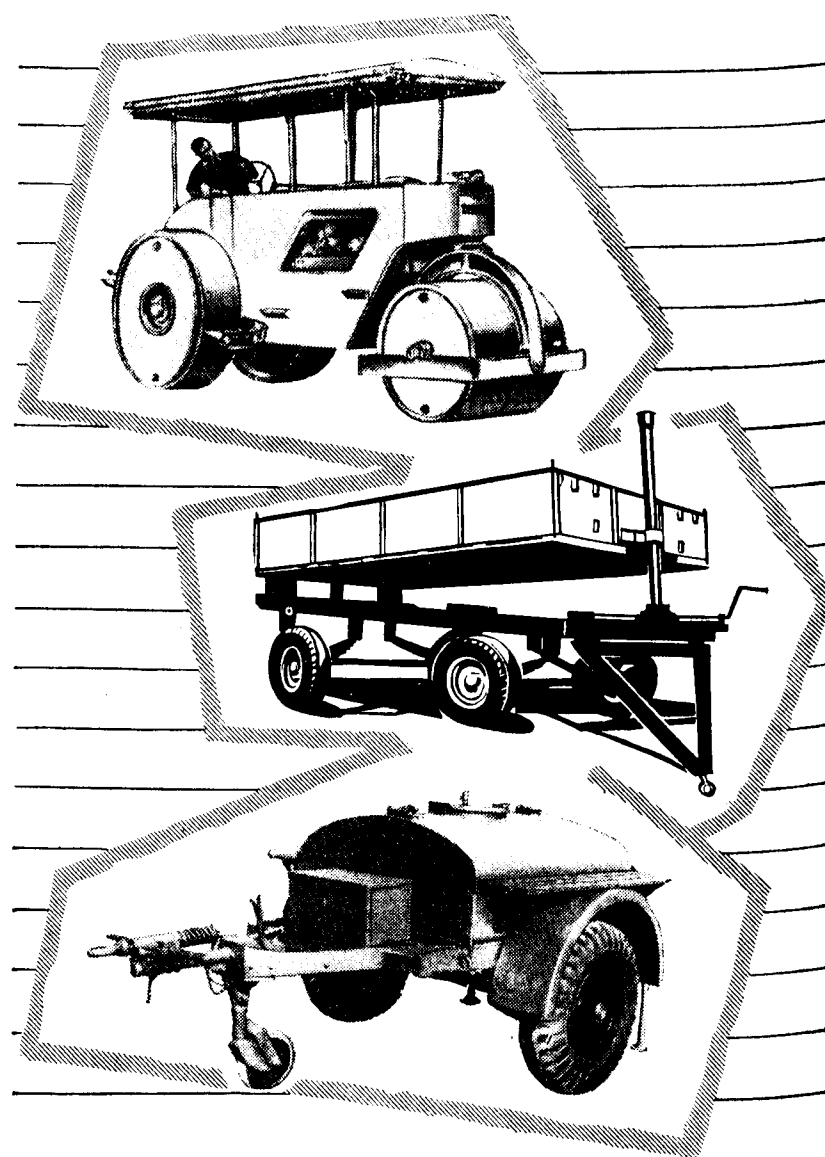
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1957. Four new registrations were effected in 1957.

Income and Expenditure

The total income and expenditure of Indian insurers during 1956 will be found in the following table:

Income	(Rs. Lakhs)
Premiums less reinsurance in India	8.89
Premiums less reinsurance outside India	10.36
Net interest, dividends and rents	27
Other income	6

Total ... 19.58

Outgo

Outgo	(Rs. Lakhs)
Claims less reinsurance	8.82
Net commission	2.81
Expenses of management	5.35
Miscellaneous outgo	21

Total ... 17.19

(Rs. crores)

Profit transferred to profit and loss account	1.18
Actual increase in reserve for unexpired risks and additional reserves	1.21
Excess of income over outgo	2.39

It will be noticed that the profits transferred to profit and loss account represent about 6 per cent of the total income of Indian insurers. The profit of Rs. 1.18 crores with certain other additions and making other normal provisions such as taxes, left only Rs. 18 lakhs for dividends, which was even less than 1 per cent of the total income of Indian insurers during the year. The table below shows the proportion of the net premium income spent by way of claims, expenses, etcetera, during 1956. It will be seen that

Ratio to net premium income of	Fire		Marine		Miscellaneous	
	Indian	Non-Indian	Indian	Non-Indian	Indian	Non-Indian
Net claims	35.0	21.3	69.6	46.7	48.7	42.0
Expenses including commission	46.9	54.8	29.4	43.4	42.8	48.1
Increase in reserve	3.8	1.9	2.3	0.7	6.4	-0.8
Miscellaneous outgo	1.3	6.5	1.0	2.4	0.9	3.7
Balance	13.0	15.5	-2.3	6.6	1.2	7.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

claims and management expenses of Indian insurers for the year in the fire department accounted for 81.9 percent of the fire premium income. The outgo in marine was 99 percent and in miscellaneous 91.5 percent. In contrast, the non-Indian insurers fared better, and their outgo was 76.1 percent in fire, 90.1 percent in marine and 90.1 percent in miscellaneous insurance. The claims ratio of Indian insurers was much higher than that of non-Indian insurers. At the same time, non-Indian insurers had bigger management expenses than Indian insurers. If the claims ratio is more favourable for the non-Indian concerns, it may be largely due to the fact that they spend a bigger proportion of their incomes on maintaining a properly qualified and experienced management staff. For this reason, the same trend of claims and management expenses is likely to continue.

With a view to studying the growth of business, it will be useful to analyse the comparative figures for the last five years of insurance business in India and outside of Indian insurers and of the business in India of non-Indian insurers. The figures are given in the table at the end of this article.

It will be seen that the total gross premium income written direct in India was a little over Rs. 25 crores. This premium is obviously too small for a vast country like India. Mr. P. U. Patel, a former chairman of the Indian Insurance Companies Association, Bombay, has said that the position that the premium income in India was a mere Rs. 23 crores in 1955 should make the insurers explore new types of business such as erection insurance and performance bonds, which are now increasingly coming to the fore, in view of the various plan projects. Such firms of insur-

ance may have some effect on the premium income of the companies.

Expense-premium Ratio

In the context of the gross premium income written direct in India, the position of expenses becomes significant. The expenses of insurers are controlled by Section 40C of the Insurance Act and Rules 17E made thereunder. Unless there is a large increase in premium income, there can be no corresponding rise in permissible expenses, with the result that although management expenses have been rising due to inflation and labour disturbances, hardly any relief is obtainable from the Controller of Insurance and the Executive Committee. There have, therefore, been large contraventions of Section 40C. A large part of the 1957 Year-Book has been devoted to statistical analysis of the nature and character of such contraventions. In the year 1951, 35 Indian and 11 non-Indian insurers contravened Section 40C of the Act. Warnings were administered to 13 Indian and six non-Indian companies. Thirty-two Indian and 11 non-Indian companies contravened the section in 1952, 29 Indian and 21 non-Indian ones in 1953, 26 Indian and 18 non-Indian ones in 1954, 28 Indian and 29 non-Indian ones in 1955 and 21 Indian and 36 non-Indian ones in 1956. Contraventions on the part of Indian companies seem to have steadily declined from 35 in 1951 to 21 in 1956, whereas the number of non-Indian contravenors steadily rose from 11 in 1951 to 36 in 1956. This analysis shows that while Indian insurers by virtue of the increase in their premium incomes and decreasing management expenses are in a better position to comply with the provisions of Section 40C, non-Indian insurers have not the facility to increase their premium incomes to the same extent. Their management expenses continue to be high with the result that the number of contraventions has steadily gone up.

It should be borne in mind, however, that contravention of the statutory provision is not necessarily a reflection on the companies' solvency. That has to be judged in relation to various other factors. The total outgo of non-Indian insurers, as will be seen from the figures given in the

article, is less than the total expenditure of Indian insurers, although many of them might have committed technical breaches of the law.

Same Trend

The same trend is likely to be reflected in the accounts for 1957 and 1958. Measuring expenses in relation to the gross direct premium income written in India is undesirable. It inevitably leads to a scramble for business resulting in malpractices and illicit inducements, which the Code of Conduct seeks to eradicate. Paradoxically, the statutory enactments lead to malpractices because of the regulatory provisions designed to curb them, and this has been the bane of general insurance for many years.

GROSS PREMIUM WRITTEN DIRECT IN INDIA
(Rs. THOUSANDS)

Year	Indian Insurers		Non-Indian Insurers		Total of all Insurers
	Amount	Proportion	Amount	Proportion	
1951	13,49.25	56.5	10,38.55	43.5	23,87.80
1952	12,42.29	56.6	9,52.64	43.4	21,94.93
1953	12,01.23	57.7	8,80.54	42.3	20,81.77
1954	12,45.90	58.3	8,89.51	41.7	21,35.41
1955	13,77.10	59.6	9,32.83	40.4	23,09.93
1956	16,08.07	62.7	9,58.51	37.3	25,66.58

NET PREMIUM INCOME IN INDIA

Year	Indian Insurers		Non-Indian Insurers		Total of all Insurers
	Amount	Proportion	Amount	Proportion	
1951	7,74.80	52.0	7,15.70	48.0	14,90.50
1952	7,01.70	50.8	6,78.92	49.2	13,80.62
1953	6,78.45	51.7	6,33.67	48.3	13,12.12
1954	7,11.84	52.3	6,48.70	47.7	13,60.54
1955	7,59.05	52.7	6,81.64	47.3	14,40.69
1956	9,07.90	56.7	6,94.56	43.3	16,02.46

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Progress in Expanding Road Transport Facilities

Partiality for Railways Still Hampers Growth

AFTER the passing of the Motor Vehicles Amendment Act, 1956, which took effect from 17th February, 1957, there came the State Bank Amendment Act, 1957, which took effect from 8th June, 1957. The former removed certain restrictions on road transport, and the latter authorised the State Bank to advance money to hire-purchase organisations to give loans to operators for the purchase of lorries. Then came the Transport Commissioners and Controllers Conference in Mussoorie in October, which considered a number of measures to implement the provisions of the Motor Vehicles Act and matters relating to taxation, licensing, etcetera. On 8th March, 1958, the Central Ministry of Transport announced the setting up of an Inter-State Transport Commission to deal with matters arising out of the licensing of vehicles on inter-State routes.

This was followed by the setting up of three bodies by the Centre to deal with matters relating to transport; two were composed of officials and one of an equal number of officials and non-officials. This third body, known as the Road and Inland Water Transport Advisory Committee, met in Delhi and recorded a number of decisions for consideration by the Transport Development Council, which will meet later. In the meantime, a Road Transport Reorganisation Committee has been appointed by the Central Government with wide terms of reference to go into the question of a suitable organisation for road transport in the States and at the Centre, which will lead not only to the regulation of road transport but also to its development and co-ordination. The Committee has been functioning and its report is expected within the next few months.

Long-term Plan

Side by side, the Chief Engineers of the various States have prepared, at the request of the Central Government, a 20-year road plan for India, covering the period 1960-61 to 1980-81. The plan, it is expected, will be finalised by about the end of January 1959, after the session of the Indian Roads Congress in Hyderabad during that month. All this is an impressive record of achievements. It shows the growing need to develop road transport. It also shows awareness of that need in the Central Government, for which it deserves the highest praise. However, there are still a number of difficulties. Some of them are formidable and, therefore, require consideration.

The most important is the attitude of the railways, which unfortunately has not been very helpful. Since their inception about 105 years ago, they have had a sheltered position, initially because they were built out of capital which was guaranteed and then because they were nationalised and thus became a concern of the public. It is inevitable that, with an investment of about Rs. 1,000 crores and a return to the Exchequer of about Rs. 40 crores a year, the railways should loom large in the public eye and anything which may even remotely seem to affect them should be suspect. However, it is forgotten that the investment in roads and road transport is of the order of about Rs. 1,400 crores and that road transport pays the Exchequer about Rs. 80 crores a year. After deducting import duties (as a legitimate Central revenue) and the road maintenance bill, this amount means a net return to the State of over 8 percent a year on its investment in roads, against only 4 percent from the railways. Finally, the road transport industry as a whole pays the State a huge sum by way of income and other taxes, which the railways do not pay.

Reappraisal Required

Presented in this manner, the position concerning the investment and return in these two services becomes entirely different and necessitates a fresh reappraisal. In addition, their relative employment potentials are different and the speed with which the two services travel are also not the same. In January 1958, the president of the Indian Roads Congress mentioned that against about 1 million hands employed by the railways, the number employed by road transport was about 2.7 million. It is a well-known fact that against only about 48 miles a day covered by a railway wagon, a road truck covers about 150 miles. These

facts, which have been overlooked for years, cannot be ignored any longer.

Public Preference

On the other hand, it is obviously not in the interests of the country that its investment, whether in roads or railways, should not be used to the maximum extent. Therefore, it is necessary to see that neither service is developed to the detriment of the other. The question which arises is how this should be done. To my mind, the solution is to assess the extent to which the investment in each service is being utilised at present, and then draw up a programme for developing the two according to the preference of the public for one service or the other in relation to certain commodities.

It is generally admitted that while the investment in rail tracks is being utilised at the moment almost to saturation point, the investment in roads, which is estimated to reach over Rs. 700 crores by 1960-61, is being practically neglected. This fact deserves greater attention. As for public preference, there are a number of commodities which are at present despatched by road even at higher rates because of the speed and flexibility of road transport.

By

B. V. VAGH

Executive Vice-President
The Indian Roads and Transport Development Association

port; therefore, it is necessary to assess the extent to which such despatches should be encouraged in the interests of the economy. Unless these two aspects are investigated carefully and a balanced programme of road-rail development is laid down, the problem of roads versus railways will not be satisfactorily solved.

Distance Limit

The railways are still clinging to the old concept that all through traffic should be their sole monopoly, and that road transport should be developed only as a subsidiary to the railways to carry feeder traffic to keep them functioning. Towards this end, they have been insisting on a distance limit on the field of operation of road transport. This concept has in the past resulted in a veritable mess, in the sense that, on the one hand, the investment in roads has been neglected and, on the other, huge sums of money are being spent on

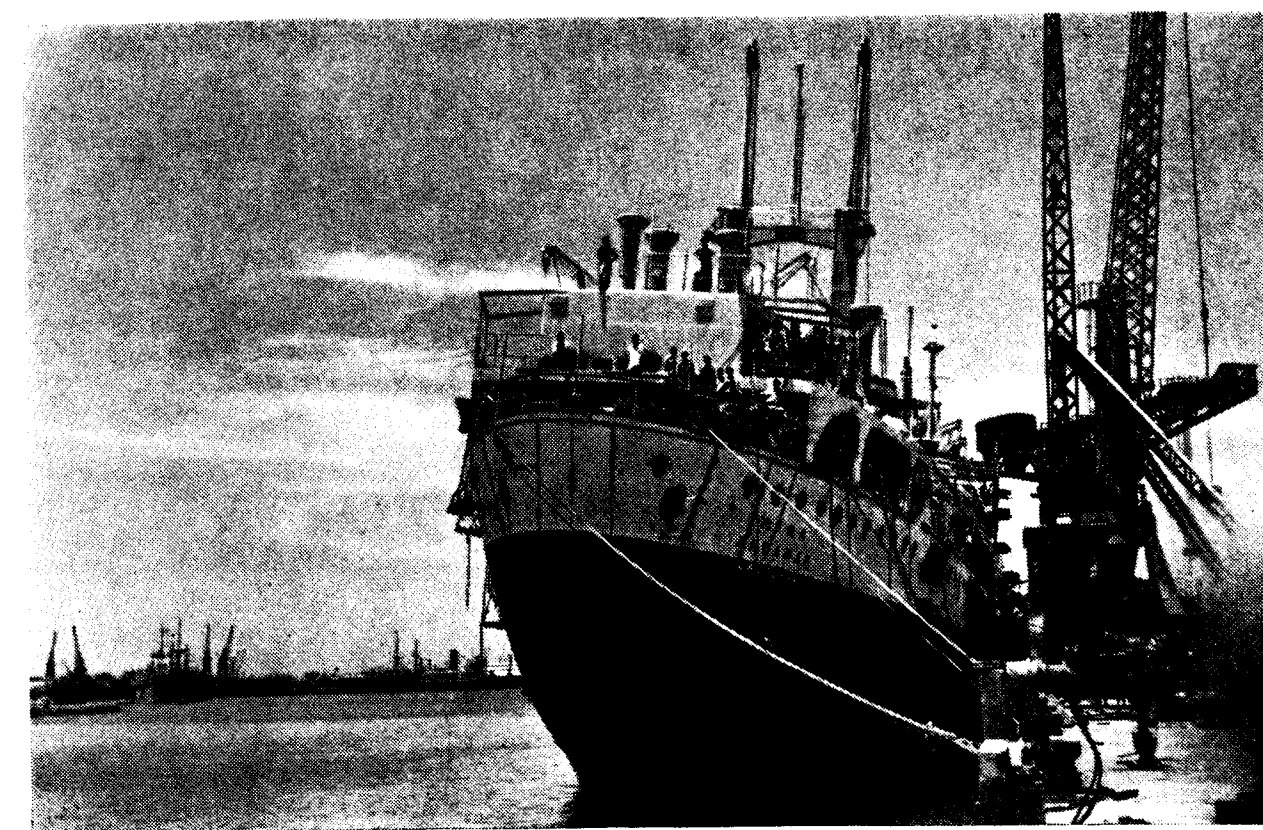
developing the railways quite unnecessarily. Thus, during the first five year plan, the railways were allotted Rs. 140 crores by the Centre out of the general resources to carry 23 million tons of additional goods traffic, but during the second plan their allotment went up to Rs. 700 crores for carrying only 53 million tons of additional traffic. That is, the allotment was five times while the additional traffic was only 2.3 times. On the other hand, for an investment of some Rs. 450 crores in roads, as in 1955-56, the number of motor vehicles was one a mile in this country, against 25 in Britain, 21 in the U.S.A., 13 in Malaysia and eight in Ceylon.

Trade Affected

Apart from this, the imposition of a distance limit on road transport has proved obnoxious to the public, which is deprived arbitrarily of its inherent right to choose a speedier form of transport. The limitation is to the detriment of trade and commerce. The verdict of Parliament too is against the imposition of a distance limit on road transport. In 1956, a distance limit was proposed in the Motor Vehicles Amendment Act but Parliament rejected it on the recommendation of its joint select committee. The then Minister for Railways and Transport and his Deputy made definite pronouncements that there would in future be no distance restrictions. Against this background, a revival of this plea in any form would be unwarranted. The Government should tackle the problem of rail-road co-ordination by going to the fundamentals of the issue. It should apportion traffic between them in such a manner that, on the one hand, the public will have unrestricted freedom of choice as to service and, on the other, the investment in both services will be equitably utilised.

Attitude of States

Another problem which affects the development of road transport is the attitude of the States, which unfortunately are at the moment concerned more with their receipts from taxation than with the development of road transport. For years, the Centre has been urging the States to agree to a uniform basis of taxation, but in spite of recommendations by various bodies, no uniformity has been forthcoming. The solution to this problem lies in centralising taxation on motor vehicles and apportioning its proceeds on an agreed formula as in the case of income tax. It is not generally realised that by agreeing to this procedure, the States stand to benefit, since as a result of centralisation each State in future will be entitled to a share in an all-India increase in the number of vehicles instead of an increase within merely its own boundaries.



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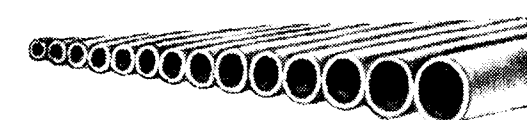
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THE VERSATILITY OF THE HELICOPTER

POSSIBLE USES IN UNDER-DEVELOPED COUNTRIES

THE "maid of all work in the air" is an apt description of the helicopter, for its versatility is truly amazing and new rôles in which this form of aircraft offers almost the only answer as the means of transport are being developed practically every day. Nevertheless, the helicopter has distinct limitations, and these are undoubtedly responsible for the comparatively long time it has taken for it to advance from the crude drawings and even cruder models, all whirling blades and what look suspiciously like pieces of string devised by Leonardo da Vinci in the early 1500's to the hover-plane as we know it today. In point of fact, the helicopter has a very short history, for da Vinci's ideas, although they inspired many inventors from time to time in the centuries which followed, had to wait until the twentieth century to achieve practical form. The lead in its development was taken by Germany, and in 1937 the world's first helicopter, the Focke-Achgelis, succeeded in staying in the air for one hour 20 minutes. It was an historic event, and a whole year transpired before that record was broken by Igor Sikorsky—the real father of the modern helicopter—who built one which kept him airborne for one hour 32 minutes.

Slow Progress

Progress was slow, for the handicaps to be overcome were formidable, but Igor Sikorsky was convinced that he was working along the right lines to overcome them and that when he did, the resulting aircraft would provide the answer to many problems. Early in 1943, he captured public interest throughout America, and indeed throughout the world, with his pioneer VS-300 helicopter, which was dramatised by the popular Press as the forerunner of the hedge-hopping rotating-wing "family bus". That was not quite how things developed, but the interest engendered at that time has never flagged. The military uses of the helicopter, however, were responsible for its manufacture by several firms, and it was not until 1946 that what is believed to have been the first certification of a helicopter for commercial use was granted to Bell Aircraft. We have moved quite a way in the 12 years since then, but not perhaps as far as might have been expected in view of the fact that the helicopter designers and manufacturers have had the experience of the aircraft industry to draw upon and that conventional aeroplanes have developed out of all recognition over the same

period. By contrast, the basic helicopter pattern—with some notable modifications, rather than fundamental changes—remains much the same.

Operational Functions

We are concerned here not so much with the design technique, or the absence of it, as with the operational functions of the helicopter. On this score, there is less scope for argument. The advance from the valuable but undoubtedly strictly limited military uses of the helicopter during the second World War pointed the way to many others as hostilities spread and developed, and since the end of the war the swiftness to civilian use has been surprisingly rapid. The main difficulty for even further expansion in the use of helicopters, especially for routine transport duties with either passengers or freight, lies in the cost of operation for a comparatively small payload. As

By

HUBERT E. WOUTERS

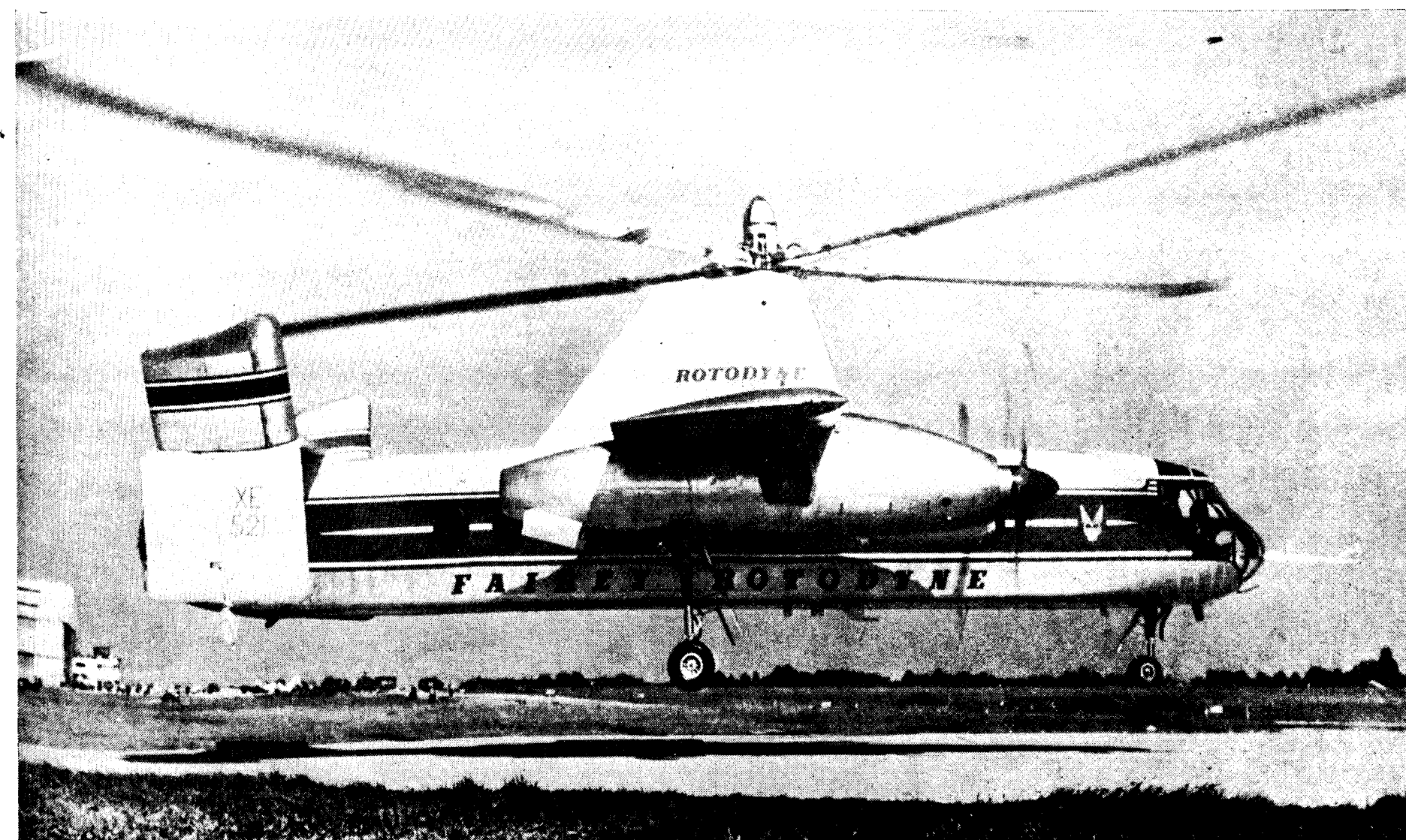
to whether the advantages of actual point-to-point movement, the ability to dispense with full airport facilities, etcetera, outweigh this factor, must necessarily depend on the circumstances prevailing in each individual case. On the whole, this has been found to be the case in a great variety of instances, some of which are enumerated and illustrated in these columns, and this has been found to be particularly applicable in the course of various operations directed towards opening up and exploiting the resources of large areas of undeveloped territory. To countries such as India and Pakistan, and indeed all under-developed countries, the helicopter offers an invaluable instrument for real advancement. It is a comparatively inexpensive and simple form of transport that merits careful examination.

A useful guide to the possibilities of the helicopter as an aid to development is provided by the activities of a Canadian commercial firm. Started in 1947 by a demobilised Royal Canadian Air Force pilot named Carl Agar and a retired financier, Douglas Dewar, the Okanagan Helicopter Group of Vancouver (one helicopter, a staff of two and a bank overdraft of \$13,644) now have a fleet of 54 of these machines and are the largest com-

mercial operators in the world. In the past ten years, they have logged 100,000 operational hours, carried 75,000 passengers and thousands of tons of freight, now employ about 150 people and boast of an annual income of about \$2 million. It was Agar who surveyed the virtually impassable mountain route for the Alcan transmission lines. A team of pilots and engineers then made it possible to erect towers by landing steel and other construction materials on postage stamp platforms in otherwise inaccessible areas. The group assisted in building part of the Trans Mountain Oil Pipe Line between Edmonton and Vancouver and has contracted to patrol the entire line every ten days. Timber cruisers, topographical and geological survey men have been carried to all parts of Canada and, more recently, have flown for approximately four months within a few hundred miles of the North Pole. T. and H. Engineering, a group of forestry consultants, undertook a survey of the Kitimat forest resources and completed in one season what would have taken four seasons under ordinary circumstances. Furthermore, the cost was fractional for the 500 hours of flying time. In the prairie provinces, they have carried out geological surveys including the use of an airborne scintillometer. In Quebec, they have been engaged in prospecting and railroad construction. In Newfoundland, the group's helicopters are providing transportation for technical personnel and are extensively used as flying ambulances. In Ontario, they have proved that the helicopter is suitable for aeromagnetic surveys using a magnetometer. Throughout Canada, fire and pest control is an evergrowing responsibility, and reseeding of logged off areas poses still another challenge. The Okanagan Group has assisted in the construction of one of Canada's major defence lines.

Ideal Vehicle

This commercial confidence in the helicopter is dictated by the fact that for certain types of work it is the ideal vehicle, offsetting its high initial and operating costs. There is no obstacle that impedes the helicopter in its flight from point to point; it reaches its objective regardless of the terrain, and regardless of the existence of airfields or railheads. A machine that can rise and descend vertically, that can fly forward, backward and sideways, must obviously be a method of transport of great value. Of equal importance is the helicopter's ability to hover over its objective, for by "standing still" in



The Fairey "Rotodyne" prototype coming in to land. It is hoped this aircraft will meet the deficiencies of the helicopter as a passenger transport vehicle

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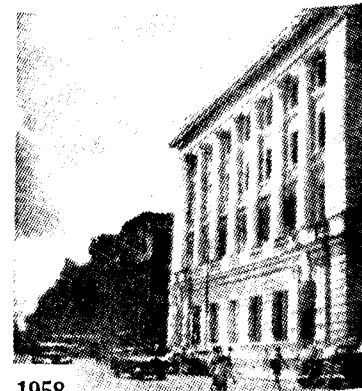
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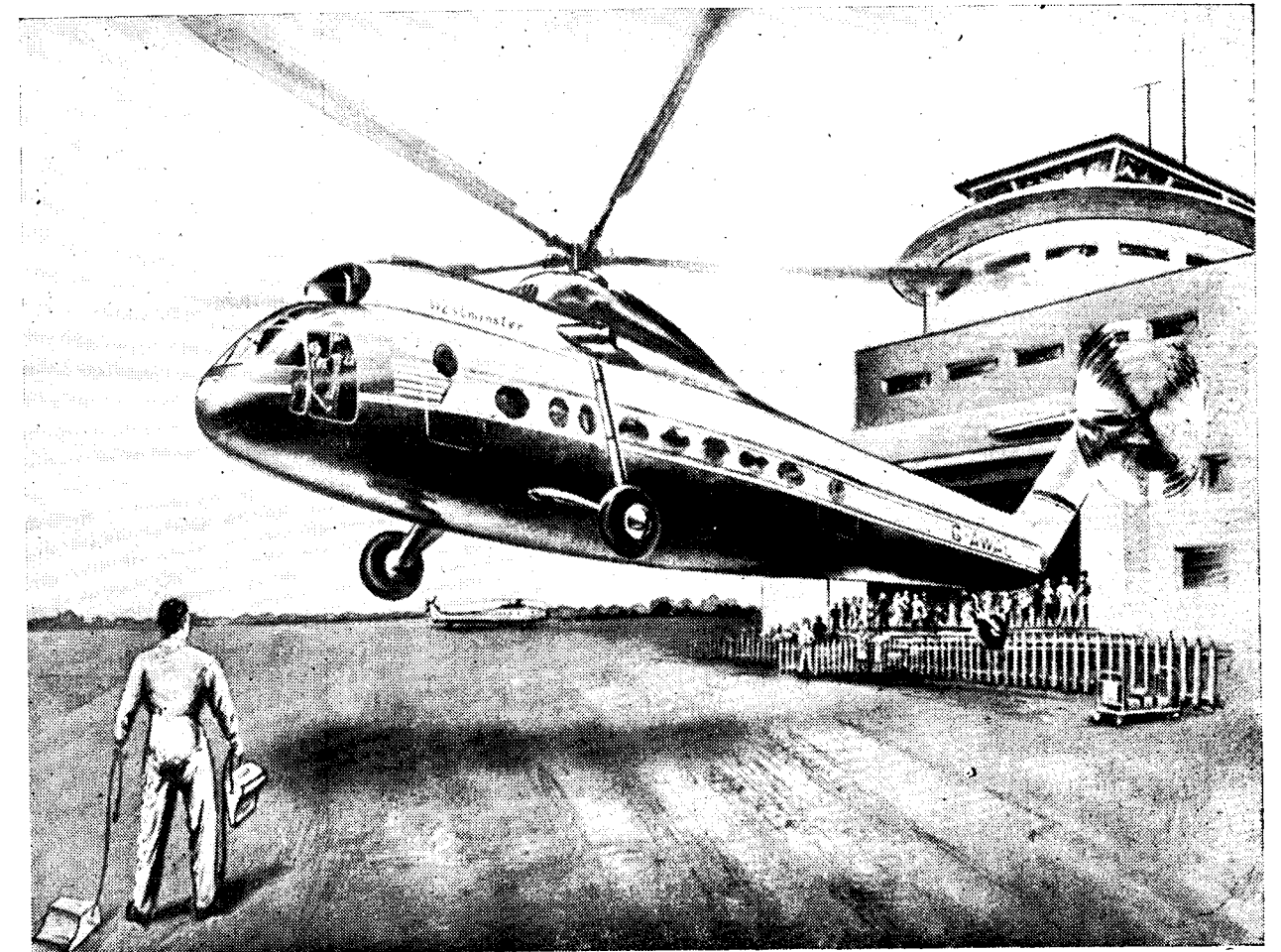
the air, it becomes, in effect, a working platform above the ground. Additionally, when fitted with a hydraulically operated winch hoist, (an extra which most of them are capable of accommodating), it assumes the rôle of an aerial crane as well. A short time ago, these attributes of the helicopter were demonstrated in a film for which the producers selected the title, *What Other Vehicle?* One may indeed ask what other vehicle can undertake such a variety of essential functions? As this becomes more widely known, so the demand for its services increases. Until only a few years ago, the use for which the helicopter was employed commercially was the spraying of agricultural crops with insecticides and fertilisers. It was found that vast acreages could be so treated in a fraction of the time taken for doing it by conventional and traditional methods. Next, it was exploited by one of the major whaling fleets, whose owners saw its possibilities as a spotting platform and reaped a rich reward by operating them in the Antarctic from the deck of a factory ship on which hangars were built on the after-deck.

The oil exploration companies have found helicopters invaluable as time and money savers in carrying the men and heavy equipment required to erect and operate drilling rigs in jungles and out at sea. Geologists are using them to carry out surveys. For the surveying and maintenance of overhead power cables, electricity undertakings in various countries have found that they are a valuable investment. In building operations, civil engineering concerns have come to the conclusion that by employing helicopters on undertakings in outlying and mountainous districts, not only is actual money outlay saved in the final reckoning, but completion dates that would otherwise be reckoned in years can invariably be quoted in months. Such has been proved in several cases where the starting date of a project has depended on the completion of road construction to enable workmen and equipment to be transported to the site of operations. By using helicopters it has been possible to get the construction force and their equipment to the site before the road-making started, thus eliminating the necessity of the former depending upon the latter before operations could begin.

Major Disabilities

One of the major disabilities from which the helicopter suffers is the limitation upon the size and the weight of loads that can be transported. The restrictions are less severe than they were and will continue to improve but they cannot be eliminated. On the other hand, the problem can be overcome if it is possible to break down an item of machinery or equipment into a number of component parts of given maximum weight for the purpose of transport, and reassemble them into the original article at the point of delivery. The question of size and bulk of the load to be carried can then be of secondary importance, since if it is too bulky or awkward in shape to be carried inside the helicopter, provision exists for it to be carried in a sling externally, though here again the weight must comply with the capacity of the helicopter. But when it is considered that an entire drilling rig for an oil well has been broken down into component parts and transported to its site by using this method, it will be appreciated what can be achieved regardless of size and bulk.

An almost copybook demonstration of the helicopter in the aerial crane rôle was given recently



An artist's impression of the civil version of the Westland "Westminster" helicopter

by one used to help steeplejacks erect a new Trinity House navigation beacon on a wind-swept outcrop of rock some 400 yards offshore at Penmon Point, Anglesey. In the first stage of the operation, the aircraft flew an 840-lb topmast, slung beneath the fuselage, from the top of the cliffs out of the rocks and lowered it into position on top of a 25-foot high granite and concrete plinth structure. Steeplejacks already stationed on the rocks were then able to bolt the circular base plate to the concrete platform. During the second stage, the helicopter returned to the plinth carrying a 400-lb topmast and lowered it over the mast where it was then bolted into place. The use of a helicopter for this exercise undoubtedly saved days of work, because the only possible alternative would have been to ferry the steelwork to the rocks against a nine-knot tide and then hoist it into position by means of sheer legs. In rough weather, the hoisting equipment might easily have been washed away before the installation was completed. The operation was by no means a simple one, for when depositing heavy under-slung loads, a helicopter is normally assisted by support from the "cushion" of air between the rotors and the ground. In this case, the machine was operating without a ground cushion as the platform on top of the plinth was too small an area to provide any cushioning support.

Commercial Demand

It is not difficult to visualise the commercial demand for heavy duty "flying-crane" helicopters, such as those now being developed in what might be called a skeleton form at less cost to fulfil this

function and, when given a body, serving as a passenger-carrying vehicle with accommodation for about 40 to 50 passengers, which would be nearing an economic payload for a helicopter air service. To meet special needs even the helicopters readily available today, with their limited payloads, can be used profitably. Flying-crane helicopters could take the place of surface transport in undeveloped areas, their cost being insignificant compared with the expense of building roads through deserts, mountains, swamps or forests. Okanagan Helicopters provided a typical example by their operations in support of the Aluminium Company of Canada's vast hydro-electric power project in the mountains of British Columbia a few years ago. Using in all five small and two larger helicopters, they first completed in ten days a survey of the site which would normally have taken three years, then went on to achieve a similar saving of time on the triangulation for locating a water tunnel, next they transported men and equipment to camps perched on precipitous peaks, and finally flew to hospital men injured at their work. The travelling time of the construction men was cut from 75 percent of their working week to only 8 percent, and they not only arrived at work fresher and were able to enjoy their leisure better for being relieved of the mountain-climbing which would otherwise have been involved, but their morale was higher because they knew medical aid was immediately available in the event of accidents. Using "air-fields" that consisted at best of a wooden platform, 20 feet by 16 feet, made from timber hauled up piece by piece by the helicopters, and at worst a cloth carpet over a flattened mountain ledge, the seven helicopters airlifted a total of more than a million lbs of freight and thousands of passengers. Individual loads were up to 1,700 lbs for the larger and 600 lbs for the smaller helicopters. At least one pilot made 40 trips in a single day, hauling 12 men and two tons of equipment 5,200 feet up into the mountains in a 13-hour non-stop shift.

Special Tasks

One could go on enumerating examples of the special tasks which helicopters have discharged satisfactorily almost indefinitely. It is unfortunate in some ways that these activities, which more often than not are regarded by the operators as routine, take on the appearance of "stunts" when actually reported in the Press. That fact has undoubtedly played some part in retarding the acceptance of this novel form of vehicle more generally. In the armed services—where the helicopter is now a regular feature of most operations—it is significant that it is turned to as a matter of course for those multifarious duties to which it has been put in every theatre of war. Fortunately, the outstanding virtue of this aircraft, the ability to adapt itself easily to a variety of uses, is gradually being accepted more widely in the civilian and commercial field. Among its more orthodox uses, one should add to its crop-spraying and seed-planting operations for the agriculturist, the undoubted advantages it possesses for (1) patrolling large areas on land frontiers, boundary fences on ranches or animal reserves, sea lanes for Customs purposes, forests as fire-watchers, power lines to



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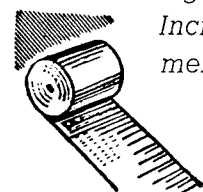
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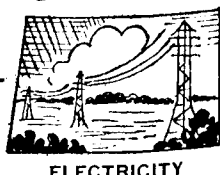
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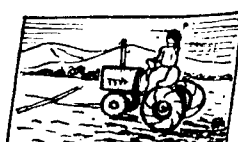
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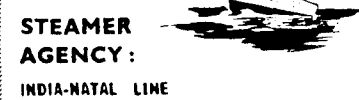
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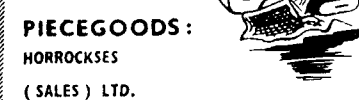
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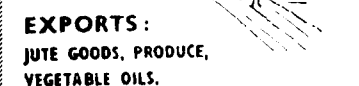
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RESERVE FUNDS	...	Rs. 40 Lakhs
DEPOSITS EXCEED	...	Rs. 23 Crores
WORKING FUNDS EXCEED	...	Rs. 27½ Crores
NO. OF ACCOUNTS EXCEED	...	1,32,000

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Mg. Director.



The difficult terrain in which a helicopter can operate is shown in this picture

locate faults; (2) as a mobile traffic control for the police; (3) as a pest-control vehicle in the war against such insects as locusts, mosquitoes, the tsetse fly and others; (4) as a fire-fighter not only by conveying men and material quickly to the heart of a conflagration but by "water bombing" the blaze itself or laying hose; (5) as rescue vehicles during floods or at sea; (6) as essential survey equipment for the topographic mapping of rugged and remote areas; (7) as prospecting equipment fitted with either a scintillometer or an electromagnetic device to determine the presence of uranium or the mineral content of the area surveyed; and (8) as an aerial ambulance. Some of these tasks can be done, perhaps even more efficiently, by ordinary aircraft, but the helicopter possesses such advantages as being independent of the need for airfields from which to operate and therefore being able to get right on top of the job. It is much easier to fly and simpler to maintain, and can operate under adverse weather conditions which would ground ordinary aircraft. This is a fact which ought to be better appreciated, for it is frustrating that the necessarily stringent regulations governing fixed-wing aeroplanes should apply, as they do not save in a few areas, to helicopters, thus nullifying their obvious advantages.

U.S. Manufacturers

Having pioneered in the production and development of the helicopter through the activities of Igor Sikorsky, it is not surprising that the Americans are more rotary-wing minded than other countries and can claim to be not only the largest producers but also users of this mode of transport. Sikorsky (a division of United Aircraft Corporation of America), Bell and Hiller are the best-known American manufacturers, and each can offer a wide selection of helicopters from which to choose the best suited to any specific job. British manufacturers come second on the list, and as exporters of helicopters they almost certainly outstrip even the Americans. But for the advent of the war, Britain might well have led the world, for it is not generally realised that Westlands, who lead the small but enthusiastic group of British manufacturers, worked on rotary wing aircraft as early as anyone else and actually designed and built, in association with Curva and Lepère, a five-seater *Autogiro* way back in 1934, followed by a two-seater designed for the private owner. But the experiments could not be carried to their logical conclusion due to the start of hostilities. It was not until after the war that the firm switched

the majority of its resources to helicopter production, and has led the field ever since. They work in close association with Sikorsky, producing modified aircraft based on the latter's basic designs and providing a complete range from the small *Dragonfly*, up the scale through the *Widgeon*, *Whirlwind* and *Wessex* to the prototype *Westminster* seen in Farnborough this year—the largest load-lifting helicopter in the world which, with a tubular framework without outer skin, carrying its load of seven tons slung from a centrally positioned hook underneath, will be cheap to build and cheap to operate. All these aircraft are British built, with British materials, equipment, instruments and power plants, and most of them have modifications which not only make them unlike their American counterparts but it is felt better than them in certain ways. Among other British manufacturers of rotary-wing aircraft, we need only consider here Bristols, whose five-seater *Sycamore* is one of the most versatile helicopters available today and on par with Westlands' *Whirlwind* for varied service in all parts of the world, and Fairey, because their revolutionary *Rotodyne* promises to be the answer to the problem of making the helicopter an economic proposition as a passenger-carrier. Other European manufacturers are few in number and not well known.

Operating Costs

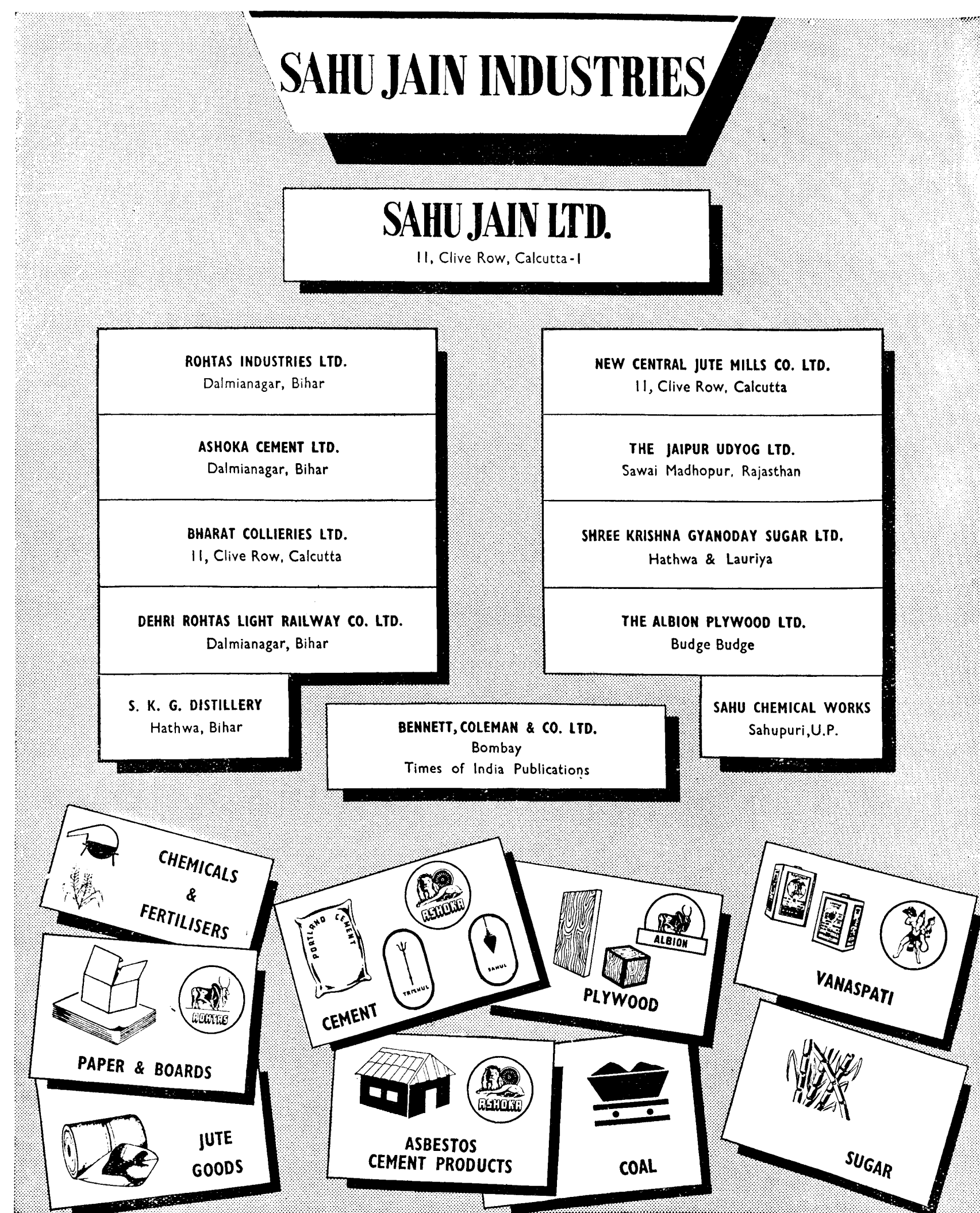
At first sight, the outright purchase of a helicopter appears to be a costly venture, and so does the operating expense. These factors are due in great measure to the necessarily limited production of this type of aircraft, which must be "tailored" to the demand trend, and also to the comparatively limited operational experience that has been gained when measured against that of fixed-wing aircraft. But, as with all new products, these limitations are of a temporary nature, and as demand and operational experience increase, production and operating costs will decrease. The present initial outlay on a helicopter capable of lifting loads of half a ton, or carrying four passengers, is about Rs. 4 lakhs, with operating costs, based on 1,000 hours a year, of approximately Rs. 400 an hour. But when costed out on the basis of savings effected in manpower and manhours and other attendant services, the capital outlay on such a machine is often proved to be a valuable investment. Roughly speaking, and taking the Westland range as a guide, initial cost is doubled as one progresses up the scale, until the *Westminster* as a 40-seater passenger airliner would

cost about Rs. 35 lakhs. Operating costs, of course, would not rise in anything like the same proportion, but they would still be higher than those for fixed-wing aircraft if and when these are able to meet the particular need.

For the charter company, therefore, helicopters are undeniably expensive units to operate, but direct costs are frequently well under the total expense of doing a specific job by alternative means. Whatever the comparative economics of the case, the operator is naturally anxious to keep direct costs as low as possible, and in buying flying hours he expects, in addition, to buy 100 percent reliability. On this count, the helicopter, if carefully chosen for the job in hand, has a fine record. Essentially a robust aircraft, it is fortunate in having many other qualities which are particularly attractive to the charter operator. The useful load carried at sea level, for example, drops only slightly in high altitude and tropical conditions, when the performance of all helicopters shows a steady deterioration. Ease of maintenance is another of the aircraft's valuable assets; normally the simplicity of the control and transmission systems is such that a crew of two—pilot and engineer—can carry out any necessary on-the-spot servicing up to 100 flying hours. Overhaul periods are widely spaced—650 hours for the airframe and transmission and 400 hours for the engine—and handling characteristics both in the air and on the ground are exceptionally good. These qualities have a very real bearing on the efficient performance of various kinds of charter work. The most important performance figures for a helicopter are those relating to its "hovering ceiling." Up to a height equal approximately to the diameter of its rotor, a helicopter receives a considerable amount of assistance from the air cushion built up beneath it. The lower it is, the greater the effect. It is usual, therefore, to quote two "hovering ceilings": one generally with the wheels 10 feet from the ground and the other in "free air." If a helicopter's load, under any given conditions of temperature and altitude, will allow it to climb vertically to a 10-foot height and hover, it can then climb away with some forward speed, less power being required for climbing with forward speed than is required for continuing the vertical climb out of the "ground cushion." The "free hovering ceiling" is important, however, when it is necessary to make a vertical climb out of a very small clearing surrounded by very tall forest trees, as in Malaya, where they rise to 200 feet, which of course would be well above any ground cushion effect.

Commercial Possibilities

Although there are today several thousand helicopters flying in all parts of the world, very few are being used for genuine commercial transport purposes. Those which are—chiefly Sikorsky S-58 12-seaters in the U.S.A. and in Belgium—are heavily subsidised and in any case are operated on a relatively small scale and are not regarded as profit-making vehicles. No mention has yet been made, therefore, of the helicopter in this rôle. Their present limitations are obvious—insufficient payloads, inadequate range, slow speed, "rides" neither as smooth nor as quiet as passengers expect—and their advantages do not always offset these. Much research has gone into solving these deficiencies, and it looks as though the answer may have been found in the *Fairey Rotodyne*. In appearance it gives the impression of being a combination of helicopter and airliner; and, in fact, it is both. It is much larger than any previous British rotary-wing machine, having a fuselage big enough to accommodate 48 passengers or five tons of freight. It can cruise at 185 m.p.h. and has a range of 200 miles. It has two turbine engines, giving adequate power for flight in complete safety with one engine stopped, and it has a fixed wing and propellers in addition to its impressive four-bladed 90-foot diameter rotor. The reasons for this novel combination are best explained by outlining the manner in which the *Rotodyne* flies. It takes off vertically as a helicopter with its rotor driven by jets at the tips of the blades. These jets are supplied with compressed air from auxiliary compressors driven by two Napier Eland propeller-turbines mounted on the fixed-wing. At operating height, the auxiliary compressors are declutched, the tip-jets are cut out and the power is gradually transferred to the forward-facing propellers. The *Rotodyne* then cruises in forward flight as a "conventional" twin-turboprop fixed-wing airliner with the rotor "free-wheeling". The procedure is reversed for landing. The *Rotodyne* is still only in prototype form and delivery is not expected before a couple of years, but airline operators, as well as all kinds of civil and military organisations, are watching the flight progress with extreme interest. In it they see the promise of an economical vehicle which can carry loads between the centres of cities, or along chains of islands, or across arduous and undeveloped territory, more rapidly than anything else yet developed by man.



MORE VIGOROUS EXPANSION OF SHIPPING URGED

AN INDIAN ENTREPRENEUR'S VIEWPOINT

THE part which the Government and shipowners have played in the development of shipping during the last 31 months has raised new hopes as well as brought fresh disappointments. The first 2½ years of the second five year plan have been a period of active encouragement and unusual restrictions in the building of a proper merchant navy. It is necessary to examine how the pronouncements and policies of the Government have influenced the future of Indian shipping during this period of stress and strain.

"Let us expand the Indian tonnage. Let us carry as much of our cargo as possible in our own ships. Let us strengthen our position on the routes where we have established our services. Let us start new services on routes which are yet uncovered. Let us carry the Indian flag to the seven seas of the world". These were the ideals which inspired the policy and governed the actions of Mr. Lal Bahadur Shastri when he was Transport Minister. Shipowners will always be grateful to him for his constructive, helpful and statesman-like approach to the development of Indian shipping. He publicly expressed his disappointment at the drastic reduction made by the Planning Commission in the shipping target of 1,045,000 G.R.T., recommended by the Study Group appointed by the Government. He congratulated Indian shipowners on their initiative and enterprise in reaching the target of 600,000 tons laid down in the first plan. He expressed deep satisfaction over the new orders for shipping tonnage to the extent of about 170,000 G.R.T., placed during the first year of the second plan, and remarked that "never in the history of Indian shipping was so much progress made within a single year". He emphasised that shipping was a great earner of foreign exchange and expressed his keen sense of disappointment over the fact "that the development of this vital arm of transport does not receive adequate encouragement".

Reduced Interest Rate

Mr. Shastri reiterated the policy that "the Government has been assisting, and will continue to assist, the Indian overseas ships by allotting them as much Government cargo as is feasible". When he found that there was not "adequate co-ordination between the Department of Transport on the one hand, and other Ministries of the Government of India concerned with imports and exports on the other", he confessed that "such arrangements do not help the cause of Indian shipping". In order that the national shipping policy may be implemented by all the Ministries, he took the lead in establishing a Shipping Co-ordinating Committee at the beginning of this year. He reduced, as promised, the rate of interest on loans given for the acquisition of coastal ships from 4½ percent to 3 percent. It was his earnest plea against putting any additional burdens on shipping, and not crippling further its competitive capacity, which was mainly responsible for securing the industry exemption from the application of the wealth tax. His greatest service, however, to Indian shipping was to secure the approval of the Cabinet for the establishment of a non-lapseable Shipping Development Fund, which could provide a perennial source of finance for the acquisition of tonnage and enable shipowners to go in for "perspective planning". In short, he showed great responsibility in devising ways and means whereby shipowners could expand both the scope and the area of their activities. This was the brightest spot in the history of shipping during the last 30 months in this country.

Radical Changes

While the assurances and the announcements of the Transport Minister brightened hopes and quickened the fulfilment of expectations, new and radical changes were made by the Central Government in shipping policy which created fresh apprehensions. It was in 1947 that the then Commerce Minister, Mr. C. H. Bhabha, announced that "their new shipping policy must be broad-based on the active co-operation of the State with the enlightened private enterprise, in an endeavour to secure for India a rightful place among the maritime nations of the world". As the Government of the day thought that Indian shipowners did not possess the finance necessary to acquire additional ships, it was vital that the merchant navy be built

under the policy of a mixed economy. It was as a result of this policy that the Eastern Shipping Corporation was started in 1950 with an authorised capital of Rs. 10 crores—the Government holding 76 percent and the Scindia Company holding 24 percent.

The Corporation was actually running six ships of 42,297 G.R.T. on four different routes, namely, India-Australia, India-Japan, India-Africa and India-Straits under the able management of the Scindia Company at the end of the first plan. Because of a technical clause in the new Companies Act, the Scindia Company ceased to be managing agents of the Corporation from 15th August, 1956. Instead of taking action to nullify the consequences of this technical clause, the Government unceremoniously buried the policy of a mixed economy and made it clear that the Corporation would be run with 100 percent Government ownership, control and management. It did not stop there. Another Corporation was started with an authorised capital of Rs. 10 crores, namely, the Western

Shastri, over 4 million tons of crude oil are imported in tankers. Therefore, the trade handled by tankers comes to 6 million tons a year.

With the Caltex refinery working quite fully, this tonnage is likely to show a substantial increase. Two new tankers have been taken up by the Western Shipping Corporation. Although the Government has avoided giving a definite and direct reply, it is well known in shipping circles that the tanker trade will be reserved entirely for its vessels or for tankers owned by Government corporations. Such a policy is bound to affect adversely the willingness of Indian shipowners to increase "the scope and area of their activities", for which an appeal was made by Mr. Shastri in June 1955. The burial of the policy of a mixed economy, the starting of a new Corporation completely owned, managed and controlled by the Government, the reservation of the tanker trade for Government vessels only, the reservation of important trade routes for the Government corporations and the possibility of the State Trading Corporation creating its own empire in the field of shipping, naturally justified the apprehension and the assumption that this was the beginning of the ultimate nationalisation of the shipping industry.

By

M. A. Master

Co-ordination with Railways

In his speech on the Railway Budget for 1955-56, the Railway Minister referred "to the possibility of co-ordination between railways and coastal shipping in order to promote the development of the latter on sound lines." As a result of that statement, a committee called the Rail-Sea Co-ordination Committee was appointed in June 1955. One of its terms of reference was to examine "the need for developing adequate coastal shipping in the larger and long-term interests of the country." It was recognised in responsible Government quarters that the railways would not be able to cope with the growing traffic during the second plan period. Against an expected rise in traffic of about 80 million tons, as stated by Mr. K. B. Mathur, Member for Transportation in the Railway Board, by the end of the plan period, the railways would only be able to add further capacity for moving an additional 47 million tons. That was another important reason for developing the capacity of Indian shipping to handle a larger quantity of cargo. It is important to note in this connection that in his speech at the end of 1955, the Transport Minister made a strong appeal to shipowners to bring additional tonnage on the coast. He stated: "I would very much wish that we should plan for the purchase of 25 to 30 ships more within

Fleet of Tankers

Shipping Corporation, in June 1956, which was completely owned, managed and controlled by the Government itself. The Government reserved four routes for the new Corporation, namely, India-Poland, India-Persian Gulf, India-Red Sea and India-Russia. The public was not taken into confidence in making this radical change in the shipping policy, nor were any cogent reasons given to justify it.

Indian shipowners wanted to build a fleet of tankers and expressed the desire to do so immediately after the coastal trade was reserved for them in 1950. It was, however, only in March 1956 that the Great Eastern Shipping Corporation was allowed to buy one tanker to carry the refined petroleum products round the coast. The company was permitted to do so on the definite condition that the tanker should be handed over to the Government when the latter wanted it. Out of a total annual trade of 6 million tons carried along the coast by steamers, sailing vessels and tankers, nearly 2 million tons, or 33 percent, is carried in tankers. As far as the overseas trades are con-



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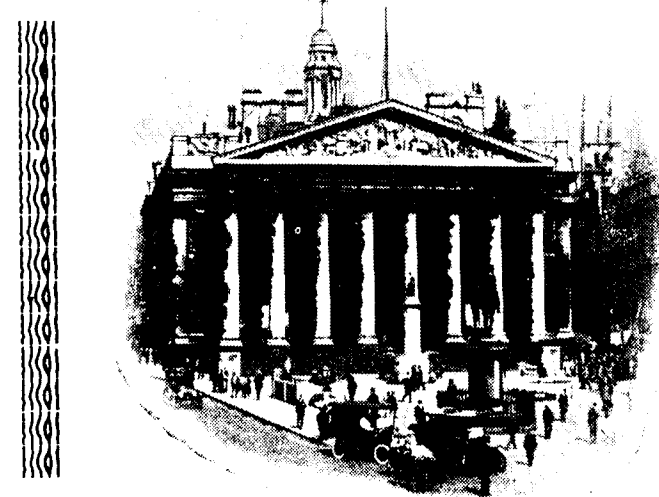
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a short period to fill the existing gap in coastal shipping. The Transport Ministry is also exploring the possibility of getting a number of new or second-hand ships from abroad."

In its report, the Rail-Sea Co-ordination Committee stressed "the importance and urgency of the problem of increasing rapidly the coastal tonnage". Such a rapid increase was so fundamental to the needs of the country that, as against the 81 ships of 241,896 G.R.T. running in the coastal trade on 31st March, 1956, the Committee considered it "imperative that the full plan tonnage of 420,000 for the coastal and adjacent trades should be reached and as much of it as possible by the end of the year 1959, as thereafter acute transportation shortage is anticipated." The acquisition of additional tonnage was considered a matter of such vital importance by the Committee that if shipowners failed to go in for the additional ships, the Committee strongly urged that "the Government should explore all possible alternatives, including that of the Government's direct participation in coastal shipping" for the acquisition of additional vessels. It expressed accord with the spirit of the following passages in the preamble to its terms of reference, namely, "the Government has already accepted as a matter of policy that there should be an adequate and efficient coastal fleet which will cater to the needs of the country"; and "the importance of rationalisation and co-ordination of cargo movement by railways and coastal shipping in view of the large investments proposed by the railways, ports and shipping industry under the second five year plan". The Committee added that its "recommendations have been designed to enable coastal shipping to serve the country's need for additional transport, to operate economically and to secure a reasonable return." All these quotations show that the Rail-Sea Co-ordination Committee was in complete agreement with the policy of harmonious development of railways and shipping as an integral part of the national transport policy.

Patriotic Principles

In spite of the enunciation of patriotic principles, the quantum of cargo recommended by the Rail-Sea Co-ordination Committee in its report has not been made available for carriage over coastal waters. On the contrary, a drastic cut has been made in the number of colliers fixed month after month for the carriage of coal. As against 24 colliers moving each month from Calcutta, the number of colliers now fixed has come down to 11. It is well known that the railways carry coal at unremunerative rates or at rates much below the cost of carriage. This is not disputed in the report of the Committee. Any loss which the railways may sustain by carrying goods at rates below cost can be made good by them by increasing their rates in other directions or by the levy of a surcharge. Coastal ships are not permitted to do so. The result is that coastal tonnage has not shown any substantial rise since the second plan started. As against 81 steamers of 241,896 G.R.T. running in the coastal trade on 31st March, 1956, the number by 30th September, 1958, went up to only 90 ships of 277,046 G.R.T. This is due to the strong apprehension of Indian shipowners that as soon as the railways have increased their capacity, they will not allow any traffic to be carried by the ships which they themselves can carry; on the contrary, they will divert the traffic for the carriage of which special ships might have been purchased.

It has been made very clear in the report that "adjustments of tonnage to fit in with any changed traffic availability can be made in the process of effecting replacements, and also, should the need arise, diversion of a part of the coastal fleet on to the overseas trades should not present any serious difficulty." Thus, unfortunately, the railways have failed to appreciate the economics of shipping. A coastal ship has a life of 20 to 25 years. It is not of the right type and size to operate on the overseas trades with economy and efficiency. While co-operation, therefore, has been preached in theory, in actual practice the railways have taken unilateral action not only in not allowing the quantum of cargo to be carried by coastal vessels, but also in putting thereby a strong restriction and limitation on the growth of coastal fleets. It is unfortunate that no explanation has been given by the Government either for this intriguing situation or for this fundamental departure from the recommendations of the Rail-Sea Co-ordination Committee which have been generally accepted.

Government Imports

The Government has for years been importing millions of tons of foodgrains, fertilisers, steel, etcetera, and exporting thousands of tons of manganese ore, iron ore, etcetera. It has been paying crores of rupees every year as freight to foreign ships. On foodgrains alone, it paid over Rs. 169 crores as freight between 1946 and October 1957.

Over Rs. 157 crores were paid to ships flying foreign flags, while only Rs. 11.28 crores were paid to Indian ships. During the first ten months of 1957, 2,472,000 tons of wheat and rice were imported into India. While only Rs. 25 lakhs was paid as freight to Indian ships, the sum paid to foreign flags exceeded Rs. 31 crores. It is interesting to note that the average annual imports of foodgrains from 1946 to 1950 were 2,651,000 tons. The average of these imports was 2,377,400 tons from 1952 to 1956. During 1956-57 and 1957-58, the figure rose to 3,050,000 tons. It is estimated that imports during the current year, 1958-59, will be about 5 million tons. Under the recent arrangements made under P.L. 480, imports will be 3.1 million tons. About \$43.5 million will be paid as freight to ships of the American flag for carrying half this quantity. This works out to Rs. 135 a ton. The freight which is paid to ships of flags other than the American works out to about Rs. 40 a ton. The point emphasised is that these imports involve a huge and continuous drain on India's meagre foreign exchange resources. It is, therefore, natural to wish that Indian ships should carry as much as possible of these imports and thus reduce the drain substantially. Similarly, India should get additional ships.

Tramp Ships

The Government intended to build a fleet of tramp ships and it was found, as a result of the study, that about 53 million tons (other than crude oil, petrol and petroleum products) in India's overseas trades were carried by tramp ships in 1954-55. It is unfortunate that no action was taken by the Government either to build a fleet of such ships or to encourage Indian shipowners to do so. It is the recognised policy of maritime countries to aspire to carry 50 percent of their imports and exports in their own ships. If Indian shipowners aspire to do so, they would only be acting in consonance with recognised maritime traditions. While they are grateful to the Government for giving sufficient cargo to Indian ships running as Conference liners, they cannot avoid the inescapable conclusion that the power which it wields, through the millions of tons of goods it imports on its own account, has unfortunately not been used as it ought to be for the expansion of the Indian merchant navy.

Co-ordination Committee

With the State Trading Corporation starting to function, thousands of tons of manganese and iron ores were sold on an f.o.b. basis. As indicated already, such arrangements do not help Indian shipping. They also militate against the ability of Indian ships to earn foreign exchange. To set matters right and to ensure co-ordination among the different Ministries of the Central Government and the Transport Ministry, a Shipping Co-ordination Committee was constituted at the beginning of this year. In the resolution issued by the Ministry of Transport and Communications on 16th January, 1958, it was stated that the functions of the Committee would be: (1) "to act as a clearing house of information in regard to the availability of Government-owned cargo and shipping space in Indian ships with a view to making the most effective use of the available Indian tonnage," and (2) "to advise on the best and the most economical shipping arrangement possible for the movement of Government-owned cargo when Indian shipping is not available, that is, whether non-Indian vessels should be chartered, and, if so, whether on time basis or voyage basis."

Summing up the proceedings of the inaugural meeting, it is understood that a former Finance Minister, who was chairman of the meeting, observed that the Ministries of the Government of India should invariably inform the Transport Department of their contracts and their requirements of shipping space and every endeavour should be made to utilise Indian shipping. He is also reported to have urged that before chartering tonnage, the Government should seek the advice of Indian shipowners. He declared that in considering liner rates, temporary charter rates should not always be regarded as decisive as a long-term view could not be ignored. It was held in all quarters that if the objectives of the Committee were carried out in right earnest and if it discharged its functions with a definite view to expanding Indian tonnage and earning a larger amount of foreign exchange, it would have been of the greatest help in enriching and stabilising the economy.

Direct Charters

It is reliably understood that the objects for which the Committee was established have not been achieved. Instead of approaching Indian shipowners, enquiries for rates in the charter markets are often obtained in the first place. The Committee, it is said, was told by Indian shipowners that it was short-sighted to go in for direct charters for the carriage of Government cargo. It

was pointed out that the Conference could always quote special terms for substantial quantities of bulk cargo if it was offered to them. Although the State Trading Corporation, it is reported, was ready to use Indian ships for carrying its cargo, it reserved the right to use other ships. There is no intention of blaming anyone in this connection. It is, however, deplorable that precious opportunities, when the Government is the largest importer as well as the largest exporter, cannot be used either for the expansion of Indian tonnage or for preventing the drain on foreign exchange resources and securing a substantial annual contribution to the foreign exchange pool.

Progress of Government Corporations

According to the latest available information, the Eastern Shipping Corporation owns eight ships of 52,829 G.R.T. Three steamers are plying on the India-Australia run and an equal number maintain the service between India and the Far East. The Corporation has made it clear that it will need three more ships to maintain a regular service on these two important routes. A cargo-cum-passenger ship is plying between India and East Africa. Another cargo-cum-passenger steamer maintains the service between India and Malaya. It has been pointed out that three steamers are now due for replacement and an additional passenger-cum-cargo vessel is required for the Madras-Rangoon service. Without, therefore, taking into consideration the number of steamers necessary to expand the services, the immediate need of the Eastern Shipping Corporation is eight vessels. It has placed orders for four steamers with the Visakhapatnam yard—three cargo vessels and one a cargo-cum-passenger ship. It is reported that the order for the cargo-cum-passenger ship has been cancelled. Out of the three cargo ships, only two will be available by the end of the plan. The Eastern Shipping Corporation proposes to run two out of the four ships which are being built abroad on the account of the Western Shipping Corporation. With all these adjustments, it will have only four out of the eight ships by the end of the plan to maintain its existing services regularly. It has not considered the question of expanding its tonnage.

As for the Western Shipping Corporation, it has purchased one tanker of 7,363 G.R.T., which has been chartered to an oil company. It has placed orders for the construction of five cargo ships in Visakhapatnam and four cargo ships from ship-building yards on the Continent. Out of the orders for nine steamers placed by the two Corporations with the Visakhapatnam yard, the latest position is that only three ships will be built, two of which will be for the Eastern Shipping Corporation, as mentioned above, and only one will be for the Western Shipping Corporation. The result is that the Western Shipping Corporation will have only three ships by the end of the second plan, one from Visakhapatnam and two from abroad. It is difficult to understand how, with these three ships, it can maintain the four services which were referred to by its chairman at its annual meeting held in December last year, namely, the India-Poland, the India-Persian Gulf, the India-Red Sea and the India-Russia services.

Opportune Time

The chairmen of both Corporations are conscious of the urgent need to acquire additional ships. They also realise that the present is the most opportune time for constructing new vessels or acquiring second-hand ones. The chairman of the Eastern Shipping Corporation remarked a year ago that "it will be a pity if we are not able to take advantage of these favourable conditions to augment our national shipping so as to achieve the target under the second five year plan." The chairman of the Western Shipping Corporation also observed that "it has, therefore, not been possible for us to acquire ships for our immediate requirements, notwithstanding the fact that the ship sale market has turned out to be very favourable during recent months, on account of the decline in the prices of second-hand ships." He added that "the management is, however, sparing no efforts to overcome this difficulty. It is investigating the possibility of purchasing ships on deferred payment terms. It is also considering the question of chartering ships to take advantage of the present charter market conditions."

It seems that the appeals of the chairmen of the two Corporations have not evoked the necessary response from the Government. As far as is known, no order has been placed for the construction of a single additional vessel, nor has any attempt been made either to acquire or to charter a second-hand ship. No ship has been acquired on deferred payment terms. It is unfortunate that with the comparatively vast resources of the Government, the progress made by the two Corporations in acquiring additional tonnage is in singular contrast to the efforts made by private enterprise, with its comparatively

meagre resources. As a matter of fact, the public sector owned two ships of 14,433 G.R.T. at the beginning of the first plan. At the end of the first plan, it had eight ships (two under construction but not delivered) of 52,829 G.R.T. At the end of the second plan, the aggregate tonnage in the public sector of both the Corporations will come to 16 ships of 105,292 G.R.T. At a time when Transport Ministers have been emphasising the need to increase the tonnage rapidly, it is deplorable that the public sector should fall short even in relation to the tonnage which it has actually ordered during the first year of the second plan. With such a shortfall in the tonnage for which orders have been placed, there can be no justification for the demand that "on routes allotted to the public sector and on which it has established itself, there should be no encroachment by the private sector."

Raising Finance

It has often been asked whether Indian shipowners raise finance from their own resources for acquiring the tonnage which they get constructed or buy second-hand, or whether this finance comes entirely as loans advanced by the Government. It will, therefore, be interesting to note that during the pre-plan period of five years and three months, private enterprise acquired 73 ships of 318,615 G.R.T. at a cost of Rs. 22.30 crores. The entire amount was raised by Indian shipowners from their own resources. During the first plan period, they acquired 67 ships of 271,033 G.R.T. at a cost of Rs. 40.94 crores. Of this sum, Rs. 18.42 crores was raised from their internal resources and Rs. 22.52 crores was taken as loans from the Government. Thus, out of a total investment of Rs. 63.25 crores, Rs. 40.72 crores was raised from their own resources and Rs. 22.52 crores was borrowed from the Government. This indicates the risks which the Indian shipping companies have been taking in putting their money in a hazardous industry.

During the second plan period, nine steamers of a little over 50,000 G.R.T. have been acquired by Indian shipping companies from their own resources, either on a self-financing basis or under the deferred payment system, at a cost ranging somewhere between Rs. 3.5 crores and Rs. 4 crores. They have also placed orders for the construction of 14 ships of about 80,000 G.R.T. at a cost of a little less than Rs. 15 crores. It is estimated that they will have to find a further sum of Rs. 3 crores from their own resources to acquire these ships. Thus, Indian shipowners have not ceased going in for additional tonnage after the Government put a complete ban on the release of foreign exchange. They have shown much resourcefulness.

Service to Russia

Apart from the addition to their tonnage during the first 2½ years of the second plan period, Indian shipowners have placed six ships at the disposal of the Government for running a regular service between Indian and Russian ports. The India-America service, which was closed some years ago, has been re-started. Four new fast ships worth about Rs. 5.60 crores have been placed on that run. The Great Eastern Shipping Company has gone into the tanker trade and has also been maintaining a small fleet of tramps to bring or carry bulk cargo. The Scindia Steam Navigation Company has started a direct service between India and West Africa; it will be of considerable assistance in enabling textiles to find a favourable market there, as it costs about 100 shillings less in freight. The Scindia Company also has the honour to run Indian shipping in what are known as cross trades. The India Steamship Company proposes to run a new service between India and South American ports.

With the efforts which private enterprise has thus made, the tonnage that was actually in operation on 30th September, 1958, after deducting the 44,472 G.R.T. of the ten steamers which were sold, scrapped or lost between 1st April, 1956, and 30th September, 1958, came to 638,810 G.R.T. Ninety ships of 277,046 G.R.T. were employed in the coastal trade and 55 ships of 361,764 G.R.T. were running in the overseas trades. When all the ships for which orders have been placed are delivered, the Indian tonnage will reach the figure of 775,910 G.R.T. As it will have to acquire 945,528 G.R.T. by the end of the second plan, including the quantum of the tonnage yet to be replaced, it is obvious that India has still to go in for an additional 169,618 G.R.T. Both the Government and the shipowners have, therefore, to put their heads together to decide how to acquire this additional tonnage before the end of the second plan. Without such acquisition, the country will not reach even the modest target of 900,000 tons. The tonnage yet to be acquired would have been only 133,000, had not orders for the tonnage already placed by the two Government Corporations to the tune of 37,000 tons been either cancelled or carried over to the third plan period.

An impression prevails in certain quarters that the cargo passing annually through Indian ports

is not on the increase. This is not correct. It is regrettable that although the recommendations of the Port and Shipping Statistics Committee were accepted in 1955, the statistical organisation it recommended for collecting, collating and publishing ports and shipping statistics has not yet been set up. The absence of accurate statistics has been lamented by the Planning Commission itself. Sampling methods cannot achieve the object in view. The minimum information that is immediately required relates to the volume of cargo which passes annually through Indian ports, the flags which bring the cargo and carry it, and details about imports and exports of commodities country-wise, and countries commodity-wise. It is earnestly to be hoped that the Transport Ministry will not lose any more time in setting up the right type of organisation for this purpose under the direct control and supervision of the Directorate-General of Shipping.

More Cargo Handled

Such information as is available shows that the total cargo handled through the six major ports of Calcutta, Visakhapatnam, Madras, Cochin, Bombay and Kandla, as well as through the ports of Saurashtra, Kutch and Okha, was 23.94 million tons in 1951-52; it reached 32.79 million tons in 1957-58. There has thus been a rise of about 8 million tons. We have tried to obtain information through different ports and through official sources and we find that a little over 35 million tons of cargo were handled at all the ports in 1957-58. It is well known that, on an average, 2.5 million tons of dry cargo are carried along the coast by steamers; 1.5 million tons of dry cargo are carried in the coastal trade by sailing vessels; and about 2 million tons of refined petroleum products are moved in tankers round the coast every year.

As the tonnage of coastal cargo is counted twice—once at the port of loading and again at the port of discharge—we shall have to deduct 12 million tons from the total cargo handled at all the ports to arrive at the figure of the cargo carried in the overseas trades. The total cargo carried in 1957-58 was more than 35 million tons, so it is obvious that overseas cargoes came to more than 23 million tons in 1957-58. In fixing the target for shipping under the second five year plan, the Planning Commission remarked that with the achievement of the target Indian tonnage would carry about 12 percent to 15 percent of the country's overseas trade and 50 percent of her trade with adjacent countries, as against the present proportions of 5 percent and 40 percent, respectively. This is a very moderate target which the Planning Commission has laid down. As against the strong desire to carry at least 50 percent of India's overseas trade in her own vessels, the Planning Commission is satisfied if Indian ships carry only 15 percent. As the volume of overseas trade is now more than 23 million tons a year, Indian ships will have to carry a little over 3.45 million tons a year in international waters. The question naturally arises whether it will be possible for Indian ships to carry this cargo even if the target of 900,000 tons is reached by 1961.

Cuts in Target

As has already been stated, 55 steamers of 361,764 G.R.T. were employed in the overseas trades on 30th September, 1958. When all the steamers which are at present under construction are delivered, the tonnage will be 775,910 G.R.T. Even if only overseas vessels are acquired hereafter to complete the balance of 169,618 G.R.T. to reach the target of 900,000 tons, after the replacement of a further 45,528 tons to be sold or scrapped, India will have overseas ships of only 600,000 tons. This tonnage will enable her to carry at the most 10 percent of her overseas cargoes. It will thus be realised in what a low key the nation's ambition has been sunk by the Planning Commission with the drastic cut which it has made in the target of tonnage to be acquired. Deplorable as the position is, one will have to reconcile oneself to it until the Planning Commission appreciates fully the value of shipping in earning foreign exchange and in enriching the economy, and assigns to it the very high priority which it richly deserves. It is not known when the Planning Commission will be pleased to do so. In the meantime, the important question is how to raise the internal finance and the foreign exchange for reaching even the very moderate target of 900,000 tons by March 1961.

The Visakhapatnam yard is the only shipbuilding yard in the country today. Its building capacity is very limited. Moreover, India does not manufacture boilers and engines for her ships. There is no alternative but to place orders abroad for the construction of ships or to buy second-hand vessels from foreign owners. Finance is, therefore, required in rupees as well as in foreign exchange. The Study Group, in its report submitted at the end of 1955, stated that at least Rs. 80 crores would be necessary to reach the target of 1,045,000 tons by March 1961. The Planning Commission made

a drastic cut in the target and brought it down to 900,000 G.R.T. The cut in the allotment of finance was still more drastic; it was brought down from Rs. 80 crores to only Rs. 37 crores. It was obvious that that sum would fall far short of what was needed even to reach the very low target of 900,000 G.R.T.

With the drive and encouragement of Mr. Lal Bahadur Shastri, who was then Transport Minister, and with the good offices of Dr. Nagendra Singh, Director-General of Shipping, orders for the acquisition of new ships to the extent of about 170,000 G.R.T. were placed in the latter part of 1956. This completely exhausted the Rs. 37 crores allotted to shipping. About Rs. 20 crores were earmarked for the public sector and only Rs. 17 crores were given to private companies. Even after the allotment of this Rs. 17 crores, the private sector would have had to raise about Rs. 3 crores to Rs. 4 crores more to meet the full cost of the ships for which orders were placed.

Foreign Exchange Crisis

The foreign exchange crisis was deepening in the meantime and became very acute from the beginning of 1957. It was decided that no foreign exchange would be released for the acquisition of additional tonnage. The fact that shipping was a great earner of foreign exchange, as observed by the Transport Minister himself, was not fully appreciated in authoritative quarters in New Delhi. Even the humble request of the shipowners that they should be allowed to utilise the foreign exchange which the ships delivered after the beginning of the second plan would earn, for the purchase of additional ships, was unceremoniously turned down. There was, however, some satisfaction in that, as announced by Mr. Shastri, the Government was prepared to "welcome any self-financing scheme that the shipping companies may be able to evolve for procurement of tonnage and will have no difficulty in permitting them to utilise the net freight earnings of the newly-acquired overseas vessels for the purpose." Mr. Shastri added that "if any deferred payment scheme can be arranged under which foreign exchange payments would commence only after 1961, it will be possible for the Government to accept any such arrangement and allow the company to go forward even though the ships may be intended for the coast, where they would not earn any foreign exchange." Shipowners were not slow in taking advantage of this facility and, as stated above, went in for nine ships of a little over 50,000 G.R.T. at a cost of between Rs. 3.5 crores and Rs. 4 crores. Both the rupee finance as well as the foreign exchange were raised by themselves.

Another hopeful sign came when, as a result of the efforts made by Dr. Nagendra Singh in Japan, a credit of 6 billion yen was made available to Indian shipowners. Under this credit, orders for the construction of one tanker by the Western Shipping Corporation and for the construction of one cargo ship by the Scindia Company have already been placed. Another Indian shipping company has been negotiating for a cargo ship. Even after the placing of these orders, the gap to be covered to reach the target of 900,000 tons will be a little over 150,000 G.R.T. Negotiations were going on to secure a dollar credit, but no credit, as far as is known, has been actually secured until now. The position, therefore, is that unless both rupee finance and foreign exchange can be raised, there is no possibility of acquiring further ships.

Finding Equity Capital

It is not necessary to point out the almost insurmountable difficulties in raising equity capital which exist today as a result of the economic, fiscal and monetary policies of the Government. Even the House of Tatas, which enjoys the great confidence of the public and whose credit is very high, has to borrow enormous sums from the World Bank and other institutions for carrying out the expansion and modernisation of its steel plant. These facts are mentioned in order to show that the demand of the shipping companies for rupee loans and for foreign exchange from the Government are perfectly justified under the circumstances as they exist today. Indian shipowners have raised all possible rupee finance from their internal resources.

There is no doubt that they will raise such sums in the future from the credits that may be given to the depreciation and the development rebate funds. The amount thus secured will, however, not be sufficient to raise the full internal finance in rupees that would be necessary to reach the target of 900,000 G.R.T. It is, therefore, essential that the balance of the rupee finance needed be advanced to the shipping companies as loans and the full amount of foreign exchange that would be required will have to be released to enable shipowners to acquire additional ships. In the meantime, it should not be forgotten that Indian shipping is earning nearly Rs. 11 crores a year in foreign exchange. If no

more foreign exchange than that amount is released to it each year, it will be able to reach the target, or fairly near it, by March 1961. The Planning Commission, however, seems to be adamant. It is neither prepared to give the facility for rupee finance nor is it ready to release even the foreign exchange which shipping earns. How is it possible then for Indian shipping, with the best will in the world, to fulfil the task with which it is entrusted?

Development Fund

Reference has already been made to the establishment of the non-lapsable Shipping Development Fund. We were given to understand that about Rs. 40 crores to Rs. 50 crores would be credited to that fund by the end of the second plan. But it is a tragedy, which the shipping industry has to face, that in its case promise and performance do not go together. Even before the ink was dry on the paper on which these assurances were written, shipowners had to learn a bitter lesson from a statement made by Mr. Raj Bahadur in the Lok Sabha that, after all, instead of Rs. 40 crores to Rs. 50 crores being credited to the Shipping Development Fund, they could only expect a credit of Rs. 3 crores by March 1961. One rarely experiences such a dramatic change within a period of less than two months.

The only ray of hope is that since the present Transport Minister assumed office, he has unmistakably expressed his anxiety to reach the target of not only 900,000 tons, but if possible 1 million or 1.2 million tons by the end of the second plan. It is, therefore, suggested that no further time should be lost in trying to secure a loan for the acquisition of additional tonnage from the World Bank. In his second letter to a former Finance Minister, Mr. Eugene Black, president of the Bank, stated that he would be prepared to consider not only the development schemes of the major ports, but also the schemes for the expansion of Indian shipping. The Bank has already given a loan of \$43 million for development schemes in the ports of Calcutta and Madras.

It was unfortunate that the development schemes for shipping were not placed before the World Bank mission when it visited India early this year. Even now it is not too late. The Transport Minister should take up the matter in right earnest and secure from the World Bank a loan for shipping to the extent of about Rs. 25 crores to Rs. 30 crores which would enable him to solve at one stroke not only the problem of raising the rupee finance but also the problem of foreign exchange. Such a loan will take India almost near the target by March 1961. Moreover, the present is an opportune time not only for placing orders for the construction of new ships but also for going in for suitable second-hand vessels. With the help of such a loan, it will be easy to move in both these directions with the result that it will be possible for India to reach the target.

Training Facilities

Executive officers, engineer officers and seamen are the most precious assets of the shipping industry. As the country is going in for more steamers, it requires a larger number of these officers and engineers. We are, therefore, grateful to the Government for increasing the annual intake of trainees from 60 to 75 for the training ship *Dufferin* and from 50 to 65 for training as marine engineers. It should be the ultimate goal to ensure that all Indian ships are manned by Indian seamen, officers and engineers. After solving satisfactorily the question of recruitment and engagement of seamen, at both Bombay and Calcutta, it is noted with satisfaction that the Government is earnestly moving in the matter of effecting all possible arrangements for the welfare of seamen and is also actively considering evolving a social security scheme for them in the very near future.

As the survey and repairs of steamers constitute a large item of expenditure and as the manner in which repairs are carried out seriously affects the working efficiency and the life of ships, the report of the Repairs Committee appointed by the Government will be awaited in the hope that its recommendations will enable Indian shipping companies to complete the survey and repairs of their ships within a reasonable time, at a number of ports, securing both efficiency and economy.

Congestion at the major ports has caused serious concern to trade as well as to shipping. It is, therefore, good to see that there is growing awareness of the seriousness of this problem in the Transport Ministry and that it has been taking active steps to prevent its repetition in the future. The introduction of the piece-rate system in Bombay has increased the output of labour. The extension of the system to other ports is bound to increase the outturn of work. Apart from this wholesome change in the system under

which labour is paid, one is grateful to the Government not only for increasing the number of berths at different ports, but also for the action it is taking in mechanising operations at some berths so as to enable the steamers berthed alongside them to load or unload a far larger quantity of cargo within a stipulated time. It is a matter of satisfaction that the Government has taken up the question of dredging at different ports with a new spirit of determination. It is hoped that it will soon proceed with its scheme for creating a new port at Haldia so that steamers can proceed to Calcutta without lightening their load at either Madras or Visakhapatnam. In short, the Government deserves congratulations for its foresight in ensuring the different types of facilities at different ports in advance of the requirements arising from the growing trade and the larger number of ships visiting.

The Merchant Shipping Act is the most outstanding feature of the history of shipping during 1958. Two of its important clauses are bound to affect development seriously. There is no parallel in the maritime history of the world where dictatorial powers are invested in the Government, or in any of its officers, for interfering with the daily working of a ship and calling upon it where to go, what to load, where to unload, what commodity to carry and what commodity not to carry, etcetera, as is done under the Merchant Shipping Act, 1958. It is also inexplicable why, after giving assurances about holding the scales even between units of the public and the private sectors, the Act is based on a policy of discrimination between ships belonging to the

people and the ships belonging to the Government or to a local authority or to corporations specially constituted under any particular Act. No reference will be made here to the most controversial clause of the Bill, containing the definition of an Indian ship. It is, however, hoped that the Government will strictly adhere to the policy enunciated by Mr. S. K. Patil, Minister for Transport, at the conclusion of his speech on the passing of the Bill in the Lok Sabha on 17th September, when he said: "I can tell the House that even if we do not achieve our target, if it has to be done at the cost of inviting foreign capital in a vital industry like national shipping, I would rather remain without that shipping than really endanger our shipping by inviting capital from outside."

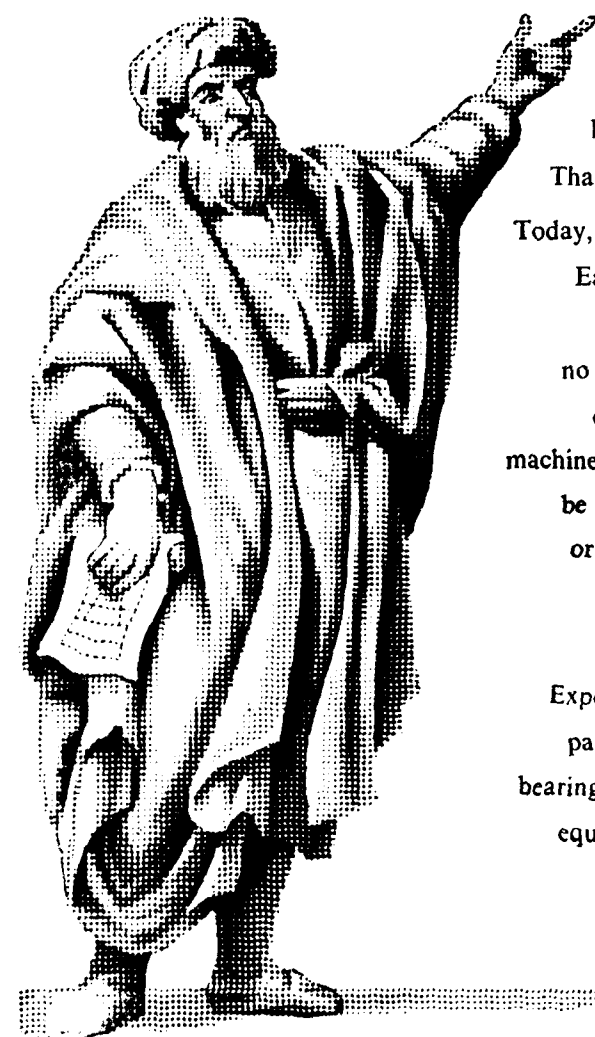
It is recognised that shipping is a great earner of foreign exchange. Experience has taught nations that it is a second line of defence. Indian shipping alone can give suitable facilities and open new routes for the sale of her products in foreign markets. The shipping industry is of no less importance than the steel industry. The prosperity of ports depends upon shipping. Steel and ports are both in the "core" of the plan and have been given the highest priority possible. If the Indian merchant navy is to be built in time and if the target of 2 million tons, if not 2½ million tons, is to be achieved at any rate by the end of the third plan, one will end with the prayer that vision, wisdom and foresight may inspire and guide the decisions of the Planning Commission in giving the shipping industry a far higher priority in the future than has been accorded to it under the second plan.

"There is no Royal Road to Geometry"

As far back as 300 B.C., King Ptolemy I of Alexandria, asked Euclid, the Greek mathematician, whether there was any shorter way in geometry than that of the *Elements*. Euclid curtly replied that even for Royalty there were no short cuts. That was more than 2000 years ago.

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A BETTER YEAR FOR THE JUTE INDUSTRY

FIXING OF MINIMUM PRICES HELPS STABILISE MARKET

FROM a trading point of view, the past year, though not without its vicissitudes, has been reasonably satisfactory for jute mills. In a sense, it has also been a trial of strength between the manufacturing industry and other forces in the local market which are motivated purely by self-interest. The fact that the mills have held the upper hand in this contest has been an important factor in maintaining market stability. The publication of mill company balance sheets in recent months shows that trading results were better in 1957-58 than in the lean years of 1955 and 1956. This reflects, to some extent, an easier raw jute supply position, with prices of finished goods standing in a more economic relationship to those of jute; it also suggests that the benefits of modernisation and rationalisation are beginning to make themselves felt. If it transpires that the improvement in business conditions has continued throughout 1958 (this will not be definitely known until next year), then it will be due, in no small measure, to the action taken by the Indian Jute Mills Association last February to arrest the rapid and serious fall in gunny prices which occurred at that time.

Speculative Activities

The decline in prices was entirely the result of speculative activities in the *fatka* market, and was quite unwarranted by the prevailing statistical position (hessian stocks at the end of January amounted to 23,700 tons and sacking stocks stood at 53,500 tons, together representing only about one month's production of these qualities). The fall in prices, if allowed to continue, would have adversely affected not only the finances of the mills but also India's foreign exchange earnings, with the further possibility of repercussions on the drive towards self-sufficiency in fibre. To meet the situation, the members of the I.J.M.A., on 26th February, undertook not to sell their goods at rates below the minima based on Rs. 39.50 a 100 yards of 40in. 10oz. hessian and Rs. 100 a 100 bags for B Twills, heavy Cees and cornsacks. The floor prices thus fixed were more realistic in the prevailing market conditions, and, what is equally important, they afforded exporters every opportunity of quoting competitive prices in overseas markets. The action taken by the I.J.M.A. provided a much-needed stabilising influence and had a distinct psychological value as an indication of the manu-

facturing industry's determination not to allow trends to be dictated by interests having no genuine stake in the trade.

Minimum Prices

Since the minimum prices were fixed, they have been under frequent pressure from bear operators, but the mills' agreement has stood up well in conditions which have provided no justification for a change in policy. Allegations have been made about the circumvention of the price agreement from time to time by various devices, but it is obvious that the agreement could not have survived as long as it has done without the general support of the industry. In a general review of the trends in the finished goods market since the beginning of the year, the most notable feature is the steadiness prevailing in the hessian sector compared with a weak sacking market. The reasons for this are to be sought in a larger output of heavy goods than was justified by the offtake. This is

By

A SPECIAL CORRESPONDENT

obvious from the following table of production and stock figures for the first ten months of the year:

1958	Production		Stocks	
	Hessian	Sacking	Hessian	Sacking
	(000 tons)		(000 tons)	
January	34.4	57.3	29.7	53.5
February	30.1	49.3	27.3	53.4
March	30.4	49.5	24.5	54.8
April	30.9	50.6	20.4	60.2
May	34.2	53.7	25.0	71.8
June	31.3	45.9	31.0	87.9
July	35.3	49.0	19.9	89.6
August	35.4	44.3	19.0	86.4
September	35.9	45.7	17.0	80.2
October	33.3	43.0	17.8	77.1

Except for a short spell towards the middle of the year, it will be seen that the hessian position

remained technically very sound, and even in this middle period there was no real cause for concern with the total stocks of hessian never rising above the level of a month's production. This temporary setback was due almost entirely to extraneous factors, the most important being the suspension of import licences by the new Argentine Government pending a re-appraisal of the country's economic situation, difficulties in the validation of Egyptian buyers' letters of credit, and finally the all-India dock strike which held up shipments in June. In the case of heavy goods, the picture is somewhat different, with a consistently high level of production in spite of steadily increasing stocks from February right through to July and stocks which at the end of October still represented about one and a half months' production.

Effects of Dock Strike

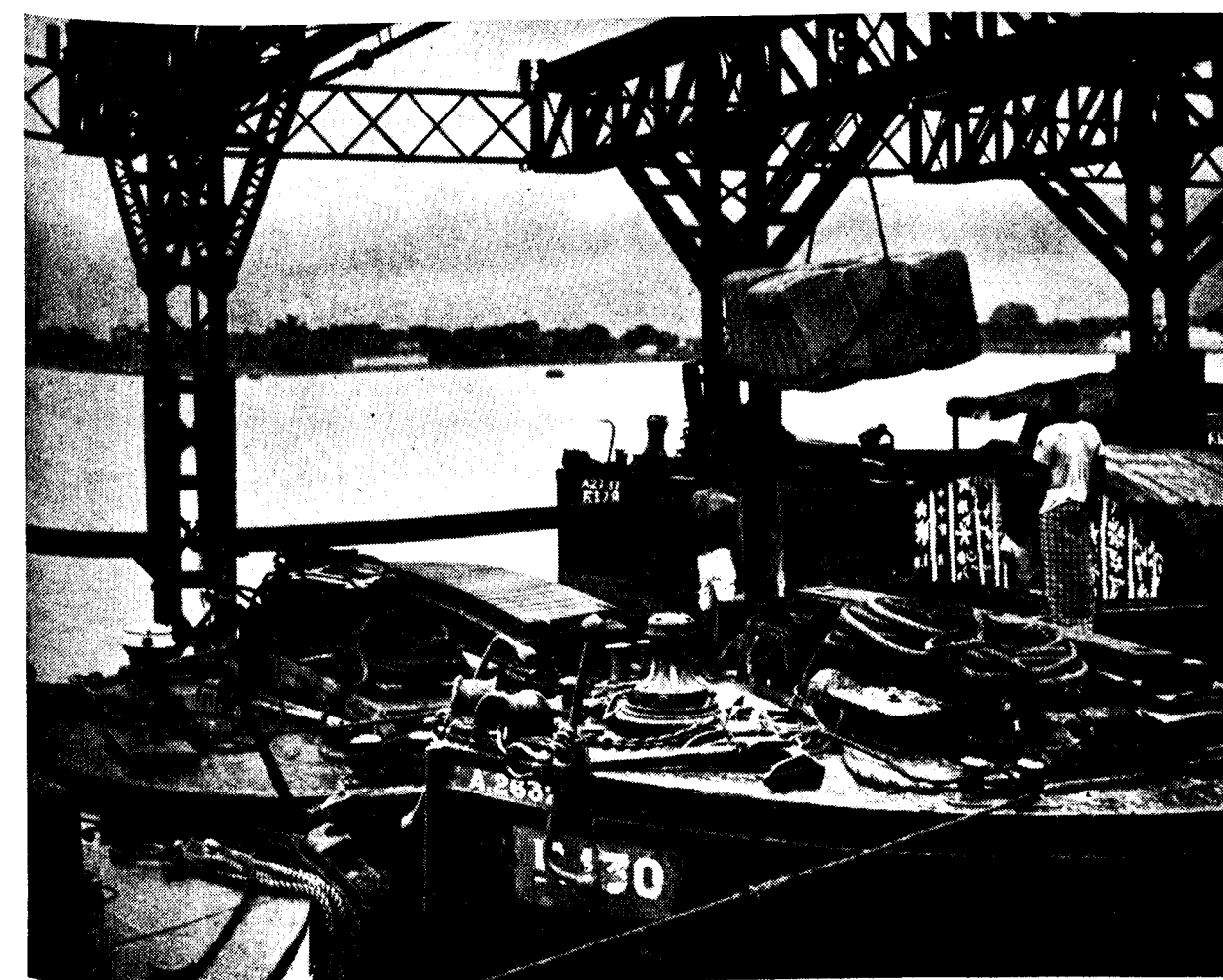
Admittedly, the dock strike introduced an artificial element into the stock figures generally at the end of June, but it is significant that, whereas hessian stocks showed a substantial decline at the end of July, sacking stocks still continued to rise. From July onwards, there would appear to have been a compensatory, if very gradual, adjustment in the mills' pattern of production favouring a greater output of hessian, accompanied by a slightly improved offtake of hessian goods. It is difficult, however, to understand why the mills were not induced to make this change-over sooner, in view of the persistent disproportion in hessian and sacking stocks and the absence of any sign of a revival in the demand for sacking.

One possible explanation is that the suspension of import licences in Argentina and the temporary uncertainty about the fate of outstanding contracts delayed the adjustment of production which would have taken place in the normal course of events. Again, it is conceivable that the industry on the whole was optimistic about the prospects for heavy goods business (including internal offtake)—an outlook justified to some extent, perhaps, by the fact that quotations in the forward positions remained invariably higher than those for ready delivery. A third possibility is that the production of sacking goods was more profitable for the mills in the context of the relationship between the minimum prices for hessian and sacking and the costs of fibre. Whatever the explanation may be, and all of these considerations may have played their part, the fact remains that the past year has been characterised by a general disequilibrium in the statistical position of the hessian and sacking sectors of the trade when, on the face of it, a healthier market sentiment might have been induced by more balanced production. The flexibility of the industry in this aspect is such that it can cater for rapid changes in demand with remarkable ease, and it is all the more to be wondered at that this adaptability has not been used to greater effect.

Export Trade

As for the export trade, the official statistics for the period January to August show a parallel between the pattern of offtake and the trend in the mills' stock figures. As might be expected from the generally satisfactory position seen in the case of hessian, shipments of this quality in the first eight months of the year were comparatively good (271,300 tons, against 263,200 tons in the corresponding period of 1957) whereas, in conformity with the rising level of sacking stocks, exports of heavy goods dropped by the substantial amount of 46,700 tons, from 266,800 tons in the period January-August 1957 to 220,100 tons in the same period of 1958. The final figures for the year as a whole may of course produce a different picture, but as far as heavy goods are concerned, it will need an extraordinary increase to make good the shortfall between this year's and last year's shipments.

Granted that no valid conclusions can be drawn from a comparison of statistical data of



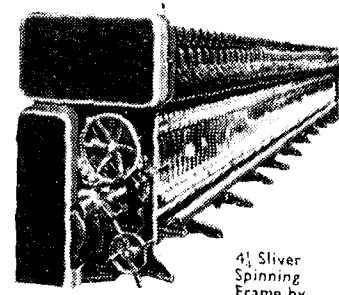
Jute goods being loaded at a mill jetty

Mackie - Lagan

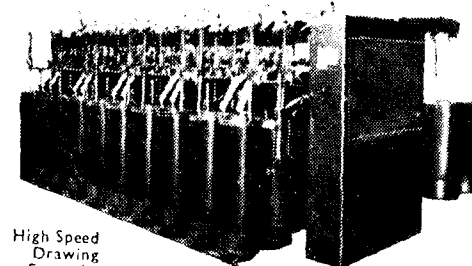
vital in the JUTE Industry

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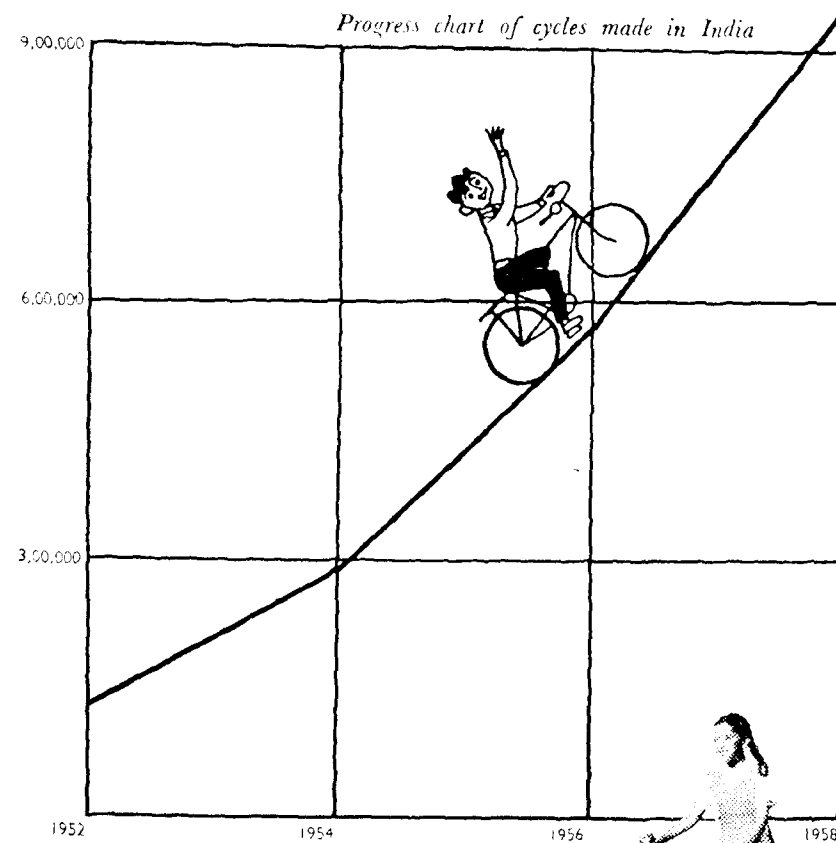
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Jute being fed into a carding machine

this kind over a relatively short and arbitrarily chosen period, there is little doubt that overseas demand, particularly for sacking, has been spasmodic and rather poor during the past year. This is especially true of the markets in Australia and the Far East. While shipments of sacking to other countries have been well maintained on the whole, the drop in the offtake of these two areas during the first eight months of the year, amounting to nearly 52,000 tons, is more than the total decline in exports of sacking to all countries over the same period, compared with the corresponding period of 1957. As far as Australia is concerned, the main factor responsible for the curtailment of purchases was the drought which occurred in most of the wheat-growing States in 1957 and which also affected the wool clip to some extent, resulting in a substantial carry-over of surplus stocks of jute goods into the following year. With more favourable weather this season, there has been a revival of purchases in the last quarter of 1958 and the final offtake of sacking by Australia for the year, as a whole, may be rather better than a projection of the statistics for the first eight months of the year would indicate.

Decline in Exports to Far East

The reasons for the decline in trade with the Far East are more obscure. Political unrest, with its repercussions on the domestic economies, may be part of the answer. On the purely economic plane, there was the influence of the U.S. business recession on international trade, and account might also be taken of the growth of indigenous jute manufacture in such countries as Burma, Thailand, the Philippines and China. In the case of Burma, another consideration emerges in the increased purchases by that country of Pakistani jute goods—a stern reminder of the serious competition facing the Indian jute industry in its traditional markets. In view of these developments, it is appropriate that the Indian Jute Mills Association should have decided to sponsor a trade delegation to Australasia and various Far Eastern countries in the latter part of the year.

As already shown, the export trade in hessian has been steady and, viewed against the background of the business recession in the United States, could be regarded as fairly satisfactory. That country, which in a normal year accounts for about 50 percent of India's total hessian exports, took 6,500 tons less in the first eight months of the year compared with the same period in 1957. But there was a most encouraging rise in U.S. consumption in September and October, with stocks falling to a lower level than had been recorded for some considerable time. It is to be hoped that this points to a gradual upturn in business. Of the other major hessian consuming markets, Argentina is the only one showing a similar decline in offtake during this period. In this case, however, the important factor was the political one, and evidently of a transient nature, for trade has been brisk with that country since mid-year and there is a good prospect that Argentina's total purchases over 1958 will not fall far short of the previous year's. During the period for which the export figures are available at the time of writing, the losses recorded in the hessian trade of the two countries already mentioned have been more than counter-balanced by gains in other quarters, particularly the United Kingdom and the Continent of Europe, where the offtake has been more than doubled, and also in Canada.

Shipments to the U.K.

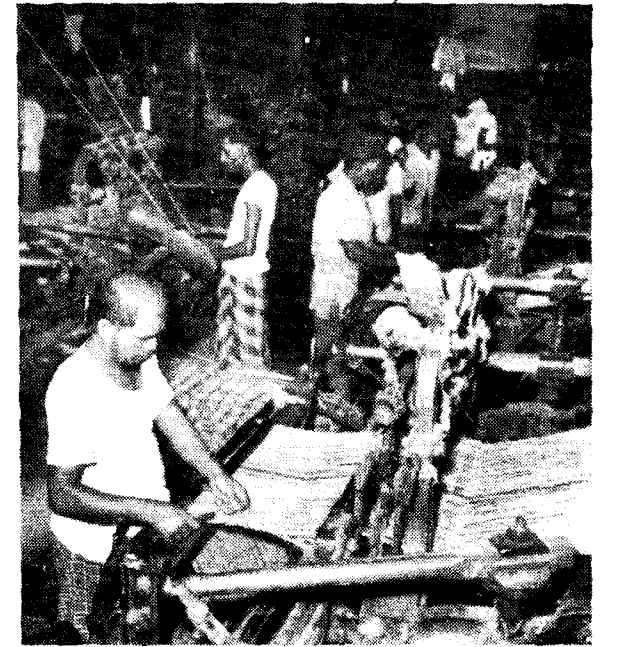
After exceptionally poor shipments to the U.K. in 1957, it was reasonable to expect an improvement in performance this year. Fortunately, the

expectations have been fulfilled. In some measure, the increased imports by Britain may have been accounted for by the fillip given to the demand for Indian jute products by the reduction in the mark-up on the U.K. landed cost of these goods, slight as it was. A more likely explanation is that the previous year was an abnormal one and that 1958 has witnessed a return to the conventional pattern of trade with that country. Be that as it may, there seems to be a strong case for a further reduction in the mark-up on Indian jute goods. The U.K. jute industry, in spite of its earlier protests, seems in the event to have been little affected by the initial reduction in this protectionist margin. A healthier competition between jute and its main rival, paper, with jute less severely handicapped, would operate to the advantage of Dundee in the long run, particularly as the two jute industries cater for essentially different markets.

Self-sufficiency in Fibre

Developments in the fibre market, and particularly the depression of prices which caused considerable anxiety, seem to indicate that the attainment of self-sufficiency in jute, towards which the country has been striving ever since partition, will bring other problems in its train. During the 1957-58 season, it was necessary to import only between 600,000 and 700,000 bales of jute from Pakistan to bridge the gap between India's total requirements of fibre and her indigenous production. The view is widely held that the current season will see that gap completely closed. This belief, together with the persistent weakness in the heavy goods market, has been primarily responsible for the downward trend in jute prices, and it is apprehended that unless prices are brought up to a level which will give the cultivator a better return, there will be a diversion of land to the comparatively more remunerative food crops at the time of the next sowings, so that self-sufficiency in fibre will again become an objective instead of a reality.

When this problem presented itself early in the current jute season, the I.J.M.A., in consultation with the Government of India, recommended to its members that they accelerate their purchases of jute to the extent of three months'



A weaving shed in a jute mill

requirements, in order to lend support to the sagging fibre market. Simultaneously, the board of directors of the East India Jute and Hessian Exchange Ltd (of which more will be said later) declared a state of emergency and imposed additional margin deposits on net outstanding sales at the close of each day's business in cases where transactions took place below the prescribed minimum price levels (Rs. 22.50 for jute, basis Assam Bottoms, Rs. 39.50 for 40in. 10oz. hessian and Rs. 95 for B Twills). These two measures had a salutary effect on the market. Bihar seemed to be a particularly vulnerable area, partly, it is thought, on account of the added difficulties created by the lack of wagons for transporting jute from the railheads.

Need for Adequate Stocks

It is understandable that these conditions should have given rise to talk about the need for fixing minimum prices for jute but the Government of India, with commendable foresight and

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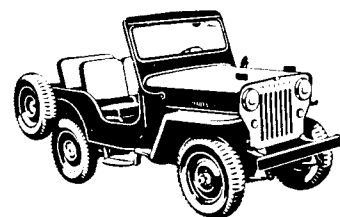
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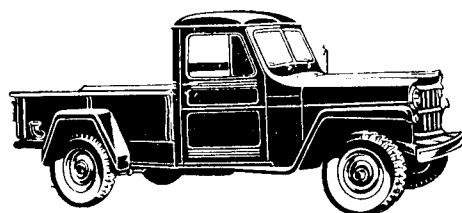
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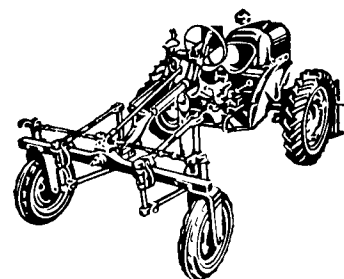
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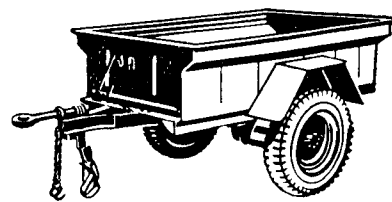
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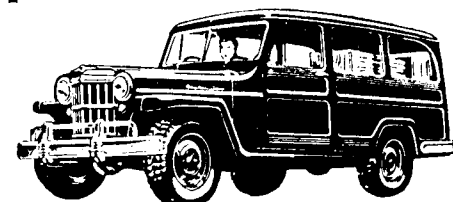


David Brown 2D Tractor

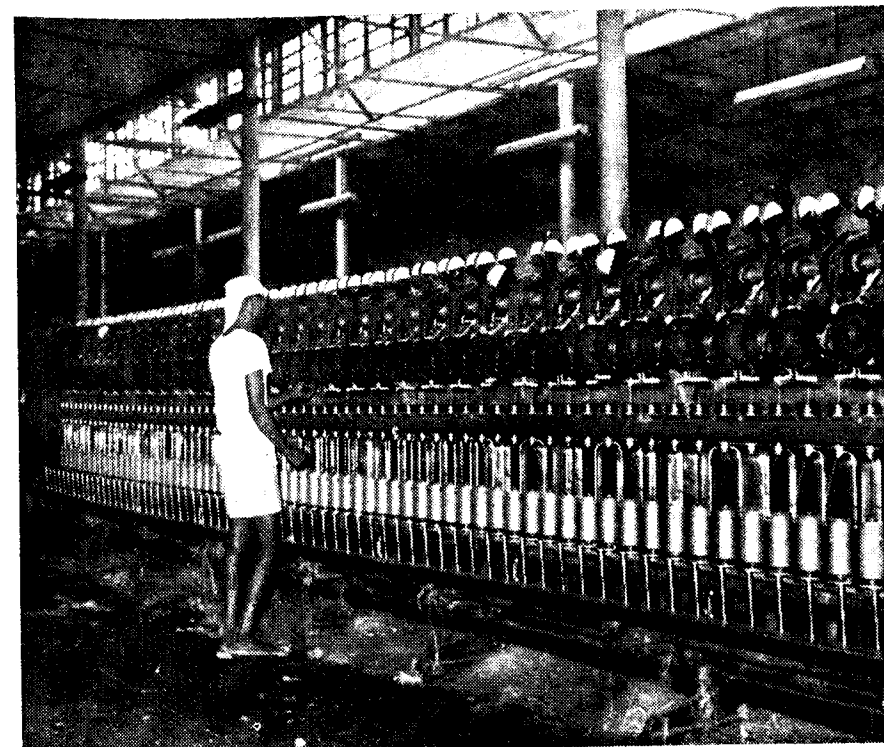


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Willys Station Wagon



A jute spinning frame in operation

resolution in the face of a difficult situation, has so far refused to be panicked into action which, besides being of very doubtful practical value, would almost certainly militate against the long-term interests of the industry. The suggestion that exports of Indian jute might be resumed on a limited scale is open to serious objections. Although, technically, self-sufficiency may be achieved in the current season, to the extent that the Indian crop of jute and mesta will just about match consumption, it has to be remembered that the mills need sufficient stocks at the end of June (the close of the official jute season) to tide them over till the new crop is available in quantity towards the end of September. Fibre arrivals in the opening months of the season are usually low, and buffer stocks must be built for this period. The carry-over from the 1957-58 season, together with the estimated crop for the current season, will do no more than equate supply and demand for the period July 1958 to September 1959 and give the mills a balanced stock position throughout. To assume that there will be a surplus available for export in this period is to play a dangerous game with statistics.

Restrictive Policy

The Central Government has adopted a severely restrictive policy on imports from Pakistan, with the dual object of ensuring that there is, in fact, no surplus of Indian jute and conserving foreign exchange. It would be a Gilbertian situation if, after licensing the export of a quantity of Indian jute, it were ultimately found necessary to step up imports from Pakistan to meet an unexpected shortfall. Furthermore, there is no guarantee that Pakistan will be disposed to make the extra requirements available to India in such circumstances. Yet another, and most important, consideration is that to export Indian jute at this stage will be to gamble on next year's crop: with unfavourable weather at the time of the next sowings, and the ever-present danger of flooding, or, at the other extremity, of drought, depending on the vagaries of nature, the mills could find themselves in a critical position at the beginning of the 1959-60 season. Finally, even assuming that the export of Indian jute is statistically justified (which, as has been shown, is not the case), it is doubtful whether the grades of jute available for export will suit the needs of overseas buyers: and if business were found possible in a considerable quantity, Pakistan would be hard put to it to maintain the minimum prices recently brought into force there. To the extent that consumers overseas will then be able to secure cheaper jute, India will be exporting jute against the interests of her own manufacturing industry.

Fair Prices for Cultivators

When all this has been said, however, there remains the necessity of making the cultivation of jute economically attractive to the ryot. Short-term remedies such as concentrated purchases by the mills—and the latter have responded well in this aspect—are clearly expedient but do not provide the ultimate answer. The problem is a much more fundamental one, namely, that of reconciling the manufacturing industry's permanent requirement of cheap raw material with the cultivator's need for a decent living. The solution seems to lie less in the price level as such (although, of course, the prices must bear some relationship to economic realities) as in the intensification of cultivation so that the grower will get more money from the same acreage through improved yields. Just as the mills are

making better use of their raw material by adopting modern processing methods, so the grower should be given every opportunity and encouragement to make more economic use of his land. Unfortunately, in spite of the good intentions proclaimed by the authorities, progress in the adoption of improved cultural practices has not been impressive, and the methods of jute agriculture still remain basically unchanged. Now that self-sufficiency has been almost achieved, the time has come to concentrate endeavours on improving the yield and quality of the fibre in India, not only in the growers' interest but also for the good of the industry.

Mention was made earlier of the East India Jute and Hessian Exchange Ltd, the organisation chosen as the nucleus around which the Forward Markets Commission hopes to see a well-regulated futures market in jute and jute goods established. The failure of similar markets in the industry in the past is an historical fact, and uncontrolled speculative activities, both within and outside official futures trading organisations, have done much harm to the trade. The need for a properly-run hedge market has long been recognised, and early this year, the Government of India took the first steps to fulfil this need by applying Section 15 of the Forward Contracts (Regulation) Act, 1952, to the trade in jute and jute goods in Calcutta (exempting, however, transferable specific delivery contracts for the time being) and by according recognition to the East India Jute and Hessian Exchange Ltd as the only association authorised to regulate and control forward contracts in these commodities.

These measures came into effect on 29th March, from which date the Exchange, having adopted new articles and by-laws, has been functioning as a medium for hedge trading. Reviewing its working at the annual meeting held on 13th November, the president said that the volume of business transacted had been satisfactory and, in the case of jute goods, considerable; the experience gained during the first seven months of the Exchange's activities had shown that trading operations had been within reasonable limits, and the trend of prices had generally been based on the law of supply and demand and other natural factors and had been well regulated in relation to prices in the ready market. There is no doubt that it has been run on better organised and more efficient lines than its predecessors, but it still lacks that broad-based support which is essential if it is to become a real force for good in the market.

Active Interest

Many of the established interests in the trade have still not associated themselves officially with the Exchange by applying for membership, and of those who have joined, quite a few have taken no active interest in its affairs. This is probably accounted for by an inherent disinclination among many to engage in hedge transactions, in which they have had little experience due to the absence of proper facilities in the past, and by the distrust in this kind of business which the former illegal activities of the *fatka* operators have created. Since, however, the Forward Markets Commission has announced that it is the Government's intention not to extend the exemption granted to transferable specific delivery contracts beyond the end of March 1959, by which time machinery will have been devised to bring such transactions within the purview of the East India Jute and Hessian Exchange Ltd, virtually all interests in the trade will be obliged to join the latter if they wish to continue in business. This will add immeasurably to the stature of the Exchange and, as a truly representative organisation, it should then be in a position to exert a strong influence in controlling market trends and promoting stability.

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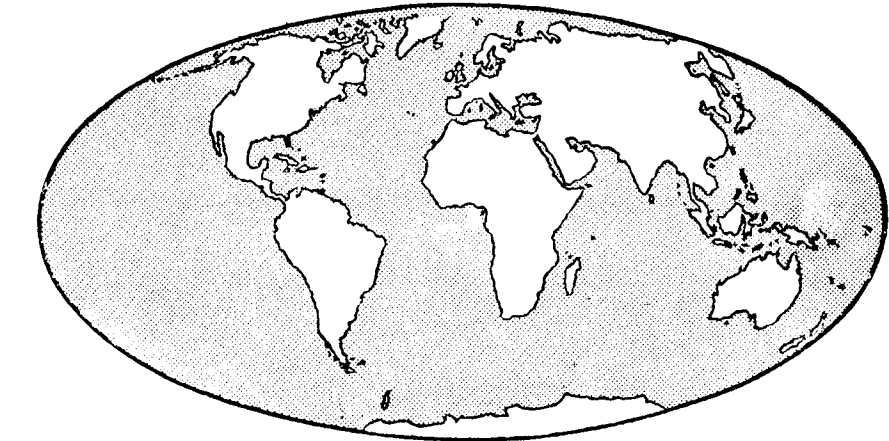
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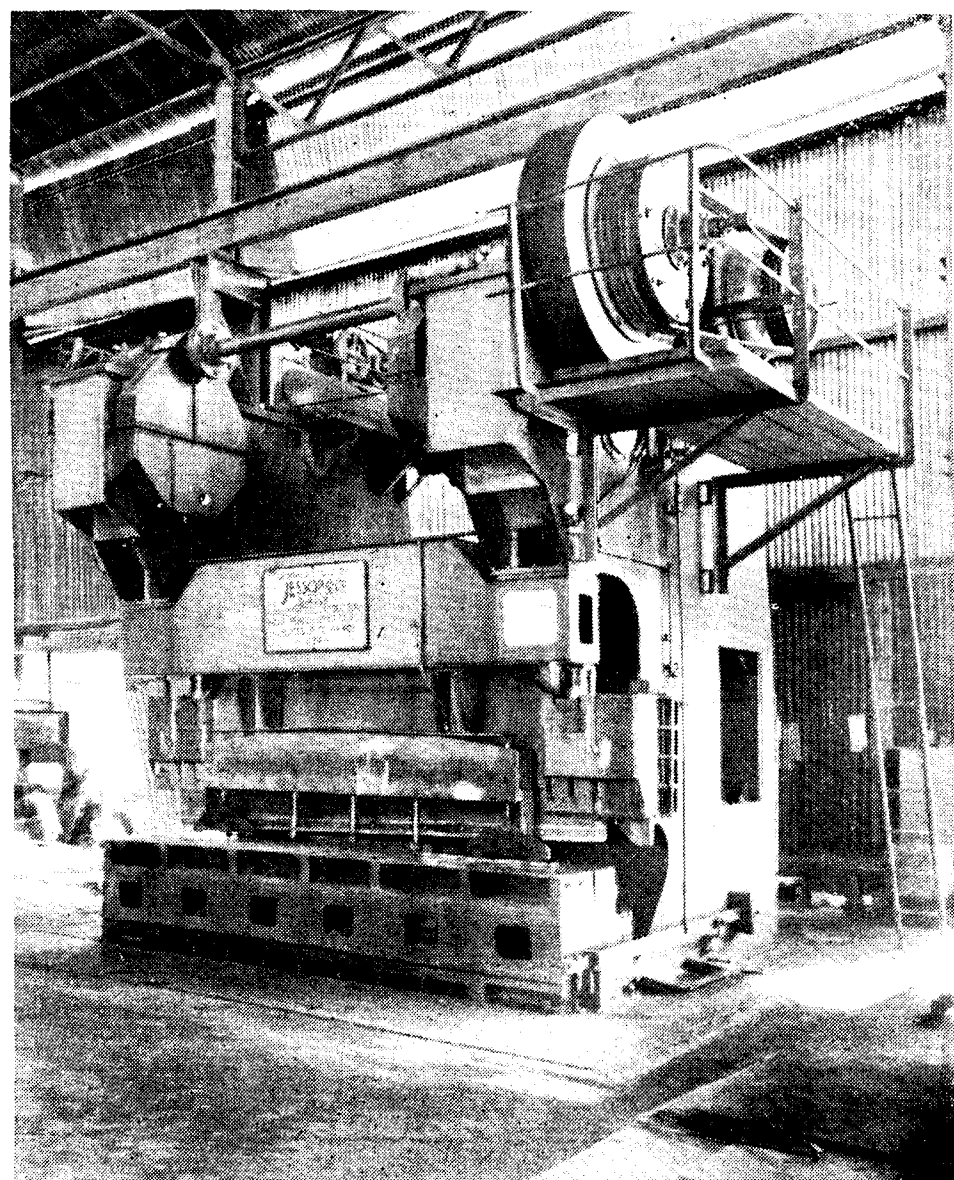
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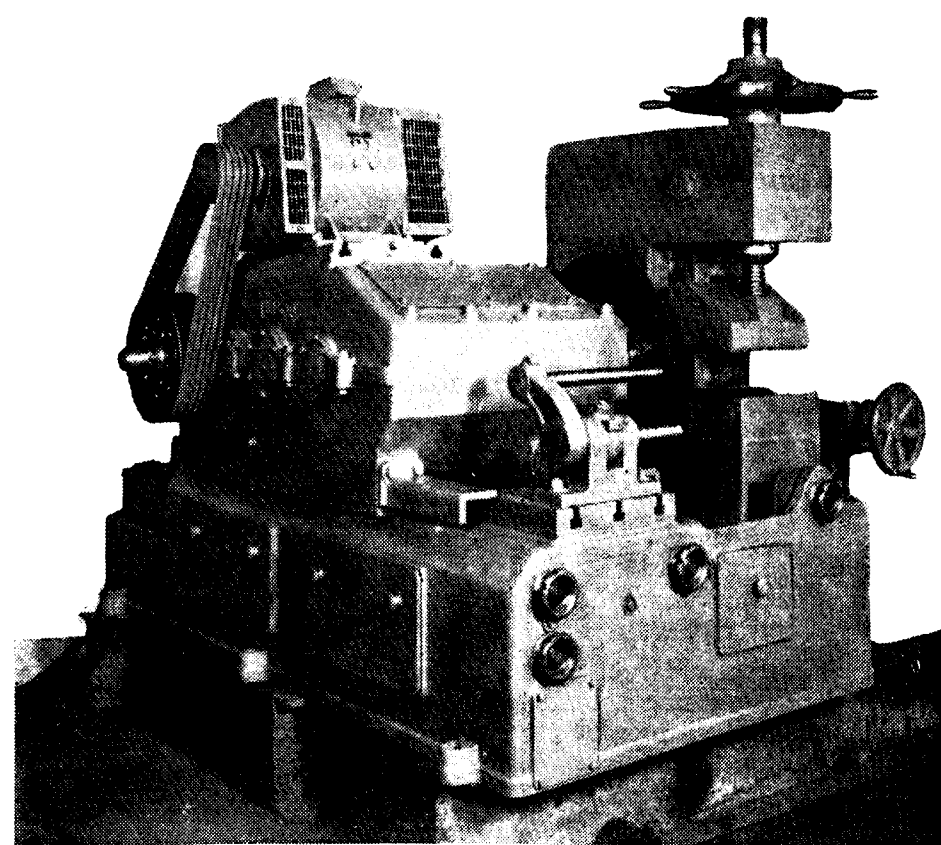
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BUMPER CROP DEPRESSES RAW JUTE PRICES

TROUBLES ON THE ROAD TO SELF-SUFFICIENCY

THE raw jute trade has had to deal with a variety of problems during 1958. At no time could it be said that the future was viewed with complete confidence. When the year opened, traders were cautious and generally nervous, mainly because of the recession in world trade that had been apparent during the closing months of 1957. Trends in U.S. economic activity were being closely watched and the United States was held largely responsible for the slump in business. It was pointed out that bulk handling and substitutes had a greater hold on the market at that time than ever before and that was the main reason why U.S. burlap stocks had been allowed to drop to such low levels. The same could be said for Australia, whose requirements seemed to be decreasing. The opening of jute mills in Burma and other countries presented India with the problem of finding new markets for her production. In this worrying situation, heavy goods prices at the turn of the year touched their lowest levels since early August 1956. World demand for jute goods was falling, especially in the case of sacking. Thus, it was surprising that mills should be concentrating their production on heavy goods, the proportion of which had increased by about 5 percent since the middle of the previous year. At this stage, freight rates for north American destinations were substantially reduced and it was hoped that the reduction would induce greater interest from the American markets. Mill stocks of jute goods, however, began to increase but were considerably less than at the corresponding period in the previous year, so the increase was not considered excessive.

Second Crop

Sacking production required more jute than hessian, so it was encouraging to note that the initial crop estimates from both India and Pakistan indicated an increase over previous years. But the fibre markets were surprised when a later all-India estimate of the raw jute crop for 1957-58 indicated that acreage and output would both be considerably reduced. It was stated that acreage would fall by about 8 percent and cause a reduction of about 212,000 bales in output. The decline was said to be due to the lateness of the monsoon in 1957. Farmers are normally in the habit of sowing a jute crop, which when harvested is immediately followed by another crop of a different commodity. The lateness of the monsoon, however, made it impossible for two crops to be grown in the time left, so many simply omitted jute and went straight into their second crop.

There was a great deal of speculation about Pakistani cuttings at this stage, as most of the Calcutta mills had their applications for import licences for cuttings turned down. Stockists took advantage of the situation and offered their holdings at very large premiums. Prolonged enquiries from the Controller of Imports and Exports elicited no definite information, and the uncertainty was not conducive to normal trading. A number

of Calcutta mills began offering large quantities of cuttings for ready delivery, and it was significant that they were the mills which were concerned with the manufacture of cotton bagging, for which cuttings are important. The markets for such bagging had dwindled considerably, and America, the largest buyer, was reported to have stocks sufficient to last for two years. Thus, most Calcutta mills curtailed production of cotton bagging.

Central Supervisory Body

Shortly after the crop estimate was announced at the beginning of the year, showing an 8 percent drop in acreage, there came an announcement from the central supervisory body for the promotion of jute production. It urged that production for the 1958-59 season and the area under cultivation be considerably larger than in previous years. The area recommended was 2,076,000 acres, an increase of about 18½ percent over the 1957-58 season. It was expected to yield about 25 percent more jute. Theoretically, the increase would have made India self-sufficient, as in the previous season domestic production was only about 7½ percent below the final consumption figure. The drive for self-sufficiency, however, tended to under-estimate the need for producing more green fibre a plant, instead of more plants an acre. Modern science and chemicals had done much to help grow better plants, and fertilisers and advice were freely given by the Government. Much of the money, however, was merely thrown

away, as it was doubtful if the fertilisers allocated were devoted to the purpose for which they were intended. Secondly, unless very strict supervision was maintained over the farmers, the extra work involved in using modern methods had often proved too much for them, and their good intentions were allowed to lapse. It was obvious that the Government could not supervise the entire growing of the crop, but until stricter supervision was enforced over the use of fertilisers and chemicals and over line-sowing, which was perhaps the most important, the quality of the Indian crop could not be improved.

By

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Increase in Acreage

The danger of an indiscriminate increase in jute sowings is now making itself felt. The current 1958-59 crop is a bumper one, the increases in acreage having been achieved. The mills are pleased as they are now buying their raw material at a lower price than at any time since controls were relaxed. No one can blame them for taking advantage of the opportunity to make profits after

a long period of depression. But the position of the farmers has to be considered too. Having taken the advice of so-called experts, they find themselves in the unenviable position of having large stocks of jute on their hands at a time when prices are receding below production costs. They have naturally expressed their dissatisfaction. Growers' associations functioning in several States have asked the Government to ensure that they get an economic price. Many are facing ruin as a result of the fall in fibre prices. It is pointed out that rates in the villages have dropped by Rs. 7 or Rs. 9 a maund, while the price of rice, which is normally at par with jute, in the districts involved, has doubled.

Precarious Position

Calcutta was not the only place where the fall in prices caused considerable anxiety. In Pakistan, the position was described as "very precarious" early in the year. Many small traders were forced to close down, and it was feared that if the trend continued, many of the larger ones would be similarly affected. The National Jute Conference Committee was inclined to blame the Pakistani Government for this state of affairs because it had condoned the sale of Pakistani jute through Calcutta in contravention of the ban placed on such transactions in February 1954. In defence, the Pakistani Jute Board took action against a number of London and Pakistani firms for allegedly booking contracts through Calcutta, and thus depressing local Pakistani markets through collusive sales at prices below the prevailing rates. The disqualification placed on the London firms was later withdrawn. One of the measures suggested by the National Jute Conference Committee to ease the crisis was to curtail the 1958-59 Pakistani jute acreage, and to limit the crop to a maximum of 3 million bales. No heed was paid to this warning, and ultimately the East Pakistani Government announced that the official production target for the 1958-59 season had been fixed at 5½ million bales. The real effect of this decision was not felt until towards the end of the year, when in October, following political upheavals, the East Pakistani authorities were forced to impose higher minimum export prices for jute.



The harvesting of jute



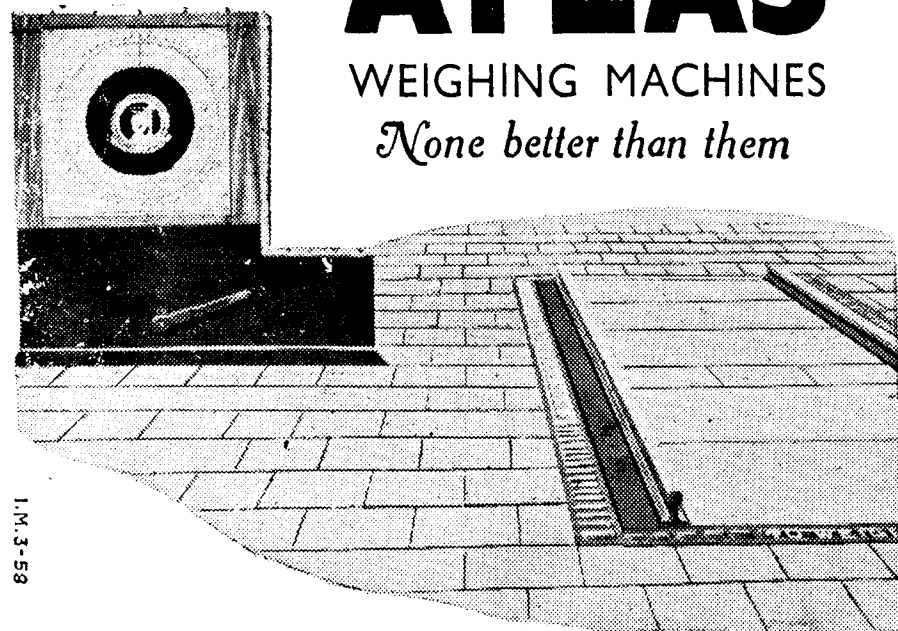
Jute plants being washed and stripped

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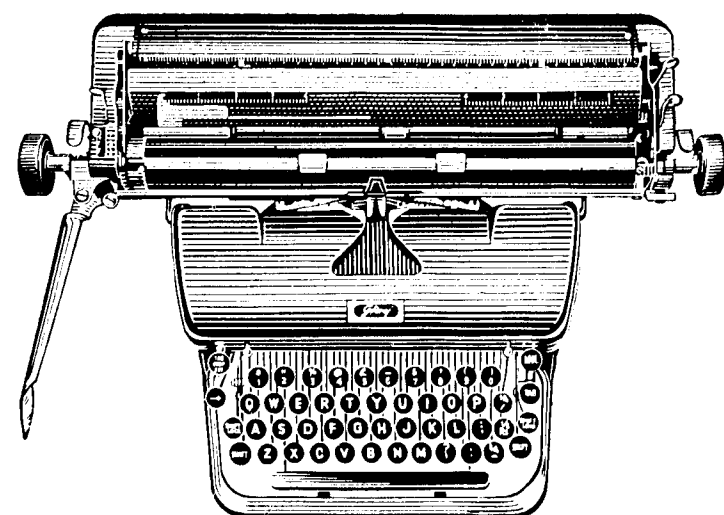
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The only effect this had on India was in relation to cuttings, which were priced at Rs. 65 a bale landed in Calcutta. Indian mills showed little interest, however, as very few of them had valid import licences. The issuing of licences was rigidly controlled by the Government in order to popularise the lower grades of indigenous fibre and to help farmers who were having difficulty in marketing their stocks.

The raw jute trade was not alone in its anxiety over low prices. The manufactured goods market faced difficulties, too, due to the lack of overseas business and the over-production of sacking. Near-slump conditions prevailed towards the end of February, which prompted the I.J.M.A. to propose minimum prices for gunnies. Members were advised not to sell gunnies below certain specified rates, these being based on Rs. 100 a 100 bags for B Twills, Rs. 39.50 a 100 yards for 40in. 10oz. hessian and Rs. 29.75 a 100 yards for 40in. 7oz. hessian. In response to this move, prices showed an immediate rise, and raw jute improved in sympathy; mills bought a fair quantity of the latter.

Futures Trading

One of the many complaints which overseas buyers had against the Calcutta markets was that heavy gambling and illegal practices caused sharp fluctuations in prices. Futures trading in jute goods was prohibited in West Bengal under the West Bengal Jute Goods Act, 1950. Violations of the Act through unofficial bodies were numerous and harmful. The Government of India, therefore, decided to recognise the East India Jute and Hessian Exchange Ltd as the only body eligible to conduct futures trading in jute and jute goods. For the time being, the Exchange deals only with futures contracts having a tenure of three months. This involves regular clearings at which settlements are made. Money deposits are demanded from intending traders, and the regulations are framed so as to eliminate excessive speculation.

Late in the year, the futures market authorities declared a state of emergency to combat a spate of unofficial gambling and speculative activity. At the beginning of October, a group of bear operators pushed down prices sharply. Certain restrictions were placed on transactions in the three main commodities—hessians, B Twills and raw jute. Bigger margin deposits were demanded from those who sold below certain minimum levels, and these were to be calculated at the close of each day's business. Margin deposits were refundable when prices rose above the minimum levels. The move was welcomed, particularly by the raw jute trade, which was worried about the low levels to which fibre prices had fallen. It was hoped that the regulations would help stabilise rates.

Illegal Business

Earlier, in April, it had been reported that illegal futures trading was going on in raw jute and jute goods. The enforcement branch of the Calcutta police raided several premises and seized documents and accounts. Over 100 people were arrested, the allegations being that they contravened the provisions of the Forward Contracts (Regulation) Act, 1952. It was encouraging to note that the authorities were so vigilant.

At one time, Calcutta gunny prices slumped due to the cancellation of Argentinian import licences. Although fibre rates also decreased, the trade in general felt that they were too high. The changing pattern of the market was emphasised when new crop quotations began to appear. These showed radical differences from previous years. In May 1955, new crop was offered at a discount of Rs. 5 on old crop prices, but the discount narrowed to Rs. 2 in June, and later to Rs. 1.50. In 1956, the discount was Re. 1 or Rs. 1.50, while the old and new crop quotations were on par from early May. This year, however, new crop jute was initially offered at a premium of Rs. 2, which later narrowed to Re. 1 and then to 50nP. It appeared that as the import of Pakistani jute decreased over the years, the price of new crop indications increased. For this reason, mills showed little interest in purchasing new crop, hoping that this would bring down the price. But sellers retained their bullish attitude, pinning their hopes on the possibility that buyers would have to enter the market to replenish stocks as the quantity of new crop jute purchased at this stage was smaller than ever before.

Favourable Weather

At the end of March, it was reported from the growing areas that the weather was very unfavourable. For some weeks, preparation of land had been going on, but lack of rain prevented seeds being sown. Except for a few isolated cases, there had been no rain in the growing districts for about two weeks. Rain was reported in early April but the overall situation showed little change as much more rain was required before general sowing could take place. The prepara-



Jute being delivered from a softener machine

tion of land was behind schedule at this stage, but was not yet comparable to the previous season when the prolonged drought caused a water shortage throughout the year. River levels this year were well below normal. By the end of April, the situation showed considerable improvement and good progress was made with the new crop. Conditions were generally favourable, but more rain was still required. Progress continued to be good over the next few weeks, and in several Northern agencies sowings were reported to be complete by the middle of May and the young plants healthy. Alternate rain and sunshine was reported from most districts. Only in some Assam areas was there any flooding, but this was on a minor scale and little damage was done as the young plants were well set and above the level of the water.

Weeding Completed

Reports from Assam and north Bengal at the end of May indicated that weeding in those areas had been almost completed and the crop was very healthy. In Bihar, Murshidabad and the local Daissee districts, however, the situation was very different. The prolonged heat wave was very unfavourable, and rain was desperately required to prevent the plants from withering. By the middle of June, the Daissee crop had recovered due to good rain, but in Bihar the drought continued, and the crop was stunted by the lack of rain. In all other areas the position was satisfactory, apart from the fact that there was a lack of steeping water, and many tanks and streams used for this purpose were still dry. The late monsoon, and the inadequate rainfall after it broke, continued to hamper harvesting operations, and most districts continued to complain about the lack of steeping water, but good rainfall towards the end of July largely overcame these difficulties. Harvesting commenced in most districts, and reports of initial imports, mainly in the weeding category, were good. Rumours of heavy damage to the Daissee crop by pest caused comment, but the damage was really minor; the crop in general was healthy, and pest damage was confined to a few districts. The Daissee out-turn was estimated at 1.2 million bales, with a much larger percentage of Daissee—as against mesta and Daissee white—than in previous years. At the end of August, it seemed that in both India and Pakistan conditions were ripe for a bumper crop. There was very little damage by flooding throughout the season, and the rains had at last provided adequate steeping facilities. Quality reports were better than for several years which augured well for the future.

During the past year, more mills adopted the method of buying raw jute through their own agencies. This was prompted by the malpractices of sellers, and it was thought that supervision by their own staff would enable them to obtain better standards. The success of these ventures was varied, and the general effect was to increase the price of jute. Admittedly, the standards of jute purchased in this manner improved, but the higher prices that had to be paid, added to the cost of maintaining the agencies, outweighed the advantages. Malpractices still continued, but not on such a large scale, as more control could be exercised over sellers and marks.

Payment for Jute

Once again, the question of mills' payments for jute was prominent. Unusually long delays in meeting bills for jute shipped or delivered in many cases caused considerable hardship. Sellers took up the matter with their associations, and, as a result, a meeting of sellers' representatives was called in July to consider the situation. A resolution was adopted advising them to enter

into a gentlemen's agreement that in case a mill failed to pay bills according to the stipulations of the reimbursement clause of the contract, the seller, ten working days after presenting the bill and documents, would take legal action and refer cases to arbitration for the realisation of the bill with interest and costs. Only about half the sellers represented put their signatures to the proposal and, as expected, in only a very few cases were these measures put into force.

Market Trends

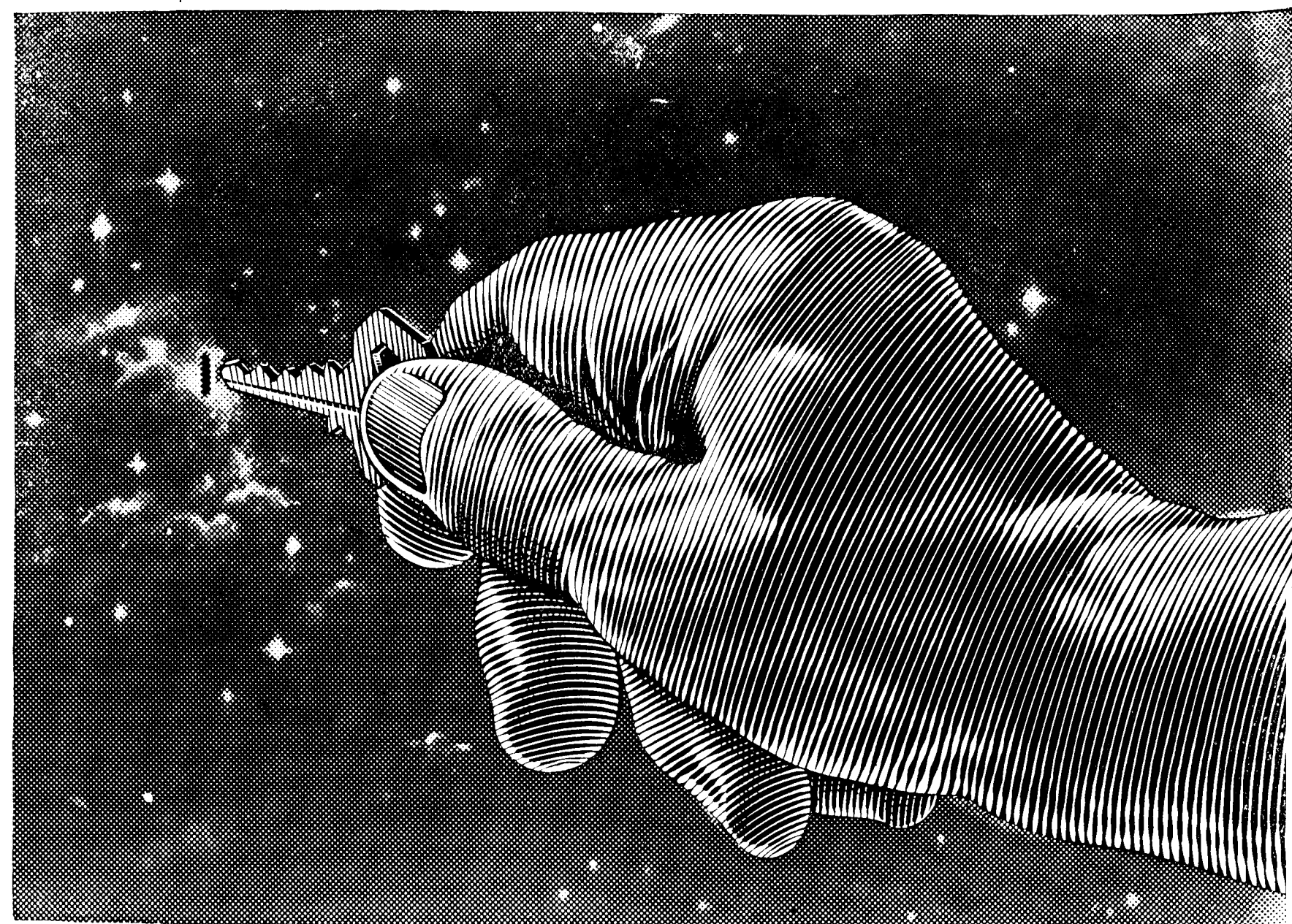
The year opened on a dull note with quotations slightly lower, but there was no compensating drop in upcountry prices, so sellers were inclined to be reserved. Assam and Northern jute was quoted at Rs. 26.50 to Rs. 27 a maund basis Bottoms. Daissee prices also fell, but to a smaller extent than those of white jute, as agency rates were firm on strong demand. Prices were quoted on the basis of Rs. 29.50, but gradually fell because of the lack of business and the weak state of the goods market. In early February, the market was depressed due to lack of buying interest and prices came down rapidly to Rs. 23 for Assam and Rs. 26.50 for Daissee. At this stage, sellers were keen for business, as many of them were in the position of having to sell to obtain working capital. The holding power of the sellers was thus small. The trend upcountry was still strong as a result of heavy covering business against high-priced February delivery contracts. In early March, the I.J.M.A. fixed minimum prices for gunnies; this helped the fibre markets, and throughout the month prices gradually improved. April saw the opening of the new futures market operated by the East India Jute and Hessian Exchange. The gunny market improved, and raw jute benefited from the improvement with the Assam variety advancing to Rs. 25 under buying pressure from the mills. Sellers became reserved following fairly good business and prices continued to move up in sympathy with the upcountry markets. The upturn was intensified by the fact that the quantity of jute available in upcountry agencies was not sufficient to cover recent sales. In addition, the prolonged dry spell in the growing districts prevented the preparation and sowing of the new crop. Assam jute had now risen to Rs. 26.50 and Daissee to Rs. 30.

Shortage of Middles

Many buyers indicated an interest in Middles only, but this type of fibre was in very short supply. Mills' stocks appeared to be adequate but the quality distribution was uneven, and they were left with an excess of Bottoms. Sellers appeared to be in a similar position, so there was no common basis on which to work. Consequently premium prices were paid for Middles only, with sellers looking for even higher prices. Upcountry prices were well maintained due to the shortage of imports, and in most cases were well above those in Calcutta. Towards the end of April, good rain in Assam and north Bengal allowed sowings to be completed, and initial new crop indications averaged about Re. 1 higher than old crop rates. This was the first time that new crop rates were quoted at a premium. The news from upcountry indicated that weather conditions for the new crop were very favourable, and that the young plants were healthy, with good germination. This was one of the major factors leading to the decline in rates that followed over the next few weeks. Mills appeared to be uninterested in jute, except for small odd lots, and Assam prices dropped to Rs. 24.75. At this stage, new crop purchases were smaller than for several years, and this was believed to be due to the favourable new crop reports, which mills hoped would reduce the price.

Lower Rates Expected

The continued quest for high-grade jute upcountry helped maintain Calcutta rates in spite of the lack of interest from mills, but the general belief was that lower rates would not be long in coming. During June and July, prices fluctuated narrowly, with new crop prices still leading old crop by about Re. 1 a maund. In late July and early August, the only thing preventing the harvesting of the crop according to plan was the lack of steeping water and quotations rose rapidly to Rs. 27 for old crop, helped by an improved goods market. Mill interest was still negligible, and prices declined gradually over the next few weeks. By the end of August, rates fell back to Rs. 25 due to the falling trend in gunnies and reports of a bumper crop. The trend continued into September, with prices continually moving down to new low levels. By October, Assam rates were on the basis of Rs. 23 a maund, and Daissee Rs. 25.50 a maund. In November, these were reduced still further as the full weight of the crop began to be felt, and sellers' organisations appealed for assistance to prevent a further decline.



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Shrinking Profit Margins for the Tea Industry

Recent Fiscal Changes Disappoint Producers

EVERY schoolboy knows who imprisoned Montezuma and who strangled Atahualpa, and, such has been the publicity, equal knowledge may be presumed in the classrooms and elsewhere of the reasons for the financial difficulties of common tea. Yet what is common knowledge is often forgotten, and for this reason a brief account is necessary why the early months of 1958 were filled with protestations, why the subsequent months were filled with expectations, and why at present a subdued and slightly puzzled industry is pondering over its next move.

Japan over-runs Indonesia, and 200 million lbs of tea are lost to the markets of the world. India and Ceylon, by developing marginal areas and by making three leaves grow where only two grew before—"They will be sending us the roots soon", said a pessimistic U.S. buyer—succeed in making good the shortfall. The confidence which comes from the possession of something which is in short supply affects producers and Governments alike: taxes and the demands of labour increase, and the consumer is grateful for what he can get. Then comes peace, and though it comes slowly to Indonesia, where civil strife adds to the material damage of occupation, gradually production is resumed, until nearly 100 million lbs of tea are available. Meanwhile, under the protective umbrella afforded by high production costs and duties in the traditional major exporting countries, new competitors arrive on the scene: the African territories, untroubled by taxes, profiting by the mistakes made by others in the past with enormous areas suited to tea and claimed for no other purpose, lacking little except adequate labour, and anxious to develop new industries. These territories, together with resurgent Indonesia, produce almost as much tea as did the Java of old.

Rise in Consumption

Fortunately, the world consumption of tea had been increasing with the population, but the rise was not everywhere commensurate, and, even in the hectic damaging days of 1954, when buyers' miscalculations saddled producers with the reputation of Midas and a legacy of burdens, production was generally a little bit ahead of consumption. This has meant that the buyer has normally been able to take his time and his pick, and that he has chosen those teas which he regards as suitable, instead of gladly taking whatever is offered to him. When things are scarce, quality takes second place: when plenty returns, quality comes into its own. Meanwhile, costs of production and taxation had been increasing, and although most gardens nowadays expect to sell some of their crop at a loss, it became increasingly obvious that on many estates the proportion of teas sold at a loss was excessive. On certain gardens, the bulk of the crop was not fetching production costs, let alone any return for the heart-break of management, and at the beginning of 1958 it was obvious that in Darjeeling, the Dooars and Cachar, a substantial proportion of companies would make a loss.

The sympathetic but uninformed immediately tendered to these unfortunate estates advice worthy of Marie Antoinette—"Qu'ils mangent de la brioche"—and suggested an immediate reduction in production costs with a simultaneous improvement in quality. Since the major part of production costs is no longer under an estate's control, since any reduction in the wages and amenities of labour would be neither welcome nor desired, and since quality is no accident, but an extremely costly affair, the advice, though well intentioned, was impracticable. It is fascinating, but not of immediate concern, to speculate what will happen when all teas are of equal merit, and to wonder whether some execrable product of an unfavoured zone will enjoy a scarcity value.

Crop Regulation

The producers of India gathered in the Consultative Committee, and considered their line of action. It was immediately clear that regulation, which had got the industry out of trouble in the early 'thirties, was unlikely to be acceptable either to the new producing countries or to those

like Indonesia which were still below their prewar output. Even if the International Tea Agreement were to be revived, months would pass before producing countries could get together, and the major obstacle of the degree of regulation, if any, would follow the Agreement's ultimate signature. Regulation applicable only to India, or to those who were in difficulties, would be ineffective: others would merely step into their place. And why should those, who by good fortune or good management were doing well, curtail their crop?

Since unilateral regulation would be a useless sacrifice, and would merely help others; since increases in consumption were likely to be slow in coming, and since garden costs gave little scope for curtailment even if a further decline in quality were accepted, it followed that a reduction in taxation provided the best hope of relief. For once, the multiplicity of taxes seemed to have some merit, and it was not unreasonable to suppose that Governments would show a readiness to share in adversity equal to that which had been displayed in the fortuitous, "man-made" prosperity of 1954.

Memorandum of Consultative Committee

The Consultative Committee, therefore, submitted its memorandum, which was a remarkable

By

A SPECIAL CORRESPONDENT

compromise between different interests, and which though comprehensive, appeared not immodest in its proposals. The Export Promotion Committee's suggestion that the export duty should be reduced by 2 annas was repeated; it was further suggested that the excise duty be reduced to a quarter of an anna, and there was the natural wish that the export cess should be reduced until the accumulated balances had been consumed. Inevitably, those most unpopular taxes—the Assam carriage tax and the West Bengal octroi—were slated for abolition: the former with its aggravating pre-sale exactions, the latter with its almost

"causes of the French Revolution" flavour. That the octroi was a disincentive to offering teas on the Calcutta auctions was but one of its defects, but most of all was it disliked because it joined the burdensome array of "taxes before sale", requiring bank accommodation and pressing particularly on those least able to afford it.

The memorandum was big-hearted. It recognised that the States were in need of the money garnered through their carriage tax and their octroi, medieval in conception though these taxes might be, and it, therefore, proposed that the Centre should compensate the States for the withdrawal of their taxes by making over an equivalent amount of the export duty collections. (The sum involved was about Rs. 3½ crores). If, as a result of these reductions in taxes, some lucky estates made more profits, the income tax gatherer would quickly redress the balance.

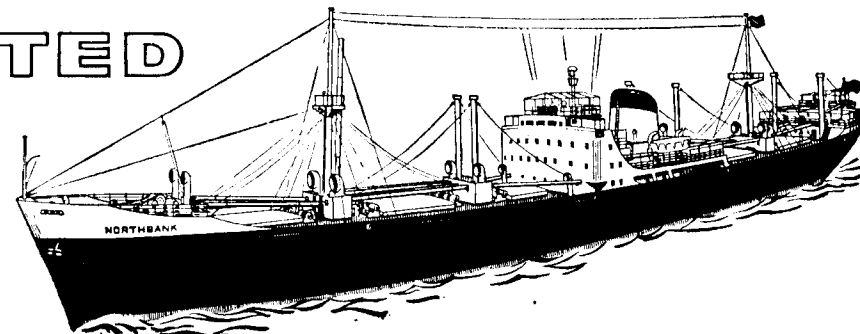
Controversy on Relief

The Government was unconvinced. A readiness to give relief to common tea must not be construed as a readiness to give concessions to all and sundry, and a relaxation in taxes which gave relief to rich and poor, though it might have long-term advantages, and might keep the upstart new-comers in their place, was not practical politics. The industry must think again, and must suggest a scheme which would give relief where it was due, and which was also administratively convenient. The farmer protested. If, in helping the poor, the rich were also helped, what was the harm? Was there not an advantage in assisting that section of the industry which was traditionally the spearhead of India's exports? Darjeeling, hard-pressed but glamorous, an area which had a reputation far in excess of its relatively small production; upper Assam, the aristocracy of tea in other eyes besides its own; and the magnificent properties in the south—even if these areas were helped, what was the harm? A rich and prosperous tea industry would be of immense value to the country as a whole. And, went on the industry, why not make things so attractive for tea in India (no one minds paying some taxes on profits) that those who were laying out gardens in the African territories and in Iran and in the Caucasus would pause in their work, and turn to India for their fresh investments and their supplies? The Government remained unconvinced.



A tea garden in Assam

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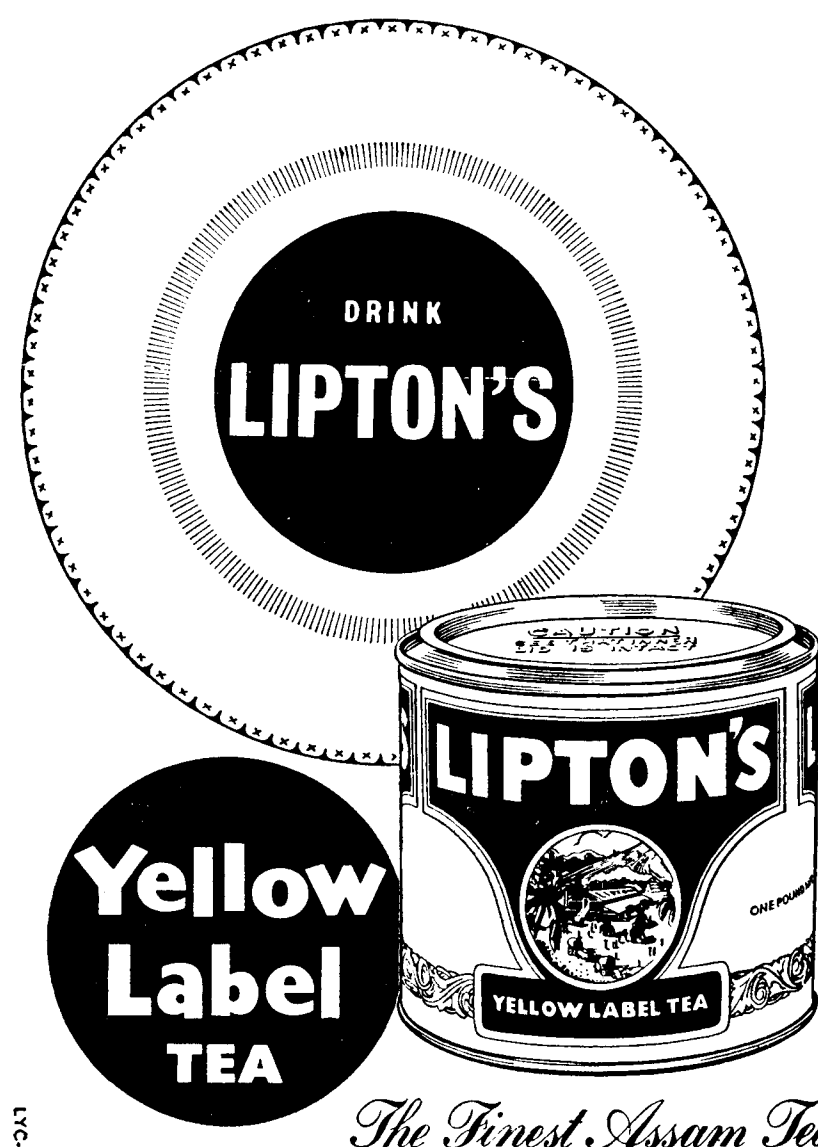
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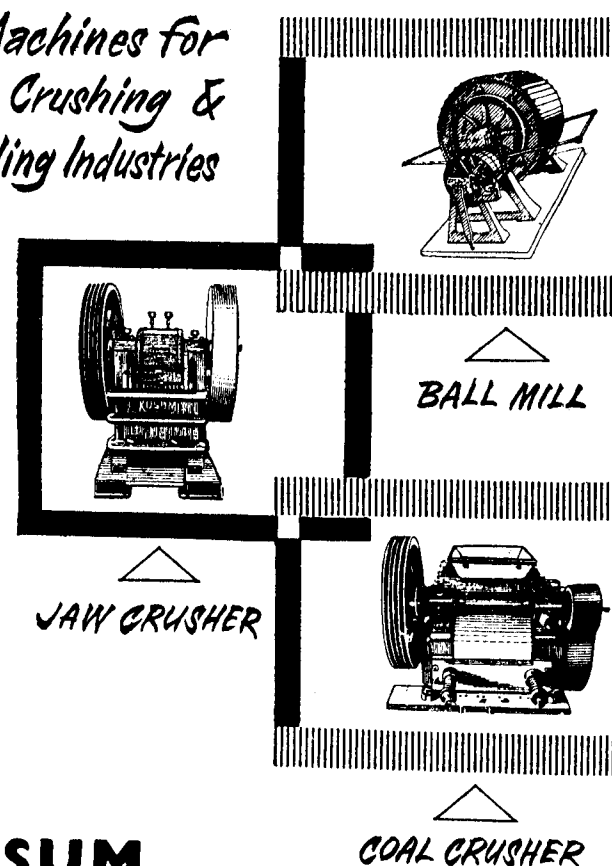
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Public opinion, sympathetic to those in distress, would not tolerate the idea of putting more profits into the pockets of the rich. "If common tea is in difficulties", was the official message, "define common tea, and suggest measures for its relief and its relief alone."

The Consultative Committee resumed its deliberations, and came to the perhaps inevitable conclusion that even if teas could be segregated into neat categories on the basis of their qualities, the differential taxation of such categories would be administratively impossible. What troubled the producer was not so much the type of tea that he could produce as the price which his tea fetched in relation to the cost of production. If he could pay his way, his teas ceased to be "common". It was, therefore, suggested to the Government that recognised tea areas—Darjeeling, the Terai, the Doon and so on—should be treated as zones for purposes of taxation: that there should be a flat rate of excise duty: but that if the zonal product (that is, the average zonal sale price of tea multiplied by the average zonal yield an acre) fell below a certain figure, a progressively larger refund of excise duty should be granted when the teas left the garden. When teas came to the auctions for sale, or when teas were exported, they would all be deemed to have paid the standard rate of excise duty, so that neither in the sale-room nor in the Customs shed would there be any difficulties arising from the need to "identify" the teas' place of origin. It was felt by the Consultative Committee that only by using the sale price and the yield could justice be done to Darjeeling, or appropriate justice to the high-yielding, low-priced Doons and the poorer, low-yielding Cachar. The upper Assam gardens, securing good prices and favoured by relatively high yields, would get correspondingly reduced relief, and the Government's desiderata would be achieved. Naturally, the carriage tax and the octroi should go too, although it was recognised that the Government, faced with the need to compensate the States, might find it impossible to reduce the export duty.

Damaging Amendments

It is popularly believed that the legality of "deeming" something to have been paid, which had not been paid, was rather too much of a presumption for the Law Ministry to accept; but this is unlikely, as the estates, in fact, were all to pay the same rate of excise, certain estates getting a simultaneous rebate by reason of their location in a distressed area. Moreover, a far greater "presumption" had been swallowed in the West Bengal Estates Acquisition (Amendment) Act, whereby tea estates were "deemed to be, and always to have been, intermediaries" for the purpose of the acquisition of their "presumed zamindari rights". Whatever the reason, when relief eventually came at the end of September, this essential part of the Consultative Committee's proposals was omitted, with damaging, but in the context inevitable, amendments to the scheme as a whole.

It is also generally believed that the Government preferred to reduce the export duty rather than to compensate the States for the withdrawal of their taxes because it was feared that other States might follow the Assam and West Bengal examples, and, by threatening to impose local taxes on vital export commodities, secure additional Central subventions. This argument is not easy to follow, since there is nothing at the moment to prevent States imposing such local taxes if they want to, and since there are few

commodities from which so large a sum is collected in export duties. Thus the objectives of the Consultative Committee, that is, the simplification of the tax structure for tea and the reduction of pre-sale taxes, even if taxes after sale remained unchanged, were not achieved, and many estates now have to pay more as excise duty than before relief was granted. Admittedly, the ultimate exporter of teas may be better off, but whether he will share his good fortune with the producer is another matter.

Adverse Reaction

The initial reaction of many buyers was indeed one of dissatisfaction. Why should they honour the Calcutta practice of refunding the excise duty to the seller, when the Government had discontinued the practice of refunding it to the exporter? Leaving aside any question of the constitutional propriety of levying both an excise and an export duty on the same article, the buyers' attitude appear, at least to the sellers, to be unreasonable, because though the former might be getting no refund on account of excise payments, if and when they exported teas, the payments which they were called upon to make at the time of export were still less in every case than those made previously.

The buyers also pointed out that though they could do the mental arithmetic involved in averaging the prices which they paid for their purchases in the sale-room when excise duties were all at the same rate, they could not cope with three different rates, because, to dispose of all teas offered on the auction, lots had to be sold at about three a minute. It has, therefore, been proposed that, as an experimental measure, bids should be

made inclusive of excise duty, it being for the brokers to sort out the details when preparing their account sales. How this will affect prices no one can foretell; nor, indeed, will any accurate assessment ever be possible. But there are those who will regret that the Consultative Committee's proposal of a flat rate for the sale-room was not accepted.

Distress of Darjeeling Producers

The producers had another shock when they learnt that, by reason of the Government's unwillingness to take yield into consideration, the struggling hill areas of Darjeeling were to be in the 10nP zone. It had long been recognised by the Consultative Committee that high prices in the sale-room meant little if accompanied by high costs of production and low yields. It was for this reason that the committee's proposals were based on price and yield, the theory being that the latter would, to some extent, allow for varying costs of production. Darjeeling, of significance to Indian tea far in excess of its relatively small production, had to be kept in business, and it was with consternation that producers here read that their estates, nearly half of which had made substantial losses in 1957, were to have their excise duty increased. The position was the more serious in that most Darjeeling teas are sold on the Calcutta auctions, so that they are exposed not merely to the increased rate of excise but also to the octroi, without any direct benefit through the reduction in the export duty.

Yet, though it would thus be a great disservice to the industry to say that producers are satisfied with the steps which have been taken so far, and



Tea chests being loaded on to river boats

though nothing has yet been done which is likely to discourage those entrepreneurs who are ready to face the heavy initial cost of laying out new tea in other places, it would be equally unjust to show ingratitude for the concessions which have been offered and for the manner in which they have been conceded. The careful consideration of memoranda from different bodies (sometimes contradictory), the sympathetic welcome granted to repeated delegations by hard-pressed Ministers and Secretaries, and the granting of fiscal relief when funds were desperately needed for the Government's own purposes, are actions which have made the most favourable impression, and if the industry, which modestly asked for a 20-per cent cut in taxes, has received only a fraction of its request, it will have to review its position, and try again.

International Tea Pact

Simultaneously with the attempt to secure relief, the Consultative Committee considered the desirability of attempting to revive the International Tea Agreement, not with the idea of an immediate introduction of regulation, but rather to recreate an international forum for the exchange of ideas, and to bring back into commission, if not into use, the machinery for regulation. So far, most encouraging talks have taken place with producers of Ceylon, and it is believed that further talks are proposed to increase the number of those who have already reached a considerable measure of agreement.

Regulation, even the furnishing of machinery for regulation, is never very popular with those producers who are either prosperous or optimistic; Governments suspect some fall in revenues if not in the earnings of foreign exchange; and the consumer in highly developed countries, although perfectly ready to allow his own industries to practise the common sense of "planned production", illogically imagines some conspiracy when the rus-

tic producers of primary commodities endeavour to regulate their output to that which can be sold at remunerative prices. Nor can the difficulty be tidied over by "deficit financing". Banks can be accommodating only in the strictest commercial sense, for the money of which they dispose is in trust; and if an estate cannot pay its way, the first thing to suffer will be the quality, not the quantity, of its output. The general public, brought up in an atmosphere of World Bank loans, is incredulous when a company's directors say that they are short of working capital and there is still a widespread belief that the item "reserves" in a balance-sheet consists exclusively of "gold in the Bank of England".

Scientific Research

A third line of approach has been that of scientific research, with special reference to the designing of tea-making machinery which will reduce manual processes, and, without loss of quality, save time and money in the factory. It is not too early to say that a remarkable degree of success has already attended these efforts, and that teas are now being produced by new methods of withering and rolling which have received high praise from buyers. For the present, of course, the quantity involved is infinitesimal, but there is reason to believe that modifications in design, necessitated by experience of prototype machines, have done nothing to lessen original optimism. How the general introduction of such machines will affect the demand for labour has not yet been ascertained, but since the new machines seem likely to improve the quality of Indian tea and to reduce costs, their use may afford relief, especially to those who by the time they are commercially manufactured, have the money with which to buy them.

The replanting of deficient areas is another panacea which is freely offered to struggling tea estates by well-meaning economists. The Planta-

tion Enquiry Commission asked a question which was interpreted as meaning: "How much tea has been replanted in the statutory sense of the term replanted?" and an answer was given accordingly. The quantity was not very big, but of course took no account of the routine, almost daily, infilling of vacancies which goes on, and people wrongly jumped to the conclusion that tea bushes were all generations old and were due for replacement. The Commission, therefore, recommended a replanting fund, to be set aside annually for the replacement of the moribund acres. This advice was not really necessary. In the first place, the life of the tea bush, if properly tended, is much more than the spell attributed to it by the Commission. There are bushes in upper Assam's most prosperous gardens which are between 80 and 90 years old. Like a motor-car, it is all a question of maintenance. In the second place, some of the bushes, notably those in Darjeeling, are irreplaceable, and to uproot them merely because they are old would be to throw away something which is unique. In the third place, bushes are being replaced when the need arises, not always in large blocks but in scattered areas throughout the estates, so much so, indeed, that the Indian Tea Association's members have replaced a greater percentage of bushes than that recommended by the Commission.

Real Difficulty

But the real difficulty is that when you are hard up and when your banker will not help you further with loans, you cannot dig up whole areas of your garden, lay off all the people who worked thereon, spend a lot of money on replanting, and sit for four or five years before a naya paisa comes in from the sale of the newly planted tea. Nor can you forgo even a portion of your crop when all manner of penalties await you if you do not build so many houses and so many *crèches* for workers who will probably be rendered surplus by the limitation of your activities.

Against the background of uneasiness concerning the long-term ability of a large section of the industry, if not to survive at least to survive in its present form, labour has sometimes acted unwisely, but generally with reason. The code of discipline, which the tea industry wanted to describe as the code of conduct, has not really been extended to estates in the north, and should legally go to the Industrial Committee on Plantations for its ratification, but, as Ministers have pointed out, it is the spirit behind the code which is important, for it merely sets out the way in which people should behave. Bonus discussions, though involving some Rs. 3 crores to Rs. 4 crores, were carried through to a successful conclusion with a minimum of argument. Workers' participation in management is still in the experimental stage, but the industry is not without hope that it will develop on the lines which were intended, and the managers who are working the scheme deserve every help and encouragement.

Guaranteed Grain Ration

The provision of foodgrains for workers and their families (for the tea industry in north-east India still provides a grain ration at a guaranteed and usually subsidised rate) has presented the customary problems, although this year more acutely than for some years past. The most serious aspect is that the State of Assam, in spite of massive imports of wheat, is still not in a position to supply all the rice that is required. Tea garden labour has in general gallantly accepted a ration of half wheat and half rice, but, even so, the rice which is locally available must be supplemented by imports arranged by the industry. This is an extremely expensive undertaking, and would have been impossible in 1958 had it not been for the prompt and generous assistance of the Food Department of the Ministry of Agriculture. The news that the Chief Minister of Assam and his colleagues propose to undertake a food drive in Assam has been warmly welcomed, for too often activities are confined to the requisition of land and silence.

The tea crop so far is good in quantity and quality, although prices have not been satisfactory. To prophesy when only half the year's production has been sold would be uncautious, and it is too early to say how events in south India and, perhaps more far-reaching, in Indonesia will ultimately affect the market. The very considerable new acreage in the African territories, which is now coming into bearing, and the limitless possibilities of those areas, are bound to affect more and more the same types of tea in the older producing countries. It is not that African teas are fetching better prices than the equivalent teas from India; it is rather that the former can be sold profitably at prices which would mean a heavy loss for the latter with their greater costs of production. Much is at stake, and the next five years should give a clearer indication of the pattern of trade for the next generation.

(The photographs accompanying this article are published by courtesy of the Indian Tea Board.)

Capital Requirements for Coal Expansion

Need for Higher Prices and Better Transport Facilities

WHETHER a country is in a position to undertake a policy of industrialisation still depends, to a very large extent, on the ready availability of high-grade coal. Even today without coal there can be no heavy industry, and it seems to be most unlikely that the situation either in India or in any other industrialising country will alter to any material extent in many years to come. India is fortunate in having large known reserves of coal—estimated at some 43,000 million tons (proved)—which are the basis of her economic expansion and the industrialisation must be built. Too much importance cannot be paid therefore to this vital industry.

Private enterprise owns a very large proportion of the coal industry and accounts for 88 per cent of India's total production; the remaining 12 per cent is produced by the National Coal Development Corporation and the Singareni Group of collieries, which had as its starting point various mines owned by the old railway companies. Both sectors have been given a total target of 60 million tons of coal by 1960, or an additional 22 million tons during the second five year plan—10 million tons of which is allotted to the private sector and 12 million tons to the public sector. Production in the private sector has steadily increased during the second plan as follows:

Year	Tonnage	Percentage of Target
1955 Base	33,830,735	—
1956	34,761,464	9.3
1957	38,197,701	43.7
*1958 estimated	39,225,000	53.9

The increase of 5.4 million tons in coal output since 1955 by the private sector—as opposed to an increase of 1.2 million tons by the public sector—is considered to be a great achievement, having regard to the restrictions imposed by the Government on private collieries opening new workings. It could not be expected that the phenomenal increase of 3.4 million tons during 1957 would be continued in 1958. Undoubtedly, output this year is lower than was anticipated, primarily due to various factors outside the industry's control. Nevertheless, the private sector is within sight of its target which can be reached by the end of the plan period, provided no unforeseen difficulties arise and the required plant and equipment to maintain increased production is available. It is estimated that the private sector will have to produce an additional 4.6 million tons during the next two years to reach its target, a figure which is within its capacity. With half the plan period over, the present time affords a suitable opportunity to examine critically the progress made by the private sector during the last three years in an endeavour to ascertain what factors have retarded production and how they can be removed in order to speed up production in the future.

Coal Prices

The expansion of any industry depends on the availability of capital to purchase plant and equipment and on a market for the finished product. Today the coal industry is only concerned with the first of these factors and capital to finance expansion can either be obtained from the money market or from profits. However, stringent money market conditions over the last few years, low returns to the investor and the fact that coal is a wasting asset have discouraged investment. The industry, therefore, has had to fall back on its not too large reserves both for replacement and expansion. Investigations into the working of 19 of the major coal companies show that reserves were depleted to the extent of Rs. 31 lakhs in one year only. These reserves, if the private sector is to continue to expand within the

limits laid down, must be built in the near future. The most obvious source is from profits, but what these will be, or whether in fact there will be any at all, is determined by the Government through the statutorily controlled selling price of coal. To go into the question of coal prices, the Government, in May 1957, set up a Coal Prices Revision Committee and at the time of writing, it is expected that the Committee's report will be presented in the near future. The delay which has taken place in submitting the report is unfortunate, not only because it has caused uncertainty about the coal companies' financial position and has increased the shyness of investors, but also because much of the data which was collected by or on behalf of the Committee is now out of date.

Basic Factors

However, the basic factors which the Committee will have to take into consideration and the Government will have to bear in mind when finally fixing prices, are that the cost of producing a ton of coal varies not only from mine to mine, but quite often from seam to seam, according to

By

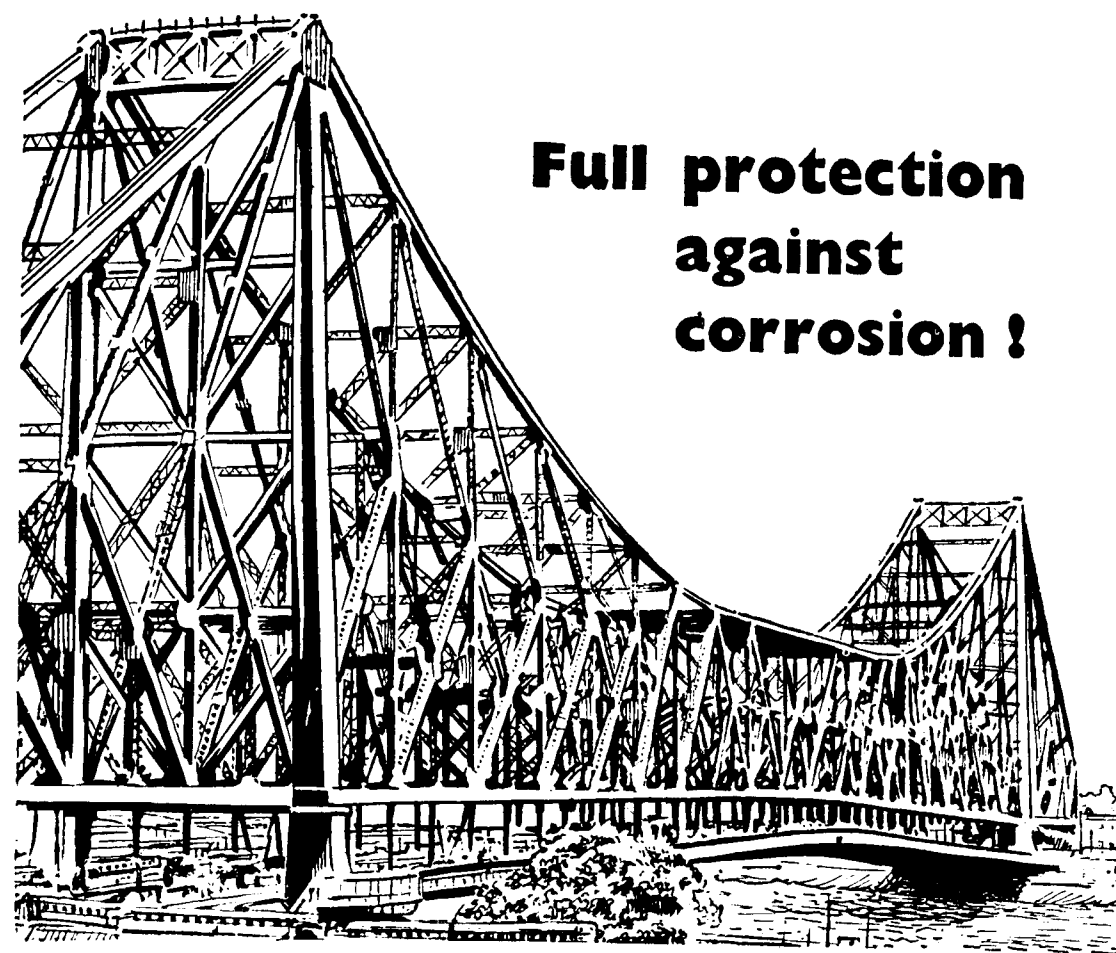
A SPECIAL CORRESPONDENT

the geographical position and working conditions. It is impossible, therefore, to fix a price which will ensure a uniform profit for all and the only practical way of dealing with the problem is to base prices on the production costs of average collieries. As coal is a wasting asset, fresh capital has to be constantly acquired, not only to develop new areas but also to maintain production. A coal mine is quite different from a factory in that as development proceeds, the working face becomes more distant from the outlet, and steadily larger quantities of rolling stock, plant and equipment are required to transport and maintain output. Quite often, as work progresses it has to be carried on at greater depths, which immediately introduces additional problems of ventilation and pumping and further adds to costs. Finally, when a pit is exhausted, it is difficult to employ plant and equipment elsewhere as the private sector is not allowed to sink new mines.

In the coal industry, therefore, operational costs are very heavy, and in determining coal prices not only have these costs to be taken into consideration but many others such as the steady increase in the cost of stores and capital equipment, rehabilitation and depreciation. Costs have also been raised by the Coal Mines Regulations and other legislation. It is estimated that the cost of a fully equipped new mine is from Rs. 40 to Rs. 60 a ton of the average annual output, which means that for depreciation alone approximately Rs. 2 a ton is required in the selling price. Unless a realistic price is fixed for coal, allowing what would appear at first sight to be a somewhat high profit, expansion will suffer as the industry will have no spare reserves to plough back. As illustrative of the costs involved in coal mining, it is mentioned that the National Coal Board in the U.K. is spending the equivalent of Rs. 1,500 crores over a period of 15 years in order to maintain an output little different from that of 30 years ago. It is admitted by the Board that this heavy expenditure is due to uneconomical coal prices in the past which have not allowed a sufficient margin for rehabilitation and modernisation. A similar state of affairs should be avoided in India.

Safety in Mines

As a result of the unfortunate accidents at Chinakuri and Central Bhowra in February this year, the need for safety has been impressed again on all connected with mining. These disasters were unfortunate, both because of the heavy loss of human lives entailed and because of the reduction in output. It is estimated that the accident at Chinakuri has reduced India's output of coal during 1958 by approximately 250,000 tons. This is a large slice out of the total production, which has been further reduced by the tendency of the Mines Department to close down certain seams or sections for varying periods on the grounds that they are "unsafe". Some nervousness on the part of the Mines Inspectorate as a result of these accidents can be appreciated, but almost wholesale closures, as took place immediately after the accidents, do not appear to



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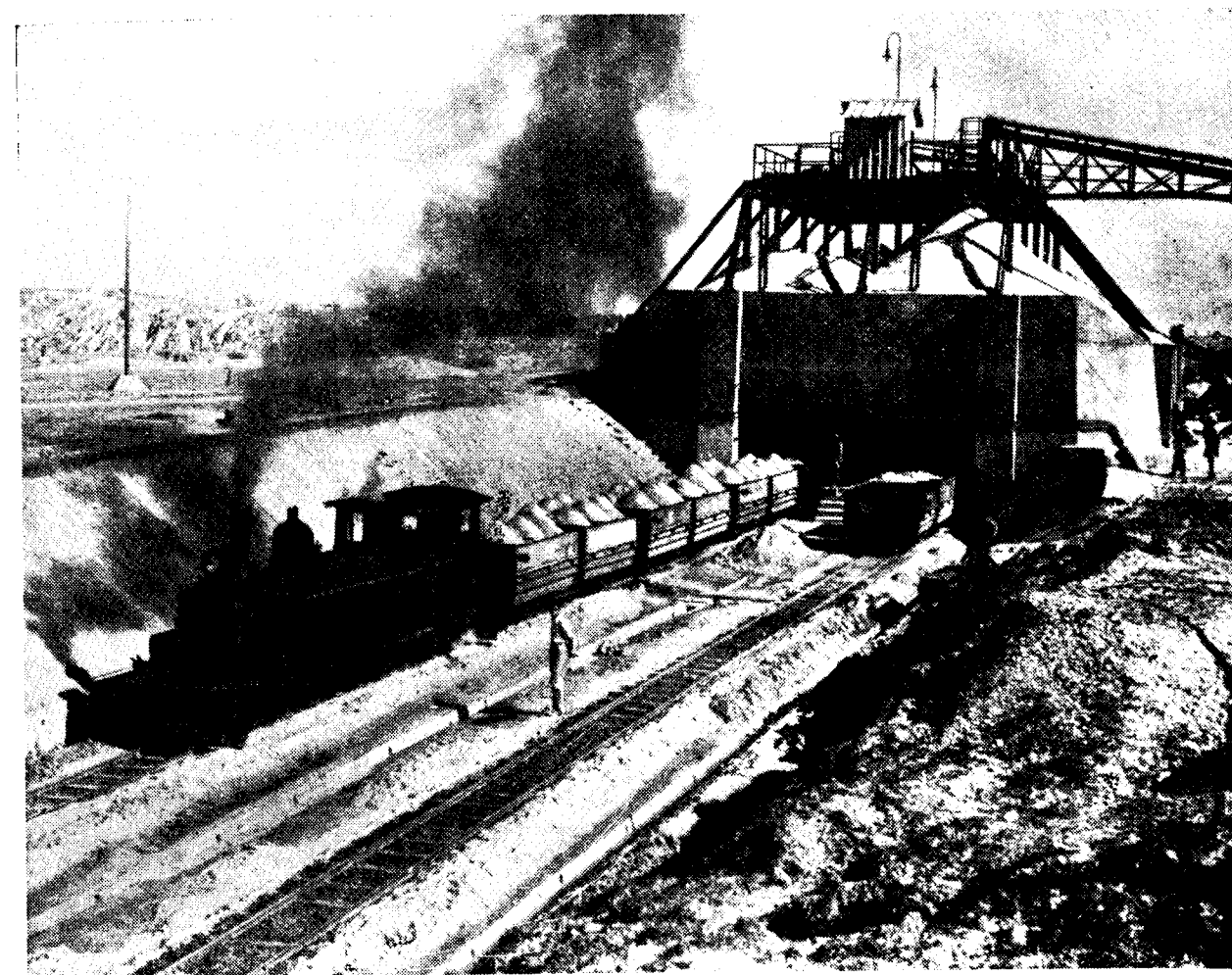
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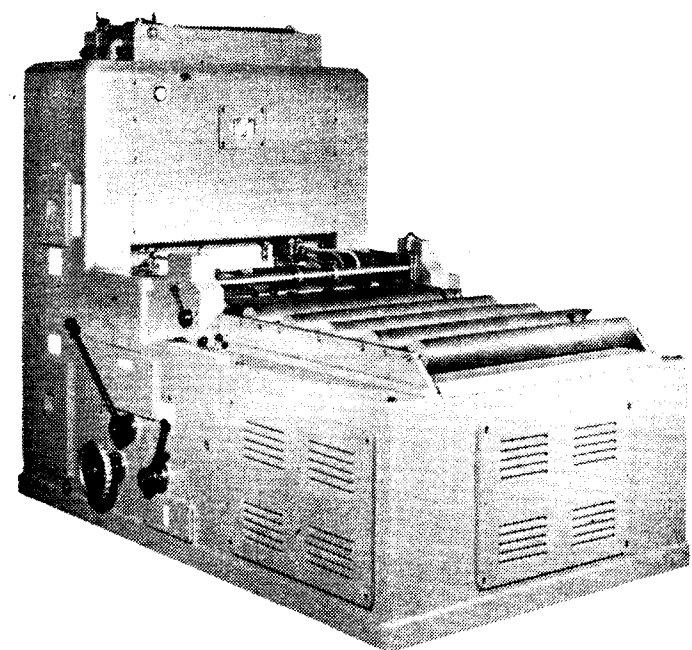
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Automatic Crank-Type Metal Expanding Press
Model PKXSM 25/1000

Expanded metals are mainly used in the building industry, e.g., for reinforcing concrete, fences balcony or protective gratings. Apart from this, expanded metal is used more and more in the consumer goods industry for garden furniture, etc. Therefore, it is easy to understand that the experts take increasing interest in using expanded metal and in working with the expanding metal press PKXSM. Because of the possibility of machining also plastic foils in this procedure the field of application is more enlarged especially for ornamental effects.

On the expanded metal press model PKXSM 25/1000 produced by VEB Werkzeugmaschinenfabrik Zeulenroda in Thuringia and constructed after many years of experience Expanded metals can be produced with meshes ranging from 62/20 mm upto 2/1 mm. This big working range shows the economy of the machine. By means of fixed infinitely variable stops all sizes of meshes within the working range may be produced.

When constructing the machine special care was taken to ensure economic working, wear resistance, precision and safety in operation, which facts may be proved by the following:—

The crank shaft is equipped with an adjustable stroke granting small inertia forces of the ram even at high numbers of strokes. Thus precise working is possible when producing small meshes and the most economic utilization of the machine is granted in connection with the switch gear.

The crank shaft and the three-steps switching gear are running in oil bath thus procuring smooth operation of the machine and wear resistance of the driving elements.

The clutch (dry multiple disc clutch) and the brake (safely acting two-jaw brake) are mounted outside the oil bath and ensure maximum accident prevention because of their switching succession. The clutch is released before the brake is closed, and, the brake is released before the clutch is closed. Both devices are switched together with a common gear. For further safety of operation all parts essential for the function of the machine are lubricated with a central lubricating device.

The electric equipment is vibrationless and housed in a separate cupboard.

All secondary movements, e.g., feed, cutter beam adjustment, plate holding-down, etc. are hydraulic.

The operation of the machine is extraordinarily easy.

The plates or bands (both the materials can be used) are fed, the feeding pliers are closed and the clutch and the feeder are engaged. The feed material is automatically machined. The machining process can be interrupted at any stage. Any ready-made quantity can be cut by means of hand control.

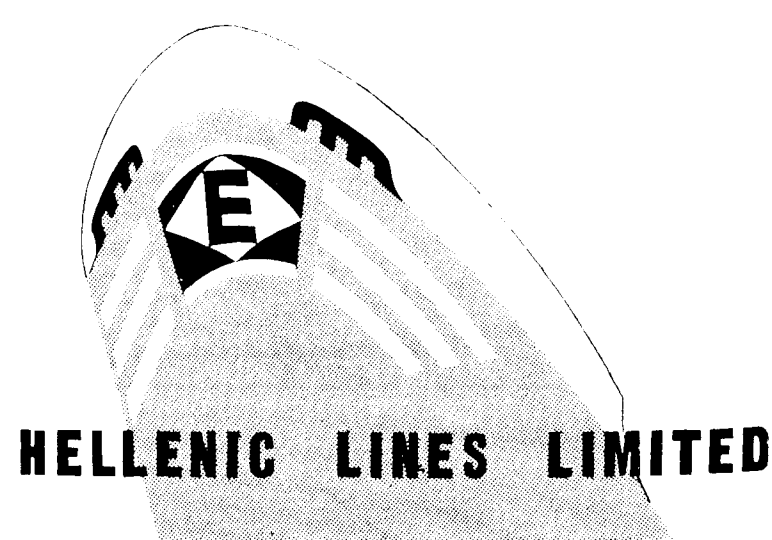
Working width of the metal expanding press model PKXSM 25/1000 is 250—1000 mm. Maximum thickness of band or plate material is 2 mm.

The band material is a rolling-up reel and a rolling-off reel provided. Expanded metal with big meshes is collected in a rolling tray instead of the rolling-up reel. The rolling-off reel is equipped with electro mechanic control and serves simultaneously for face straightening the material to be machined. The apparatus is equipped with separate drive which is automatically engaged by the machine. After rolling-off of 330 mm length of band it is automatically released.

The stand of the machine consists of a stable cast iron underframe, 4 guide columns for the re-adjustable ram guide are firmly clamped into it. For the sake of reinforcement these 4 columns are connected with one another by a traverse at the upper end.

Detailed information regarding the export of this modern production machine to be obtained from

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be necessary and have had a very adverse effect on production.

Safety is of paramount importance and is the direct concern of all connected with the working of a mine. In August, in order to enquire into the matter, the Government called a conference of interested parties which resulted in a free exchange of views at meetings of various committees which were formed to consider the many aspects of safety. There is a feeling in certain quarters that safety can be ensured by legislation, and the more voluminous it is, the safer a mine will be. Nothing can be further from the truth as legislation cannot possibly cover all circumstances. What is important is not the amount of legislation on the Statute Book but the spirit in which it is carried out. Premature legislation may hinder rather than help the promotion of safety and nothing is more likely to bring the law into disrepute than legislation which is impracticable and, therefore, cannot be enforced. The key man in any safety organisation is the manager who has to take a keen interest in his supervisory staff and in their training. In turn, the supervisory staff have to be encouraged to take a direct interest in the training of workers which, with the help of management, is of the greatest importance. It is primarily through the willing co-operation of the workers that safety is obtained. If the lives of others are not to be jeopardised, there must be strict discipline which is often lacking in the coal industry today.

Drastic Action

These are a few of the questions which the coal industry is considering. They cannot be dealt with or solved at once but India, with one of the best safety records in the world, has no need for drastic action which disrupts production and causes hardship to workers. The charge has been made that employers are concerned more with production than with safety, but the truth of the matter is that these two aspects of mining are very rarely in conflict, as no management is likely to risk the destruction of a mine for the sake of a few extra tons of coal.

Safety in mines is largely governed by the Coal Mines Regulations, a new edition of which was introduced in 1957. The new regulations are extremely stringent, not so much in relation to direct safety in a mine, but in regard to the vast number of written reports and records which have to be maintained. Much new or improved equipment has to be installed but there is little provision for a phased programme providing for a gradual increase or changeover in equipment. Large increases in staff have also to be made, especially at managerial level, which acts as a brake on production and eats into the financial reserves of the coal industry. Some of the new regulations are not necessary in India today under present mining conditions and others could well be deferred or introduced gradually over a period of time. Even in the U.K., which manufactures its own equipment, it is normal practice to allow equipment in use to wear out before alternative or new equipment is introduced. Machinery and methods of mining which have given many years of safe and satisfactory service do not need changing overnight. All will agree that everything possible should be done to ensure safety; but there are limits beyond which time, effort and money are only wasted without any practical result.

Import Licences

A coal mine, even to maintain production, needs additional equipment as the coal face

recedes from the shaft. To open up new seams or to increase production calls for the installation of large quantities of plant and machinery, much of which is not manufactured in India. Foreign exchange is in very short supply and the Government is faced with the difficult problem of deciding whether or not the amount of foreign exchange required by the mining industry should be cut. It appears that it has been decided to refuse many applications for import licences already approved by the office of the Coal Controller. Recent investigations show that during 1958, licences amounting to approximately Rs. 20 lakhs, submitted by four major coal companies, were refused. As a result, production is suffering and as applications for spares from the same companies amounting to some Rs. 7½ lakhs have also been refused, mining equipment, on which large amounts of foreign exchange have already been spent, is being rendered idle.

The Government must now face the fact that, in the private sector, coal production is being retarded by the lack of equipment. Although no serious shortage of coal is yet being felt by consumers, it may well be that in the near future demand will far outstrip supply. Limited foreign exchange is available to the coal industry and it is felt that there can be little reason why *bona fide* applications for spare parts are being rejected. Dollar loans are not the answer, as spares made in America cannot be used for European equipment and it is very difficult for a mine using, for example, U.K. equipment to turn over to machinery made in the United States which would result in two different types of machinery being used simultaneously. In addition, if American equipment is purchased, the position of spares has to be considered after the loan is finished. The coal industry has already had to face such a situation in the case of American equipment installed during the war for which few spare parts could be obtained. There is also the question of costs, as American equipment is more expensive than that from Europe. It is considered, therefore, that a dollar loan could be best utilised for equipping new mines.

Labour Relations

The coal industry is subject to the award of the All-India Industrial Tribunal (Colliery Disputes) as modified by the Labour Appellate Tribunal decision. This award, after extension by the Government, is still in operation. As a result, labour relations have been generally satisfactory throughout 1958. There have been stray incidents of assaults and intimidation of managerial and supervisory staff, but they have not signified any general unrest among mine workers. They have rather been of an individual nature and it can be said that labour is quite satisfied with its gains under the award and Appellate Tribunal decision. In August, however, a list of demands was served on the industry by one of the main union groups, which resulted in a meeting between the Government, labour and employers. The most important outcome of this meeting was the formation of a Standing Tripartite Committee to deal with general labour problems concerning coal mining. The industry welcomes meetings of this nature which enable questions to be settled directly with all the main unions operating in the coalfields.

For some years now, one of the greatest difficulties felt by employers is the multiplicity of unions dealing with the coal industry, all of them vying with one another for supremacy. Under such circumstances, no settled labour policy can be adopted. This particular point was discussed

in some detail at the 16th session of the Indian Labour Conference. It was agreed that where there was more than one union operating, the union claiming recognition should have been functioning for at least one year after registration, and it should have a membership of 15 percent of the workers in the establishment concerned. Where there were several unions in an industry or establishment, the one with the largest membership should be recognised. Although this agreement does not go far enough to eradicate the present unhealthy rivalry among unions, it is undoubtedly a step in the right direction. It is recognised that some employers are not entirely blameless, but the approach of many trade union leaders to the problems of the coal industry is purely negative; they appear to be under the impression that their sole responsibility is to see that labour gets more pay for less work.

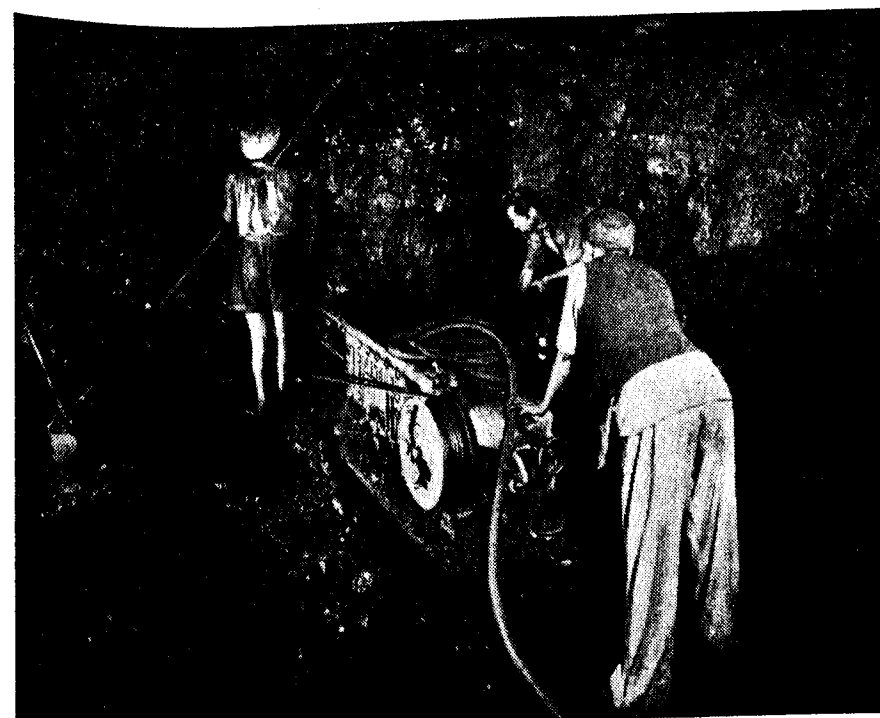
Positive Approach

While recognising that one of the purposes of the trade union movement is to improve working conditions, having regard to the economic circumstances of an industry, far more could be done by a positive approach to the many of the present-day problems such as safety, welfare, education, health and hygiene. Today an employer is expected to care for a worker from the day he is born until he is paid his final gratuity. Education, recreation facilities, housing, etcetera, all fall into the employer's lap, but unfortunately there are few unions which make any effort to help in a practical manner with these problems. In modern times, welfare questions are as much the responsibility of trade unions as of employers. A typical example of the negative attitude of trade unions is seen in relation to safety. In the various memoranda submitted to the safety conference, and at the conference itself, many wild accusations of neglect on safety matters were made against employers. Never once have the unions shown that they are willing to give practical help in improving safety by making the workers—their members—more alive to their obligations and responsibilities.

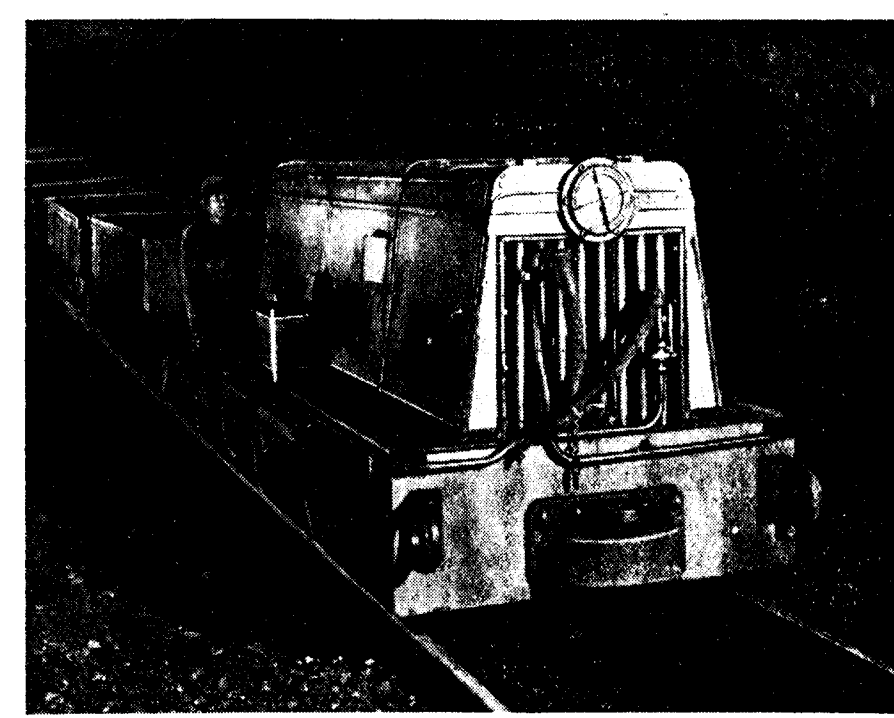
To improve discipline in industry, the 16th session of the Labour Conference adopted a Code of Discipline, the main preamble of which states that there must be (i) a just recognition by employers and workers of the rights and responsibilities of either party; and (ii) a proper and willing discharge by either party of its obligations consequent upon such recognition. The Code then goes on to enumerate the responsibilities of both management and the unions. On the whole, during 1958 some progress has been made in getting to grips with the problems which confront labour-management relations. It is hoped that the year will mark a move away from the past difficulties and will pave the way for more co-operation and a more helpful attitude.

Welfare of Workers

The coal industry is second to none in providing welfare amenities for its labour. Many collieries have erected or are erecting houses, canteens, pithead baths, crèches, etcetera. For many years, the industry has realised the need to provide houses for labour. In conjunction with the Coal Mines Welfare Fund, two schemes have now been drawn up. One is a subsidised housing scheme under which financial assistance, provided by a Housing Board, consists of subsidies and loans. Under the other scheme, the cost of construction is borne by the Housing Board, but the houses are constructed on land leased by the colliery to the Board at a nominal rent. The colliery is responsible for keeping the houses,



A mechanical coal cutter in action



An underground locomotive and mine cars

which consist of two rooms, a verandah, kitchen and bathroom, in a good state of repair. Under this scheme, it is proposed to construct 30,000 houses, of which 10,000 are to be built during 1958-59. Canteens have also to be provided under the Mines Rules at every mine employing 250 or more workers. The shortage of building material and cement, however, has slowed construction, but most coal companies have the matter in hand, although the industry has always maintained that it is wrong to divert materials urgently required for development programmes under the second plan to the building of canteens. Under the Mines Crèches Rules, crèches have to be provided by collieries. During the year, a detailed scale of diet has been laid down, which is provided free for children up to six years of age.

These are some of the amenities provided for colliery labour. Although full advantage is not always taken of them by the miner, they are, along with other improved conditions of service, resulting in a more stable mining community. This is all to the good, especially with the introduction of mechanisation and more complicated mining methods. It makes more comprehensive training worth while, helps with safety and increases efficiency.

Amalgamation of Collieries

India possesses a large number of collieries—there are some 735 in West Bengal and Bihar

alone—many of which produce only small quantities of coal. In 1955, the Government formed an Amalgamation Committee to draw up proposals for the amalgamation of small collieries in the Raniganj and Jharia coalfields into single economic units. The Committee, in its report, expected collieries to work coal without avoidable waste, to follow scientific and efficient methods of mining and to adhere to labour legislation. It was considered that the output of any colliery should not be less than 10,000 tons a month and that its area should not be less than 100 acres. Any colliery, therefore, which did not comply with these standards should be amalgamated. With these findings, the industry could not agree, and if the recommendations had been accepted, 666 collieries in West Bengal and Bihar would have been affected. The production of these collieries was approximately 15 million tons a year, and they were expected to raise an additional 5 million tons during the second five year plan. It was clear that if the increase was to take place, the dislocation caused by amalgamation would have to be avoided as far as possible. Nevertheless, the principle of amalgamating small and uneconomic units is sound and at the present time the industry and the Government are examining the possibilities of voluntary amalgamation. It is hoped that this procedure, while resulting in benefits to certain small collieries, will avoid the wholesale dislocation which must take place if amalgamation is enforced by legislation.

The coal industry depends heavily on the railways—consuming themselves one-third of the total coal raised—to move its production. One of the vital factors in increasing the output of coal is an assured supply of railway wagons. For many years, the supply has barely kept pace with production and only slight decline in the former has had immediate repercussions on the coal industry. During the first eight months of this year, 26.5 million tons of coal were despatched, as against 24.8 million during the corresponding period in 1957—an increase of 6.8 percent. The average daily wagon supply for West Bengal and Bihar in 1958 was approximately 3,902 wagons, as against 3,670 wagons in 1957—an increase of 6.3 percent. This increase in wagon availability has helped reduce stocks at pitheads from 3,083,000 to 2,700,949 tons as at the end of August—a reduction of 12 percent. Stocks, however, are still extremely large and represent a huge amount of blocked capital. For much of the year, great difficulty has been experienced in obtaining sufficient wagons from the South-Eastern Railway and in the first five months, loading was well below that in the same period of 1957. The railway has undoubtedly experienced various difficulties but this is of little help or consolation to the coal industry when it cannot move its production.

Although the overall wagon position has eased to some extent, great difficulty has been experienced in obtaining an adequate supply of open wagons for collieries with mechanical loading plants. These plants are installed at great cost and unless the railways can supply the right type of wagons, much time and money is wasted. Difficulties have also been experienced in the building or extension of colliery sidings. Adequate siding facilities are as important as sufficient wagons. If sidings are insufficient to cope with the traffic, wagons are rendered idle and artificial shortages are created. Most of the delays in building sidings take place in the sanction of applications. This matter, along with the supply of open wagons, should receive the immediate attention of the railways. At the same time, there should be no slackening in the general increase of wagon availability, otherwise there will be a rapid return to the old position where demand was far in excess of availability.

Third Five Year Plan

The overall position for 1958 generally shows the resiliency and the determination of the private sector which, in spite of shortages of plant and equipment, insufficient remuneration and the strains and stresses resulting from an economy stretched to its maximum, has succeeded in steadily increasing the quantity of coal mined. That the private sector was only allotted an extra 10 million tons for the second five year plan whereas the public sector was given 12 million tons shows that the Government thought the public sector could increase production more easily. Present trends in production are beginning to indicate that that assumption was not altogether correct. Had the private sector been given more opportunity to expand and more encouragement, it could have produced by the end of the plan period a larger proportion of the extra 22 million tons required.

Consideration is now being given to the third five year plan and a tentative target of 100 million tons of coal has been mentioned. So far, the tonnage which the private sector is expected to produce has not been fixed and it is of vital importance that this be done as soon as possible. To increase coal production requires detailed planning and time to put the plans into operation. If the first year of the next plan is not to be wasted, as it was in the case of the second five year plan, the Government should fix targets immediately. In doing this, it should bear in mind the lessons of the second plan and allow full scope to the private sector. Coal companies should be allowed to develop as and when necessary, having regard to safety and conservation. Coal prices should correspond to production costs and the extra cost involved in increasing production and installing new and improved machinery. Whatever may be the political desirability of nationalisation or of allowing the private sector to die out gradually, as it must do if it cannot expand into new areas, economically India cannot afford such a changeover either now or in the near future. The private sector has the organisation and the technical skill on which further expansion can be built; so it is difficult to understand why it should be allowed to die out while at the same time vast sums of money are being spent in building a separate organisation to do the same work. The ability and the desirability of the National Coal Development Corporation is not questioned but often it appears to be a case of "robbing Peter to pay Paul".

DIFFICULTIES OF THE COTTON TEXTILE INDUSTRY

HIGH PRODUCTION COSTS, HEAVY TAXATION AND OBSOLETE MACHINERY

It was in July 1958 that the Joshi Committee reported on India's cotton textile industry, and there have still been no wholly satisfactory answers to many of the questions which it has posed. Not that it had made exhaustive recommendations—the task of the committee with a time limit of six weeks and charged with the commission of making a "rapid survey" could not but leave a number of problems unconsidered. If the appointment of committees and commissions and submission of reports could by themselves solve problems, the cotton textile industry should have been rehabilitated a long time ago. Since 1950, the industry has been the subject of continuous enquiry by committees. The Working Party under Sir A. Ramaswamy Mudaliar, which began functioning in 1950, reported in 1952, and the Kanungo Committee which came on the heels of the Working Party reported in September 1954.

Although the Government acted expeditiously on the interim recommendations of the Joshi Committee, dealing with the reduction of excise duty—at best a rescue operation in an emergency—positive measures to solve the chronic difficulties of the industry would imply bolder conceptions. It is an irony that an industry which had its beginnings in the 1850s and was nurtured thereafter by pioneering skill to achieve the status of one of the leading producers of cotton textiles in the world should after a century have to struggle for its very existence. Its past record is an assurance of its inner strength, and likewise offers hope for its resurgence in spite of the maladies which affect it for the present.

Short-term Problems

The root problem in the short term is the accumulation of stocks with producing units and traders, which is directly due to the price of cloth having had to stand at a level where the purchasing power of the people does not absorb the output of industry smoothly and regularly. Three factors can be regarded as having produced the basic difficulty referred to above. These are, in order of importance: (1) high labour costs not compensated by an increase in productivity and boosted by a dearness allowance formula not even correctly related to the actual cost of living; (2) a level of taxation which, in spite of the relief following the interim recommendations of the Joshi Committee, impinges upon the industry harshly; and (3) obstruction to modernisation of units by uninformed labour agitation and a halting Governmental policy based on the catch-phrase, "rationalisation without tears". Which one of these difficulties bears more heavily on the industry? All three factors by their interplay continue to depress it, and if it is to be extracted from its benumbed position, bold action is called for on all three fronts.

Views on Rationalisation

Taking the most controversial issue, namely, modernisation—made more so by political considerations—the accepted official view is that rationalisation will only be permitted on the condition that workers rendered idle as a result are to be provided with alternative employment. On this important question, the Joshi Committee could have cut through the cobweb of the accepted official stand, primarily based on sentiment in relation to the human problems involved, and come out with a bold suggestion. All that the committee could say was: "Every case of replacement (of machinery) will have to be judged on its merits both from the standpoint of the interests of the national economy as well as in the interests of the textile industry". Rather woolly an approach which would tend to hold up rehabilitation. The committee itself, while clothing its recommendation in ponderous language, recognised that "a large majority of machines existing today were installed more than 40 years back and have outlived their usefulness", and yet could not go beyond suggesting that "every unit of the industry should produce varieties which can be manufactured efficiently with the equipment and facilities available at that unit".

In stressing the importance of the cotton textile industry being permitted to proceed with

modernisation as early as possible, the enthusiasts are in no way ignoring the human problems inherent in the change-over. They are sustained, by and large, by the firm belief that following the pattern of development in the industrialised west, increased productivity inherent in modernisation will, before long, produce more jobs in other spheres so as to absorb surplus labour, the one essential being that there is mobility of labour. Furthermore, in the present Indian context, the installation of new plant will, because of the foreign exchange crisis, automatically phase itself in such a way as not to result in sudden large-scale unemployment. In the face of this inhibiting effect, it is only appropriate that the gloom enveloping the industry because of labour opposition and other political considerations, should not be permitted to continue to cloud the situation. No arguments, either for or against, have been left unused in relation to this vexed problem, yet the fear of obsolescence continues to haunt the industry.

By

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try. In the road to salvation, there can be no question of by-passing the road block epitomised by out-of-date production methods.

Cost Structure

The cost structure of the industry, vitiated by the unrealistic dearness allowance formula, has, in its turn, had unfavourable economic effects. No progressive management could be so callous as to ignore the dangers inherent in a wage structure falling grossly short of the basic needs of the working population. Yet in a highly competitive industry like cotton textiles, especially having an eye for the export market, wage levels must perforce bear some relation to productivity. Yes, up to a level humanitarian considerations cannot be divorced from economics, but when the danger level has been reached, as it has tended to do now, so as to sink the entire industry in a morass, economic discipline must be fully recognised. There is a visible danger that any further increase in the dearness allowance, following a rise in the cost of living index (not entirely scientifically based), would be the last straw on the camel's back. Here is a problem which needs to be tackled boldly and yet continues to be leisurely dealt with by the cumbrous Wage Board. Very rightly, the immediate causes weighing down the cotton textile industry have been attributed to high costs of production and high taxation, which call for an objective approach on the part of the authorities, as otherwise there is every danger of a major industry of the country being seriously crippled. For the first time since 1950, the malady from which it has been suffering has become worse. If the

production figures so far are any guide, the cloth production of mills during 1958 is expected to reach not more than 4,800 million yards, and the spinning units will, if anything, show poorer results.

Production Pattern

It is now evident that the greatly enhanced and uneven excise duties have much to do with the distortion of the pattern of production of the mills so as to bring about an increase in the proportion of output of medium and coarse varieties to the total. To some extent this situation is tending to be rectified. Nevertheless, the imbalance in production to be redressed must result in wholesale reorganisation of the lines of production so as to cater to the change in consumer tastes, and, at least to this extent, modernisation, where needed, can only be delayed at the risk of the units concerned ceasing to function.

What of the future? It is in all these disturbing contexts that one must take a look at the future. The stagnation of demand for cloth in a number of varieties and in certain cases a decline—a phenomenon which is puzzling—may for the present support the thesis in the second five year plan for very limited expansion in the cotton textile industry. But the crystal-gazer cannot but see through the present quagmire a more promising picture which should sustain a regular growth in demand—a view based on common sense that there cannot but be a growth in consumption of cloth in an expanding economy such as India's. After all, India with her immense population is one of the few countries in the world with an almost unlimited domestic market. The moment the economy reaches the "take-off" stage, there should be an explosive demand in so essential a commodity as cloth. This points to the need for avoiding extreme caution on the part of the planners in fixing the targets for all sectors of this industry during the third five year plan.

Outlook for the Future

The outlook on the whole—in spite of the present troubles—is for expansion, and this could be stimulated by a further cut in the excise duties. The calamities affecting the industry have amply demonstrated that if fiscal measures are pushed too far, the result can only be diminishing returns. With a drop in cloth consumption, a corresponding reduction in the yield from excise duties is inevitable, and following the tested trade practice it is more rewarding for the Exchequer to stimulate off-take by lower excise duties, so that in the sum total there is a greater tax yield. A scientific pattern of fiscal measures, a progressive outlook over modernisation and a realistic labour policy, these are the pre-requisites to retrieve the fortunes of India's cotton textile industry, and to set it on its onward march. Surely one is not without hope, and to quote a Chinese saying, "Hope is like a road in the countryside: there never was a road, but when many people walk on it, the road comes into existence".

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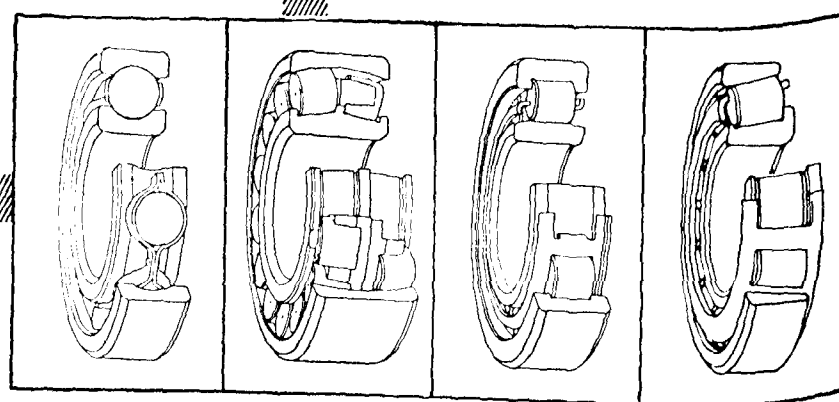
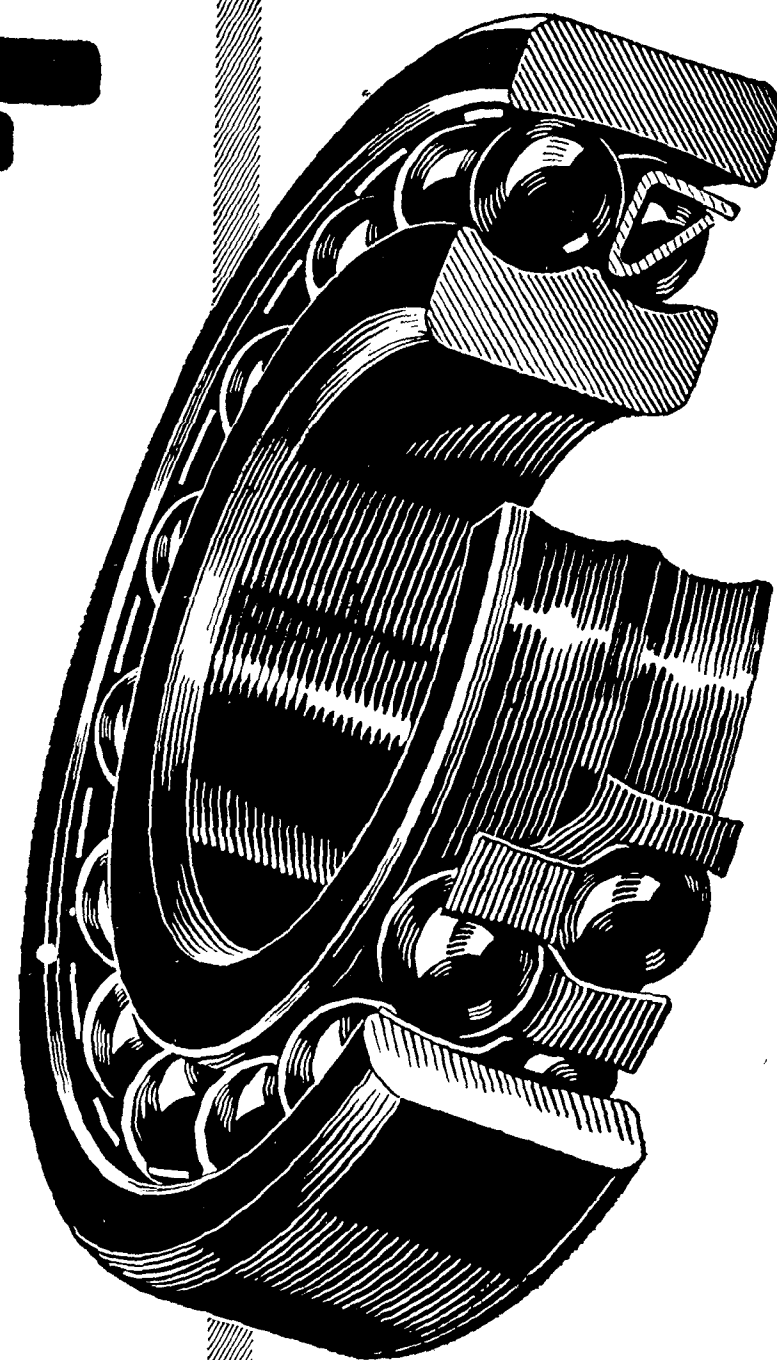
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THE SETBACK IN SUGAR PRODUCTION INCREASING COMPETITION FROM KHANDSARI

IN 1957-58, the sugar industry was not able to maintain the upward trend in production, which it showed since the decontrol of the commodity in 1953. The figures given below indicate this:

Years	Production ('00,000 tons)	Variation over preceding season (%00,000 tons)
1953-54	10.01	
1954-55	15.90	+5.89
1955-56	18.62	+2.72
1956-57	20.26	+1.64
1957-58	19.75	-0.51

In view of the fact that, under the plan, sugar production is expected to rise steadily and that an additional capacity amounting to 140,000 tons was set up during the year with the working of ten new units and the completion of expansion in certain old factories, the drop in output, which may ordinarily seem to be modest, should be considered quite significant. It has also to be borne in mind that the Government's first estimate placed the output for the year at 2.1 million tons, compared with which the fall amounts to 125,000 tons.

Diversion of Cane

The most important factor affecting production is the diversion of sugarcane to khandsari units which in the case of factories in west U.P.—the largest sugar producing region—has accounted for a loss of about 20 percent of their estimated cane supply. In certain cases, factories have reported a loss of as much as 40 percent of the estimated supply. As a result, production of sugar in west U.P. has declined by 131,000 tons, from 752,000 tons in 1956-57 to 621,000 tons in 1957-58. Against this, the production of khandsari has shown an appreciable increase. The Central Food Minister affirmed this in Parliament in reply to a question during the last session that khandsari production last season was 200,000 to 300,000 tons, against about 100,000 tons in previous years, which means a rise of 200 or 300 percent. This has been mostly at the cost of sugar and to a lesser extent of gur also. The other important region showing an appreciable decline is Bihar, where the output amounted to 275,000 tons, compared with 312,000 tons in 1956-57. This is attributed to the lower production of sugarcane in the State.

In sharp contrast, production in Bombay reached a new peak of 370,000 tons, which exceeded the previous year's output by 81,000 tons. With this Bombay became the second largest sugar-producing State in India, a position which had been hitherto held by Bihar. Punjab and Mysore have also shown fair increases. The region-wise figures for the last two seasons are given below:

Regions	Sugarcane Production ('00,000 tons)		Variation between 3 and 2
	Seasons 1956-57	1957-58	
1	2	3	4
West Bengal	0.08	0.055	-0.025
Bihar	3.12	2.75	-0.37
East U.P.	3.28	3.20	-0.08
West U.P.	7.52	6.21	-1.31
Bombay	2.39	3.20	+0.81
Madras	0.63	0.65	+0.02
Punjab	0.58	0.82	+0.24
Andhra	1.42	1.52	+0.10
Mysore	0.42	0.73	+0.31
Others	0.82	0.61	-0.21
All-India	20.26	19.75	-0.51

Consumption Trend

In consumption, the progressive rise continues; last year's figure was higher at 2,014,000 tons against 1,979,000 tons in 1956-57 and 1,938,000 tons in 1955-56. This is, however, lower than the estimated rate of annual increase of 75,000 tons during the second plan period. In a very large measure, this is due to the increased production of khandsari. During 1957, sugar emerged as a useful earner of foreign exchange. With earnings amounting to about Rs. 12 crores, it ranked in importance next only to tea, jute and cotton manufactures. In the

international export market, the emergence of Indian sugar created a stir and led the chairman of Tate and Lyle, London, to describe the Indian sugar industry's achievements as "a threat to wrest some of our business". During 1957-58, however, the quantity for export had to be decided in the light of the total available supplies and corresponding demand. The need for assuring adequate internal supplies at reasonable rates necessitated fixing the quota at 50,000 tons, compared with an export of 160,000 tons in 1957. Almost the whole of this quantity has been sold out, the main buyers being, as previously, Malaya, Sudan and various parts of west Asia. The Government is expected shortly to announce the new year's quota for exports.

World Sugar Agreement

An indication of the importance of India's entering the export field is the recognition given to this fact by the International Sugar Conference held in Geneva in September-October 1958. Against a basic quota of 25,000 tons and a reserve quota of 25,000 tons fixed in 1956, the Conference has now fixed a basic quota of 100,000 tons and a reserve quota of 50,000 tons. The Government of India has not yet signified whether India will join the new International Sugar Agreement. This will depend in the main on the consideration whether the quota allocated, which would hold good for the next three years, is adequate, and whether the neighbouring countries which import Indian sugar join the Agreement. For, if India joins she cannot export beyond 150,000 tons, but if she does not, she cannot export to the participating countries.

Initially, in the second plan, the target for the installed capacity of the sugar industry was fixed at 2.5 million tons. Because of the shortage of foreign exchange, this has been reduced to 2.25 million tons. The number of new units has been accordingly reduced from 55 to 43. Against this, 19 new units have already gone into production. Besides, 23 factories have completed their expansion programmes. During the coming crushing

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season, a further 14 new units are expected to be commissioned. Of the remaining ten, four are expected to come up in 1959-60 and six in 1960-61. The State-wise progress in the establishment of new units is as follows:

States	No. of units going into production				Total
	1955-56	1956-57	1957-58	1958-59 (est.)	
1. Bombay	1	2	5	7	15
2. Madras	1	x	1	2	4
3. Punjab	2	3	x	x	5
4. Mysore	x	x	2	1	3
5. Andhra Pradesh	x	x	2	1	3
6. U.P.	x	x	x	1	1
7. West Bengal	x	x	x	1	1
8. Assam	x	x	x	1	1
Total	4	5	10	14	33

Control over Ex-factory Price

On 30th July, 1958, the Government of India reimposed control on the ex-factory price of sugar in U.P., north Bihar and Punjab. Its Press note stated that prices in north India were continuously rising following the announcement of the export quota in the last week of June. It is true that there was some rise in prices during the first fortnight of July due to a combination of various factors like a delayed monsoon, a general rise in commodity prices, and the deterioration in the international situation. However, this was only short-lived and the concerted efforts by the industry itself to bring down prices started showing results from 20th July onwards. The Government's own reports on the sugar markets confirm this. So the Government's action does not seem justifiable. Moreover, the control price is not adequate to cover the cost of production fully

and to provide for the losses on exports. As a result, many factories, especially in east U.P. and Bihar, are expected to show losses.

The break-up of the cost structure of the Indian sugar industry, as adopted by the Government, is given below:

Item	Proportion
1. Cane	40 percent
2. Taxes	38 percent
3. Manufacturing expenses	5.0 percent
4. Salaries and wages and packing	11.0 percent
5. Overhead charges and gross profit	6.0 percent
	100.0 percent

The cane price and taxes which are fixed by the Government account for as much as 78 percent of the cost of production. Salaries and wages, which are also fixed under Government regulations or legal awards, and packing, account for another 11 percent. Under manufacturing expenses, the prices of many items such as coal are controlled by the Government. These circumstances make the cost structure of sugar very rigid in India and do not leave much room to the industry for effecting economies.

Price Structure

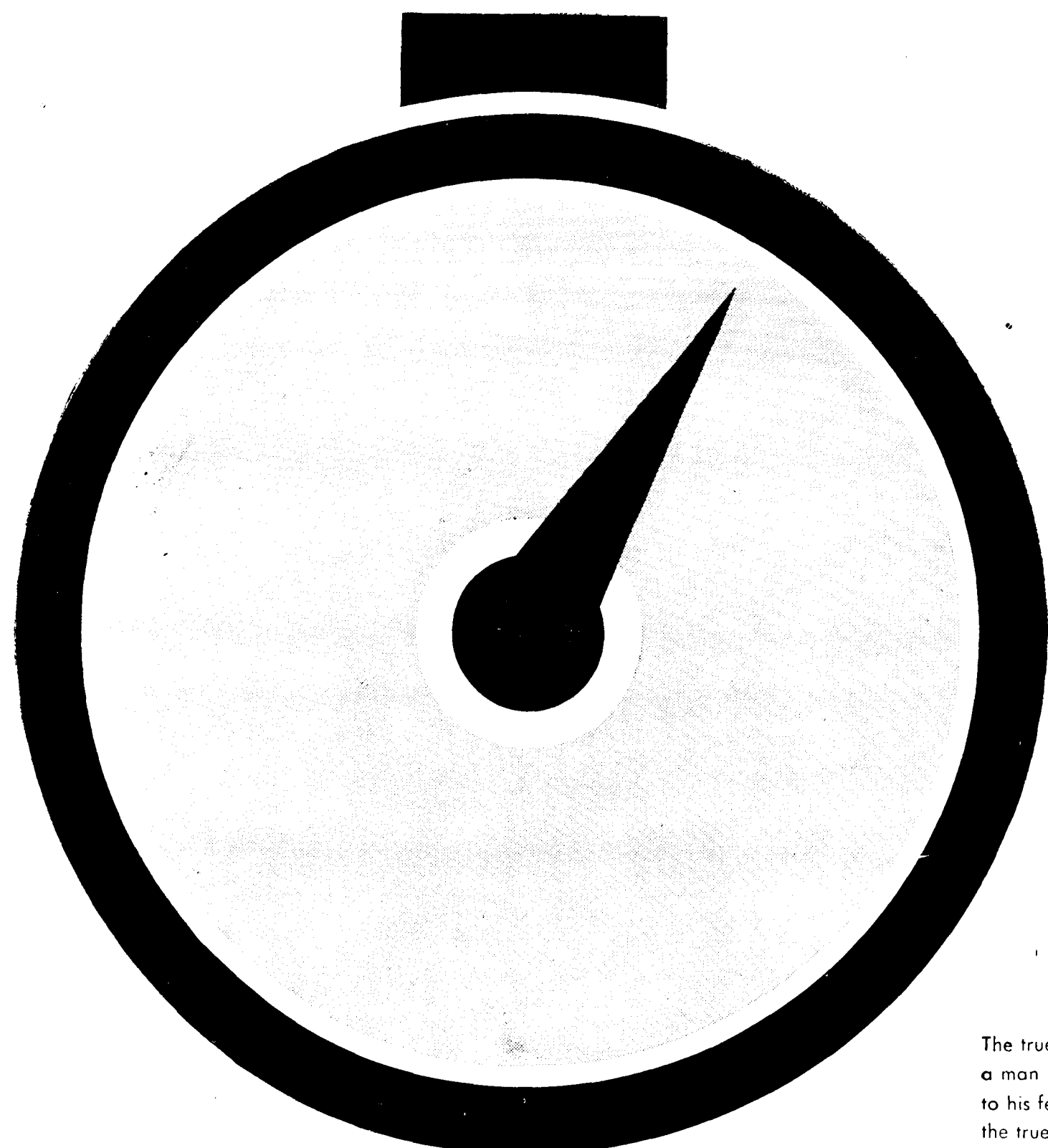
The position becomes more clear by comparing the present price structure with that of 1946-47; the comparative details are given below:

Items	1946-47 Rs. nP	1957-58 Rs. nP	Percentage increase (+) or decrease (-) over 1946-47
1. Cane price including transport charges	12.62	14.70	+16 percent
2. Government taxes—Central excise duty, cane cess and co-operative societies' commission	2.97	13.16	+342 percent
3. Manufacturing charges including salary, wages and packing	3.75	6.05	+61 percent
4. Overhead charges and profit subject to taxation	2.20	2.19	-0.5 percent
	21.54	36.10	
Less for molasses	0.10	0.10	
Ex-factory price	21.44	36.00	+68 percent

In recent years, the cost structure has undergone considerable changes. While the Government levies show a phenomenal increase of 342 percent, the cost of cane has gone up by 16 percent. Similarly, manufacturing charges have gone up, reflecting the higher prices of stores and increased labour charges. In sharp contrast to the increases in all these items, the one item which has shown a decline is that of overheads and the gross profit margin allowed to the industry. As will be seen, Government taxes in the shape of Central excise duty, cane cess and co-operative societies' commission amount to as much as Rs. 13.16 a maund of sugar. Such a disproportionately high rate of taxation on the industry is bound to stifle its future development. This also has a close bearing on the financial requirements for the rehabilitation and modernisation of existing plants, their efficiency and production. The Planning Commission has assessed this cost during the second plan period at Rs. 50 crores. The profit margin now available to the sugar mills hardly permits such heavy investments, especially with the prices of machinery and parts standing at four to five times their pre-war level. At the industry's request, the Government has now referred the matter to the Tariff Commission.

Growing Tax Burden

A reference has already been made to the fast growing khandsari industry, which is developing under what may be called entirely artificial conditions created by the growing tax burden on factory sugar as against the complete immunity of



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khandsari units from such a burden. The sugar factories have to pay Rs. 10-11 a maund as excise duty, Rs. 2 as cane cess and about annas 8 as co-operative societies' commission, bringing the total tax burden to Rs. 13-3 a maund, which forms 38 percent of the total cost of production. Apart from this, *khandsari* units also have the advantage of being free from any regulations on the minimum cane price and quota releases.

No doubt, cottage industries have a definite place in industrial set-up. But they should supplement and not supplant the work done by the large-scale industries. Moreover, the *khandsari* units now being put up are practically large-sized open pan factories using power as well as electric-driven crushers. It would be wrong to term these as a "cottage industry" which is meant to apply only to *khandsari* units using small-type crushers and centrifugals worked by animal labour. Besides, it is an industry the manufacturing process of which is wasteful, and involves a national loss. Its sugar recovery is 6 percent to 7 percent compared with 10 percent of the sugar industry. This is equally true if one compares the yields between *khandsari* and *gur*. Therefore, any expansion in the *khandsari* industry whether at the cost of the sugar industry or the *gur* industry involves a loss of food which is not in the larger national interest. The Karve Committee on Village and Small-scale industries also testified to its being based on a wasteful process and observed that unless it is improved, it should not be encouraged at the cost of the sugar industry.

Much Waste

The considerable waste involved in *khandsari* production will be appreciated when it is realised that in the additional production of 200,000 tons of *khandsari* last year, about 85,000 tons of extra sugar has been lost, which could have been recovered if the cane were crushed by sugar factories. That is, against the expected production of 285,000 tons in vacuum pan factories, the *khandsari* output is estimated at 200,000 tons only for the same quantity of cane crushed. In terms of money value, this would mean a loss of over Rs. 8 crores. On the basis of a production of 285,000 tons, the loss to the Exchequer works out to Rs. 8.6 crores by way of Central excise duty and Rs. 1.5 crores by way of cane cess. Surely, this is a considerable loss resulting from the inherently wasteful process of *khandsari* manufacture.

There is another aspect of the matter also to consider. The second five year plan envisaged a bold programme of expansion for the sugar industry, and for this purpose, provided Rs. 50 crores for the expansion of capacity and another Rs. 2 crores for the expansion of sugar machinery plants. All this expansion of capacity and expenditure were based on the assumption of an increased level of sugar consumption resulting, among others, from a shift from *gur* and *khandsari* consumption to sugar. With the expansion of *khandsari* now occurring entirely against the plan premises, the rate of consumption of sugar will not be as expected and, in fact, a contrary trend from sugar to *khandsari* is likely to develop. As a result, it may not be possible effectively to use the increased capacity of the industry. With the increasing production of *khandsari*, the prospects for sugar exports will also be considerably reduced.

Unplanned Growth

Keeping in view these various facts, the Government would do well in imposing a suitable excise duty on *khandsari* sugar to curb the unplanned growth of this wasteful industry. It is feared that if timely action is not taken now, more and more *khandsari* units will crop up. Once these units come up in large numbers, the problem will only become more difficult. It may be that at present, this problem is confined to west U.P. only. But if the disparity in prices continues, the *khandsari* factories will spread in other areas also and dominate the sugar industry in the whole country. The difficulties encountered by the textile industry as a result of the undue encouragement given to the handlooms are too well known. A similar situation may develop in the case of the sugar industry also if timely and appropriate steps to avert such a situation are not taken.

East U.P. and Bihar with 61 sugar factories are important sugar producers. But they have suffered from complete stagnation in spite of the progress of the industry as a whole. For instance, in Bihar, sugar output last year amounted to 275,000 tons which is lower than that achieved during 1939-40. In the matter of sugar recovery also, the position, instead of showing any improvement, has deteriorated over the last several years. The position in east U.P. is equally serious. The figures in the following table show how the installed capacity of the mills remains unused.

	All India (tons)	East U.P. and Bihar (tons)	Percentage of East U.P. and Bihar in All India.
Number of factories working (1957-58)	158	61	32.3
Registered installed daily cane crushing capacity (1957-58)	172,182	60,806	35.3
Cane crushed (1957-58)	19,742,512	6,016,165	30.5
Sugar production (1957-58)	1,976,360	595,961	30.2

While new units at the prevailing high prices of machinery are being imported, causing strain on the foreign exchange resources, old units in these regions continue to operate partially. The difficulties of the industry in these areas call for immediate attention. The problem is by no means simple, but surely it is capable of solution. The immediate shifting of a few units to other sites and intensive cane development work could go a long way in improving the situation.

Cane development requires much more concentrated attention than has been given it so far. The poor yield and quality of Indian cane hampers the progress of the industry as a whole. Although the authorities themselves are conscious of the leeway to be made up and have undertaken positive steps in the past few years, the problem is so big that all the efforts made so far have not made much impression on the overall position. This will be clear from the

following figures of yields (in terms of cane and *gur* an acre) over the past five years:

Year	Yield of cane an acre	Yield in terms of <i>gur</i> an acre
	(tons)	(tons)
1953-54	12.54	1.28
1954-55	14.25	1.44
1955-56	12.99	1.31
1956-57	13.32	1.34
1957-58	12.73	1.26

If these figures are compared with those of other countries, the backwardness of cane culture will be evident.

The prospects of production during the next season very largely depend on how the problems discussed above are dealt with. The cane crop is reported to be generally satisfactory except in central U.P. and 14 new units are expected to come into production. A few more factories have completed their expansion programmes. But at the same time, the unrestricted growth of *khandsari* units resulting from the growing tax burden on factory sugar and the complete immunity to *khandsari* from the same, is causing considerable uncertainty. Unless, therefore, this twin problem of high taxation on the sugar industry and increasing diversion of cane to *khandsari* production are dealt with expeditiously, the downward trend in output witnessed lately is likely to be further accentuated. This will also adversely affect the Government's programme to export sugar for earning foreign exchange.

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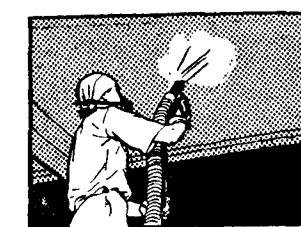
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THE PLANTATION ECONOMY IN POSTWAR YEARS

HEAVY TAXES AND WELFARE BURDENS DISCOURAGE EXPANSION

THE postwar policy for plantations is largely of national inspiration, so a comparison with the previous ten-year period will be instructive. The early 'thirties of this century were the golden era of the industry. Much of the developments which have followed since show that the expansionist period was probably over by 1930 and nothing of the same order, intensity or size has happened after that. The 'thirties began with a worldwide depression and the 'forties were strongly influenced by the war. During the last three years of the latter decade, two strong influences were at work: (1) the postwar conditions affecting commodities entering into world trade; and (2) national policies shaped by considerations that did not apply at any time prior to Independence. In the latter, the most important considerations were the constitutional obligations for bringing about a welfare State, and a planned development of the economy based on certain priorities. The creation of a welfare State with inadequate economic resources meant laying heavier burdens on existing resources.

There were other developments no less important in their impact on existing industries. One was the sudden emergence of labour as a powerful political factor, demanding an increasing share in the national product. Another was the problem of Kashmir which forced the diversion of a considerable proportion of the country's revenues to the maintenance of a relatively large defence establishment. These developments generated forces of varying intensity which

By
V. I. CHACKO

affected the economy and fiscal policy. As one of the largest organised industries, plantations were squeezed between the demands of politically influential labour and those of the rapacious tax authorities.

Delayed Recognition

The plantation industry is one of the oldest established and organised enterprises of India and it is still very largely controlled and led by the British. An assessment of its working during the transition period may be of considerable interest. British association with the industry once gave rise to the idea that plantations, being largely foreign-controlled, did not work in the best interests of the country. It took at least ten years before its importance to the economy was realised. One of the shortcomings of national thinking in the immediate post-independence years was an inadequate appreciation of the rôle of the export trade. The point also escaped the Government that India's capacity to develop and expand her economy greatly depended upon balancing her external account while importing an enormous volume of capital goods. Similarly, in the initial exuberance, it was thought possible to ensure conditions of work and standards of wages to labour on a level which could hardly be justified by the industry's ability to provide. Such attitudes were reflected in the following: (1) exports should be made after having fully satisfied internal demand; (2) the best of the produce should be available in the home market and only what was not wanted should be exported; (3) workers' wages should be immediately raised irrespective of what the effect might be on the industry's economy; (4) a wide range of workers' amenities should be immediately introduced irrespective of the financial implications; and (5) taxes could be increased without restraint or limit.

It is possible to illustrate some of the quaint aspects of these attitudes when they were translated into policies. In 1953-54, over 5,500 tons of coffee were withheld from export even when it was surplus. That led to the deterioration of



The labour quarters in a south Indian plantation

stocks and a considerable loss to the industry and the country as the price of coffee in the world market then was over Rs. 10,000 a ton. The Coffee Board also insisted that the best quality coffee be made available to the internal market. The levy of an export duty of Rs. 1,250 a ton on coffee, and a variable duty which ranged up to Rs. 1,567 a ton on tea, the burden of welfare measures and higher wages in plantations—these made the expansion of the industry almost impossible. Whereas the area under tea could have been increased at a cost of approximately Rs. 700 an acre during the 'thirties, the cost today is sometimes up to Rs. 7,000 to open an acre and bring it into bearing. That means that for the same amount of capital only one-tenth of the labour force can be employed. Consequently, one of the most promising fields of employment has considerably shrunk. These factors have to be noted when reviewing the effect of public opinion and Government policy on plantations during the past ten years.

Apart from what the insistent drive for increased labour welfare may cost the industry, it is worth making a careful study of the fiscal burdens which inhibit expansion. In 1956, one of the relatively small estates in south India paid by way of taxes, duties and other levies, over Rs. 1,260 an acre. It was considerably more than what that

estate's shareholders and labour received together. It may be said that the example quoted is an extreme case and it does not apply to the whole industry. That argument is true only up to a point. The particular estate is one of the most efficient in south India and it fetches for its produce a good value in the market. If another estate does not pay as much, it is because it produces less from an acre and earns less in the market. If an estate is highly successful, it pays the bulk of its earnings by way of taxes and duties.

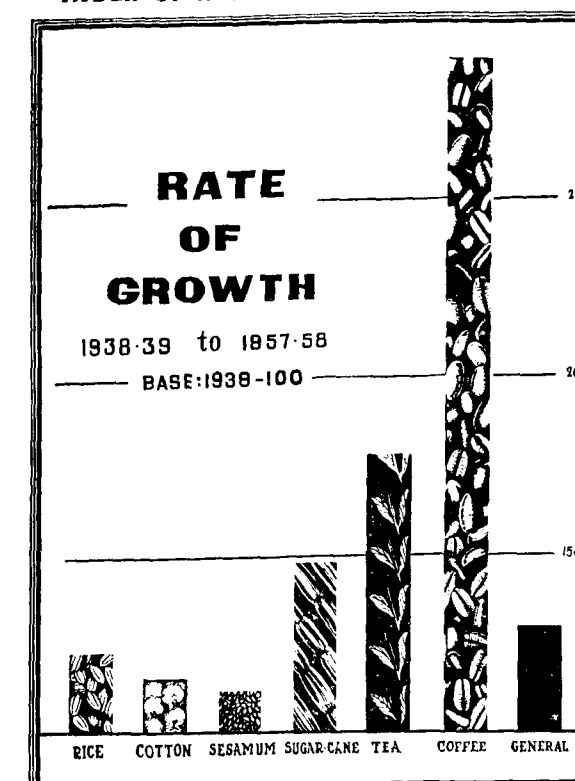
For illustration, one may take a tea estate of 1,000 acres. Forty percent of its income would be assessed to Central income tax. The rate of income tax rises to 18 percent on the first Rs. 6,000 and thereafter there is a surcharge of 5 percent in all cases. Thirty percent of a company's entire income goes as tax, with a surcharge of 5 percent after Rs. 6,000. In addition, for individuals, the super tax rate absorbs 45 percent and there is a surcharge on super tax at 5 percent when the income rises above Rs. 30,000.

Agricultural Income

The part of the earnings paid as agricultural income tax is 60 percent. In the case of coffee and rubber, it works out at 25nP in the rupee when the income has risen above Rs. 6,500. The levy on companies is at a maximum rate of 25nP in the rupee on the whole of the agricultural income. In addition, super tax is charged in Kerala at 41nP on incomes above Rs. 40,000. For individuals and companies, the super tax works out to 37nP in the rupee for incomes above Rs. 10 lakhs. So, for a medium-sized company having an annual income of over Rs. 10 lakhs, the total weight of agricultural income tax and super tax in Kerala falls at 62 percent of the income. In Madras, individuals are charged 45nP in the rupee at the maximum rate of levy above Rs. 5,000, and for companies 45 percent is absorbed as agricultural income tax on the entire agricultural income.

In agriculture, plantations are the only field where corporate ownership exists and taxation at this rate is bound to discourage such enterprises. If corporate ownership is discouraged with penal fiscal levies, individual ownership is undermined by not only high personal taxation but also by limitations on holdings and other measures. It is obvious that in the quest for a social policy, both fiscal and direct legislative steps are taken in order to prevent the accumulation of wealth in individual hands. Accompanied with this is the incapacity of the new beneficiaries under the socialistic pattern to provide the finances required for starting new ventures or expanding existing ones. With increased labour welfare, a substantial part of the

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resources and current incomes of companies are diverted to non-productive expenditure. Heavy taxation leaves very little to companies to augment their resources in the best years. The cost of expansion or improvement is considerably higher than it was 20 years ago. The extent to which plantations can expand and modernise is strictly limited by this quest for immediate socialism. Only the very large companies are left with a sufficient surplus to attempt expansion. This is precisely the opposite of the levelling-down process intended.

Building Reserves

It is generally argued that the finance required for expansion and improvements should come by the floatation of new capital, by a call for investment, and not by diverting current income. The argument may have a certain amount of theoretical logic. The assumption is that the increment in capital assets should come from fresh investment and not from current savings. Those accustomed to the orthodoxy of old company practices know that the building of a good reserve is not only prudent but is the very substance on which the company's future is built. The non-company man, particularly a politician, argues that what is put aside in reserve amounts to a deprivation to labour and the Government of their due shares from the income which the community pays for the goods the enterprise produces. If the current income is to be wholly distributed by paying duty to the Government in taxes and to labour in wages, nothing is left by way of reserves. That would seem to square the account in the ideological ledger. But it raises a number of issues such as :

(1) Whether, after having paid its contracted obligations to labour, a company should not build enough reserves not only to take the shocks of diversity, but also to provide the wherewithal to expand its own earning capacity which is beneficial not merely to its shareholders but also to the State and the workers.

(2) Whether the company has lost any of its rights to hold back what it does not want to distribute from its earnings and return to shareholders.

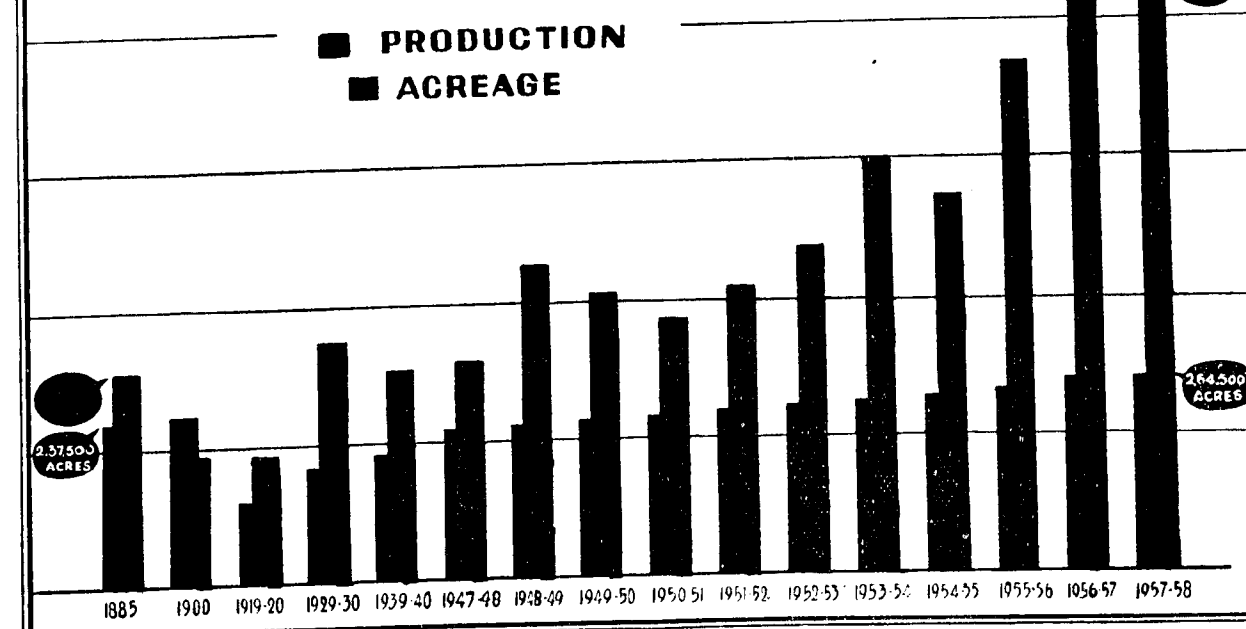
(3) Whether it can attract any fresh investment if the investors have no greater guarantee for their investment than a current income.

As far as a growing estate is concerned, a minimum return would be sufficient to attract fresh investments. But the smaller its financial reserves, the lower the confidence in the competence of its management and the greater the instability of the undertaking. No investor in his senses would think it a safe proposition to invest his savings in such an undertaking. People who argue against building reserves would appreciate the issue better if they invested their own savings in an industrial concern. If companies are to be successful and investors are to back them, it is essential that they show signs of stability and their returns are attractive. The more the reserves are used for expanding the productive assets of the undertaking, the greater the economic benefit to the country.

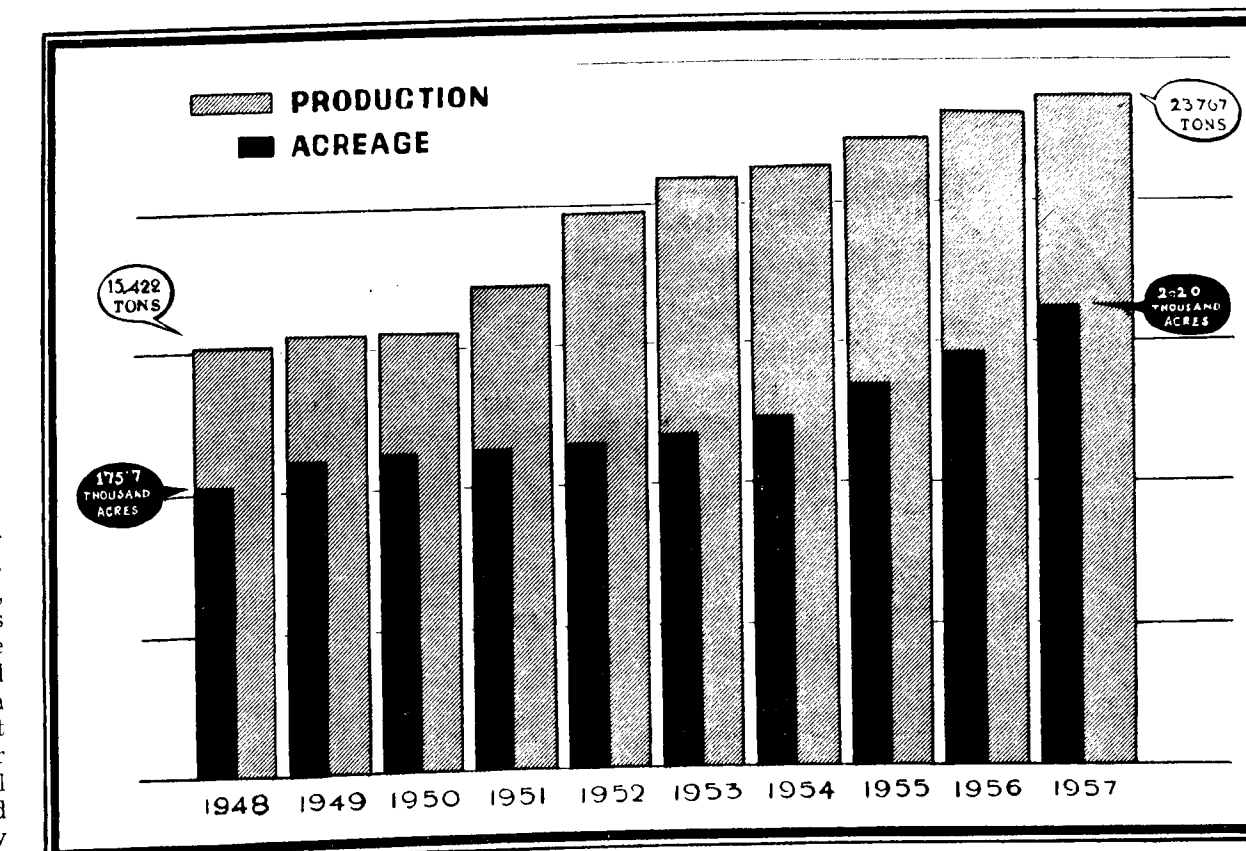
Fiscal Levies

All the fiscal levies falling on the industry do not come out of earned income. The export and excise duties belong to a category which either reduces the income available to the producer out of what the consumer pays or increases the cost to the consumer. In export commodities, the burden falls more sharply on the producer unless,

INDIAN COFFEE PRODUCTION & ACREAGE



INDIAN RUBBER PRODUCTION & ACREAGE



of course, the overseas buyer is made to pay. When competitive sources determine the level of prices in the world market, the producer normally has to bear the element of export duty in the price he realises. The export duty rose in 1954 to an all-time high of 10 annas a lb in the case of tea and Rs. 62.50 a cwt. in the case of coffee. In 1950-51, the export duty on pepper exceeded Rs. 2 a lb. A careful study would show to what extent such levies were responsible for weakening the competitive strength of Indian goods in export markets.

From being a supplier of 80 percent of the world pepper market in 1950-51, last year India's share was barely above 30 percent. Instead of retaining the initiative and leadership in the world tea market, India is gradually losing it, particularly to those countries which have no export duties and which do not burden their tea industry with heavy taxation. The country requires a more careful, considered tax policy, particularly for the commodities which are valuable to the export trade as well as for increasing opportunities of employment.



Pluckers at a tea estate in the Nilgiris



A south Indian tea factory

Uncertain Prospects for the Freight Markets

Working at Major Ports Improves

THE year which is just ending has seen a wholesale laying up of vessels, including even new ships coming straight from the fitting yards, and there is little prospect of a recovery in the near future. The accompanying table of freight rates will show how difficult it has been for owners to work at a profit.

In local matters, it has been a year in which the port authorities in Calcutta can take some pride for having prevented serious delays to ships by a series of measures, not all of which were welcome to a number of port users who may have suffered periodically at the expense of the general benefit. Bombay has maintained its good reputation in spite of the handicaps encountered during the monsoon season and Madras, although still liable

to periods of congestion, has absorbed the piece-rate system with little disruption. Visakhapatnam, Kandla, Cochin and the minor roadstead ports have all been relatively free of delays. The factor which has assisted most in this happier state of affairs has undoubtedly been the reduced volume of trade at the ports, which annual returns will show to be much less than previously.

With tight control still being exercised on imports, there should be no serious delays to shipping next year. However, in Calcutta there are two problems yet to be solved—the introduction of the piece-rate scheme and the deterioration of the river. The only opponents of the piece-rate scheme are the union leaders who apparently see in it a threat to their hold over labour. The de-

terioration in the river has already been brought to the notice of the Central Government, and is expected of the experiments taking place at Poon. Without in any way belittling the work being made there, the layman is inclined to wonder if the actual conditions of so complex a task as the Hooghly can be satisfactorily simulated on a scale model. Various theories have been forwarded to account for the present situation, as the failure of the headwater supply, the Durgam Valley scheme and the formation of bunds in the upper and lower reaches by cultivators. The relative effect of these has certainly been felt in the drastically reduced drafts now available to shipping. When this journal sounded a warning about river conditions in 1951, the reduction in drafts was measurable in inches; now it is in feet. The increase of drafts at present lies in the improvement of the Balari bar, and an intense and sustained effort with all suitable draughting craft might well produce results even at the expense of other parts of the river temporarily. Mention has been made of the proposed construction of a barrage at Farakka which will ultimately give a controlled flow into the Hooghly but this is a very distant prospect. There has been talk of an auxiliary port in Haldia, and this would afford some measure of immediate relief; it should be noted that Haldia lies above which, in their season, have controlled the flow in the river. Surely, with all the aid now available to this country, it should be possible

By

A SPECIAL CORRESPONDENT

semble a team of experts and equipment capable of producing a temporary solution pending implementation of a permanent scheme.

The effect of poor drafts on the export trade is sometimes overlooked. A shipowner with a vessel capable of carrying 9,500 tons finds that he can only lift 7,500 tons; therefore, his rate of freight is correspondingly higher a ton of cargo. The export trade has dwindled to almost nothing except for Burma and Ceylon, and ships taking ore in full cargoes now have to complete at other ports. A difficulty is the income tax on freight, which is about 11 percent and may well be made payable in the event of losses by machinery which deals with the cargo. Owners tend to regard the tax as a burden and adjust rates of freight accordingly. In any case, exports are placed at a disadvantage compared with other countries which levy a small tax or none at all.

Trade	Last Year Rs.	This Year Rs.
Coal:		
Calcutta-Colombo	31-8	26
Rangoon	48	48
Singapore	28	nil
Hampton Roads-Japan	50	33
Continent	23-8	15
Ore:		
Calcutta-Japan	40	24
East Coast India-Japan	38-8	28
Mormugao-Japan	36-8	25
East Coast India-Continent	33-4	32
Visakhapatnam-U.S.N.H.	57-8	
Grain:		
North Pacific-India	46-8	43
U.S. Gulf-India		40
Time Charter:		
Liberty-type 12 months	12-8	8
Motorship 9,000 tons		11
12 months	18-12	



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