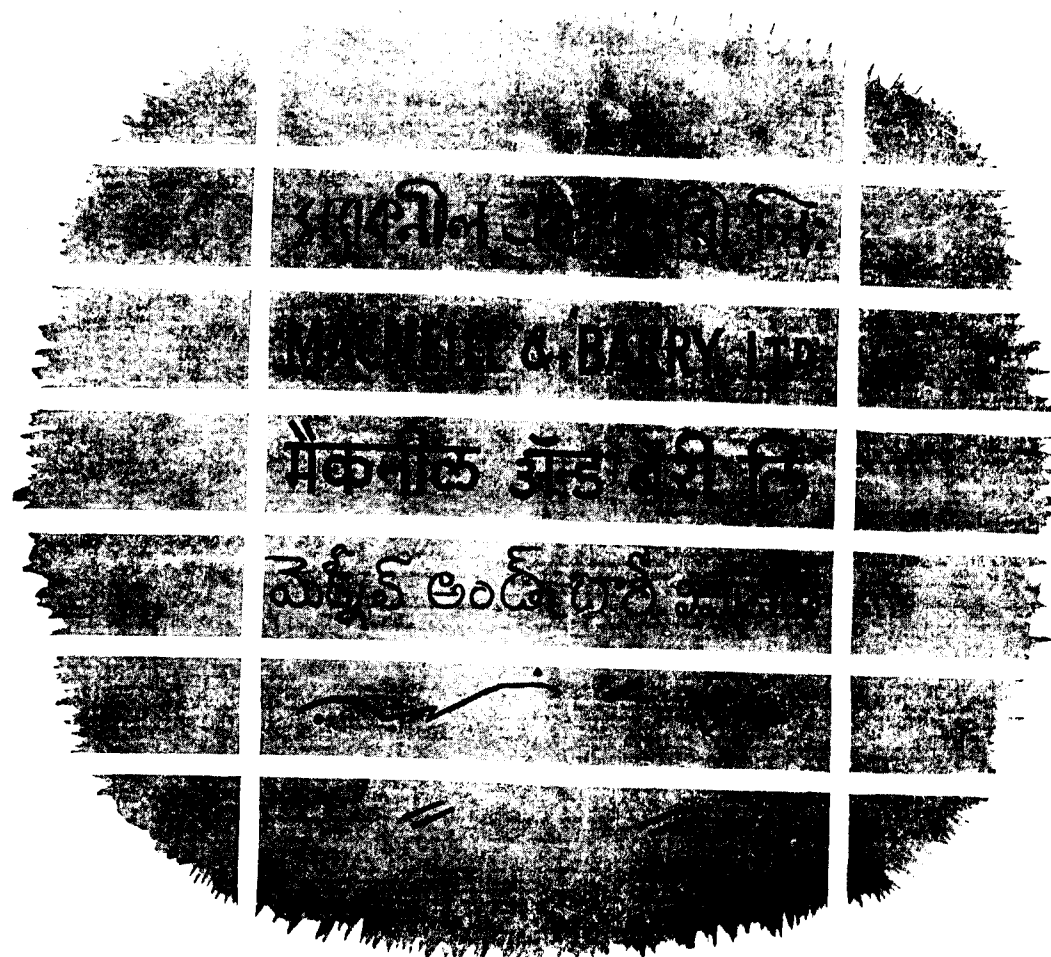


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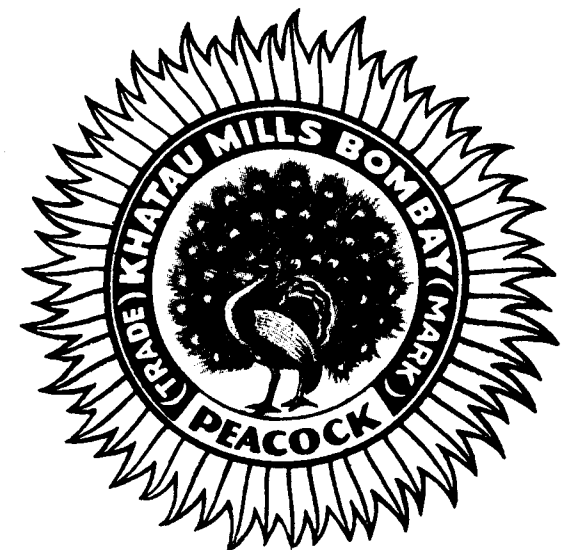


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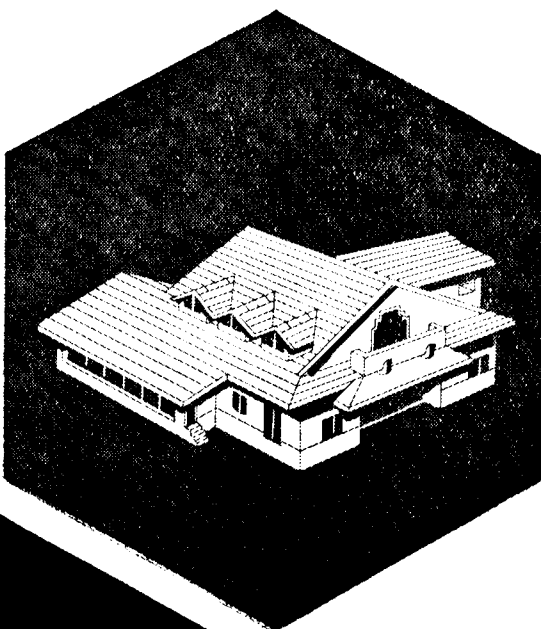
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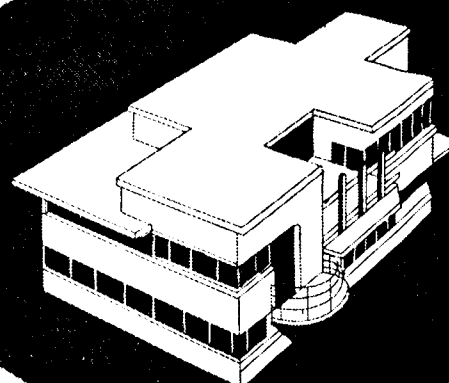
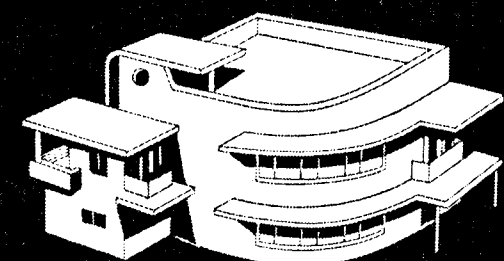
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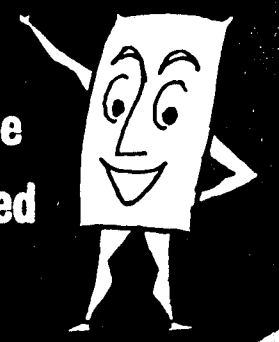
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Turning Point In Second Plan's Fortunes

Dispelling of Doubt & Defeatism

End of Crisis of Confidence

Sober Optimism in Sight

IT would have required a Micawber to extract even a modicum of hope from the state of the Indian economy during the best part of 1958. India had completed the second year of the Second Plan, and difficulties, anticipated though they had been, had cropped up with a swiftness and simultaneity that forebode inclement weather over the rest of the Plan-period. Two successive food crops had failed. Our foreign exchange reserves dwindled at a frightening pace. Our earnings from exports showed an unwelcome dip. Signs of foreign assistance were few and far between. Confidence lagged. Pessimism and apathy crept in. None except a Micawber would have chosen in this situation to find comfort in the state of the money market and to foresee the prospect of a general improvement in all other respects. But, at the end of 1958, we are in the fortunate position of seeing defeatism being slowly banished and the gradual growth of a firm basis on which to build up hope. The chronology of events in the year just ending marks a rising crescendo of crisis followed by a succession of events that dispelled doubt and defeatism.

Why this crisis in confidence? Is it a charge to be levelled at the Planning Commission that they had been too complacent in leaving a large foreign exchange gap in the Second Plan? And were they also at fault in having under-estimated the foreign exchange needs of this country for the Second Plan? Did failure in agriculture indicate neglect by the planners of this important sector of the economy? In short, at the half-way mark of the Second Plan, was it true that the Second Plan was merely a set of figures in which categorical targets of production had been laid down without due regard for the resources to achieve them? As a circle of critics have consistently been reiterating ever since the Plan papers were first published, was the Second Plan really too ambitious and beyond our capacity to cope? Was it now time to beat as dignified a retreat as possible, to declare that India had indeed attempted too much, and to announce that the whole gamut of targets of production was to be scaled down? This was a period of crisis during which Government found few friends, and 1958 will go down in history as having evoked from the authorities a measure of courage and perseverance, in the face of the most destructive criticism imaginable. Today, it is true, the Second Plan is somewhat pruned, but, not least because of the generosity of our foreign friends, the Second Plan has clearly avoided being scuttled.

During the year, this need for second thoughts was reflected in the appraisal undertaken by the Planning Commission of the Second Plan. At that stage, in May, it was patent enough that, due to reasons which could not have been foreseen at the time when the Second Plan was drawn up, it would be necessary to revise somewhat our expectations of what we could achieve in and through and by the end of the Second Plan. It has required heart

searching, it has required realism, but most important of all, it has required courage to confess that resources for the Plan have not come up to expectations, and it was, consequently, necessary to jettison some of the projects. At the same time, however, this reappraisal, leading as it did to a smaller Second Plan, is not something that the original papers did not anticipate. On the contrary, there has been insistence all along that flexibility and the pragmatic approach would typify the Government's attitude to our planning endeavours. So, it was a logical result that, at the mid-way mark of the Second Plan, we should have had second thoughts.

But, the question remains that we did run into difficulties, and these have been listed briefly earlier in this article. We would do well to take stock of these difficulties, and seek to discover their root causes, in order that we may be enabled to avoid a similar occurrence that disrupts the general morale of the country. The most important of the problems that India has had to deal with is as regards foreign exchange and balance of payments.

★

How did this crisis come about? Partly, it is true, the extent of India's foreign exchange needs over the Second Plan had not been accurately gauged. Partly, it is also true that the foreign exchange gap built in in the Second Plan had not been covered up to the time when the crisis made itself apparent. Partly, it is furthermore true that the planners had expected a hump period during the Plan when we would feel the pinch in regard to the foreign exchange position. But what was unexpected was the severity of the rate of draws on reserves in the first two years of the Plan. But, to a considerable extent, the aggravation of India's difficulties in this respect was due to external causes over which we obviously had no control. In the first place, there was a period during which inflationary tendencies in the West caused prices of Indian imports to be raised to a level such that the calculations at the time the Plan was drawn up proved to be under-estimates. Hardly had this phase ended when, in the second place, there was a sharp reversal of economic conditions, and the phenomenon of recession governed most industrialised countries of the West. The implications of such recession as far as India was concerned were two-fold. On the one hand, because of recession, demand for commodities which India traditionally exported began to decline, and, at the same time, there was also a consequent fall in the export prices of Indian commodities. So, the terms of trade in respect of exports went against us, the while that quantitatively Indian exports also fell. On the other hand, with smaller indi-

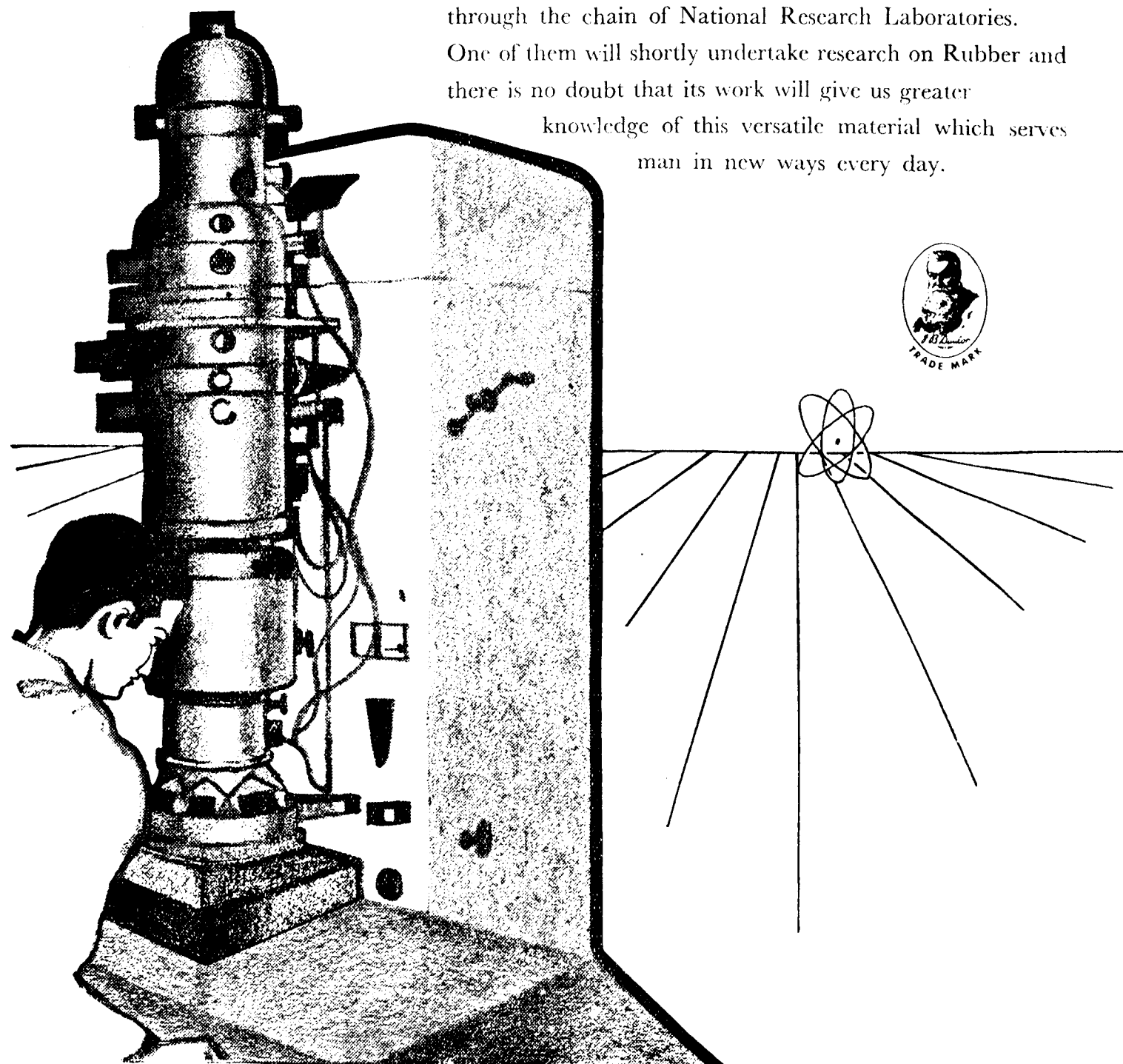
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genous demand in the industrialised countries, orders placed by India began to get prompter attention and, as a result, deliveries of capital goods were accelerated. Nor must be overlooked the impact of the closure of the Suez Canal, whereby a substantial increase occurred in freight costs. Thus, there have been three distinct external causes which, while not precisely responsible for India's foreign exchange difficulties, nevertheless did aggravate our balance of payments problem.

Another approach to the question of foreign exchange is, as we have seen, whether the Planning Commission had tended to be rather liberal in their estimates of foreign assistance, excessively sanguine about our export receipts and overly conservative in their estimates of import costs. We may point out that the planners had stated explicitly that "credit has been taken for Rs 800 crores of resources to be raised externally". This, then, was the size of the built in foreign exchange gap. But foreign assistance that was vouchsafed to us by the middle of the current year had already exceeded this figure. Mr H. V. R. Iyengar, Governor of the Reserve Bank, had occasion to point out, in June, that "aid has been given or definitely committed already to the extent of Rs 832 crores". Secondly, no soaring hopes typify the Planning Commission's approach to exports. As against actual exchange earnings of Rs 596 crores in 1955, the annual average postulated by the Second Plan is Rs 593 crores. Thus, by no stretch of imagination can our planners be charged with having succumbed to roseate optimism. Thirdly, however, partly because of under-estimation of the cost of capital goods imports and partly because of the other reasons that we have enumerated as having caused a rise in import costs, the balance of payments deficit has been significantly larger than estimated by the planners at Rs 800 crores. (The Second Plan had suggested that Rs 800 crores be raised externally, after taking account of Rs 100 crores of spill over of assistance from the First Plan and Rs 200 crores to be drawn from our sterling reserves—the payment deficit, thus, was thought to be Rs 1100 crores over the Plan-period).

★

What, then, is the lesson to be drawn from the foreign exchange difficulties? The most blatant of these appears to be that an under-developed country in the throes of a programme of industrialisation has no available alternative to a reliance on foreign assistance. The second conclusion seems to be that much greater attention has to be devoted upon the foreign exchange plan. The third conclusion may be said to constitute the need for a braver target for exports. For, it can scarcely be denied that it is the foreign exchange crisis which, throughout the year, has threatened a virtual standstill for India's planned endeavours. In this context, our own view continues to be that it is a poor country in morale and in the desire to work out its own economic salvation which is content to adhere to the lesson of past history that, whenever development has taken place of industrially virgin territory, foreign capital has been a prerequisite. We concede that foreign assistance does help. But we cannot admit that development is impossible without foreign assistance. (By foreign assistance, we here mean loans or grants, not the pool of technical knowledge that we will have to draw upon). But, at the same time, it appears that, for some many years to come, we can be reasonably confident that we will secure a reasonable quantum of foreign assistance to implement our development programme. However, we would do well to remember that every extra dollar or sterling or mark or yen of such assistance that we obtain entails a corresponding liability of sterling and dollar, mark and yen to which we commit ourselves, a liability which self-respect and the need to keep up our creditworthiness will require us to honour. So, the fact that foreign assistance has ameliorated our balance of payments problem should really have the effect of making us persevere even harder than before with expanding our earnings from exports. In this sense, the paramount need of today as well as the most important aspect of our endeavours of the next few years is and should be to concentrate on ways and means by which we shall acquire by our own efforts that surplus in our balance of payments which will enable us to repay the loans that we have now taken in hand. Furthermore, it is time that we recognised that, with industrialisation, our import bill will not necessarily decline. If capital goods industries are set up in this country, if the quantum of industrial capacity in this country increases, to that corresponding extent will there be a greater need for raw materials, and thus industrialisation itself produces a new

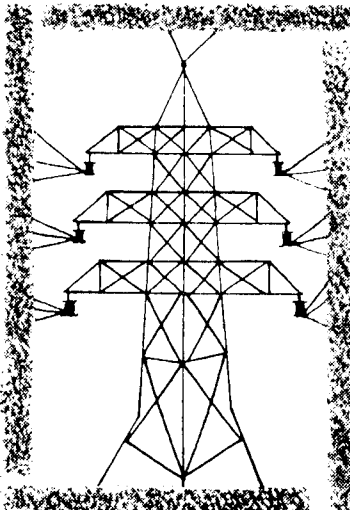
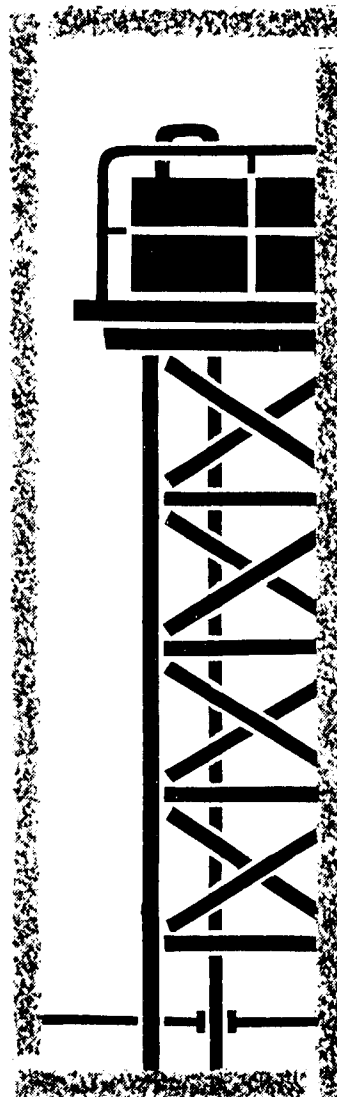
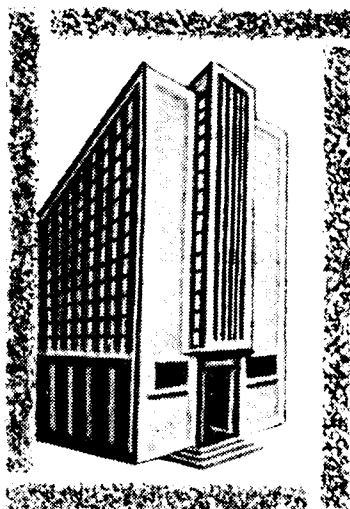
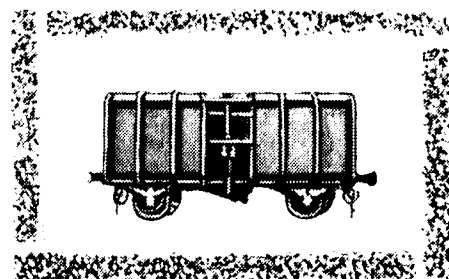
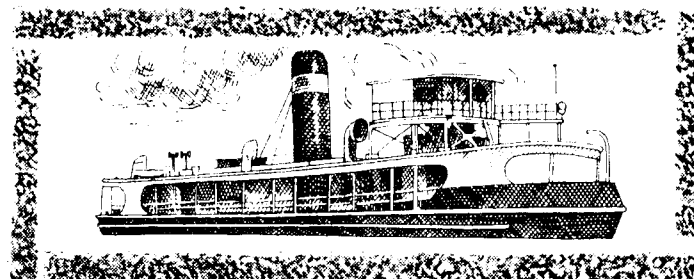
import need. In this sense, there is likely to be a gradually increasing import bill. Therefore, a foreign exchange plan acquires an even greater importance—it may be said to be the most important aspect of our planning.

★

Apart from the foreign exchange crisis, there were contradictory elements in the Indian economy which made an assessment of the prospects before the Second Plan an even more befuddling task. The price situation, for example, tended for the first half of the year to arouse anxiety because of the inflationary tendencies apparently being experienced. Mainly, the upward trend in prices could be traced to the second successive relatively poor crop in foodgrains, but, fortunately, our shortfall in this regard could be covered without recourse to further foreign exchange expenditure. Negotiations between India and America, in respect of surplus commodities, have consistently borne fruit in the form of Agreements under Public Law 480, by the terms of which no liability in foreign exchange needs to be undertaken by India. Thus, the extent to which a poor food crop contributes to an intensification of our foreign exchange problem is possibly of small, if not negligible, proportions. However, a food crop failure affects the state of of the Indian economy in another and more deeply damaging way. It has to be realised that, if, on the agricultural front, there is a diminution in prosperity, it immediately reduces the effective demand for consumer goods. And it is here that we have the paradoxical situation of a perceptible softening in the economy, in the sense of reduced demand—or at least demand that fell short of production or availability—at a time when, in respect of some other commodities, inflationary pressure was being felt. In particular, the cotton textile industry found that its output was not being taken up as satisfactorily as might have been desired. In the case of cotton textiles, the problem was rendered more complicated by the fact that, during the current year, with keen competition emanating both from Japan and from a new entrant, China, Indian exports have declined by a disquieting magnitude. On the other hand, in the wake of the increase in the excise duties on cotton textiles in the autumn of 1956, the additional stocks that were in the immediate months thereafter built up have continued to persist with mills. But let us remember that, during the first nine months of 1956, it appeared as if the target for cotton textiles set by the Planning Commission in the Second Plan was inadequate. Demand outrunning production month by month depleted the stocks. But, once consumer resistance was evoked by a hike in excise duties, the reverse trend became noticeable. Meantime, during the past 2½ years, the cotton textile industry has somewhat increased its production. But it is clear that the pace at which consumption has risen has tended to be slower than the rate of increase in production. We feel that the reason for this failure of cotton textile consumption to keep pace with increased production should be attributed to the poor foodgrain crops of the last two years and the resulting decline in basic purchasing power. So also, in regard to sugar, the stage has been reached when indigenous output is ahead of demand. Cement is another case in point wherein production has gone ahead of consumption.

In this situation, the policy of selective monetary control began clearly to need to be in possession of an attribute that could not have been conceived of when that policy was in the process of evolution. Here we have to examine why it became necessary for this country to pin its faith on qualitative control of the monetary situation, rather than on a tight money policy as such. In India, what at all costs had to be avoided was any monetary device which either restricted the flow of finance for development or increased the cost of manufacture. Tight money or hard money or tough money or dear money would not necessarily have induced a resistance to borrowings, but would necessarily have increased the cost of production. Thus, if only from the point of view of the impact of dear money on the cost of development, India could not persevere with this weapon in the monetary arsenal. At the same time, in a developing economy, inevitably, there would be areas of shortages. In recent years, steel, pig iron, cement, coal, sugar, foodgrains, and cotton textiles have all at some time or other been in short supply. By the nature of things, commodities in insufficient availability tend to attract speculative activity. It became part of Government's duty to ensure that bank finance was not utilised for the hoarding or withholding of stocks in short supply. Thus

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it was that selective monetary control was devised and, under its terms, the monetary authority in this country has, notably in respect of cotton textiles, sugar and foodgrains, directed the banking system to restrict and moderate its Advances against these commodities. But, if, in a developing economy, there are so-called areas of shortages, by the same token, as a result of the very development taken on hand, there will be occasions when and there will be areas where production outruns demand. In such a situation, qualitative control would dictate a liberalisation in finance against commodities in surplus supply.

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Meantime, there was an offshoot of the difficult foreign exchange situation which served to retard the sustained growth of industrial production. Industries which were dependent upon imported raw materials were the first to feel the pinch. Side by side, with a cut in steel imports, the indigenous supply of steel was inadequate to the demand, and hence the ancillary industries, particularly the light engineerings, were even sometimes compelled to retrench labour. The index of industrial production, which had risen, if not spectacularly, at least in a very satisfactory manner over the First Plan period appeared, over the first two years of the Second Plan, to have reached a plateau. But we must avoid interpreting this deceleration in the rate of growth as indicative of recessionary trends in the economy. We might be led to such an interpretation, particularly in view of the emerging surpluses in a range of Indian manufactures. But what we have to appreciate is that the steep incline in the index of industrial production during the First Plan was made possible mainly by the utilisation of capacity that had been lying idle. By the time the First Plan drew to its close, new production was enabled only by the installation of fresh productive capacity. It is in this sense more than any other that a plateau of production has seemingly been reached. Once steel, in particular, begins to be more freely available—such a situation would be reached when the Government steel plants begin producing—it is to be anticipated that the upward trend in industrial production will again be resumed. But we have to take account of this simple proposition whether, in the economy of today, we are witnessing a plateau of demand rather than a plateau of production. For, as we have already pointed out, in a number of industries, indigenous availability now outruns demand. We should iterate here our view that the poor agricultural years are to be held accountable for the plateau of demand that has existed over the last two years. The improved prospect for the agricultural front would cause the volume of demand to rise. But coincidentally, and fortunately for this country, the plateau of demand and the plateau of production have overlapped in point of time. Equally fortunately, with the current food crops promising to be very satisfactory, and with the outlook for raw materials somewhat better, it looks as if the upward curve both in demand and in production will be resumed around the same time—during, we fancy, the latter half of 1959.

The only silver lining in 1958 has been, as we have remarked, the state of the money market. The causes leading to the reversal of the money market stringency that had been experienced during 1955 and 1956 are most of them obvious but one of them concealed. We may now list the factors contributing to both the increase in the Deposit resources of Scheduled Banks and the diminished demand for Advances from the banking system as they are apparent at even a superficial examination of the economy.

Firstly, the import restrictions have served to prevent the utilisation of gathering resources with industry for purposes of additions to plant and machinery. While, by dint of an improved level of production and sales by the end of the First Plan, and also due to accumulation of internal resources arising from generous depreciation and development rebate allowances, the resources with industry have risen, the tight foreign exchange position has not permitted foreign exchange being available for the acquisition from abroad of new plant and machinery. Such gathering resources are to be seen reflected in and presumably contributing to the substantially increased level of Deposits of Scheduled Banks. Secondly, the improved balances of industry with banks are, in many cases, net of a reduction in the Advances taken from the banking system. Thus, the improved earnings of industry, coupled with the import restrictions, have also partly at least led to a decline in Advances. Thirdly, to the extent that two successive foodgrains crops have been relatively poor, bank credit required

for financing agriculture has tended to be of small proportions. Fourthly, in view of the poor agricultural crops, and also in pursuance of the policy of selective monetary control, the Scheduled Banks were restrained from giving accommodation on an enlarged scale to certain notified industries or for certain notified purposes. This would have restrained the volume of Advances of the banking system. Fifthly, in the light of the current foreign exchange situation, industries dependent on raw materials have had to make do with a smaller volume of stocks; and hence the quantum of bank finance thereagainst necessarily would have been smaller. Sixthly, the import restrictions would have meant automatically that the volume of imported articles requiring bank finance would have diminished. Seventhly, to the extent that imported materials were not available, there would have been greater demand for indigenous products and hence, except for the few industries that we have enumerated, the general level of stocks requiring bank finance should have been lower. Lastly and most importantly, with the signing of agreements with the United States of America under Public Law 480, counterpart funds in the care of the US Embassy and on deposit with the State Bank, pending their allocation and loaning to approved projects, have reached very large proportions.

All these are causes on the surface leading to the expansion in Deposits and stagnation in Advances of the banking system. But we have not referred as yet to the most significant contributor to the improvement in the money market situation. If Government, in planned endeavours, are spending larger amounts each year, save those disbursements which would have been utilised in imports, Government expenditures would necessarily need to be reflected in the Deposits of Scheduled Banks. Over the First Plan period, it appeared as if Government expenditures were largely in the non-monetised sector and therefore did not return to the banking system. But the Second Plan's emphasis is on industry, and, in the interim, the banking habit has also been spreading, so that a relationship between Government disbursements and accretions to bank Deposits is now discernible. While, therefore, each of the apparent causes that we have listed will have contributed to the easiness in the money market situation, the most important development as concerns the World of Finance has been the impact of governmental disbursements.

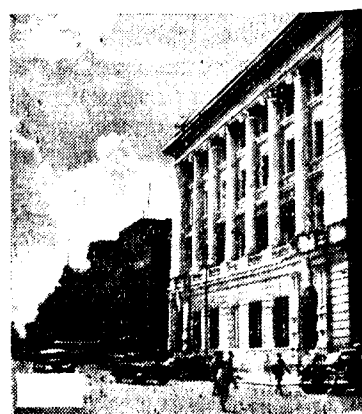
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We have thus seen that the money market situation is basic to the study of the Indian economy since even the foreign exchange problem is reflected in the World of Finance. Of course, any improvement in the money market as such cannot even indirectly lead to a solution of our balance of payments difficulties. But, then, over the short term it looks as if nothing that India can do will enable us to close the exchange gap. In this view, certainly over the period of the Second Plan and almost certainly in respect of the Third Plan, the balance of payments deficit will persist and the exchange gap can be made good only by receipts of foreign assistance. Once this assumption is conceded, it is easy to see the pivotal place occupied by the money market. As we have already seen, the import restrictions must, in the wake of the tight foreign exchange position, have enabled both an increase in the Deposits and a decline in the Advances of the banking system. For the foreseeable future, it is not to be doubted that India will have to exercise austerity in regard to imports. So, provided that planned disbursements as such continue to be on a progressive scale, the money market will assuredly gain new and substantial resources. Then, in respect of some varieties of foreign assistance, counterpart funds have been built up and which are available for or intended to be re-lent to projects of industrial development. We may anticipate that, of the foreign assistance that we shall be receiving in the near future, there will be an element which conforms to this type. Thus, import restrictions, governmental disbursements and foreign aid with an element of counterpart funds may be said to be the three distinct factors contributing to an enlargement of banking resources. It is now necessary for us to assess the significance of this development in the money market.

It has in the past been fashionable to complain that, with the steep rates of taxation imposed by the Central and State Governments, apart from the elimination of the incentive motive as far as the individual is concerned, there is also the deleterious effect of a gradual drying up of the sources of rupee capital for Indian

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development. Undoubtedly, such criticism has partly been just. For our part, we feel that rates of direct taxation, especially in the middle class range, are so high as to sap initiative and incentive. But, as regards corporate tax, we cannot lend our support to the view that the rates are too high. Indeed, if it is reckoned that a shareholder, on his dividend, gets credit for the income-tax paid by the company, the total tax paid by a company is not too high. The Dividends Tax is defensible only in that it seeks to foster ploughing back of profits, but such a measure has also indirectly the effect of further dampening individual incentive, since a higher dividend is denied to the shareholder. The Wealth Tax on companies is also a measure which, to us at any rate, seems uncalled for, but, if it is stated to form part of the integrated structure of taxes, we have to learn to bear with it. There is, however, no such justification for the levy of the tax on the capitalisation of reserves, especially at its present penal rate. Here, again, the Government viewpoint may be that it is part of the integrated structure. But, if so, we would commend a reduction in the rate of the tax, so that at least some individual incentive is restored. It is clear, we trust, that, while the taxes in the corporate sector are not too onerous as such, they nevertheless inhibit fresh capital being subscribed by investors. In this view, the raising of capital for enterprises has been rendered an arduous task, and it would follow that a new industrial undertaking would find it almost impossible to approach the capital market. However, we must remember that shareholders' capital is only one of the forms of finance for industry. In order to encourage both the setting up of industries and the undertaking of expansion programmes by the existing enterprises, Government, in the field of tax, do offer a range of concessions. Tax holiday for new undertakings, generous depreciation allowances and the unique provision of Development Rebate are three of the many measures intended to enable a company to plough back profits. Thus, the generation of internal resources, or auto-financing by industry, appears to be a subject to which Government have addressed themselves. It is necessary now, with suitable changes in the taxes of the corporate sector, to imbue the investment climate with an attractiveness that would elicit the support of shareholders to new capital issues. While, certainly, the investment market and the money market are linked, and while taxes affect the investment market, we may now turn to the relationship between the money market and industrial finance.

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If the resources of the banking system are strengthened in the manner we have described, there is at once an improvement in the capacity of banks to contribute to the development of the Indian economy. It is obvious that the financing of industry will not be the superhuman task it was in 1956. Thus, first of all, as soon as industrial production shows signs of resuming its expansionary trend, banks will not find it difficult to finance the larger volume of stocks of raw materials or of manufactured goods. We may add here that, with this very contribution to industrial production, banking finance will also be indirectly paving the way for increased industrial profits and, therefore, larger tax payments to the Central and State Governments—income-tax, corporation tax and excise duties. Secondly, by virtue of the resources that are lying idle with them, banks are more or less compelled to increase their investments in gilt-edged. This directly provides Government with larger resources for implementing the Second Plan. At the same time, such gilt-edged investments are anti-inflationary in the sense that they deactivate resources with banks which otherwise might have been available for financing enterprises with inflationary potential. Thirdly, the easiness in the money market has served to bring interest rates down. Furthermore, the increased purchases of gilt-edged and the greater demand for Government securities have pushed up prices of gilt-edged such that yield patterns have fallen. With the decline in gilt-edged yields, the market for Government securities has improved considerably. Thus, the easy money market situation may be said to contribute to the success of the Central Government's and State Governments' borrowing programme generally. Fourthly, by virtue of the decline in gilt-edged yields, an upward impetus is given to stock exchange prices, in order that the yields obtaining thereon may conform to the other interest rates in the money market. The improvement in the stock

exchange leads inevitably to a better investment climate, and the capital market is thus rendered more responsive. To the extent that, fifthly, Government revenues improve as a result of higher industrial production enabled by banking finance and owing to the addition to Government resources by the fact of larger investments in gilt-edged, the need for Government to rely upon deficit financing for their planned disbursements gets correspondingly reduced. If the magnitude of deficit financing can be brought down, this is clearly an avoidance of a money market instrument that might lead to inflationary pressures. Lastly, if Government do intend to restore a modicum of incentive to the individual, the current state of the money market, what with the additional revenues and resources it provides for Government, should enable the authorities to offer some concessions and reliefs in taxation. But whether there will be such an inspired interpretation of the significance of money market trends, is doubtful in the extreme.

Thus, the most important development during 1958 may be said to be the realisation that, in a growth economy in an under-developed country, there are boomerang implications to Government disbursements. Let us see, briefly, how Government expenditures stand reflected in a variety of economic contexts.

In the first place, during the First Plan, the Deposits of Scheduled Banks did not display any tendency to benefit from planned expenditures. In 1952-53, the Deposits of Scheduled Banks actually declined by Rs 4 crores. In 1957-58, the rise registered is of the order of Rs 296 crores. The trends since April indicate that, in 1958-59, this rate of growth in bank Deposits is likely to be maintained.

In the second place, the revenue from excise duties has shot up from Rs 83 crores in 1952-53 to an estimate of Rs 305 crores in 1958-59. We need hardly say that the higher collections are due both to new levies imposed on new items of manufacture as well as increased rates on an additional production of old manufactures. So long as the Plan involves a steady growth in industrial production, so long we may expect this growth in excise duties to be maintained. What is more, the rise in excise duty collections is traceable to the growth of Government disbursements, whether through Government sponsored loans to industry or through the availability of finance from banks, whose own resources were swollen as a result of Government disbursements.

The collections from income tax and corporation tax have moved up from Rs 185 crores in 1952-53 to Rs 217 crores in 1958-59. Lately, a press communique indicated that, as a result of the integrated tax structure and consequent to the check provided by the Wealth Tax, tax revenues had improved. The rise in tax revenues so far is partly to be ascribed to higher rates of taxation, partly to an increase in the number of assessees—new assessees having been created by the prosperity arising from Government disbursements—and partly also because of Government disbursements themselves. With tax evasion made more difficult and with the growth of economy in full stride, we may expect this growth in tax revenues to be maintained.

The new loan collections of the Central Government have multiplied many fold from Rs 34 crores in 1952-53 to Rs 430 crores in 1958-59. This is due both to receipts of foreign aid and the more successful Government borrowing from the market. If it is admitted that the rise in bank Deposits will be sustained, if it is granted that, with the spread of prosperity, the people will become more insurance minded, and if it is conceded that, with the growth of industry, provident fund collections will swell, it will be realised that the realisations from Government loans cannot but rise. Whether it is the rise in bank Deposits or it is the greater insurance consciousness or it is the growth of industry which contributes to the greater demand for gilt-edged, ultimately it all can be traced back to the growth in Government disbursements.

Small savings collections have more than doubled from Rs 44 crores in 1952-53 to Rs 100 crores in 1958-59. This is savings at the grass root level of the economy, savings in the hands of the masses. That such savings have been generated by increased planned disbursements, there can hardly be any doubt. And this growth, too, for obvious reasons, should be maintained.

The growth of industrial production, enabled by Government disbursements in a manner previously set forth, has now flattened out somewhat, but with greater availability of raw materials from the next year, a further rise in production, leading to further rises in tax revenues for Government, should be possible.

Similarly, the growth in foreign assistance leads to imports, to new production, to greater revenues.

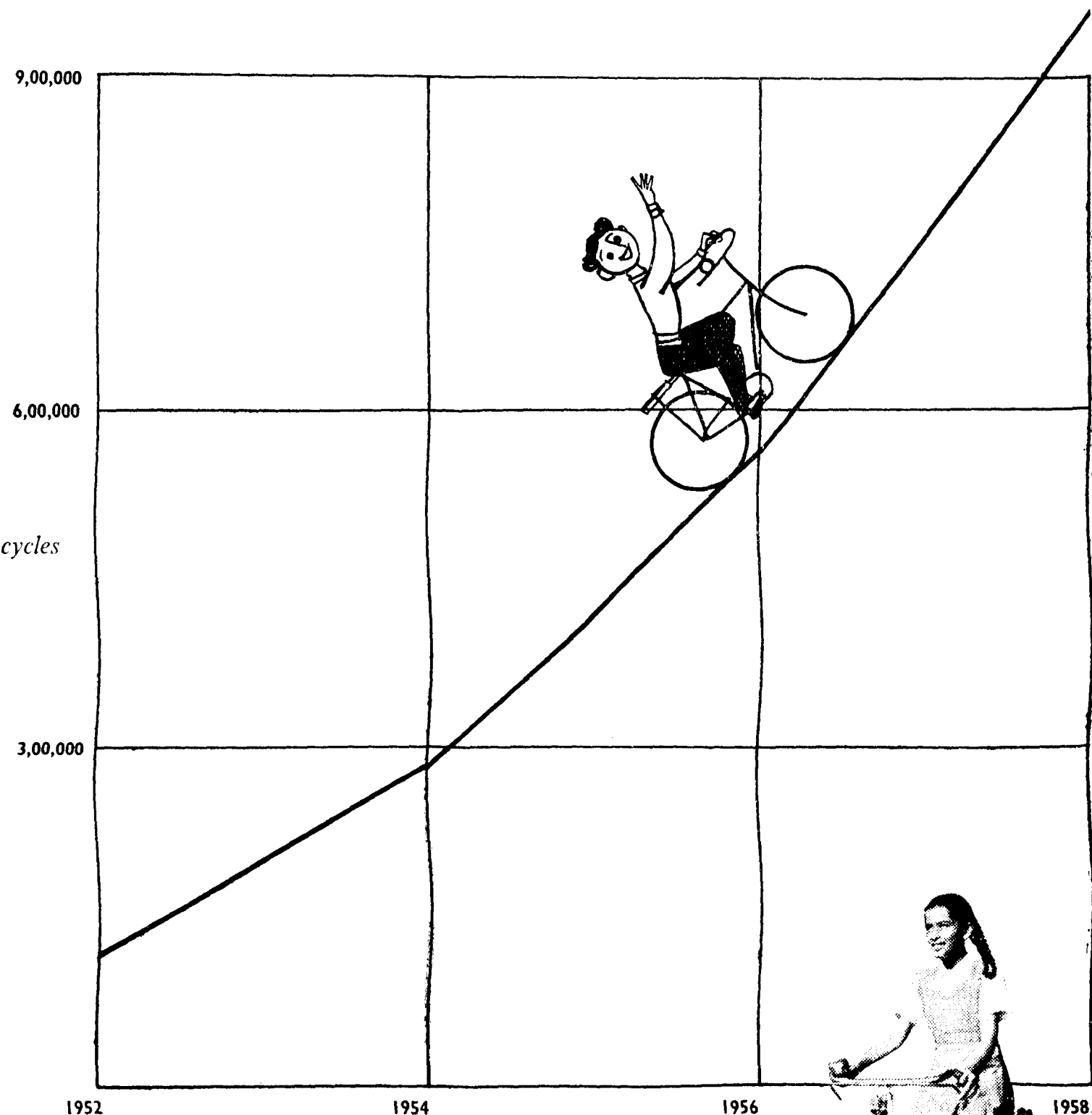
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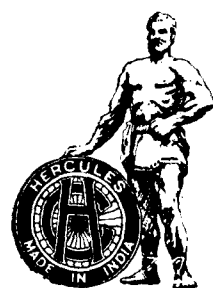
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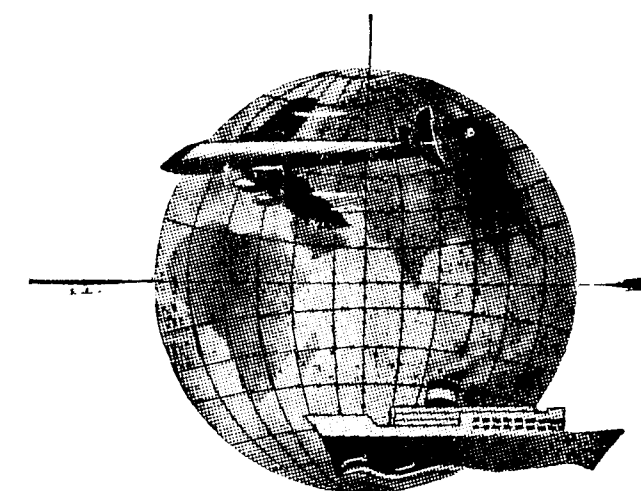
Foreign assistance under Public Law 480 from America serves to mop up resources at the grass roots levels and these resources will be available to Government for further disbursements and further return through the boomerang process.

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At this stage, it is time that we embark upon a recapitulation of the conclusions that have become apparent in this assessment of 1958. The foreign exchange crisis loomed large on the horizon, but, owing to the good offices of the World Bank, and due no less to the friendly interest of foreign countries in India's development endeavours, there is now the reasonable certainty that we will be able to avoid balance of payments difficulties over the rest of the Plan-period. Recessionary trends as well as inflationary pressures were in evidence, rather strangely, simultaneously. Two successive agricultural crops had been relative failures, but a link could be fathomed as between the soft spots in the economy and the poorer agricultural crops. The new agricultural crop promises to be a bumper one, and there is now the prospect of an enlarged basic purchasing power which, in due course, may be expected to provide a solution for what may be termed the industries in the doldrums. Meantime, the inflationary pressures were kept at bay, notably as a result of the Public Law 480 assistance obtained from America. This economic situation also provided the inspiration for the evolution of the policy of selective monetary control such that both the phenomena of shortages and surpluses could be dealt with. Then, fortunately for this country, the plateau of demand and of production coincided, the deceleration in the pace of economic growth being traceable to raw material shortages arising from the foreign exchange position. Also fortunately for this country, it now appears as if the upward trend in production and in demand will be resumed at more or less the same point in time. Overshadowing these developments is, in our view, the metamorphosis of the money market from intolerably stringent conditions to a state of relative ease. This is a development which may justly be attributed to the boomerang implications of a growth economy. That is to say, the planned disbursements of Government themselves caused a dynamic quickening in the pace of economic activity in the sense that such disbursements are themselves the source of new governmental revenues and resources. Today, the banking system is in a position to take upon itself the responsibility of financing such increase in industrial production as should soon be enabled by the greater availability of raw materials. Such increase in industrial production will be found necessary to meet an enlarged demand stemming from an improvement in purchasing power at the grass roots level due to a much more satisfactory agricultural crop.

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We make bold to suggest, therefore, that 1958 will be reckoned noteworthy in history, not as having been the year of relentless strains and crises, but rather of consolidation and orderly solution of our difficulties. A virtuous cycle has been established, particularly as regards, we repeat, the dynamism implicit in a growth economy. The future will no doubt offer new challenges, but the lesson of 1958 must be that the Indian Government and Indian people should be equal to the tasks that the future may hold in store. We believe, thus, that a Micawberish attitude, in Indian conditions of 1958, was wholly justified, and not just one of an impossible optimism nurtured in an impossible situation. But the trouble would be that few commentators would be able to prevent themselves from succumbing to the pessimism generated from the seemingly overwhelming crises of the year just ending. It is for this reason that we should like to stress that 1958 really marks a turning point not only in the fortunes of the Second Plan but also in the economic future before this country. 1958 it was which has given more cause than any previous year for India to shrug off an effete doubt and defeatism. 1958 it is which should mark the end of the crisis of confidence that had lately overtaken us. 1958 it is which opens up a new era for this country, where sober optimism in the future has been vouchsafed to us. Let us by all means remember the problems that faced us in 1958, for, it is necessary that, as far as it lies in our power, we should avoid their recurrence. But the stirring lesson to be drawn from 1958 is that we did not allow the difficulties to batter us into a sense of hopelessness. In short, 1958 offers proof that India will not be cowed down by difficulties or problems, but will instead overcome them and continue steadfast on its goal of bringing into being, steadily and through our own efforts at our economic salvation, a new India in which each Indian can have the confidence that each day that dawns will be a better day for him.



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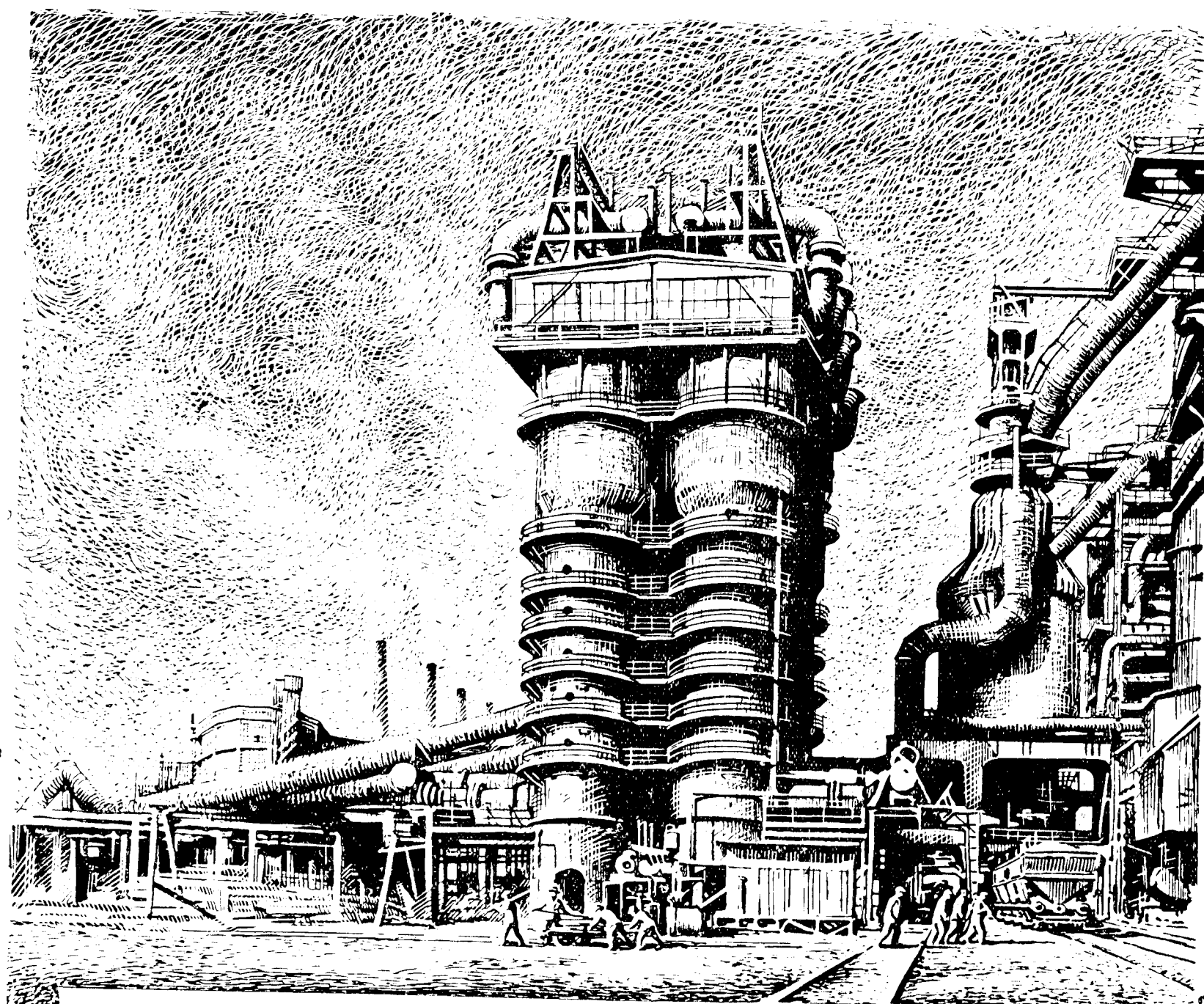
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The Central Government Budget

THE verdict on Mr Nehru's Budget for 1958-59 would depend upon whether it is studied as an entity by itself or whether it is considered in the larger context of the Second Plan budgetary programme as a whole. In one instance, the reaction will be one of disappointment, while, in the latter case, there is no ground for complaint. Yet, in the ultimate analysis, and in our judgment, we are left with the inescapable impression that, while the Second Plan budgets so far cannot be held guilty of any sins of commission, the current one has to do some penance for some sins of omission. In such a reading, moreover, it does not matter whether the approach is from the more or less general standpoint. If, therefore, we have any worthwhile comment to make on 1958-59 Budget, it will not be in respect of any modifications or amendments that may be necessary to the Finance or Gifts Tax Bills, which, being a matter of detail, we have analysed elsewhere in this study; rather, we should like to make good use of the lesson available in the current budget in order that we may formulate a policy in one more important sphere.

Policy already exists for such things as taxation, imports, exports and development. As far as taxation is concerned, and by taxation we have in view the fiscal measures which are intended either to raise the revenues or to imbue the system with much more elasticity than it has till lately possessed, we have no quarrel at all with either Mr Nehru's Budget of this year or Mr T. T. Krishnamachari's Budget of May last. For, the simple fact of the matter is that the system of taxation such as we had until the last budget was neither more nor less than a farce. High rates of income tax and high rates of super tax did not result in any considerable augmentation of revenues, but merely succeeded in eliciting a larger measure of tax evasion.

What the country needed was a revolutionary change in the structure, and, in the long run, not merely the Government but the tax payers as well will be grateful to Dr Kaldor for his report on which mainly the new tax structure of India has been evolved. The Wealth and Expenditure Taxes of last year and the Gifts Tax introduced in the Budget are intended not so much to contribute sizeably to revenues but to provide check points so that the room for tax evasion will be minimised. In this sense, we repeat, we do not have any sympathy for the criticism that the Wealth Tax or the Expenditure Tax or the Gifts Tax are unnecessary embarrassments which will corrode into personal incentive.

Mr Nehru himself was impelled to say, in presenting the Budget for 1958-59, that it was this year a pedestrian statement. To him also belongs the credit for one of the shortest speeches that have been made on such an occasion. It is for us to examine in what sense and to what extent the description affixed to his Budget by Mr Nehru is correct. If by pedestrian, Mr Nehru wished to suggest that there is nothing in the Budget which is intended to provoke excitement, none will disagree with him. But this does not mean that the Budget itself is unexciting. The intention may not have been there, but hints are not wanting that, for all the rousing cries in behalf of austerity, economic conditions are so improving as to suggest a more hopeful future. Indeed, it is noteworthy that, in his review of the past year, the Prime Minister paid more than passing attention to the change that has taken place in the economic outlook over the recent few months. Before, however, we take account of this facet of the Budget, we may deal with its core—the new proposals.

The fact is that the 1958-59 Budget is, as compared to the May Budget of Mr Krishnamachari last year, devoid of any sweeping changes. It is, shall we say, a status quo Budget, with minor changes or "such changes as flowed from what was done last year". There is an endorsement of the tax structure created by Mr Krishnamachari, although, "with experience", some changes might be made here and there. The only major measure of new taxation is the Gifts tax; but its imposition had been expected.

On the side of the concessions, the increase in Development Rebate to shipping companies was also expected. Similarly, it had been anticipated that some relief would be given in respect of the Dividends Tax. Other hopes failed to materialise, and a particular disappointment was that the excise duties on cotton textile had not been reduced. Such a concession was, however, given later in the year.

We would like at this stage to draw attention to a speculation that had been mooted in some circles that it would be desirable to do away with the Expenditure Tax, because it did not serve a useful purpose since its realisations were so low; and, for the same reason, it was thought in certain sections that Wealth Tax, too, was not in Indian conditions necessary. This is a way of thinking that was completely scotched by Mr Nehru. The intent of the two new taxes imposed last May and of the Gifts tax levied this year is not merely that they will bring in revenue to Government;

the main objective is that an integrated structure of taxes be created, in which, with the existence of numerous check-points, the scope for evasion would be minimised. The honest tax-payer should not resent, but indeed welcome such imposts. For, there is now reasonable hope that, as the system of checks begins to function efficiently, and as the extent of evasion becomes less, tax revenues would improve and so pave the way for the reduction in the income-tax rates that Mr Kaldor had postulated in his Report. It is no use bemoaning the fact that, while Mr Kaldor's suggestions of new-fangled taxes have been accepted and implemented, his recommendation of a 45 per cent maximum on income tax rates is a far cry from the existing 84 per cent. For, it was not to be expected that Government would sacrifice their revenues in the hope that, as a consequence of a lowering in the tax rates, there would be more honesty in the payment of taxes. Indeed, if revenues improve in the future, it would be because evasion would have been rendered difficult, not because of any improvement in the honesty of the tax-payer.

Thus, the "pedestrian" Budget of Mr Nehru assumes an importance by virtue of the fact that it completes the integrated tax structure that Mr Krishnamachari last year set about bringing into being. It is important, also, because it may prove to be the turning point in Indian taxation; for the future, we have to wait for the enforcement of the laws, for the gradual banishment of evasion, so that in due course the burden falls less heavily and unfairly on the honest tax-payer. But we should not make the mistake of expecting such reliefs within the period of the Second Plan. On the one hand, it will be inexpedient, since, with a socialistic pattern of society as their objective, Government could not effect such reduction in taxes as will appear to the general public as pampering of the haves. On the other hand, at the present stage of development, Government can afford no such loss of revenue.

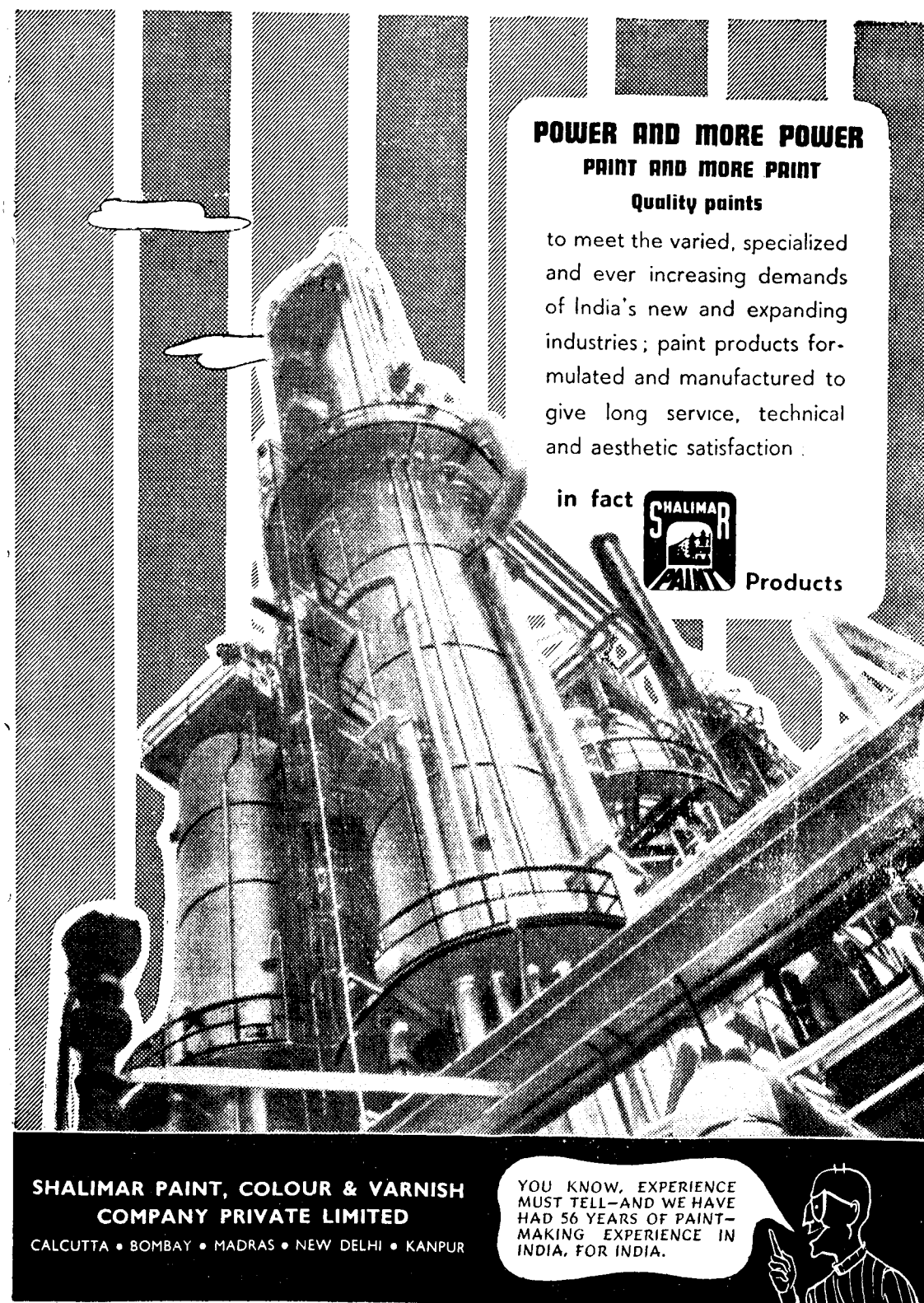
Usually, of the two parts of the Budget,—the review of economic conditions and the new tax proposals—the importance naturally attaches to the latter. But, in the current year, the roles have been reversed. Mr Nehru has noted that, in recent months, "some" improvement has been discernible in the economic conditions. We would like to suggest that he had unnecessarily underplayed the extent of the change for the better. These improvements may be first listed.

The most important gain to the economy is the downward trend in prices. The index number of

wholesale prices was headed dangerously upward from the beginning of the Second Plan, and by August 1957, it had touched a peak of 112. In February 1958, the index number had declined to 105. Mr Nehru attributed the improvement to various measures to hold the price level, and also to a better supply position.

While it is true that, over the same period, other countries in the world had also experienced a decline in prices, after a bout of inflationary pressures, there are two important differences as far as India is concerned. In the first place, the inflationary pressures in this country were derived, at least in part, from the very substantial deficit financing that we had to have recourse to. In such conditions, it was inescapable that an impetus was given to higher prices. In the second place, in the face of such inflationary pressures, the steps taken by the monetary authorities have been distinctly different from those taken elsewhere. The institution of a policy of selective monetary control was taken in hand; and such a policy was imperative in Indian conditions, because it was not open to us to impose a blanket credit squeeze. For, development could not be impeded. The evolution of such quantitative and qualitative control over the money market is of especial significance in that, while inflationary pressures have been turned back, no obstacle has been placed in the way of development and increasing production. In brief, Indian monetary policy has proved that, given the vigilance and the determination to take effective steps, the inflation implicit in deficit financing can be kept in check; and this means that, for a country in the process of industrialisation, planned deficit financing need not be avoided as having in it the seeds of runaway inflation.

Secondly, the money market itself is showing an improved countenance. Mr Nehru stated that expansion of money supply and bank credit has been brought under control. Properly speaking, the sense in which this is to be welcomed is that bank advances to sectors of the economy wherein prices tended to be upward have, by selective monetary control, been restrained. Again, it is the fact that the resources of the banking system have risen substantially which, from the point of view of the money market, is heartening. Mr Nehru made a reference to this fact as well, but let us explain what its significance is. If control is being wielded upon advances, such that bank credit is available only for productive purposes, and if meanwhile the resources of the banking system are rising sharply, it means that banks will have



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extra resources which could be, and indeed will need to be, invested in gilt-edged. So, the improvement in the money market signifies a more favourable reception to Government's market borrowings.

Thirdly, the foreign exchange situation is, after eighteen months of continued strain, in sight of a more hopeful outlook. Mr Nehru made pointed reference to the fact that the drawal on the Reserve Bank stood reduced from a monthly average of Rs 36 crores to less than Rs 3 crores a week. This is due to the steps taken by Government to arrest the drain, but the problem remains as to the manner in which the foreign exchange gap for the Second Plan is to be covered. Here, too, Mr Nehru dwelt at some length. In expressing his gratitude for the assistance that has been forthcoming from friendly foreign countries, Mr Nehru gave an idea of the expectations of aid in the Budget year. Whereas, last year, foreign assistance was for a total of Rs 463 crores, credit has been taken in the Budget for Rs 325 crores. The USA, the USSR, the UK, West Germany, France and Japan, in addition to such sources as the World Bank, are expected to extend credits or assistance during 1958-59.

Criticism of the 1958-59 Budget tended not strangely, to be in muted tones. There was nothing tangible that could be taken umbrage at, and even the one major levy introduced by Mr Nehru, the Gifts Tax, had been expected. So, if criticism at all there was, it was not because the Budget contained provisions which were onerous, but rather because it did not contain reliefs that had been expected, or at least hoped for.

A list of disappointments—or tabulation of measures which many in this country would like to see disappear from the statute book—would be unconscionably long, but legitimately at the head of such grievances was the plaintive grouse of the cotton textile industry. The industry's record as a whole has been satisfactory, even if there were elements in it, during the war, which took unfair advantage of the scarcity conditions to mulct higher prices. Whether from the point of view of expanding production or increased exports, the industry has done its bit. But, for all the higher production, a stage was reached in the middle of 1956 when supplies threatened to be inadequate vis-a-vis the demand generated by the improved purchasing power of the Indian masses. At that time, Mr T. T. Krishnamachari raised the excise duties on cotton textiles rather sharply, but it appeared to be implicit in his action that the marking up of the excise duty had merely two short-term objectives in view. The first aim was to divert a moiety of the higher level of profit that the industry was earning. The second aim was to discourage consumption by means of inducing consumer resistance to the higher prices which the excise duties would bring into being. As reflected in the Centre's receipts from excise

duties on cotton textiles, both these aims were achieved.

In the Budget for 1956-57, receipts from excise duties on cotton textiles were placed at Rs 29.50 crores. Sir Chintaman Deshmukh's proposals for 1956-57 raised the revenues from cotton cloth to Rs 45.08 crores. Then, later in the year, Mr Krishnamachari further raised the excise duties, so that, in the Revised Estimates for 1956-57, realisations from cotton cloth were put down Rs 15.50 crores higher at Rs 59.58 crores; and, at the same time, the Finance Minister estimated the receipts from cotton cloth at Rs 72 crores for 1957-58. In the Budget presented for 1958-59, the actuals for cotton cloth for 1956-57 are placed at Rs 51.83 crores. Thus, with the higher excise duties in effect from September 1956, production already began to be affected. The short-fall of nearly Rs 8 crores cannot easily be ascribed to any other reason. Again, the Revised Estimates for 1957-58 showed a short-fall of Rs 11½ crores from the Budget figure of Rs 72 crores. While this decline in expectation might be due partly to the fact that, late last year, some relief was given in respect of medium varieties of cotton cloth, the feeling still persists that the point of diminishing returns has been touched in the case of excise duties on cotton cloth. In the Budget for 1958-59, curiously, credit is taken for Rs 58.56 crores. This would seem to indicate that Government themselves have been compelled to recognise that the revenues from cotton textiles are on the down trend.

It is scarcely to be denied that the textile industry is in sore straits. Stocks, which had risen rapidly after September 1956, do not show as healthy a decline as could have been wished for. Secondly, at the current rates of excise duty, the experience of most units is an inability to earn profits. Indeed, the argument has been advanced that the improved revenues to Government from the excise duty on cotton cloth have at least been partly offset by a decline in the income-tax collections from the industry. The facts clearly pointed to the need and desirability of some relief being given to the cotton textile industry; and relief was later given.

The second head under which relief had been expected was in respect of the reserve deposit. As against the Budget estimate of Rs 14.58 crores for 1957-58, the Revised Estimate discloses that realisations are likely to be very much lower at an almost negligible figure of Rs 3.48 crores. Consequently, it was hoped that, having regard to the paucity of resources available under this head, and also having regard to the fact that the impost is not central to the integrated tax structure that Mr Krishnamachari created, it might be repealed. This hope was further strengthened by the fact that Mr Krishnamachari had himself hinted that it was by no means to be a permanent entry in the statute books. If only because there ap-

parently is quite needless loss of time and energy, not to speak of the possibility of harassment, it might have been a good thing if Mr Nehru had seen his way to eliminating the deposits requirement.

The third relief that has failed to materialise is in regard to the export duties on common teas. The export duty realised from tea, according to the actuals for 1956-57, is Rs 20.47 crores; but the revised for 1957-58 is Rs 17 crores, or Rs 2 crores lower than the Budget figure of Rs 19 crores. The credit taken for 1958-59 is Rs 18 crores. While nothing definite can emerge as a conclusion from these figures, prices on the tea market are replete with evidence of sluggish conditions for common teas. Not only are exports sluggish, but prices are tending to be depressed. It was hoped that Government would consider the earning of foreign exchange to be as equally important as the vouchsafing of tax revenues; and it had been anticipated, in this light, that a cut in the export duty would have been effected, in order that exports of common teas might be fostered. Here, again, relief came much after the Budget.

These are three concessions that Indian Finance supported. There are some other aspects of the Budget for 1958-59 in particular, and the tax system generally, which need a detailed examination. For instance, the tightening up of conditions under which a company can claim Development Rebate may create unexpected hardships.

We may now make a brief study of three aspects of the Budget, namely, market loans, small savings and deficit financing.

In order to understand the trends correctly, it would be useful if an analysis were made as from the Budget for 1956-57, that is, from the beginning of the Second Plan. We shall, in proper sequence, review the estimates that were made, the extent of revision there has been, as well as the actual figures achieved.

In his Budget for 1956-57, Sir Chintaman Deshmukh assumed a receipt of Rs 100 crores from market loan. There was no provision for discharge of debt, since no loan was due for redemption during the year. In the Budget presented in February 1957 by Mr T. T. Krishnamachari, it was noteworthy that the revised estimates placed the receipts from market loans at Rs 158 crores. However, this included Rs 79 crores representing subscriptions in the form of the 3 per cent Victory 1957 Loan, for which conversion facilities in advance were offered. So, the net receipts were in the environs of Rs 79 crores, and show a shortfall of Rs 21 crores as far as concerns new cash for which credit had been taken in the 1956-57 Budget.

Secondly, in respect of small savings, Sir Chintaman had put down receipts during the Budget year at Rs 70 crores. By February 1957, Mr Krishnamachari felt that realisations would be lower, and the revised estimates placed small savings during 1956-57 at Rs 64½

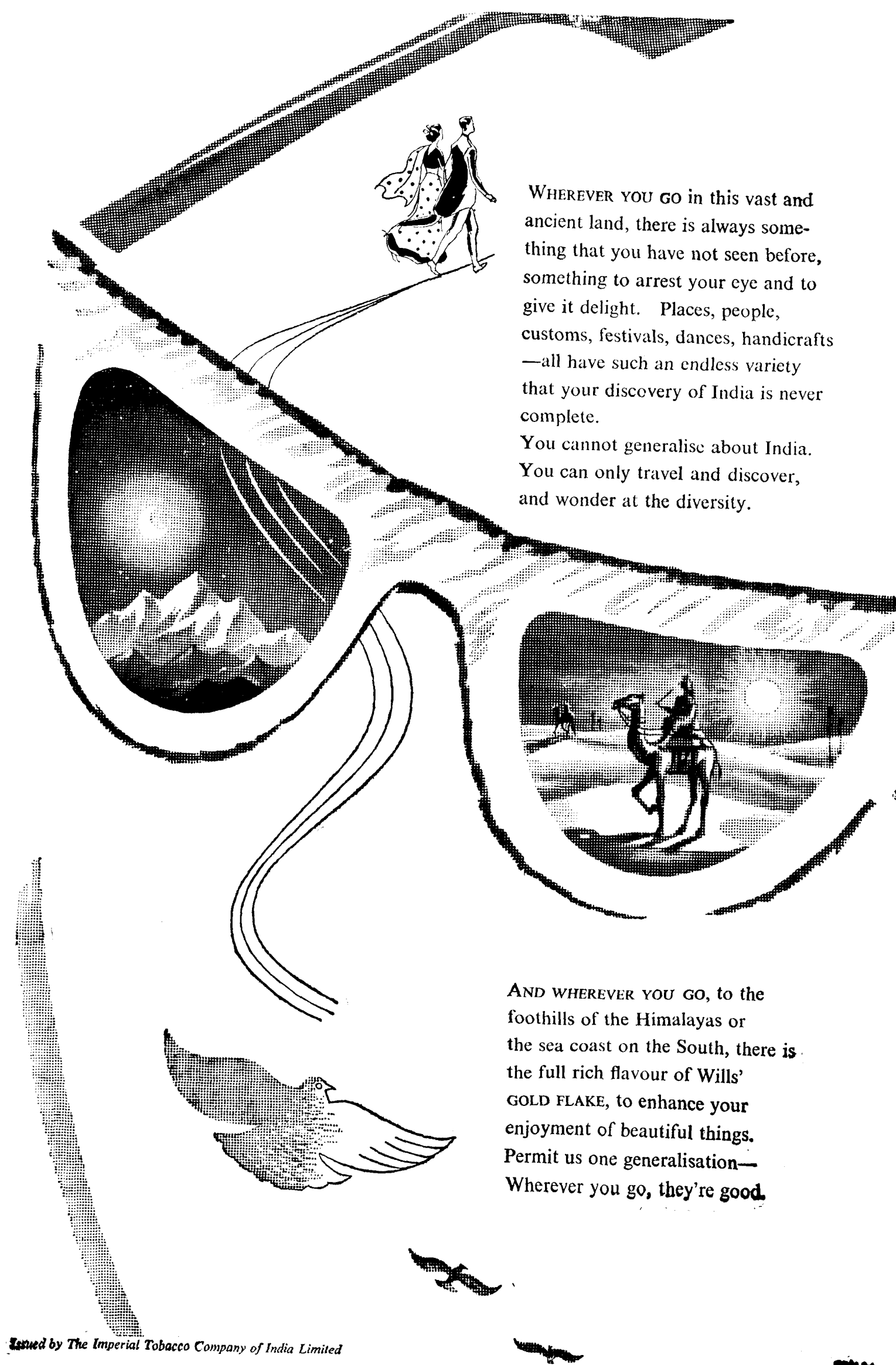
crores. Now that the accounts for that year are available, the information is vouchsafed that the actuals amounted to Rs 58½ crores. Thus, the actuals for small savings for 1956-57 fall short of the Budget figure by Rs 11½ crores.

Thirdly, leaving aside for the moment improvement in other heads of resources or shortfalls in expenditure, it would be expected that deficit financing would have been rendered higher. In the result, however, the obverse is true. The expansion in Treasury Bills was expected by Sir Chintaman to amount to Rs 390 crores; but, after his tax proposals, deficit financing was put down Rs 34 crores lower at Rs 356 crores. Mr Krishnamachari's February Budget witnessed a revision of this figure to Rs 270 crores. It is now known that the actuals for 1956-57 place deficit financing during that year at Rs 240 crores. In other words, there was a shortfall of Rs 116 crores in deficit financing.

Turning, now, to 1957-58 we may note that Mr Krishnamachari took credit for Rs 100 crores from market loans in presenting his February Budget. Provision was also made for discharge of debt amounting to Rs 31.5 crores. Small savings were expected to net Rs 80 crores. The overall deficit to be met by the expansion of Treasury bills was placed at Rs 365 crores. Except for an increase in the last figure to Rs 368 crores, the May Budget presented no change in these respects. This figure of Rs 368 crores was, however, before taking credit for the new taxes that were levied by the Finance Minister. With the new taxes, it was expected that deficit financing for the year would be reduced by Rs 93 crores to Rs 275 crores. The Revised Estimates for 1957-58 indicate that the realisations from market loans were placed at Rs 136.16 crores; but, meantime, discharge of debt was also placed higher at Rs 67 crores. Secondly, small savings collections were now estimated at Rs 62 crores. The deficit to be met by sales of Treasury bills in favour of the Reserve Bank rose very sharply from the budgeted Rs 275 crores to Rs 380 crores.

We may, lastly, study the figures for 1958-59. For the first time in some years, credit taken for market loans has been raised to a figure of Rs 145 crores. Provision for discharge of debt amounts only to Rs 20 crores, including provision for expired loans, and, thus, the net budgeted target for the new loan in 1958 is placed at Rs 125 crores. While this is an improvement in the target over previous years, we are of the view that it should have been higher still. Then, the target for small savings is put at roughly Rs 100 crores. Lastly, the deficit to be met by Treasury bills is sharply lower at Rs 205 crores.

Looking at the three sets of figures, some interesting points emerge. In the first year of the Plan, Government failed to borrow from the market the target that they had set for themselves in the



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Budget; but, in the second year, they just about managed to do so. For the third year of the Plan, Government have raised their sights slightly higher, and hope to secure Rs 125 crores net from the market. If it is possible to say, merely from the experience over a two year period, that a definite trend has been formed, the conclusion would be that realisations for market loans are headed upward. But, apart from the Budget figures, it is abundantly clear that the market for gilt-edged has expanded considerably in recent months, and the very vast accretions to Deposit resources of Scheduled Banks, not to speak of the accruals to the funds of the Life Insurance Corporation and Provident Fund Societies and other investing institutions, presaged the possibility of the capacity for the market to absorb during the Budget year much more than the Rs 125 crores net that had been envisaged by the Budget.

If the experience in respect of market loans is encouraging, the obverse is true in respect of small savings. Realisations have consistently fallen far short of Budget Estimates or even Revised Estimates. In the light of such trends, it appears excessively ambitious further to raise the target for small savings to a figure of Rs 100 crores. This does not, however, mean that we think that the target is impracticable. But there has to be much more of concerted effort than we have witnessed in the past. Hope for the future lies primarily in such success as may attend the small savings drive in respect of the 12 Year National Plan Savings Certificates issued in June last year. This Certificate replaces the 7 Year National Certificates, the 12 Year National Savings Certificates and the 10 Year Treasury Savings Deposit Certificates. The credit that was taken under these three heads in the Budget for 1957-58 amounted to Rs 39 crores. Although, in the case of the Treasury Savings Deposit Certificates, fresh sales were simultaneously commenced at a higher interest rate of 4 per cent, it is interesting to note that the bulk of small savings, even for the current year, is expected to result from the 12 Year National Savings Certificates, whose sale commenced only in June 1957. In the first six months of sale of this Certificate, the total net receipts have amounted to Rs 32.82 crores. In the last three months particularly—that is, between September and November—the monthly rate of accruals has exceeded Rs 6 crores. On such a basis, the Revised Estimates very correctly placed receipts under this head at Rs 62 crores; and, surely, an expectation of Rs 29 crores in the last four months is not being too ambitious. For the Budget year, the bulk of the receipts from small savings is also credited to the 12 Year National Savings Certificates, which is expected to bring in Rs 86 crores during 1958-59. This involves a monthly accrual of only Rs 7 crores. As

we have seen, such a figure has already been very nearly touched. So, the second point that we wish to urge is that, although in past years the performance of small savings has been disappointing, there is every reason to expect that 1958-59 will prove to be a turning point, that realisations will, in the event, even exceed the Budget estimates.

Lastly, we come to deficit financing. Here, the experience is not too happy. In the first year of the Second Plan, deficit financing turned out to be much less than had been budgeted for. In the second year of the Plan, it sharply exceeded the Budget estimate.

For the Budget year, we will not attempt to think aloud of the extent of deficit financing. But, in examining the three major heads of resources, we have shown that the realisations from market loans ought to be much higher; we have indicated that the realisations from small savings should not fall short of the target; and, ostensibly,

our conclusion is that deficit financing should, in the event, turn out to be for smaller proportions. However, we have thus far taken account only of the resources side of the ledger. Our view is that disbursements, particularly outlay on the Plan, must not be allowed to fall short of targets and must, if possible, even exceed the target, so that the target for the Second Plan as a whole may be accomplished. For this reason, on account of an increase in disbursements, we should anticipate deficit financing as conceivably exceeding the Rs 205 crores that the Finance Minister has placed it at.

We may now deal with the more important Clauses of the Finance Bill, 1958.

Of the various changes made by Clause 3 of the Bill, there are four which have to be taken note of. These are as follows:—

(i) At present, an assessee who is resident in India is entitled to exemption (under the Third proviso to sub-section (1) of Section

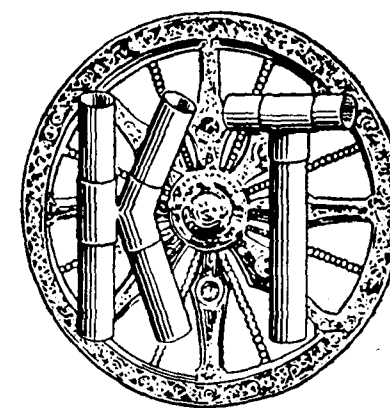
4 of the Act) from Indian income-tax on his foreign income retained or spent abroad up to a maximum of Rs 4,500. The change now proposed is that where such assessee is a Government servant (or employee of a local authority or statutory corporation) the quantum of such exemption shall be an amount calculated at the rate of Rs 1,000 for each month of service in respect of which the salary is received abroad.

(ii) At present, the value of free or concessional passages received by a non-Indian national from his Indian employer in connection with his proceeding on home leave out of India is exempt from tax subject to certain conditions. The Bill proposes that travel concessions received by any citizen of India from his Indian employer, for himself, his wife and children, in connection with his proceeding on leave to his home-town or village in India, shall also be exempt. This is a gesture which must be appreciated.

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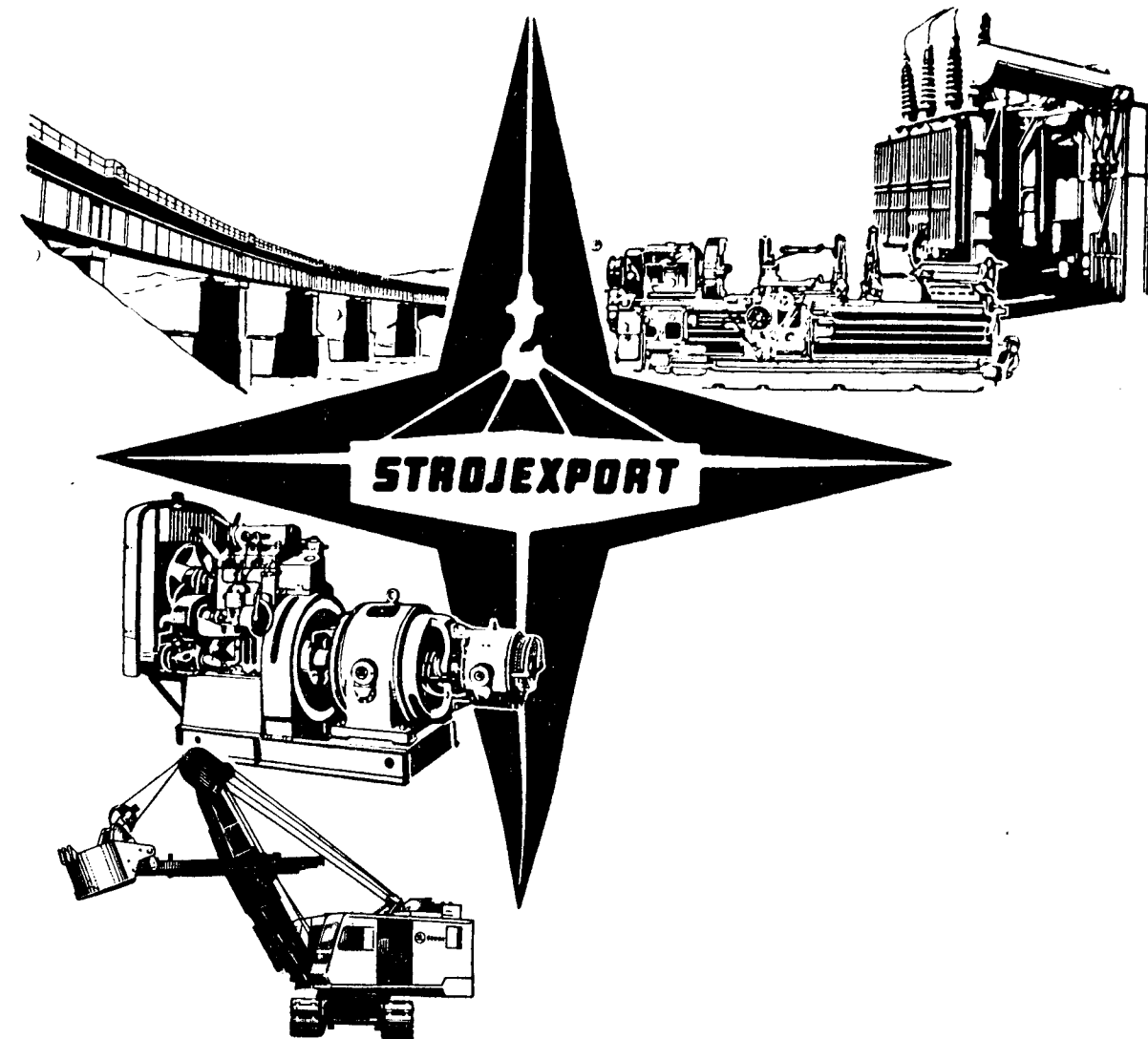
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(iii) Under the Act, the income of foreign technicians is exempt to a certain extent. This was done with a view to encouraging "know-how" coming to India. "Technician" has been defined as "a person having specialised knowledge in industrial arts and sciences and having experience in industrial practice". Under the Bill it is proposed to re-define it as "a person having specialised knowledge and experience in constructional or manufacturing operations or in mining or in the generation or distribution of electricity or any other form of power".

(iv) Incomes derived by registered Trade Unions from investment of their surplus funds are proposed to be exempted. Another concession is that the income of scheduled tribes residing in Manipur will be exempt from Income-tax.

We now come to the most important provision in the Finance Bill, i.e., Clause 7. This clause makes some radical changes in regard to the "Development Rebate". The changes are:

(a) In the case of ships launched on or after 1st January 1958 the quantum of the development rebate will be forty per cent.

(b) In all other cases, the quantum of the development rebate will be twenty-five per cent.

(c) In the case of ships launched, or machinery or plant installed, on or after 1st January 1958, development rebate will be allowed only if—

(i) an amount equal to the development rebate is debited to the Profit and Loss Account of the concerned "previous year";

(ii) the said amount is credited to a special "reserve account";

(iii) the funds in the said reserve account are utilised only for the acquisition of assets for the undertaking or for investment in the undertaking;

(iv) such utilisation, as stated above is made within the ten years following the concerned "previous year"; and,

(v) during the period of ten years mentioned above, the ship, machinery or plant, is not sold or otherwise transferred by the assessee to any person other than Government.

(d) In the case of ships launched or machinery or plant installed, on or before 31st December, 1957, conditions (i) to (iv) mentioned above will not apply, but condition (v) alone will apply. (This is the effect of Clause 10 of the Bill).

(e) If the ship, machinery or plant is sold or transferred to any person other than Government, or if the funds in the special reserve mentioned above are utilised for any purpose other than what has been specified in condition (iii) above, then, at any time within four years from the date of the sale, transfer, or mis-utilisation of the funds, the Income Tax Officer

will re-open the assessment of the year in which the development rebate was allowed, disallow that rebate, and make a re-assessment.

The above are, in brief, the regulations proposed in regard to the development rebate. Now, we may proceed to attempt an assessment of the probable effects thereof. Firstly, the increase of fifteen per cent in the development rebate for ships is a change that had been urged by the shipping industry, and they would therefore welcome it. Secondly, the condition that the development rebate should be debited to the Profit and Loss Account will result in erosion into the normal profits, thus diminishing the dividends to the shareholders. And, in the case of new companies, it will only lengthen the period during which the company is not in a position to yield a return to its shareholders. For instance, for the year ended March 1957, the development rebate for the Tata Iron and Steel Co., was about rupees one crore, so that it will have to debit rupees twenty-five lakhs to its Profit & Loss Account. Such a procedure is bound to reduce the rate of dividend to the shareholders in the case of any company. Thirdly, the condition that the funds in the special reserve should be utilised only for the purchase of new assets does not take into account cases where new assets are no longer required; the money will remain blocked in such cases, and eventually the rebate will be added back! Lastly, as regards the condition that the machinery or equipment should not be "sold" or "transferred", what will happen if an imported machine is subsequently found defective? Will Government buy it? Then again, what will happen if a company finds it necessary to close down due to labour troubles, or otherwise, and a receiver or other person appointed to take custody finds it of advantage to lease out the factory? These are all complications which do not seem to have been envisaged by the framers of the proposed amendments. No one can call in question the basic principle behind these amendments that the development rebate must be put to proper use; but the trouble is, that the safeguards now proposed to achieve these objects, will result either in the discouragement of further investment by reason of the diminution of dividends, or in the disallowance of the development rebate by reason of undertakings finding it difficult in practice to conform to the proposed conditions.

Another change proposed by Clause 7 of the Bill is in regard to depreciation allowance other than the development rebate. The Bill provides that no depreciation allowance shall be granted on buildings, plant, machinery, etc., in the year in which such assets are sold. This is on the ground that in such cases, a balancing allowance is already available under clause (vii) of sub-section (2) of Section 10 of the Act. Under

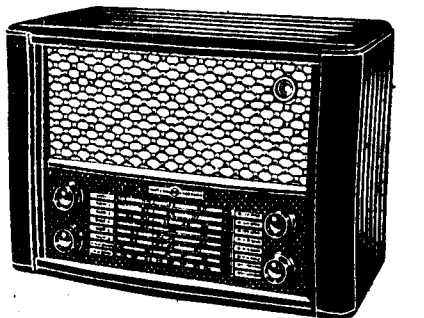
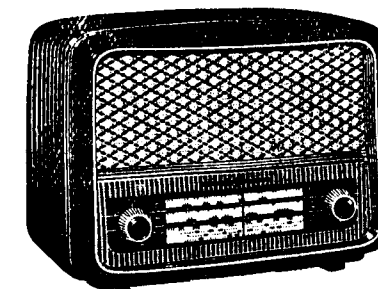
the said clause (vii), if the written-down value of an asset is higher than the "sale" value, the difference can be written off and is deductible.

A slight relaxation in the rigour of Section 23A is proposed by Clause 9 of the Bill. At present, when a company has failed to make the statutory distribution, the Income Tax Officer will proceed to apply Section 23A, unless he is satisfied that "having regard to the losses incurred by the company in earlier years or to the smallness of the profits made in the previous year, the payment of a dividend or a larger dividend than that declared would be unreasonable". The Bill proposes an additional ground on which also the Income Tax Officer may refrain from applying Section 23A, and that is "that the payment of a dividend or a larger dividend than that declared would not have resulted in a benefit to the revenue". If a substantial part of the shares in a company to which Section 23A is applicable are held by persons who are exempt from Income Tax, e.g., by charitable institutions, then, even if the company has failed to distribute the statutory minimum, no additional income-tax revenue will be realised by applying Section 23A to the company; if anything, it would only be negligible.

Here, we may take note of a further relaxation proposed by the Bill in respect of the excess dividends tax payable by companies to which Section 23A is applicable. At present, all companies, including those to which Section 23A is applicable, are subject to a graduated rate of super-tax on all dividends declared in excess of six per cent of the paid-up capital. The present rates are: (i) on that part of the dividends which exceeds six per cent but does not exceed ten per cent of the paid-up capital, the tax is at the rate of ten per cent; (ii) on that part of the dividends which exceeds ten per cent but does not exceed eighteen per cent of the paid-up capital, the tax is at the rate of twenty per cent; and (iii) on that part of the dividends which exceeds eighteen per cent of the paid-up capital, the tax is at the rate of thirty per cent. The Bill proposes that so far as companies to which Section 23A is applicable are concerned, the rates of the excess dividends tax shall be as follows:—(i) on that part of the dividends which exceeds six per cent but does not exceed ten per cent of the paid-up capital, the tax will be at the rate of ten per cent (as at present); and (ii) on dividends exceeding ten per cent of the paid-up capital the rate of tax will be twenty per cent.

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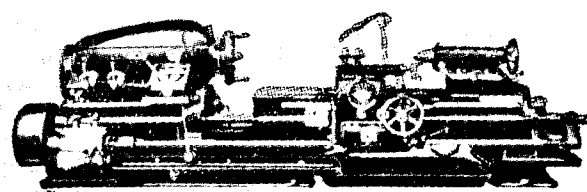
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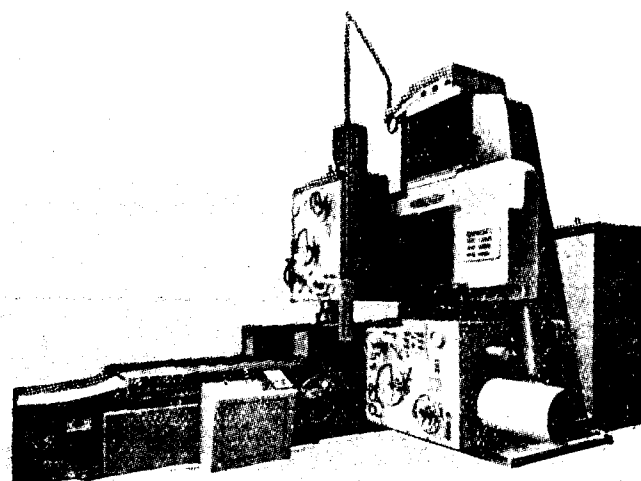
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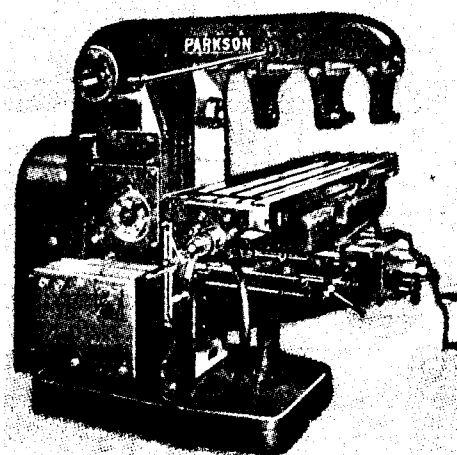
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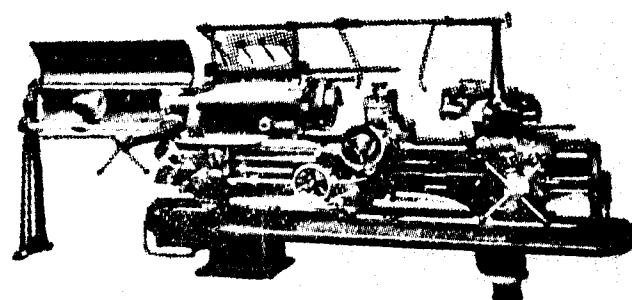
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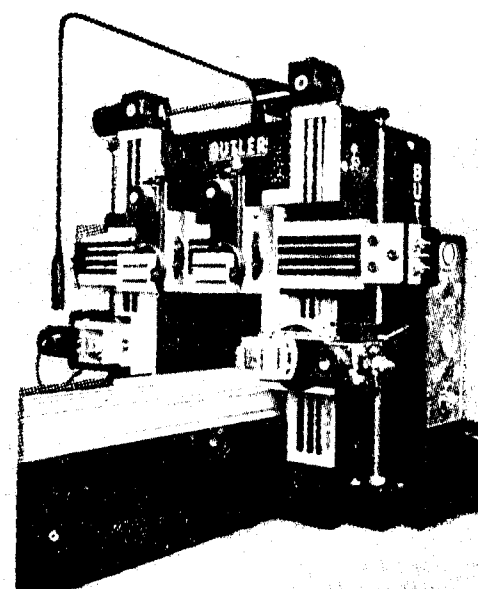
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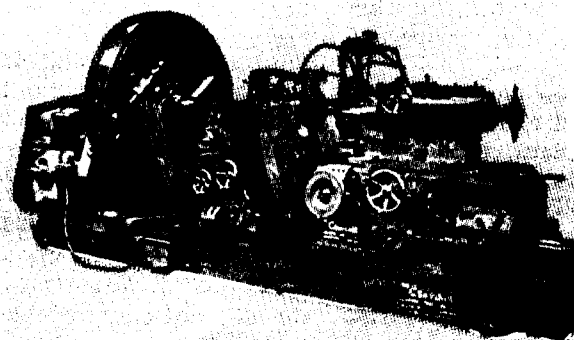
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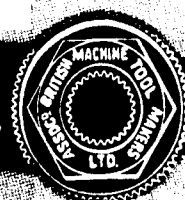


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The Railway Budget

With little to offer by way of relief in congestion of passenger traffic and the alterations in freight arising from the Mudaliar Committee deferred to a later occasion, this year's Railway Budget was devoid of exciting features. Total revenues for the Budget year are estimated to be Rs 4075 millions, as against Rs 3844 millions in the revised estimate for 1957-58 and Rs 347 millions in the actuals for 1956-57.

The increase in revenues anticipated for 1958-59 is at a lower annual rate than estimated for the previous year. This adverse difference is obviously due to the absence of any increase in rates in the budget. Last year the increase in gross traffic receipts was substantially assisted by the enhancement of rates. The anticipated addition to the traffic load in the third year of the Plan is of the order of 12 million tons, leading to a total of 145 million tons against 162 million tons in the original estimates of the Second Plan.

The year 1958-59 is described as a hump period from the standpoint of financial outlay. From that of addition to railway traffic too, it deserves the same description. While in the first year of the Plan it was 10 million tons, in the second year 9 million tons, and in the fourth and fifth years together 17 million tons, in the Central year 1958-59, the addition is estimated to be 12 million tons. To what extent this new demand on the Railways could be met is roughly indicated by the outlay proposed on rolling stock, machinery, works on new lines, electrification projects etc. For the current year, the budget estimate of Rs 2180 million for this purpose was arrived at on the basis of a probable saving to the extent of about Rs 247 millions. A revision of the estimate for the different heads of expenditure has wiped out the larger part of the anticipated savings and places the new estimate at Rs 2350 millions.

If the grievances voiced by trade associations from different parts of India are an indication, it is difficult to believe that wagon supply and movements have been satisfactory and sufficient during the year. For the budget year Rs 2600 millions have been allotted for this area of expenditure. Among the new items are included two important new lines which together add up to 140 miles, the doubling of line capacity on a few busy routes, the conversion of a section of the Southern Railway from meter gauge to broad gauge and a track renewal programme considerably bigger than what was undertaken in the previous year.

A total length of 1062 miles will be taken up for electrification with priority in execution going to those sections where traffic in steel and coal has increased, sections from Howrah to Moghalsarai on the Eastern Railway and Asansol to Tatanagar and Rourkela and Rajkharwan to Barajamda on the South Eastern Railway. The Railway Minister in his speech presenting the budget was also able to report satisfactory results of steps taken to improve the supply of "critical" materials, by which he meant mainly steel.

At Chittaranjan 168 locomotives were produced in the current year and an equal number is expected in the next, against 156 in 1956-57. The Minister would surely have wished for an increased output for the budget year. Chittaranjan, we gather, is hopeful of putting out a locomotive a day. Perhaps that day belongs to a period of surfeit and export. The TELCO is scheduled to improve the output from 78 locomotives last year to 90 in the current year and 100 in the next. The Integral Coach Factory has a more striking performance to report. From 88 unfurnished coaches in 1956-57, deliveries from the ICF have increased more than double to 180 in the current year and are expected to reach 295 in the budget year. A year hence, on double shift working the ICF output is scheduled to transcend the one per day limit.

While all these developments are indicative of a direction and a pace of improvement which in the context of the Second Plan has a certain inevitability about it, the day of adequacy in rail transport still remains far off. To say this is not to cast reflection on the determination or drive of the authorities. Strewn throughout the speech, there is ample evidence of both.

Financial outlay alone or for that matter the number and size of new projects can seldom be adequate criteria for actual improvement. Administrative steps have also a vital place. It is to be wondered if smaller zones can achieve greater all round efficiency. The creation of the North East Frontier Railway with the smallest mileage for any zone is a step in that direction, though here strategic considerations also came to play. The Mudaliar Committee is divided on the question of further zonal division. Anyway, that is a subject which the authorities may be called upon to pursue further.

Financially, the Railways are in a sound position. The Second Plan allotment has been increased from Rs 11,250 millions to Rs 14,000 millions, which in spite of inflated costs here or there, must be fairly sufficient for the maximum physical achievement possible within

another three years. In comparison with 1957-58 revised estimate, working expenses for 1958-59 have, as estimated in the budget, shown a decline in the annual rate of increase. Net railway revenues on the contrary show a considerable higher rate of increase. Against Rs 584 millions in the actuals of 1956-57, the net revenues stand at Rs 659 millions in the revised estimate for 1957-58 and at Rs 769 millions in the new budget. Of the latest annual increase anticipated, the general revenues will absorb Rs 53 millions and the railway development fund Rs 57 millions.

These figures, comfortable as they are from the standpoint of the Administration, can provide no relief to the lower class passenger who even now is obliged to travel under conditions of acute discomfort, if not also a threat of danger to life and property arising from too frequent accidents and too many thefts and robberies. Recent major accidents have induced the Railway Administration to take urgent measures of safety. Mr Jagjivan Ram assures us that technical improvements which can help to mitigate the incidence of the human element are being progressively effected. This is some consolation but when human failure admittedly accounts for these accidents more than any other factor, we can only pray with the Railway Minister that all those engaged in the running of Railways will be fully alive to their duty and responsibility. How far the labour unions could contribute toward avoidance of accidents is somewhat debatable. When the Railway Minister requests the unions to extend their full co-operation, he may be thinking only of the distractions and lassitude engendered by localised indiscipline or factionalism.

The experience of recent years has shown that the safety and comfort of the individual traveller are also dependent on his own conduct and the general attitude of the public toward crime and social discipline. As it is impossible to line the entire thirty thousand and odd miles of Indian Railways with a protection force, equally inconceivable is a policeman in every compartment. A better civic sense and more disciplined social cooperation in tackling lawbreakers will go a long way in the direction of rail travel with less discomfort.

For the lower class passengers over-crowding remains the worst terror, ordinarily. In spite of all the efforts being taken, the Railway Minister is afraid the difficulty will still continue to be as formidable as ever. Between requirements of additional goods

transport and those of passenger traffic, the Administration has for the moment given priority to the first. In the light of the overriding demands of a growing economy, this preference is scarcely a matter for controversy.

It is disturbing to feel that a vital national service like the Railways run by the State continues to be the cockpit of rival trade unions. Twice during last year there was threat of an All India strike. The revival of the All India Railwaymen's Federation is an unflattering development. There is reference in the budget speech to progress made by way of implementing the unity agreement made by the two organisations in March 1956. It is to be hoped that no new spoke would be put into the wheel. The budget contains quite an impressive array of items by way of extended amenities for railway staff. Against a provision of about Rs 30 millions provided for amenities for railway users, Rs 110 millions have been allotted for staff quarters and staff amenities. These figures speak of a solicitude on the part of the Administration for which the least that could be expected from the workers is the avoidance of strikes.

The lack of excitement in the Railway Budget arises, of course, in the fact that there is no sensation provided, by an increase either in passenger rates or goods rates. In the case of the Central Budget, there may be a similar absence of excitement, though there is one striking difference between the two Budgets. That is, while the tax effort has been completed from the standpoint of the Central Budget, much remains to be done in the case of the Railway Budget.

By way of a post-script to this article, we may add that, later in the year, certain decisions on the Mudaliar Committee's Report were announced. In this sense, the lacuna of the Railway Budget as such was subsequently made good. Nevertheless, it would seem that, for some time to come, the main interest in the Railway Budget would relate to the quantum of developmental work that is sought to be undertaken. Surprises are hardly likely in the matter of fares; and not much tinkering is to be expected in respect of freight rates though, as has happened during the year, some concessions with a view to contributing to the export drive may from time to time be announced. But this is not to say that the Railway Budgets will be an unexciting document; the development that has to be taken on hand and completed, if the Second and subsequent Plans are to fulfil their quota of industrialisation, will be very considerable.

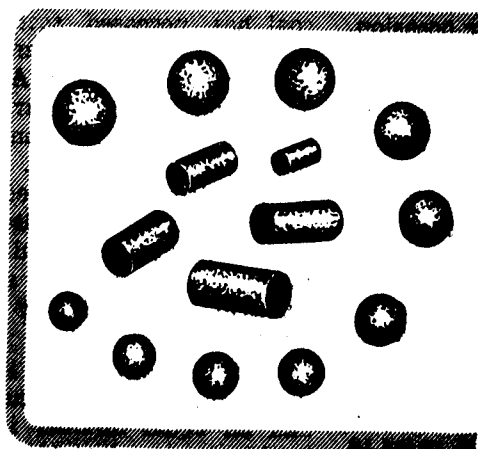
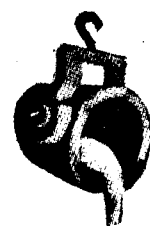
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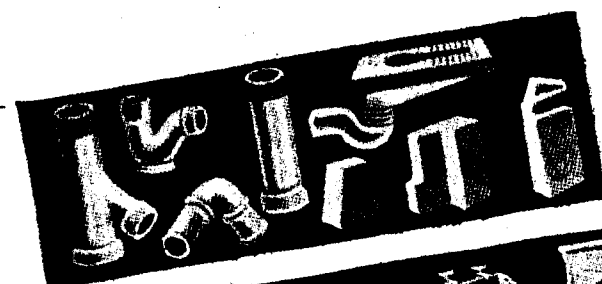
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The Case for Industrial Partnership

Can it Succeed in India?

By Dr N. DAS, ICS

IN the years immediately following the end of World War II, it was confidently believed that public ownership of industrial undertakings would usher in the much desired objective of democracy in the economic field. It was argued that once the private monopolist or oligopolist had been done away with, State control and management would enable the erstwhile profits of industry to be utilised solely for public purposes and this, in its turn, would make workers feel that they were partners in the undertaking with the same rights and privileges as those entrusted with the actual management.

The experiments at nationalisation which have been going on during the past two or three decades in both capitalist and socialist countries have, however, shown that mere transfer of ownership and control from the private to the State sector does not automatically bring about the objective of economic or industrial democracy. It has been found that, even in countries where nationalisation has been the main plank of the socialist philosophy, the worker has not been able to secure for himself the full product of his labour, an adequate standard of living and economic freedom in the true sense of the term. The classless society which nationalisation was expected to bring about has not arrived, and pertinent questions are being asked as to why this has been so. As a result, there has been a considerable amount of re-thinking in many countries on this issue. In Great Britain today, we find the strange spectacle of the Labour Party itself urging the need for caution in the matter of nationalisation, although this very party had managed to nationalise, during the five years of its absolute power in post-war Britain, nearly one-third of the big undertakings of that country.

The fact is that the modern socialist has realised—as intellectuals like Fourier, Fichte, Proudhon, Robert Owen, G.D.H. Cole and Sidney Webb had realised long ago—that nationalisation is not an end in itself, but only a means to an end. Although he is compelled to accept material values as the main criteria of progress, his quest is really for the universal human ideals of equality, freedom and fellowship. He would like to judge the economic system not by mere economic results (output, trade, costs and income), but in philosophic terms—in terms of what it can do to the dignity of the people or the quality of their lives. To him, the quantitative

improvements that have been gained—less unemployment, higher wages, shorter working hours, increased pensions and more money for the social services—are only the preliminaries for a qualitative change, for a society with a different content, combining a fuller life for everyone with some finer, more co-operative way of living together.

It is with this end of view that increasing emphasis is being laid on participation by workers in the management of undertakings as the most effective weapon for bringing about economic and industrial democracy. This is precisely what had been advocated by G.D.H. Cole in Great Britain and the Syndicalists in France and Germany. According to them, the mere stepping into the shoes of the "selfish" private entrepreneur by an all-powerful collectivist State does not bring about any real change in the fortunes of workers.

Even in this new approach, the most important argument is that it would help industry and industrial production. It is stated that the worker at present feels like an outsider in the process of production; he is merely the recipient of wages (and sometimes bonuses)—he is not a partner in the undertaking. If he can participate in the management of the undertaking, he would take a more active interest in the work he is doing and the attitude of hostility towards his employer under which he often labours, would disappear. By giving employees a better understanding of their role in the working of industry and by satisfying their urge for self-expression, there would be established, so it is asserted, better management-labour relations and increased co-operation. As a result, there would be industrial peace on the one hand and increased productivity on the other, both contributing to the general well-being of the enterprise, the workers and the community.

The real reason behind the argument for worker participation in management, however, lies deeper. The worker strives not merely for the intensive realisation of his immediate interests in his employment, but wants to reach out beyond the status of employee and to become a partner in the productive process itself, which is at present controlled by the employer alone. He no longer desires to live and die merely qua worker performing certain defined tasks; he wants to look beyond his work bench to the economic process in its entirety, to contribute thereto

his practical knowledge and experience and, above all, to feel that he is a part and parcel of the undertaking.

Worker participation in management has thus become the new formula for industrial democracy. In a political democracy, control is exercised by the common people—through their elected representatives. In the industrial democracy which is envisaged, control is sought to be exercised by the representatives of technicians and workers—on an equal footing with the representatives of employers and management.

This concept has attracted the attention of Government in our country as well. The danger of socialism losing its moorings in the stagnant waters of collectivism or statism has not escaped the sharp eyes of the Planning Commission either; it has been specifically stated in the Second Five Year Plan that, for the successful implementation of the Plan, increased association of labour with management will be necessary. The Industrial Policy Resolution of April 30, 1956, also said that "in a socialist democracy, labour is a partner in the common task of development and should participate in it with enthusiasm. There should be joint consultation at various levels, and workers and technicians should, wherever possible, be associated progressively with management."

What are the prospects of the successful implementation of this idea in our country today? The Government of India sent out in 1956 a tripartite study group to six European countries where this experiment is being tried out. In their report, this team recommended a cautious advance in a few selected industries. This was considered at a conference of Labour Ministers of the various States held in 1957 and it was decided to make a beginning in both the public and private sectors. Worker participation in management had already been initiated, on a limited scale, in three undertakings in the private sector, viz., the Indian Aluminium Co., Ltd., the Tata Iron & Steel Co., Ltd., and the Rajkumar Textile Mills, Indore. Early in 1958, it was brought into operation in an undertaking in the public sector as well, viz., the Hindustan Machine Tools factory at Bangalore.

As the experience of the various countries has shown, the success of the experiment depends on three main factors. Firstly, workers must be educated enough to be able to take an intelligent interest in the affairs of the undertaking or industry with the management of

which they seek to be associated. Not infrequently, workers are more interested in immediate financial or other benefits (e.g., a share in profits or larger welfare services) than in the long-term fortunes of the undertaking. Secondly, trade unions must co-operate fully in actually working out schemes of worker-management co-operation. The Whitley Council of Great Britain could not succeed because the trade unions were generally hostile to what they thought was the setting up of a parallel hierarchy of workers' representatives. This has been the experience of other non-socialist countries also. Thirdly, employers must give the workers or their representatives a genuine share of responsibility. Not infrequently, the former submit to the joint consultative bodies reports couched in vague and general terms which give no clue to the real problems of the undertaking.

The Government of India team stressed in their report the need for developing the "right attitudes" both among workers and among employers, particularly among the middle and lower levels of management. At the same time, they recognised that the functions of joint councils of management should be distinct from those of trade unions. Collective bargaining item like wages, bonus and individual grievances should be assigned to the latter, while the joint councils of management should deal with matters which come within the scope of the structure of the undertaking or industry, e.g., matters like retrenchment, rationalisation, closure, reduction or cessation of operations, the state of the market, production rates and programmes, and factors and circumstances affecting the economic position of the undertaking or industry.

Although labour-management co-operation in selected fields has been in operation in India for sometime past, actual participation in management by workers is rather new to this country. It is too early to say that the experiments which have been initiated have proved an unqualified success, but it would be as well to recall Mahatma Gandhi's observations on this subject twenty-one years ago. "It is vital to the well-being of an undertaking that workmen should be regarded as co-equal owners with shareholders and that they should have the right to possess an accurate knowledge of the transactions thereof." What he had said at that time in relation to the affairs of the cotton mills of Ahmedabad should apply with equal force today to other undertakings—both in the private and public sectors.

Modern Economic Theory and the Spinning Wheel

By V. G. RAMAKRISHNA AIYER

SINCE Indian National Economy is being influenced by Gandhian thought it is interesting to examine it in the light of Modern Economics. Gandhi appears in Western eyes as an enemy of technical progress, an old-fashioned romantic who has strayed into the twentieth century, carrying his spinning wheel with him. How far is this impression accurate?

Gandhi never claimed to be an economist. His approach to economic issues can only be understood within the framework of his philosophy. Foreign trade, industrial relations, the size and location of firms or any economic measure were to be judged according to one principle; whether or not they heightened the likelihood of violence. This was to be the supreme test of civilisation.

To give an example of this attitude, in 1950, the All-India Congress Committee published a document entitled "Our immediate programme." One of its principal objectives, which it entrusted to the Planning Commission, was "the growth of the Human personality in all its aspects." This—to Western ears rather startling task is to be found side by side with plans for the use of dead animals for manuring purposes and with the problem of capital formation. So Gandhi was both a practical politician and an idealist. In fact he himself said, "I am not a visionary; I claim to be a practical idealist."

It seems to me that Western opinion is largely based on Gandhi's early period, when he condemned all aspects of modern Civilisation. Gandhi later modified his resistance to the benefits of civilisation, but the question remains whether his enthusiasm for the spinning wheel, his preoccupation with the Indian village and the Indian peasant, and his hostility to large-scale enterprise, lacked realism.

TWO ASSUMPTIONS

To answer this question, one has to accept two assumptions arising from Gandhi's philosophy and from India's economic conditions. The first is that the ultimate purpose of economic activity is to create conditions most favourable to man's spiritual development, to his independence, to his self-realisation, and to his acceptance of personal responsibility. The second assumption is that these aims cannot be realised in a state of idleness or of complete lack of economic independence. From these assumptions it follows that un-

employment is the most serious of all economic problems, and it seems that the determination to cure this evil formed one of the pillars of Gandhi's thought. How far could he accept Western solutions?

In advanced industrial countries better machines and better organisation lead to higher incomes, lower prices or a shorter working week. Any temporary unemployment created by technical improvement can be overcome by such measures as re-training or the encouragement of mobility. For this reason, the late Lord Keynes and his followers of the Full Employment School concentrated their attention on the type of unemployment resulting from a maladjusted national economy. It was believed to arise from lack of balance in the distribution of a nation's income and expenditure, leading to a deficiency of demand and to a glut of savings. It was to be cured by attempts to increase expenditure, to absorb idleness. The main phenomena with which Keynes' "New Economics" concerned itself were the excess capacity to produce and the insufficient demand by Government and industry to use all current savings for new productive purposes. But in India this Western type of maladjustment contributes only a small share to her total unemployment, for her unemployment is of a different character.

UNEMPLOYMENT

Four out of five of India's 360 million people depend on agriculture for their living. Only a small fraction of industrial workers are employed in large-scale industry. Agricultural employment is dominated by seasons: between the harvest and coming of the rains, that is, for four to five months each year, 120 million workers in field and forest are idle. These are, in Keynes' terminology, the "involuntary unemployment."

Indian involuntary seasonal unemployment is beyond Western imagination. If, in terms of numbers, one could imagine Great Britain without a single man or woman employed in field, office or factory for two whole years, one could arrive at a rough equivalent of India's staggering economic problem. One might then appreciate the spiritual misery caused by this type of unemployment.

Although Lord Keynes did not deal with the Indian type of unemployment, his first activities as an economist had a strong Indian flavour. His first civil service position was in the India Office,

his first published writings dealt with Indian problems. They were a book on "Indian Currency and Finance", which came out in 1913, an article on "Recent Economic Events in India", in the Economic Journal of March, 1909, and the review of a book, "The Economic Transition in India," in 1911. In the latter he wrote, "Sir Theodore Morrison" that is, the author of the book—"argues too lightly from the West to the East without full enough consideration of the deep underlying factors upon which depends the most advantageous direction of the resources of the nation.... The mills of Bombay and Calcutta figure too much in the public eye." He goes on to say that these mills hardly influenced the general well-being of India, which could be improved only by applying the brains and the capital of new India to her fields and villages. This is as valid today as it was in 1911.

VICIOUS CIRCLES

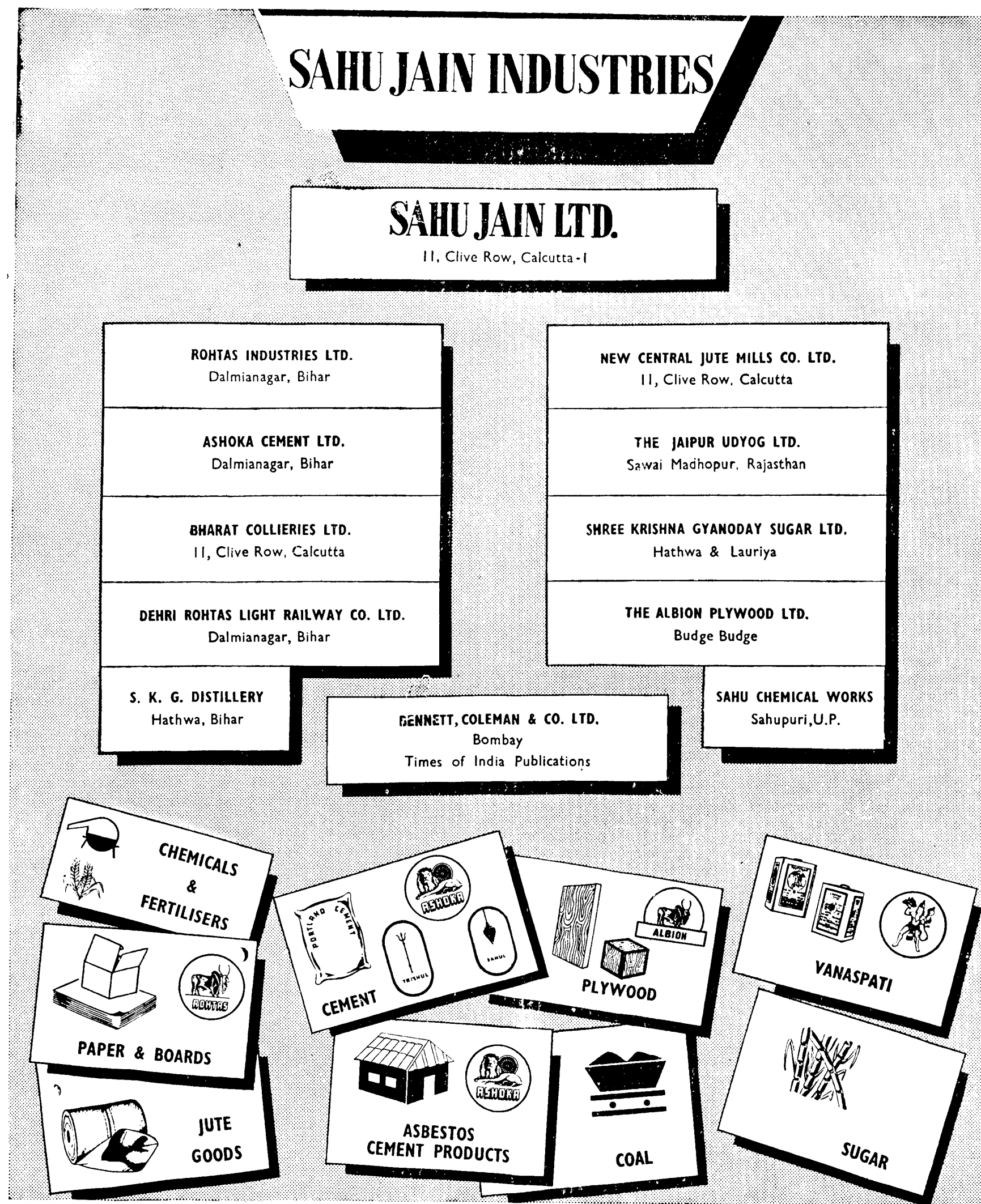
Two vicious circles operate against savings. As the low incomes from rural seasonal work have to cover the year's expenditure, there is very little left for saving, and without savings there is no capital available for improvements, and without improvements productivity and therefore incomes cannot rise. The Second vicious circle arises out of the first. To cover the period between sowing and harvest farmers need credit. As there are not sufficient savings available to satisfy this need, high interest rates have to be paid to get credit. Thus the lack of savings leads to high interest rates, the high interest rates reduce the farmers' income, the reduced income does not allow a margin for savings, the lack of savings leads again to the high rates of interest and so on.

The India of these vast legions of unemployment lacks an industry

which could absorb the idle millions. The villages are entirely dependent on the towns. The credit which is so scarce and for which they have to pay so excessive a price comes from the towns. The village products, for which they obtain so low a price, go to the towns. Unemployment in India has to be considerably reduced before defences of the Keynesian type against new disaster can be built. After all, the essential feature of the Keynesian technique of boosting expenditure is that it can successfully counteract unemployment only when used on a sufficiently large scale and before unemployment spreads. Keynes assumes idle capital and high mobility of labour, but India is short of capital and her unemployed are immovable, glued to their misery.

INDIA'S NEEDS

What was needed in India were methods which would help to employ idle labour, reduce the claim for scarce capital, increase the standard of living by greater self-sufficiency of the villages, and finally and for Gandhi an essential lesson the dangers of violence. As nothing is more likely to lead to violence than the demand for scarce goods, preference should be given to goods with expandable supply. In Gandhian economics, scarcity is the decisive consideration, not cost or efficiency. This attitude gains importance in the light of recent reports which suggest that shortages of essential commodities will remain a threat to world production, trade and full employment. Gandhi's drive for the use of indigenous resources does something to meet the situation outlined in these reports. According to Gandhi, it is better to rely on bullock than on oil for moving the plough, because once she has decided to give up her bullocks and her 40 million buffaloes, the



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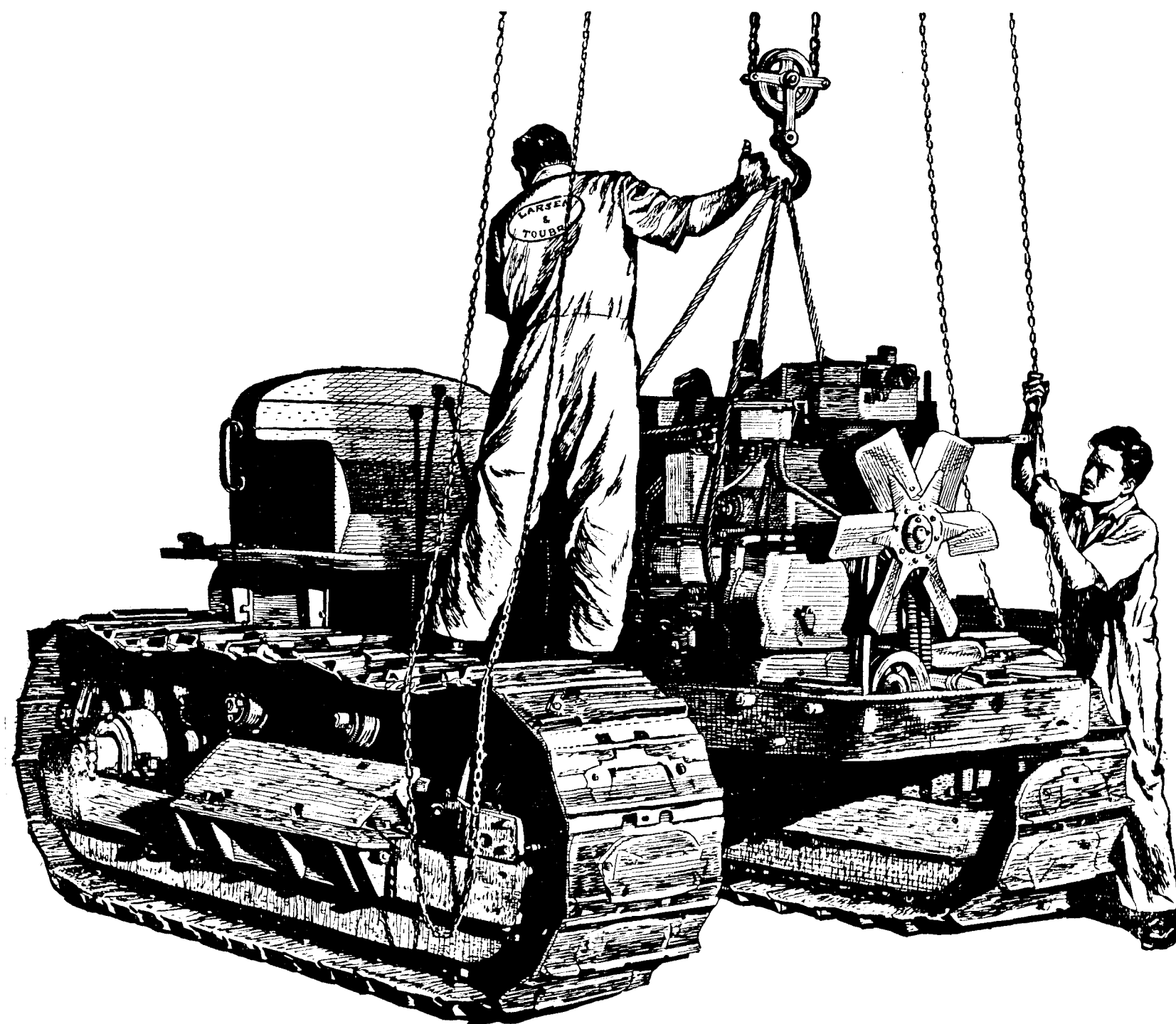
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cutting off of oil supplies would spell ruin to India.

THE CHARKHA

What buffaloes, bullocks and men meant as sources of energy for the production of food, the spinning wheel was to mean in the provision of cloth. The textile mills depend on markets to sell and materials which might become scarce, such as iron and steel and foreign cotton and yarn. But the supply of the material for the spinning wheel is adjustable. The spinning wheel represents local production and relied on local resources and local markets. Therefore, the extent of fraud and speculation, of conflict and violence arising from conflict are reduced. As less money has to be spent on textiles from the mills, the villages will need less credit and will free themselves from the interest burden. Finally, the spinning wheel will occupy the idle hours of the unemployed and will prevent his spiritual decay.

So the spinning wheel emerges as the supreme cure for India's rural millions. It is meant to save the multitudes of India's villages from decay. Gandhi emphasised that hand-spinning was not intended to withdraw a single able-bodied person who could otherwise find a more remunerative occupation from his work, but rather the whole claim advanced on behalf of the spinning wheel is that it alone offers an immediate practicable and permanent solution of the problem of problems that confronts India, namely, the enforced idleness for nearly six months in the year of an over-whelming majority of India's population owing to lack of suitable occupation supplementary to agriculture and the chronic starvation of the masses that results therefrom. He went on, "There would be no place for the spinning wheel in the national life of India if these two factors were not there."

DIGNITY OF WORK

The spinning wheel had still one more function to fulfil. It was to symbolize the value of manual work as such in an environment where this value was threatened either by apathy and demoralisation which grew in the soil of unemployment and starvation, or by the stigma of inferiority attached to manual work when compared with non-manual work or with the machine.

For the West the spinning wheel represents industrial backwardness, productive inefficiency, the ultimate sin against technical progress. In Gandhi's eyes, it symbolizes the victory of work over idleness, of life over lifelessness, of the family unit and the village community over dispersal and disintegration. It is the victory of non-violence. Once when he was asked, "Show God to me face to face", Gandhi answered "You will see Him in the Spinning Wheel".

Western ideas, if they are to suit Indian conditions, will have to be revised. Is it really good econo-

mics to spend scarce resources for the import or output of labour-saving machines for use in industries which can command gigantic armies of unemployed? Gandhi's answer was the cottage industry. Villagers would engage in home-craft, or they would produce simple materials. But as these types of village industry still leave great pools of unemployed, further employment can come only from small-scale industry carried out in villages.

ATTITUDE TO MACHINERY

Would this still be in accordance with Gandhi's teaching? Some of the confusion about the purpose and character of cottage industry might have arisen because Gandhi's attitude to the machine had not been sufficiently analysed. Gandhi was once against all Machinery, calling it the chief product of modern civilisation, the symbol of a great sin. Later he greatly qualified this attitude. "Mechanisation," he said, "is good when the hands are too few for the work intended to be accomplished. It is an evil when there are more hands than required for work."

It was bad when it enriched a few at the expense of the many. It was good when it was used for the benefit of the people. And it might be necessary in heavy industry and public utilities. Gandhi's statement "that use of machinery is useful which subserves the interests of all", represents something greatly different from a general condemnation of the machine.

Experience in Switzerland and Japan goes to prove that suitable machines can be devised for cottage industries, provided inventors free themselves from their preconceived notion that large scale machines are always preferable. They would have to apply their ingenuity to the problems of the village industry, and invent small machines of simple and with as few parts as possible and with rotational motion. Full employment in India will not be possible without inventions of this type.

THE ECONOMICS OF THE AMBAR CHARKA

With the Government of India's New Textile Policy assigning an annual total of 300 million yards to "handlooms using Ambar Charka yarn" within the annual increase of 1,700 million yards targeted by the end of the Second Plan, hand-spinning has been raised from an act of faith confined to a small group to a major item of national economic programme. The Second Five Year Plan has forced discussion of homespinning in the light of the day in terms of values and costs that could enter the calculations on which decisions behind the National Plan could be based.

The Ambar Charka Enquiry Committee (1956) did extremely useful work going into a detailed cost analysis of the Ambar Charka Programme, both on the basis of unit production and total expendi-

ture involved in the Plan budget. The starting point is the target of 300 million yards fixed for handlooms using ambar charka yarn out of the increment of 1,700 million yards in the country's textile production. On the basis of an annual output of 720 yards of cloth with yarn produced from each charka, 420,000 charkas will be required for an annual output of 300 million yards in 1960-61. The training programme for spinners and the annual phasing of charka installation would show that, in the fifth year, 420,000 installed charkas would yield an annual yarn output of 84 million yards valued at Rs 37.80 crores, providing employment to 840,000 spinners, 56,000 weavers and 112,000 weavers' assistants from 1960-61 onwards. The wages paid to spinners would amount to Rs 14.18 crores and to weavers and their assistants, Rs 7.50 crores while the subsidy paid on sales of cloth would total Rs 9.45 crores every year.

In calculating the returns on investment in the spinning programme, the following estimates would be relevant:

	(Rs in crores)
Towards installation of 420,000 sets of charkas	5.6
Cost of training 840,000 spinners ..	9.5
Working capital for production and marketing	30.24
Workshops, finishing centres, organisational overheads etc. ..	1.5
Total ..	46.84

The total capital outlay on the spinning programme would thus be of the order of Rs 47.50 crores to which must be added the recurring expenses toward subsidy of Rs 9.45 crores on yarn and cloth and Rs 21 lakhs on the charkas. On the basis of figures relating to wages for spinning contained in the Enquiry Committee Report, detailed studies show that, in 1960-61, the annual value added by the process of manufacture under the ambar charka programme would be Rs 12.24 crores against the capital outlay of Rs 47 crores. This would establish a capital output ratio of .28 which is much lower than the output co-efficient of 45-56 prevalent in spinning mills. This brings out the unsuspected feature that, in spite of the prodigious absorption of manpower, ambar charkas operating behind the reservations enforced by national policy would still be capital intensive, i.e., making relatively higher use of capital to obtain specific output.

The debates and discussions regarding ambar charka spinning can by no means be regarded as having yet established final conclusions. In the economic evaluation of the scheme of ambar spinning the following points would stand out for emphasis:

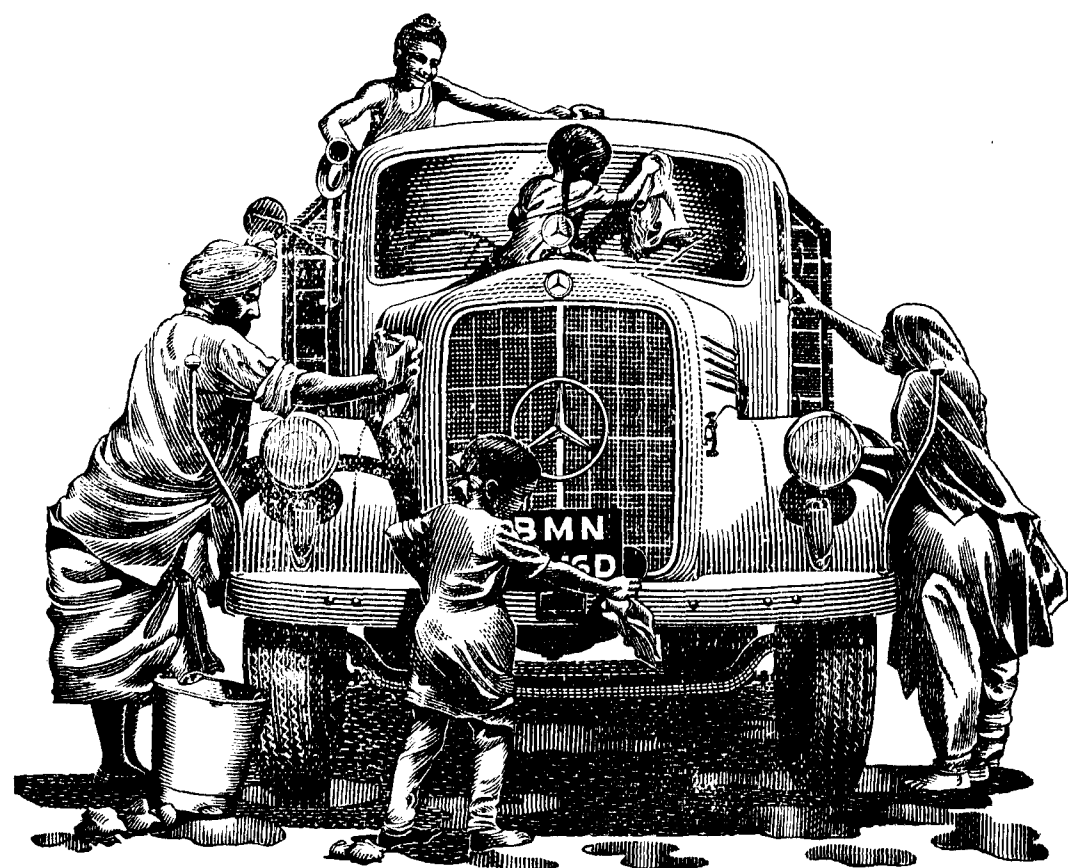
(a) Spinning by ambar charka cannot claim the merit of econo-

mising capital which, according to contemporary economic thinking, might justify adoption of inferior technique in backward economies suffering from scarcity of capital and persistence of unemployed labour. Being capital intensive, the ambar charka returns less output per unit of investment and should therefore be considered as wasting scarce capital, which hurts the national economy. The waste of capital combined with unproductivity of labour in our cottage enterprises would render a significant proportion of the nation's investments definitely unwise and uneconomising.

(b) The surplus value created per day by the worker using the ambar charka has been calculated by the Ambar Charka Enquiry Committee at 2 annas 2 pies and subsidizing it to even the submarginal wage level of 9 annas per day as planned would involve doling out 6 annas 10 pies per day, which would be the deficit per worker. The effect of distributing wages against work not done or output not emerging would be inflationary, as purchasing power would be released in the rural economy without a corresponding creation or provision of consumer goods.

(c) Though the ambar charka programme has been shown as securing lower output per unit of capital invested than the mechanized sector and could therefore be regarded as making improper use of scarce resources, there is some advantage in the scheme as regards employment in the national economy. The ambar charka might involve inferior technique in that less output is obtained per unit of capital invested, but, being a less mechanized process, offers the opportunity of associating with a small dose of capital a relatively large labour force. Thus, though capital might be unproductive on the calculation of final output, the programme must be regarded as having a definite advantage in creating jobs in a tragically under-employed economy.

(d) The point must also be considered if handweaving, which offers livelihood to 8.7 million artisans in India, can in the final analysis be regarded as having a permanent future based on the exclusive use of mill yarn. If the history of other countries is a guide, handlooms could survive even as a low-wage-earning sector so long as yarn could be obtained without much difficulty. The fundamental problem for the handloom weaver is that he has to depend for his most essential raw material, viz., yarn, on his competitor, the mill sector. So long as State action and official policies could assure the handloom weaver of a continuous supply of mill yarn, the paradox of depending on the support of one's competitors might not appear with all its untoward implications. But, in the long run, the handloom weaver could not wisely plan on the basis of supply of raw material from a competitive sector.



The Breadwinner of the family

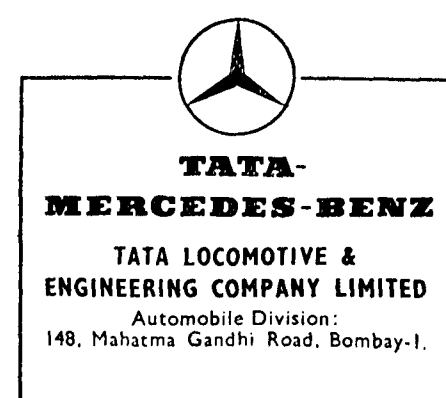
Everyone in the family joyfully lends a helping hand as Harbans Singh cleans and polishes his TATA-MERCEDES-BENZ truck at the end of the day.

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EVEREST

Problems of World Iron & Steel Industry and India's part in it

By W. E. KREBS & P. E. MEHTA

THE extensive development of the Iron & Steel Industry in India from a production of 1.2 million tons in 1956 to 6 million tons in 1961 during the Second Five Year Plan period and its future planned increase during the Third Five Year Plan (projected 2 million tons annually) has brought forward intensive discussions on the subject.

In this regard we may be allowed to look into the problems of the Iron & Steel Industry of the World, to get a better perspective, and to judge the Indian development in context of world conditions, and to benefit from the progress made by the World Steel Industry.

In his very interesting and exhaustive treatise on "European Steel Production in 1955 and future development in production", Mr H. W. A. Warring the well known British Steel expert and economist who was till recently connected with ECE (Economic Co-operation for Europe) and who now plays a leading role in the British Steel Industry has exhaustively dealt with the World Steel production and consumption.

To start with we shall deal with the per capita consumption of steel in the highly industrialized countries of the World. Though this is well known, we shall deal with this briefly for re-capitulation:

Per Capita Consumption:

U.S.A.	..	625 kg.
West Germany	..	435 "
U.K.	..	368 "
France	..	233 "
U.S.S.R.	..	215 "
E. Europe (Avge)	..	200 "
L. America	..	40 "
Asia (W Middle East)	10 "	
India (1955)	..	5 "
India (1960)	..	15 "
India (1965)?	..	42 "
India (1975)?	..	85 "
India (2000)?	..	240 "

Though the per capita consumption of steel is not exactly a direct measure of the standard of living, everybody will agree that it has great connections. From this viewpoint we can see the leeway, that India has still to make. At present we are placed with China at the lowest level of per capita consumption, and in 1965, our per capita consumption can be comparable to that of Latin America, today.

Dr A. Lahiri, Director, Fuel Research Institute, Government of India, in a recent symposium on coal carbonization said "the target

for the third Five Year Plan for the production of 15 million tons of Iron and Steel and ultimately 35 million tons by 1975, presents problems of a very serious nature so far as supply of coking coal is concerned. He further said that targets for the coming Five Year Plans should be planned well ahead, from the viewpoint of production of coking coal. We have adopted the ambitious schemes of Dr Lahiri for 1975, and come to a per capita consumption figure of 85 kg. Again we may be permitted to draw a comparison to the present world situation, as this per capita consumption figure is less than 50 per cent of the present average consumption of steel per capita in E. Europe.

As per a speech delivered by Shri Phiroz Kutar, Technical Director, Tata Iron & Steel Co., Ltd., at Sindri, he said that India is entitled to produce one day 100 million tons of steel per year. Shri Phiroz Kutar was referring to the natural resources of production and we are in agreement with him. About the technical and economical pre-requisites for reaching this target, we shall tackle them later.

Going over from the per capita consumption to actual production figures which upto 1960 are based on the publication of Mr H. W. A. Warring, we have extended the production figures upto 1970 (see fig. 1), the yearly output which according to the opinion of world economists were due to be attained during the next decade, because certain saturation will be reached first by the leading producers. Anyhow if the race between the increase in steel production and increase in human population is influenced in the desired way, the 100 million tons production per year in India means a per capita consumption of 240 kg. which is equal to the present per capita consumption of Sweden and France. We think it rather improbable whether this figure will be reached in India in the century.

Coming to comparative production, it seems to be a contradiction if we isolate the figures of USA and USSR which are shown in fig. 2. The gradient of the increase in USA and USSR is about the same, that is upto 1960 at best the steel produced between the two giants is neck to neck, though USSR is well behind USA in the absolute production figures.

It is interesting to compare the Indian production figures with the two largest producers, USA and USSR. The gradient of the increase of the Indian Steel Production is less steep than that of USA

and USSR and we think that this is a sound development. Following Dr Lahiri's figure of 35 million tons in 1975, the gradient of the Indian increase is less than that of USA and USSR.

Having the above outline of Indian Steel Future in mind let us now talk about the pre-requisite necessary to achieve the above rather ambitious targets. The most important aspect from this viewpoint is that India becomes self-sufficient in the production of Heavy Machinery and Equipments for Iron & Steel and Coal mining industry. Again it may be useful to draw comparisons with other countries who have passed through the same phase as India. At

the end of their First Five Year Plan (1932) USSR produced the detailed drawings for a blooming mill, a hundred per cent indigenous product. At the end of their Second Five Year Plan they were self-sufficient upto 95% with regard to the production of machinery and equipment for integrated steel plants. Since this period they have installed about 35 one million ton integrated steel plants from indigenous production. The dynamics of US Steel industry is too well known to require any elaboration.

We are very pleased that the Second Five Year Plan has placed an emphasis on basic industries and manufacture of Machinery and

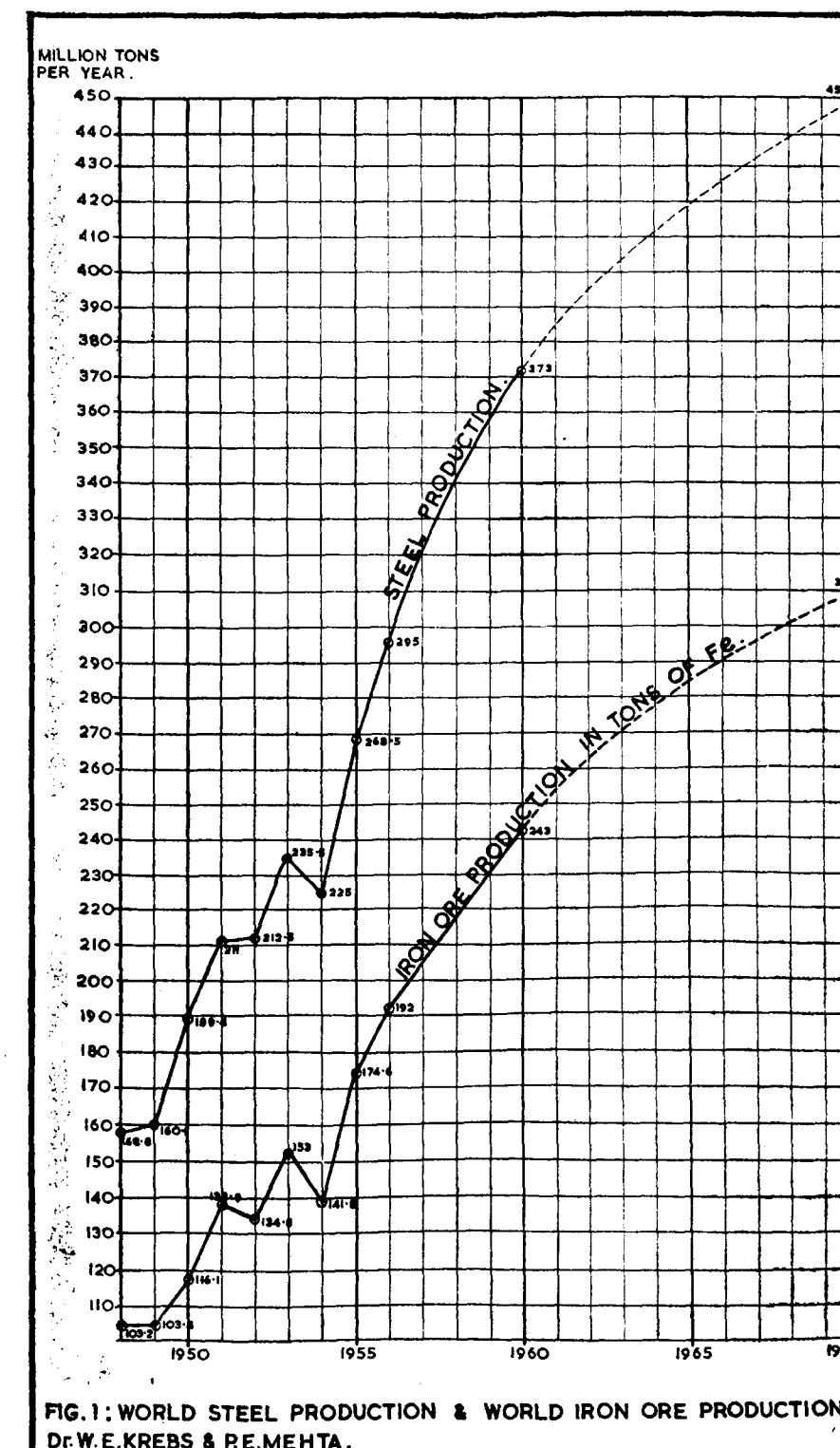
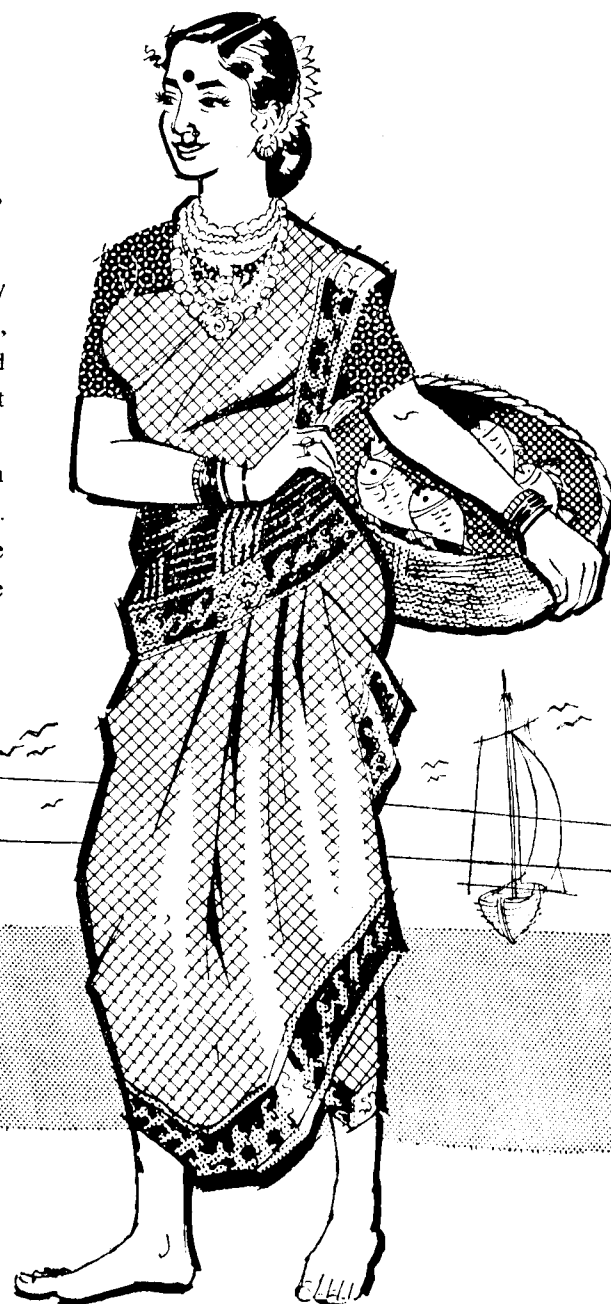


FIG. 1: WORLD STEEL PRODUCTION & WORLD IRON ORE PRODUCTION. Dr. W. E. KREBS & P. E. MEHTA.

The dress of the people...

Costumes, whether they are for occasions or for daily wear, vary all over the world. Climatic conditions, natural materials available, religious demands and individual ingenuity are some of the factors that determine the dress of a people.

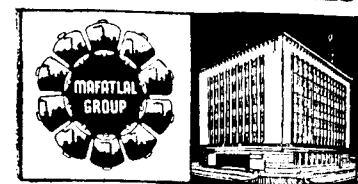
Many varied costumes are worn in India but different costumes need different qualities of cloth. The Mafatlal Group of Mills manufactures a wide range of cloth for everyday use in all parts of the country.



The fisherwoman of Bombay, a familiar figure in the market, wears a nine-yard saree. The style is indicative of the freedom and strength these women draw from the ocean.

SHORROCK, Ahmedabad. NEW SHORROCK, Nadiad. STANDARD, Bombay. NEW CHINA, Bombay. SASSOON, Bombay. NEW UNION, Bombay. SURAT COTTON, Surat and Dewas. MAFATLAL FINE, Navsari. GAGALBHAI JUTE, Calcutta.

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Capital Goods. We appreciate the decision of the Government to produce Machinery for Iron & Steel industry, and we hope that implementation of these schemes will not be much delayed. Though the Government of India has taken a right step in their decision to set up the different plants for the manufacture of Capital Machinery and Equipment, we very much regret to say that no steps are being taken to set up a First Class Designing Office. In our opinion for real industrialization, a Designing and Drawing Office is a pre-requisite, and though Indians may be associated with the foreign collaborators in their designing office it does not serve the real purpose. A first class Designing Office will have a nucleus of foreign experts till the available Indian talent is trained to take complete responsibilities. No doubt this will take considerable time, but a decision has to be made in the interest of the country.

It must be admitted that in the comparison between I and II Russian Five Year and the I & II Indian Five Year Plans there is a big difference in world situation. In the years 1928 to 1934, there was a world depression, and unemployment everywhere and stagnation of production and trade. The Russians could take advantage from the situation from the viewpoint of world unemployment, and could get co-operation from technicians, craftsmen and top experts all over the world. The machinery manufacturers at that time were only too willing to give quotations at fairly low prices and quick delivery periods. Contrary to this we live at present in a boom market and it is hardly possible to get the right type of foreign technicians to come to India and it is also difficult to get machinery, as every industrial firm abroad is busy with orders. To make the situation more difficult, the present Foreign Exchange shortage in India and the deferred payment formulae have brought in a good deal of further restrictions in the seller's market. Poor specifications, and undue bureaucratic delays in decisions bring in added difficulties, but we are sure that India has well laid its path of expansion of the steel industry.

USE OF STEEL IN DIFFERENT INDUSTRIES

A comparison between the rate of use of Steel in Capital Goods and consumer goods industry is interesting. In Western Europe 2/3 of steel production goes into the manufacture of Capital Goods, the consumer goods industry in which the car industry is also included amount to 1/3. In Eastern Europe the ratio is slightly different, wherein 4/5 of the production goes into the Capital Goods industry and 1/5 in the consumer goods.

In case of India with regard to the emphasis on Basic Industries, she will in all probabilities have to use a larger amount of steel for

manufacture of Capital Goods for the next 10-15 years till her economy is consolidated.

With regard to housing, in W. Europe it is calculated that for each family a consumption of 1 ton per flat or house is necessary. Under Indian conditions it will take sometime before this average figure is reached.

About 20% of the total production of steel in industrialized countries is used for means of transport, comprising of railways, cars, aeroplanes, etc.

RAW MATERIAL REQUIREMENTS

The basic raw materials for setting up a large scale steel industry are Iron ores, coking coal, limestone, manganese and refractory materials. India has the largest reserves of high grade iron ores in the world, her reserves being one and a half times that of USA and USSR put together. Whereas USA which was self-sufficient with regard to iron ores before the II World War, has depleted her reserves and is now an importer. By 1970, USA will have to import about 40% of her yearly iron ore requirements. With regard to manganese, USA has very little reserves.

In case of USSR whereas from our knowledge she is self-sufficient in most of her requirements and has the largest reserves of manganese in the world, but she does not seem to be well placed with regard to reserves of high grade iron ores.

Between USA, USSR and India, the last named country has better resources with regard to all raw materials. The reserves of Indian coking coals are limited, but with beneficiation, blending and with the modern technological progress in use of semi-coking and non-coking coals, there shall not be any limitation for quite a few decades for the rapid expansion of the Indian Iron and Steel Industry.

SCRAP

As always in times of heavy steel production scrap goes up in price and becomes the most valuable and desired raw material for making steel. The highly industrialised countries always tried to import scrap and get it from countries with unbalanced industrial development.

It may be of interest to note that in 1955, 60 million tons of scrap were used in the steel production of Europe which can be put under the following heads.

	Per cent
(a) direct recirculation scrap of the steel mills	21
(b) return scrap from fabrication	10
(c) collected scrap	20
(d) imported scrap	3
Total	54
The rest (indigenous pig iron production)	46

It may be seen from above that more than 50% of the raw material for ingot steel production is scrap and so this is a raw material of very great importance to any country's economy.

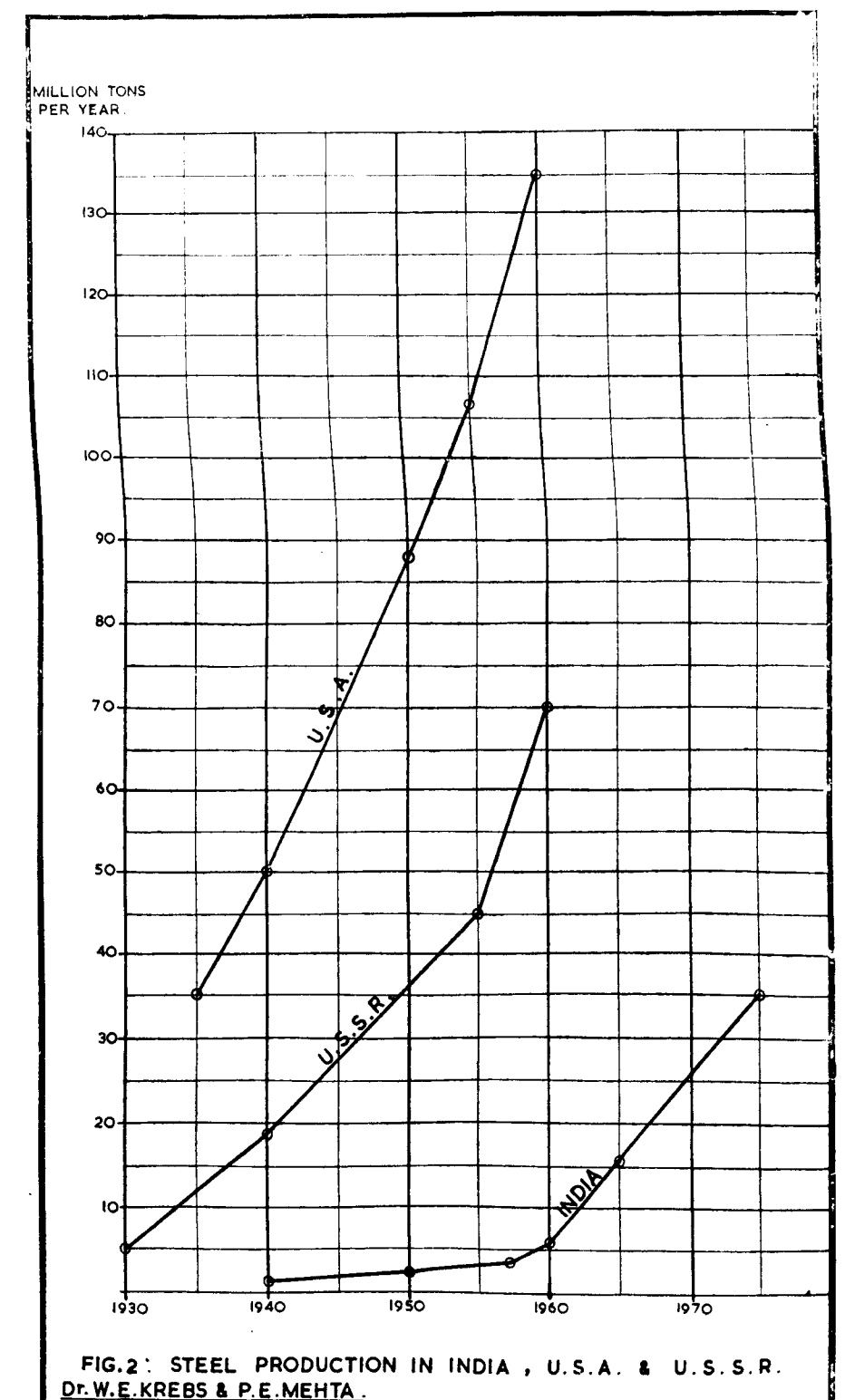
India's scrap situation is quite different from that of Europe. The direct recirculation scrap of the steel plants may be a little higher than 21%, but the other categories of scrap are very much lower in percentage. Most of it goes to the Re-rollers and other manufacturers of steel articles, who are accustomed to use every little piece of steel in their manufacture.

One point in India's scrap economy must be very much underlined and that is the policy of exporting scrap. There is not the slightest justification that we send scrap of any kind to other steel manufacturing countries where this is turned into useful steel and resold to India at a very much higher price. When other steel manufacturers can use the scrap we do not understand why it can-

not be done in the country. We feel that the Government should immediately put an embargo on the export of scrap of any kind. If the open hearth plants and electric steel furnaces cannot use low grade scrap, it can be utilised in hot blast cupolas and transformed into molten metal for castings or for the manufacture of synthetic haematite pig iron. Low in phosphorus, which this country needs badly for quality castings. The importance of scrap in India's economy will be better understood when the steel production increases and we hope that from now on a policy in the interest of the country will be laid down by the Government.

REFRACTORIES

A problem which has not very much international significance and therefore has not been touched in the report of Mr H. W. A. Warring is the manufacture of Refractories. With the exception of magnesite and chromite every industrialised country has raw materials in



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abundance for the manufacture of ordinary high duty, medium duty and low duty bricks. The only world shortage is the magnesite which has been a monopoly of Austria and international trade in this is well established.

India is in a very fortunate position to have within its boundaries all the raw materials including magnesite, chromite, kyanite and sillimanite, all of excellent quality. Unfortunately the indigenous refractory industry is not well developed and has not kept pace with the growing Iron and Steel industry and other consumers. According to our information the major part of the refractories for the new steel plants and the expansion of the existing plants have to be imported with a conservative expenditure of Rs 19 crores, because the indigenous industry is hopelessly inadequate to supply the rising demand. We feel that, if the above amount (10 crores) had been spent 3 years ago for setting up new refractory plants, and expanding the existing ones, we could have at least increased our production by 250,000 tons annually, which would have been able to fill in a major portion of the imports.

It is, therefore, imperative that the Government should pay more attention to the **manufacture** of refractories and not only be satisfied with giving licences. We feel that there should be rationalised production, meaning that the different plants should specialise in the production of one or two types rather than a mixed programme which is being followed in most of the existing plants and the new projects. This rationalisation which we think is overdue, will decrease the production cost and also give a better control over quality production.

With the present shortage of foreign exchange, efforts should be made to manufacture machinery for refractory plants in India. Most of these machines are of a fairly simple design and there should not be any difficulty to manufacture them in the country.

Bearing in mind that India is thinking in terms of expanding steel production by at least 2,000,000 tons annually during the Third Five-Year Plan period the danger of over-investment and over-production in the refractories production does not arise. The initial construction requirements for a million ton ingot production per year amounts to about 100,000 tons of all types of refractories, and the annual replacement requirement is of the order of 60,000 tons. This figure has been assumed by taking into consideration that some of the new plants will use open hearth furnaces and the other the new LD-Process.

Besides the requirements of foreign exchange for imports and a much higher cost for the imported product, it must be borne in mind that during the transport and

various handling operations, the breakage and damage to the bricks in most of the cases will be over 20% which brings in additional increase of expenditure.

We feel that the Government should not be complacent in seeing that the estimated requirements have been licensed and committees with members of vested interest to look after the realisation of the Plan targets. The Government should see that the planned expan-

production fourfold in the Second Five-Year Plan is a step in the right direction. Apart from the teething troubles which cannot be avoided for these gigantic tasks, the sellers market in Capital Goods, Machinery and other problems have brought in added difficulties.

The high prices that India has to pay to set up the new three Plants and other intrinsic difficulties in fulfilling the targets, have brought to the foreground the urgent

Western and Japanese Steel producers except for normal stocks from the viewpoint of normal transport breakdowns. The Indian transport system for bulk cargoes requires modernization and is one of the great bottlenecks for rapid expansion of industry.

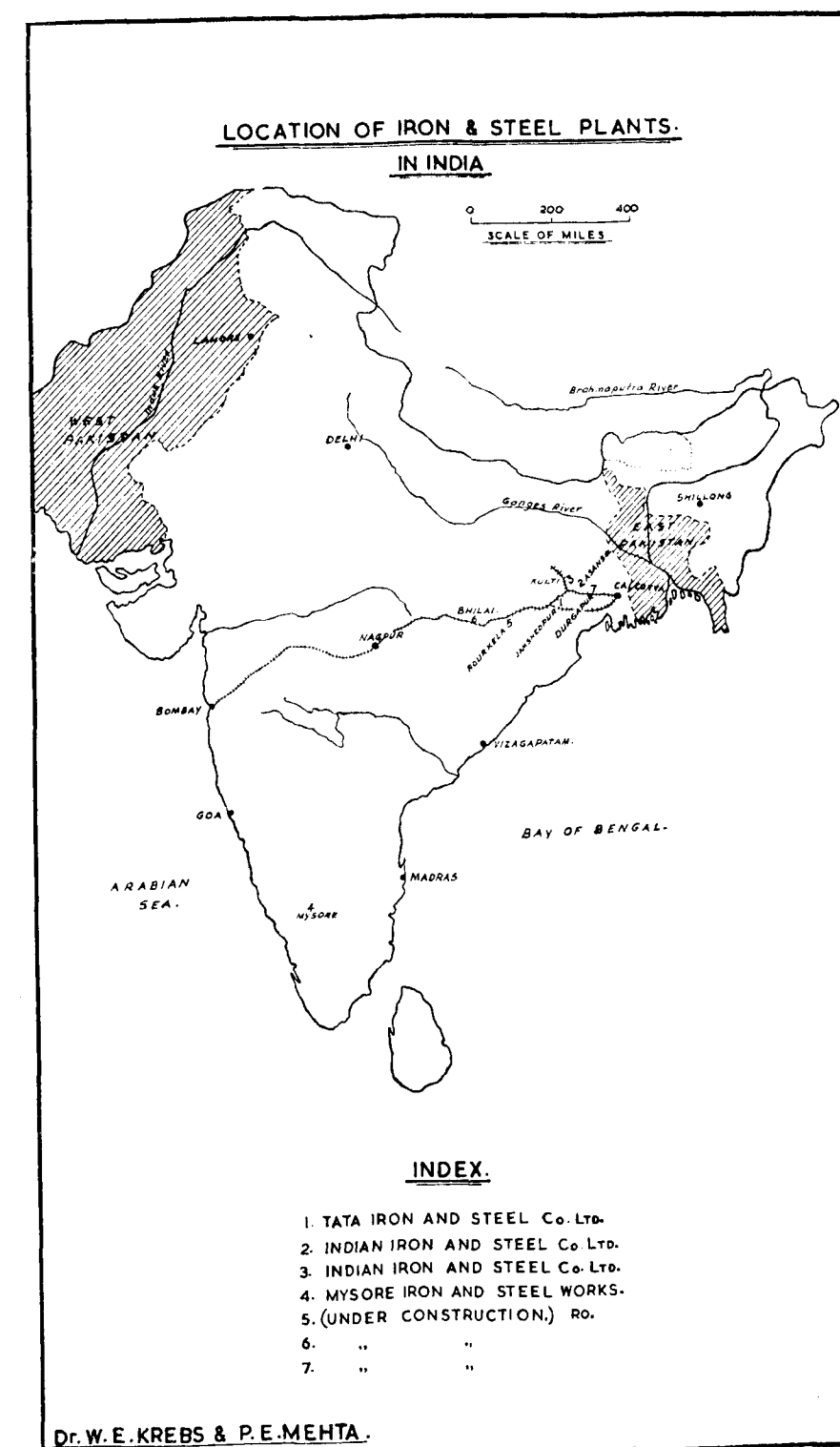
If the Indian Steel industry has to take the best advantage of its natural resources and keep its competitive position in the world market, it will have to adopt modern technology and keep abreast of new developments. Utilization of advanced blending and bulk conveyor systems at all stages, preparation and standardization of ore burdens, use of high top pressure in blast furnaces, increased use of oxygen in steel making, and progressive automation in blast furnaces, steel melting shops and rolling mills have to be introduced. We are afraid that the present practice of Tariff Commission of Cost plus basis with all its intricacies is not perhaps conducive for the industry to increase its efficiency or keep up its position as one of the cheapest producers of steel in the world. In the last decade the cost per ton is increasing steeply whereas the production per worker is going down.

The present very high cost of capital equipment and the general financial stringency in Foreign Exchange is affecting the Indian steel development programmes. Some of the necessary capital expenditure for proper mining, blending and standardization of raw materials have been deferred from a short term viewpoint, but which if not introduced early will affect the development and competitiveness of the Indian Steel industry from a long term viewpoint.

The advances made in the World Steel industry in the last ten years can be summarised as follows:

- (1) Improved Layouts
- (2) Standardization and proper blending of raw materials
- (3) Use of better methods of Bulk handling and charging
- (4) Use of richer fuels and oxygen
- (5) Better use of refractories, specially basic bricks
- (6) Mechanization and Automation
- (7) Faster re-building of units
- (8) Better control and instrumentation
- (9) Planned maintenance of equipment.

We earnestly hope that the decision of the Government of India to set up a Heavy Machine Building Plant, Foundry and Forge Plant, Heavy Machine Tool Plant and others will take early shape. Setting these plants and to get proper rated productions will take 7 to 10 years time, but a very early decision in this matter will go a long way in the Government's efforts to raise the industrial potential and the standard of living in the country.



sion of the industry is properly implemented and instead of importing the refractories India should be in a position to export some of the specialised items in the not very distant future.

CONCLUSION

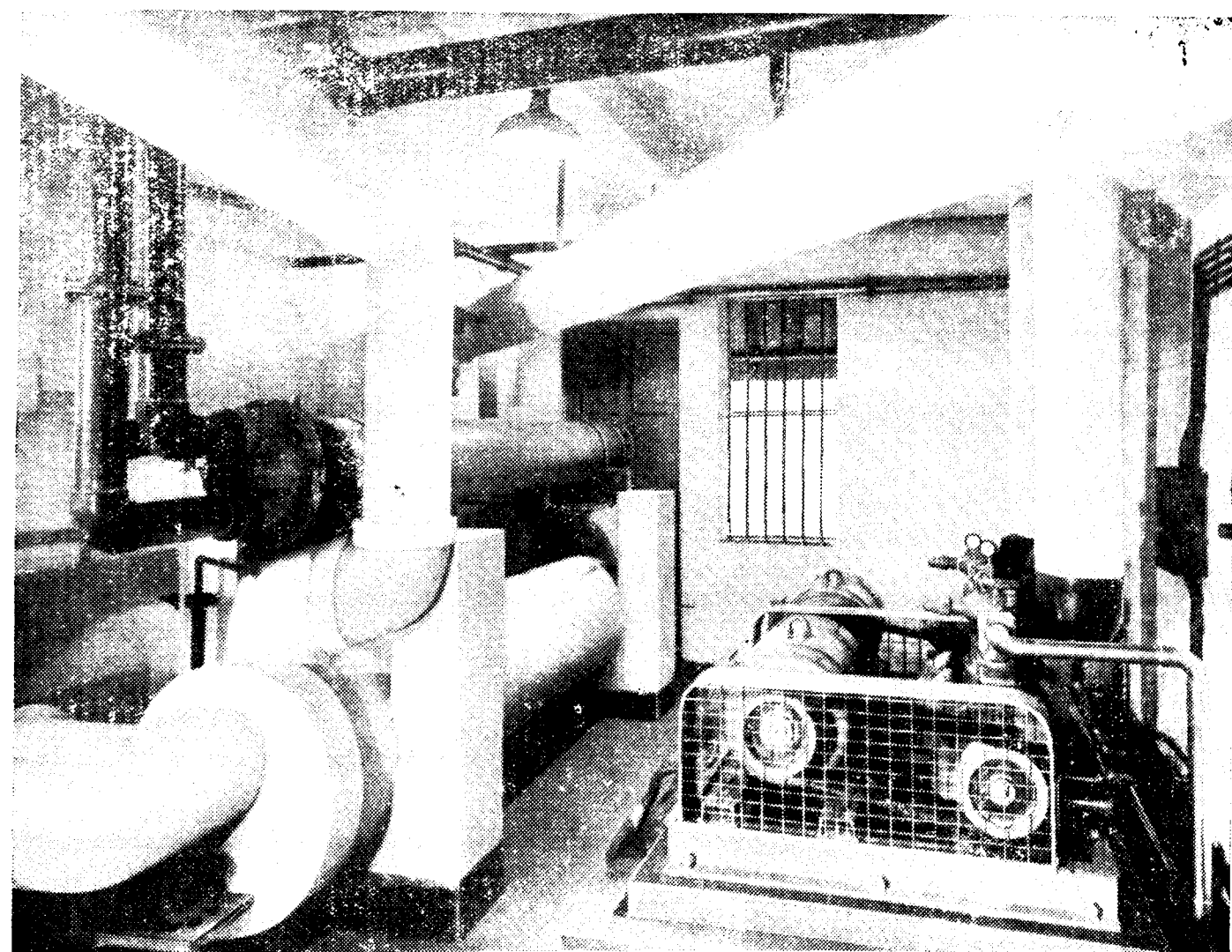
India is endowed by nature with the best raw materials to set up a large scale Iron and Steel industry and to industrialise herself rapidly for raising the standard of living of her teeming masses.

The Government of India's determination to increase the steel

necessity for manufacture of Capital Goods for the Iron and Steel and other industries.

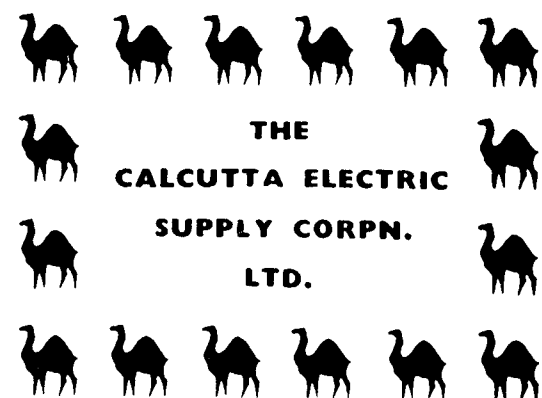
By 1960 the total yearly world steel capacity will be 407 million tons. India's production is then expected to be 6 million tons, about 1½ per cent of the total world capacity.

Apart from the advantage of having all the raw materials required for an accelerated production of Iron and Steel, the Indian Steel industry has not to stockpile the raw materials and tie up fairly large investments like some



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Some Trends in Power Development

By R. P. AIYER

TABLE I.
Progress of Electricity Supply 1939-1948.

Year.	1	2	3	4	5	6	7
		Installed capacity of generating plant at the end of the year. kW.	Aggregate of maximum demands on individual system during the year. kW.	kWh. Generated. Millions.	kWh. generated per kW. of average capacity.	kWh. sold. Millions.	Load factor based on Columns (3) and (4). %
1939	...	1,069,719	575,801	2,442.415	2,283	2,034.636	48.42
1940	...	1,120,310	628,630	2,702.056	2,412	2,034.971	49.07
1941	...	1,148,114	664,270	3,120,817	2,718	2,663.415	53.63
1942	...	1,130,939	695,302	3,160,187	2,794	2,662.628	51.85
1943	...	1,182,046	712,525	3,455,195	2,933	2,899.716	55.36
1944	...	1,210,825	787,848	3,719,841	3,072	3,131.415	53.90
1945	...	1,249,454	841,682	3,992,843	3,196	3,344.803	54.15
1946	...	1,301,524	819,182	3,892,276	2,991	3,257.802	54.24
1947	...	1,363,265	882,853	4,073,318	2,988	3,356.794	52.67
1948	...	1,410,966	965,780	4,575,466	3,243	3,721.464	54.08

TABLE II.

Index numbers of Progress of Electricity Supply 1939-1948.

Item.	1939.	1940.	1941.	1942.	1943.	1944.	1945.	1946.	1947.	1948.
Domestic or Residential	100	108.6	121.0	108.3	118.5	131.2	159.2	184.0	206.5	249.9
Commercial Heat, Light and Small Power	100	104.9	124.9	115.2	125.0	173.4	212.4	221.0	238.2	266.8
Industrial High Voltage	100	139.2	136.5	140.9	155.7	166.8	170.9	156.6	156.0	172.6
Indus. Low and M. Voltages	100	113.1	142.1	137.2	149.1	167.0	190.0	189.4	196.1	222.8
Traction	100	98.6	107.9	114.1	117.9	122.6	125.2	125.9	128.9	137.6
Irrigation	100	116.9	127.0	107.5	108.0	121.3	145.2	163.2	194.7	188.3
Public Lighting	100	109.0	118.0	80.9	66.8	63.3	71.1	93.3	107.0	109.2
Water Works	100	106.3	116.8	119.5	131.2	141.1	152.6	159.6	164.2	171.0

TABLE III.

UNITS OF ELECTRICITY SOLD
(In million kWh). Monthly average.

YEAR	Electricity generated (million kWh)	Domestic consumption	Commercial lighting and small power	Industrial power	Street lighting	Traction	Irrigation and Agricultural de-watering	Public water works and Sewage pumping
1948	381	34.1	19.5	202.9	4.2	24.7	10.1	14.8
1949	409	30.5	23.1	214.0	4.6	25.0	12.5	15.0
1950	426	43.7	25.7	217.0	5.0	25.7	13.5	15.0
1951	488	49.6	27.6	254.6	5.7	27.4	16.9	17.6

THE pattern of investment in power development both during the First Five Year Plan period and in the Second Five Year Plan has been one of promoting sustained expansion. In power schemes alone, investment during the First Five Year Plan period was of the order of Rs 260 crores, representing 11.1 per cent of the entire outlay during the plan period. The tempo of investment visualised during the Second Five Year Plan period in power schemes although in terms of percentage (8.9) has been somewhat slower an outlay of Rs 427 crores can in no way be regarded as insignificant. These figures to be properly appreciated must be examined in the context of the total outlay under Irrigation and Power during both the First and Second Plan periods give the following picture:

	First Five-Year Plan (Rs.)	Percent.
Total provisions	661	28.1
	Second Five-Year Plan (Rs.)	Percent.
Total provisions	913	19.9

PRE-INDEPENDENCE POSITION

With this background it may be appropriate to have a peep into the pattern of power development during the years prior to independence.

The progress of Electricity Supply in undivided India during the years 1939-48 is indicated in Table I.

The utilisation of power purpose-1939 as the base year with Index wise during the period 1939-1948 give the following breakdown using at 100. (See Table II)

INTERMEDIATE YEARS

The intermediate years upto 1951 when the First Five Year Plan commenced recorded satisfactory growth in Electricity Supply by the installed capacity in the post-partition, Indian Union registering a growth from 1,411,000 kW (in 1948) to 1,835,000 kW at the end of 1951. The monthly average of utilisation during the same period indicated the position shown in Table III.

ALL ROUND INCREASE

Between the years 1952 and the end of 1957 consumption of electrical energy has increased all round. To cite an important indicator the monthly average industrial consumption in 1952 rose from 270.8 million kWh to 519.0

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million kWh in December 1957. The monthly average for all purposes rose from a figure of 420 million kWh to 779.7 million kWh in December 1957.

The Second Five Year Plan period visualised an increase in the generating capacity of the order of 3.5 million kW, but as indicated in the Appraisal and Prospects of the Second Five Year Plan the total additions to generating capacity during the Plan period is expected to be reduced by 0.5 million kW to 3 million kW. Even this lower target will be a creditable achievement.

In appraising the pattern of power development a question which arises in one's mind is whether particular areas have been favoured in being selected for accelerated development or conversely whether in any region power development has lagged behind either due to neglect or faulty planning.

To appreciate this aspect of the planning one can do no better than indicate progress of development State-wise. To compare the situation as obtaining at the end of, say, 1949, with the position at the end of 1954 in respect of generating capacity alone, the picture presented is something as follows:

State.	Installed Capacity kW.	
	1949	1954
Assam	2,449	4,482
Bengal West	417,568	547,512
Bihar	34,588	199,840
Bombay*	393,343	600,387
Centrally Administered Delhi	37,536	62,611
Rest	5,689	18,583
Hyderabad*	20,617	27,634
Jammu and Kashmir	6,093	6,921
Madhya Bharat*	13,638	18,952
Madhya Pradesh	27,153	75,736
Madras* (including pre 1958 Andhra)	159,917	276,087
Mysore*	107,200	178,293
Orissa	4,022	7,956 @
Pepsu*	6,128	6,825
Punjab (East)*	58,522	75,717
Rajasthan	19,484	33,622
Saurashtra	11,413	28,734
Travancore Cochin	34,600	77,623
Uttar Pradesh	177,226	246,591

*pre-State Reorganisation.
 @Does not include Hirakud.

DEGREE OF EXPANSION

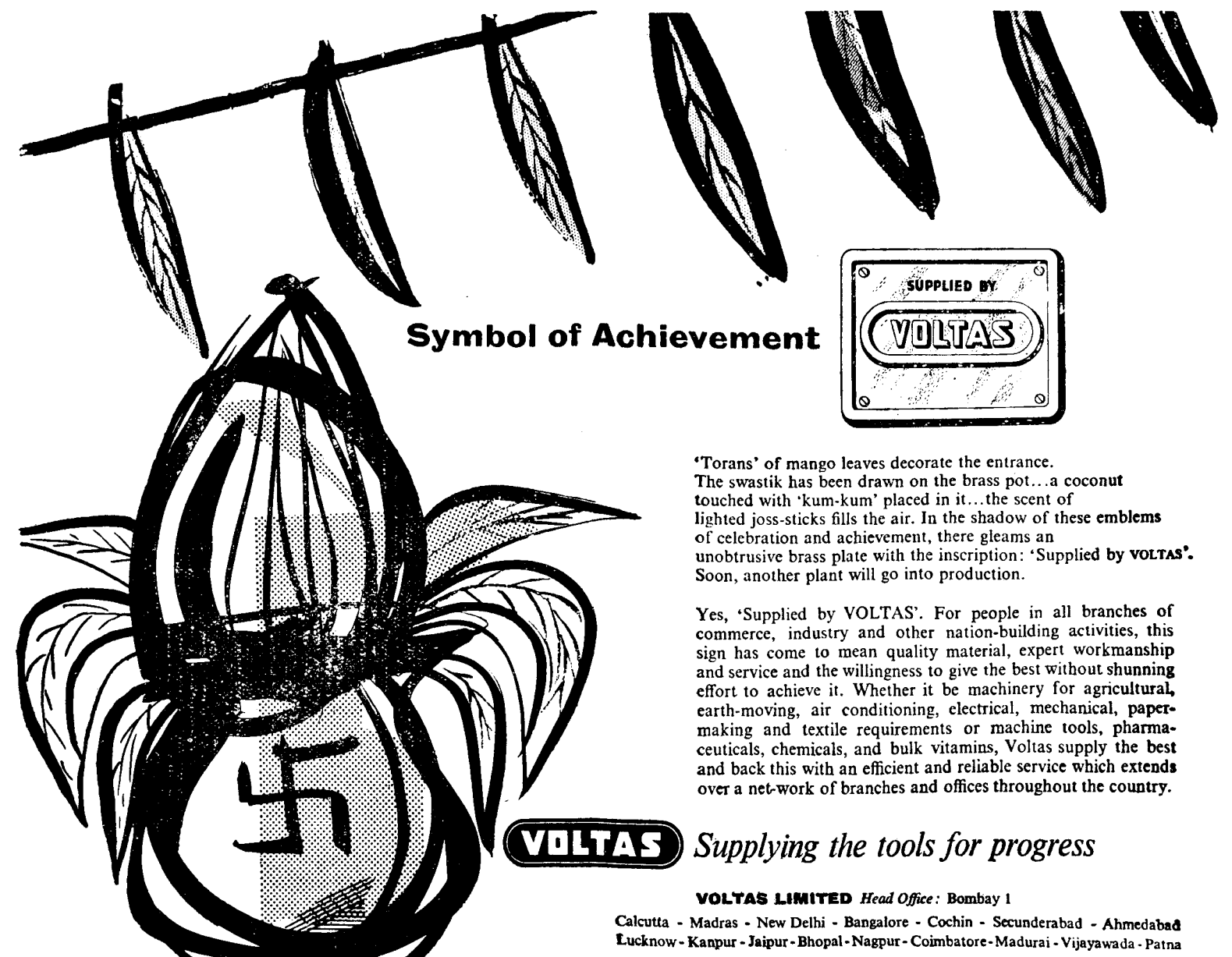
These figures indicate that no part of the country has been left to languish by being denied opportunities for expansion. The degree of development has, by and large, depended upon natural resources such as availability of flowing water and coal. These considerations have led to harnessing the Sutlej at the Bhakra gorge, the Mahanadi in Orissa at Hirakud, the Doduna Falls in Andhra and to the taming of the wayward Damodar to form the giant multi-purpose project comprising the D.V.C. The Koyna project in Bombay, the Rihand scheme in U.P. and the Kundah are indications of ambitious planning. The possibilities of harnessing the Tapi, Narbada and Mahi rivers are more rosy. In areas lacking in Hydro resources, and situated away from collieries, power planning has not been deterred by transport difficulties, as epitomised in the installation of a third set of 50/62.5 MW at Trombay in Bombay using coal. If however, more balanced development in Madras has not materialised, this has been primarily due to the emphasis in giving priority for hydro development in the area.

HISTORICAL REASONS

The extent of power development in the various areas in the country has also been governed by

the degree of industrialisation achieved by the different regions mainly to historical reasons. These historical reasons imply that different regions in the country have different capacities for industrial development. For instance in an area already with some basic industries a given amount of additional capital investment would yield a better result than in a primarily agricultural region. Much would also depend upon the nature of the economy, namely whether the area abounds in the requisite raw materials, entrepreneurial experience or primarily relies on State assistance. These and other allied considerations could lead to the general conclusion that Power projects would yield early and better dividends if located in a region where the elasticity of response in the form of increased industrial and other demand is greatest.

Nevertheless the pattern of power development in the recent years has witnessed the phenomenon of Supply Systems outselling power even before they are fully commissioned. This phenomenon has come as a pleasant surprise to the power planner leading to the conclusion that there is a limit beyond which price factor ceases to have any influence in under-developed countries and that the main consideration at least for some time is availability of power.



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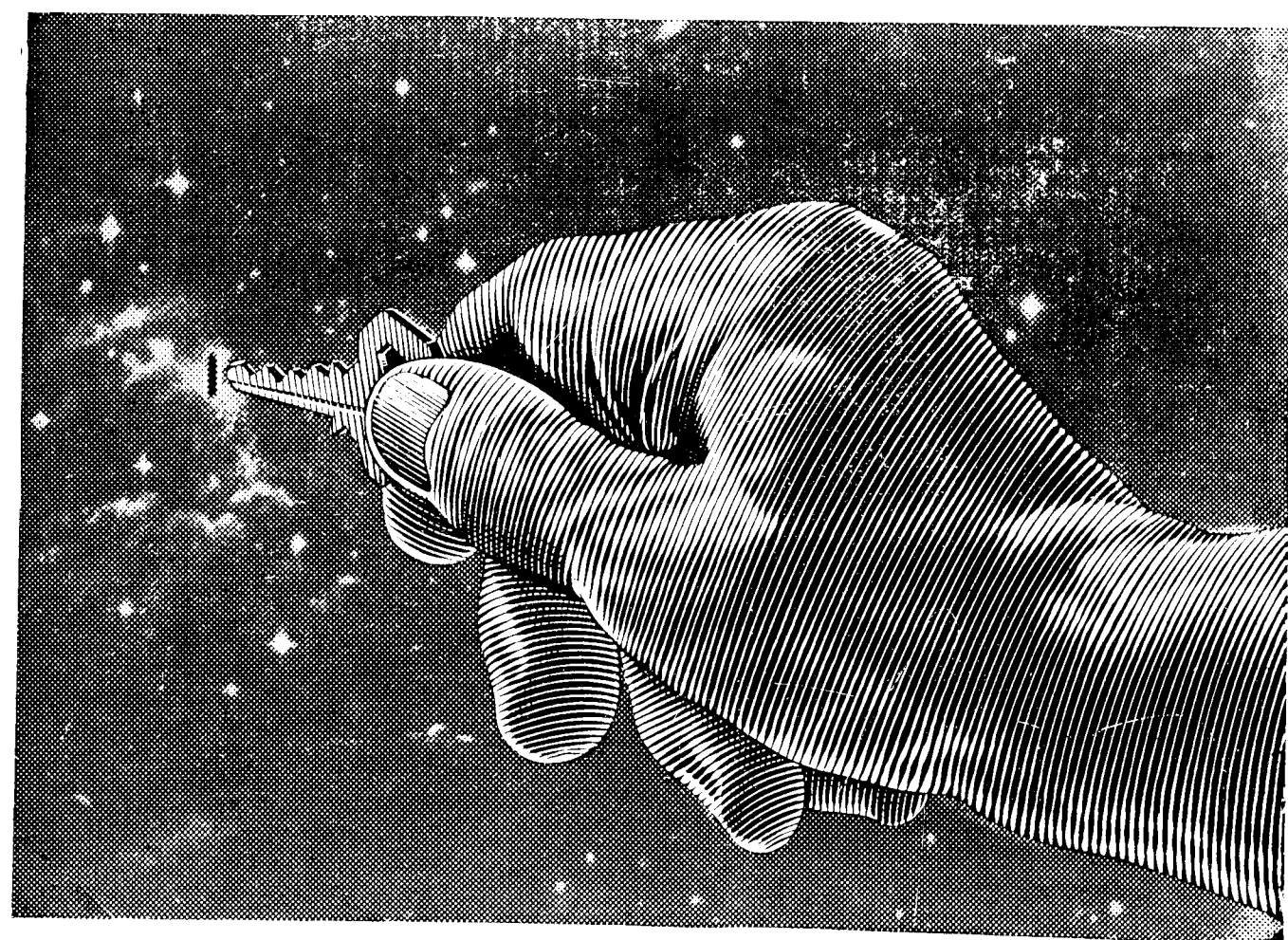
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Role of Co-operation in Rural Development

New Orientation Necessary

By B. V. RAO

IN recent months, considerable attention has been focussed on the question of development of Co-operation as the principal instrument of rural development. The outcome of the discussions at various high-level conferences was the formulation of a new co-operative development policy which was approved by the National Development Council at its meeting held early in November. Several competent observers, however, feel that the new policy has, largely, no relation to the existing facts, that it is mainly based on doctrinaire considerations and that it suffers from serious contradictions. In view of this, an objective examination of the merits and demerits of the policy is attempted here.

What are the main characteristics of the rural economy for the development of which Co-operation is sought to be made the principal instrument?

(1) Excessive pressure on land: The per capita availability of cultivated land in India was only 84 cents in 1951, as against 104 in 1931. This may be compared with 300 cents in the US, and 285 cents in the USSR. The occupational pattern is such that as many as 706 persons out of every 1,000 in India depend on agriculture, animal husbandry, forestry and fishing for their livelihood, as against 128 in the USA, and 50 in the UK. The extent of surplus man-power available in the countryside can be visualised from the fact that out of every thousand rural population, 190 persons are self-supporting agriculturists, about 40 are self-supporting agricultural labourers, 60 are self-supporting non-agriculturists, 110 are earning dependents and 600 are non-earning dependents.

(2) Unequal distribution, and uneconomic size of the cultivated holdings: To take the example of a few States, in 'old' Andhra State, 67 per cent of the total number of holdings are of less than 5 acres each, and account for only 18 per cent of the total owned area under cultivation. In sharp contrast with this, holdings of 30 acres and above which constitute nearly 4 per cent of the total holdings account for no less than 33 per cent of the total area owned. In 'old' Madhya Pradesh, again, holdings of less than 5 acres each number 59.4 per cent of the total, but the area covered by them is only 13.6 per cent. As against this, holdings of 30 acres and above, accounting for 4.6 per cent of the total, constitute no less than 36.5 per cent of the area owned.

There are slight variations from State to State, but the position is basically similar in all the States.

(3) Yield per acre is abnormally low. For example, the yield per acre of paddy in India is 1,200 lbs., which is no more than half of that in China, one-third of that in Japan, and slightly more than a fourth of that in Egypt. The yield per acre in respect of other crops is not dissimilar.

(4) The low yield per acre and low income, the disproportionate family expenditure in relation to income (according to the All-India Rural Credit Survey 53 per cent of the amount borrowed by the cultivator every year is for family expenditure), lead to increasing burden of debt (which is found to be inversely proportional to the size of the holding) and more poverty. Continued adherence to the traditional methods of agriculture, the trouble, uncertainty and expense involved in adopting improved methods of agriculture, the cost involved in obtaining the necessary finance for investment, and, above all, the lack of assurance of an adequate return for the output, are the principal disincentives to investment on land. The vicious circle is complete and goes on moving relentlessly.

OBJECTIVES OF PLANNED RURAL DEVELOPMENT

The main objectives of rural development should, therefore, be to make fuller and more effective utilisation of the available land and man-power resources through conscious planning with a view to raising the standard of living of the people and to reducing the inequalities of income, progressively. This ultimate objective can, however, be reached only through phases, each phase being designed to attain satisfaction of certain immediate requirements of the economy. The short-term objectives should, in the context of our conditions, satisfy two tests: First, they should be designed to make a frontal attack on the weakest spots in the rural economic structure; and second, they should be capable of being realised through such institutional and administrative arrangements as have reasonable prospects of being brought into being, consistent with the principles of democracy and the availability of material resources, in the immediate future.

The immediate objective would, obviously, be the breaking of the vicious circle referred to above. This implies, first, satisfaction through institutional means the primary needs for attaining higher

agricultural production. Important among these are: (a) knowledge of scientific, improved methods of agriculture, (b) finance, (c) implements, fertilisers, and improved seed; (d) marketing and processing facilities, and (e) irrigation facilities. Secondly, provision of increasing non-agricultural employment opportunities, through the establishment of village and small industries. To this end, again, credit, supply and marketing facilities have to be created through institutional arrangements.

ROLE OF CO-OPERATION

The role assigned to Co-operation in the attainment of these objectives is of such importance that ultimately a rural economic structure based on what is frequently referred to as "co-operative village management" is visualised in which agricultural production, village industries, processing industries, marketing and rural trade are all organised as co-operative activities.

Apparently, it has been widely realised that the attainment of this objective, through what are now known as democratic methods, in the foreseeable future is, however, by no means easy. It has been, for example, pointed out in the second Plan that "... co-operative village management is likely to be a gradual process". "Many practical problems", it further says, "will have to be resolved, efficient organisations built up, extension workers fully oriented to the tasks of co-operative development and a movement with purposeful leadership developed at the village level." (page 207) Actually, however, the serious limitations that beset a "co-operative approach" of the orthodox variety and the need for adapting that approach to the requirements of planned progress do not seem to have been fully appreciated.

This has been clearly brought out by the policy resolution on co-operative development passed by the National Development Council.

The salient features of the resolution are: (i) Co-operatives will be organised on the basis of the village community as the primary unit, and the responsibility and initiative for the social and economic development at the village level will be that of the co-operative and the panchayat. (ii) The members of a society are expected to have intimate knowledge of one another as well as a sense of mutual obligation and concern for the rehabilitation of the weaker sections of the community. "By working together for the common

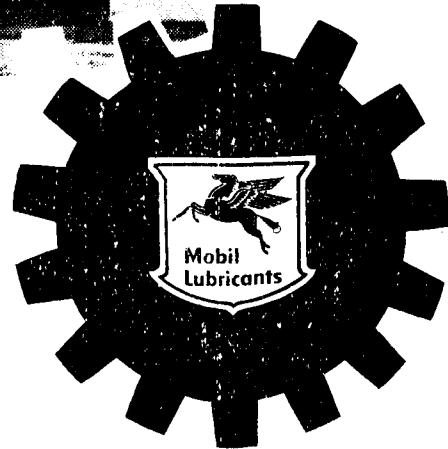
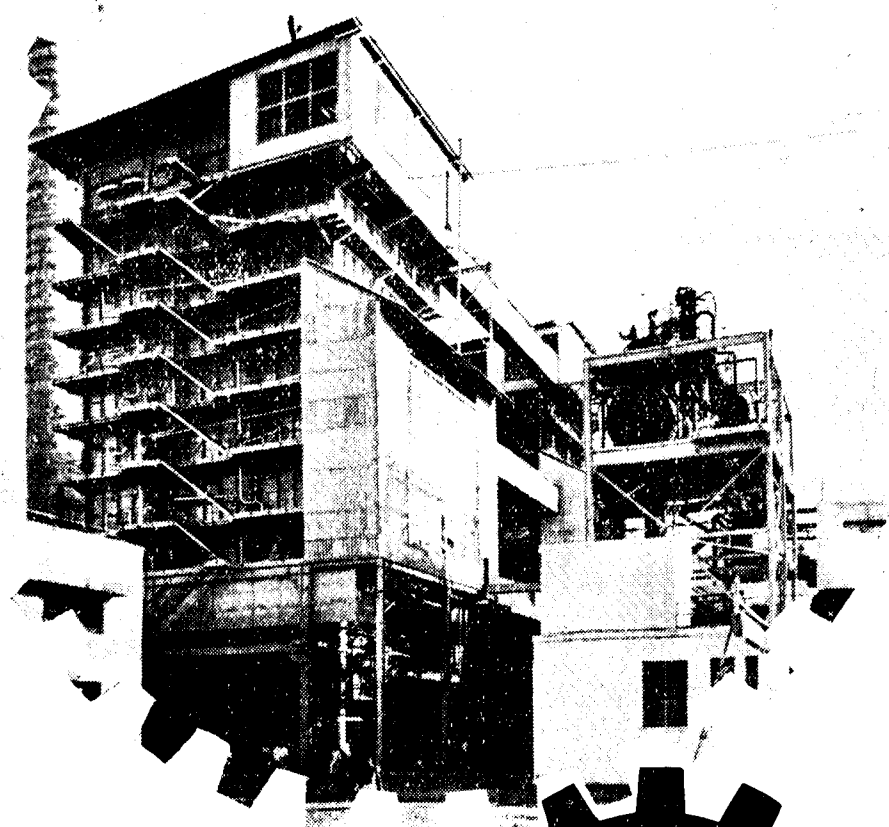
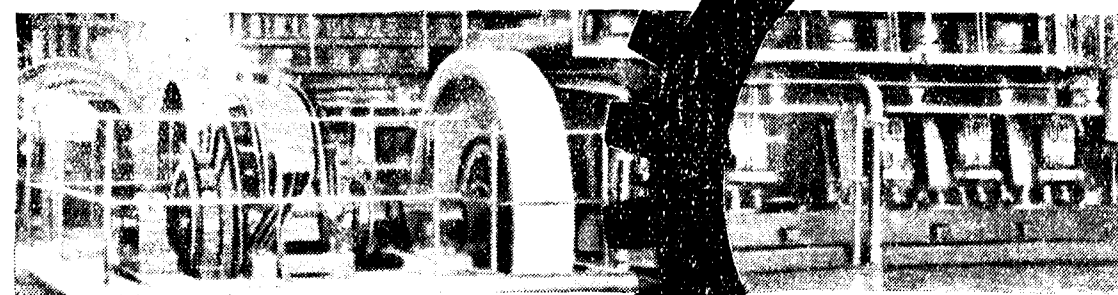
objective of raising the standard of living of all sections of the population, it is envisaged that the community develops social cohesion and unity." (iii) The village co-operative is called upon to undertake, besides supplying credit, implements, manures, seed, etc., a bewildering variety of functions which are largely irreconcilable. (iv) All the rural families will be brought within the co-operative fold by the end of the third five-year plan.

There are glaring inconsistencies and defects in this policy which are obviously the result of an inability to reconcile the basic principles and precepts of Co-operation with the requirements of planning. In the first place, it is necessary to remember that Co-operation, if it is to signify an idea and a method, does not mean mere "working together". Co-operation in this ordinary sense is possible in every form of human activity and among all kinds of people. But, in its special sense, it implies, as Mr C. R. Fay *put it, "a co-operative society in which the associated members join together for the attainment in common of some business purpose. There is no necessity that the compact should be perpetual, but each member, as long as he remains so, binds himself to regulate his relations, in so far as these concern the society as a whole."

CONDITIONS TO BE FULFILLED

Further, a co-operative society is supposed to be, basically, a voluntary association of weak individuals, established with a definite business function, whether of supplying credit facilities and implements, or of marketing the members' produce, in order to improve their individual productive or bargaining capacity and, consequently, their material and moral position. In the words of the MacLagan Committee, the Movement is "essentially moral one and it is individualistic rather than socialistic." From this follow the conditions that are required to be fulfilled before a co-operative society could be formed. Firstly, every member should have knowledge of co-operative principles, 'if this co-operative is to be real and not a sham'. Second, only persons who have proved honesty and industry should be admitted as members. It is, therefore, hardly surprising that MacLagan Committee recommended that "utmost care should be taken in permitting the formation of a society and that

*Co-operation at Home and Abroad, Fifth Edition, p. 4.



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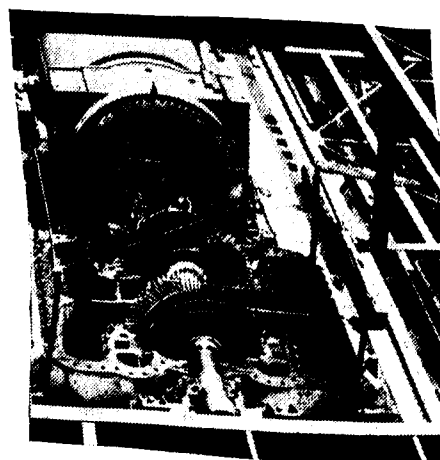
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the Registrar should only consent to register a society after he is convinced that its prospective members understand co-operative principles and duties and are prepared to act upto them and there is a reasonable probability that they will do so".

The reasons why the fulfilment of these basic pre-requisites was regarded as a sine qua non for the formation of a co-operative society are not far to seek. The people who were first emotionally moved to bring weak peasants together to form co-operatives in the countries in which they made their first appearance were mostly philanthropists, priests or clergy. The conditions which moved them to do so were, firstly, the appalling, intolerable, circumstances in which the peasantry lived in the wake of the advance of the industrial revolution, which threatened to push back agriculture to a place of secondary importance. And, secondly, the policies of the then governments which did next to nothing to improve the conditions of the peasantry. The object consequently, of their movement was to instil courage and self-confidence into the peasants of similar means and aims who are individually helpless by bringing them together on the basis of certain rules of conduct. In order that they might face courageously the evil effects of the industrial revolution. Superimposed on these conditions were others such as the exploitation of the small peasants by the money-lenders and the middlemen.

GROWTH OF THE MOVEMENT

Wherever these conditions obtained, depending on their severity, co-operative movement, starting mainly with the primary processes of production, namely, credit and supply, developed, more or less, spontaneously. Noteworthy among such countries were Germany, Netherlands, Denmark, Belgium and Switzerland. In the last mentioned two countries, it may be noted, the movement made a late appearance as a result, among others, of the usually thrifty habits of the peasants. In England where the industrial revolution had already advanced by then, however, conditions were different. For example, private banking had been successful in reaching the small farmers. Besides, the farmer was constitutionally averse to associating himself with his neighbour for business purposes. Credit movement, consequently, received no stimulus.

In France, Finland, Italy and Sweden where conditions were still more different, on the other hand, the growth of credit co-operatives was not spontaneous, and the State had to foster co-operatives in various ways. In France, to take one instance, the thriftiness of the French peasant and his strong individualism came in the way of easy growth of co-operation. The lack of uniformity in the conditions also made for the development of diffe-

rent kinds of co-operatives a large number of them under limited liability and some of them under unlimited liability. In Finland, again, credit was organised completely from the top downwards without any collaboration from the rural population which was too poor to start local co-operatives itself.

Denmark and Switzerland provide striking examples of the spontaneous development of co-operation to fulfil national requirements. In both, agriculture was highly developed, land was largely owned by small farmers, communications were well developed and the education was wide-spread. Added to these was the homogeneity of interest. These facilitated easy growth of co-operative movement on the supply side. The democratic character of the Danish banks and the character of its agriculture—mainly concerned with raising cattle—did not, however, give fillip to credit movement there.

Ireland, again, stands on a different footing. Here, the pioneers had to first of all create co-operative character. With the help of the State, they coaxed the peasants into co-operatives through education and propaganda.

CONDITIONS IN INDIA

The conditions in India were, and are, entirely different from those which prevailed in the West. During the past fifty years of its record in India, the only kind of Co-operation which has shown any success, that too in only isolated cases, is Credit Co-operation. This is mainly due to the favourable conditions obtaining in scattered areas, such as the predominance of the small peasants, devoted leadership, high level of literacy, exploitation of the money-lenders and the like. Barring these instances, Co-operation has not obtained deep roots in India. The large number of co-operative societies that exist today should not give one the impression that all the members and the office-bearers have a good measure of knowledge of co-operative principles, or that they are inspired by a desire to improve their material and moral position, or that they are all of proved honesty. Nothing could be farther from the truth. The reasons for the absence of zeal here, which existed elsewhere and which was the driving force for its growth, are not far to seek. Firstly, industrial revolution started very late in India, and even before it made any advance, the new Welfare State concepts have invaded Indian thinking. Even before the advent of Welfare State the conditions in India were never so very intolerable for the peasantry as they were in the West, which provided the breeding ground for Co-operation.

Secondly, the movement was not influenced by religion. It has been, on the other hand, affected by politics, which has not a little to do with its stunted growth.

Thirdly, unlike either in Germany, especially in the Southern part where co-operatives are most widespread, Switzerland and Denmark, the area under the small peasants is very small as compared with that held by big landlords. Fourth, although the condition of the peasantry was by no means satisfactory, they, nevertheless, enjoyed a status that was far better than those who had no land to till, but who accounted for the major part of the rural population. On top of these were the causes which were so lucidly and emphatically brought out by the Rural Credit Survey. Noteworthy among these are the stiff, unequal, competition from the urban vested interests, money-lenders and traders, the poverty of the people as a result of which the institutions lacked financial strength and resources, organisational weaknesses and lack of leadership, the indifferent attitude of the State, and, above all, the narrow group and caste rivalries in the villages.

Viewed against the background of the foregoing analysis, it would be clear that, if Co-operation is to play vital, positive, role in the development of the rural sector, it needs to be orientated anew. In the new context, Co-operation, any more than any other instrument of planning, cannot fulfil its function without conscious direction by and positive assistance from the State. To a certain extent, this has been recognised. The establishment of a co-operative society no longer awaits the spread of co-operative principles, or the development of faith in the co-operative way, among the people. Further, a society is no more intended for a small group of people who know and trust one another well. It is realised that these should follow the establishment of a society. But the realisation has not gone far enough.

LINE OF APPROACH

What, therefore, should be the most appropriate line of approach for the development of Co-operation as the basis of an institutional structure designed for the fulfilment of the objectives stated earlier?

Having regard to these considerations, it appears to be rather inevitable that a co-operative policy should, in the first place, provide for the abandonment of co-operative precepts and practices that had grown out of conditions that never existed here, and the development of others more appropriate to our conditions. A major defect of the policy resolution lies in that it calls for the formation of co-operatives on the basis of village community as the primary unit, with unlimited liability, with a view to creating a sense of mutual obligation among the members and to placing on co-operatives certain responsibilities in relation to the village community which it has to fulfil in conjunction with the village panchayat.

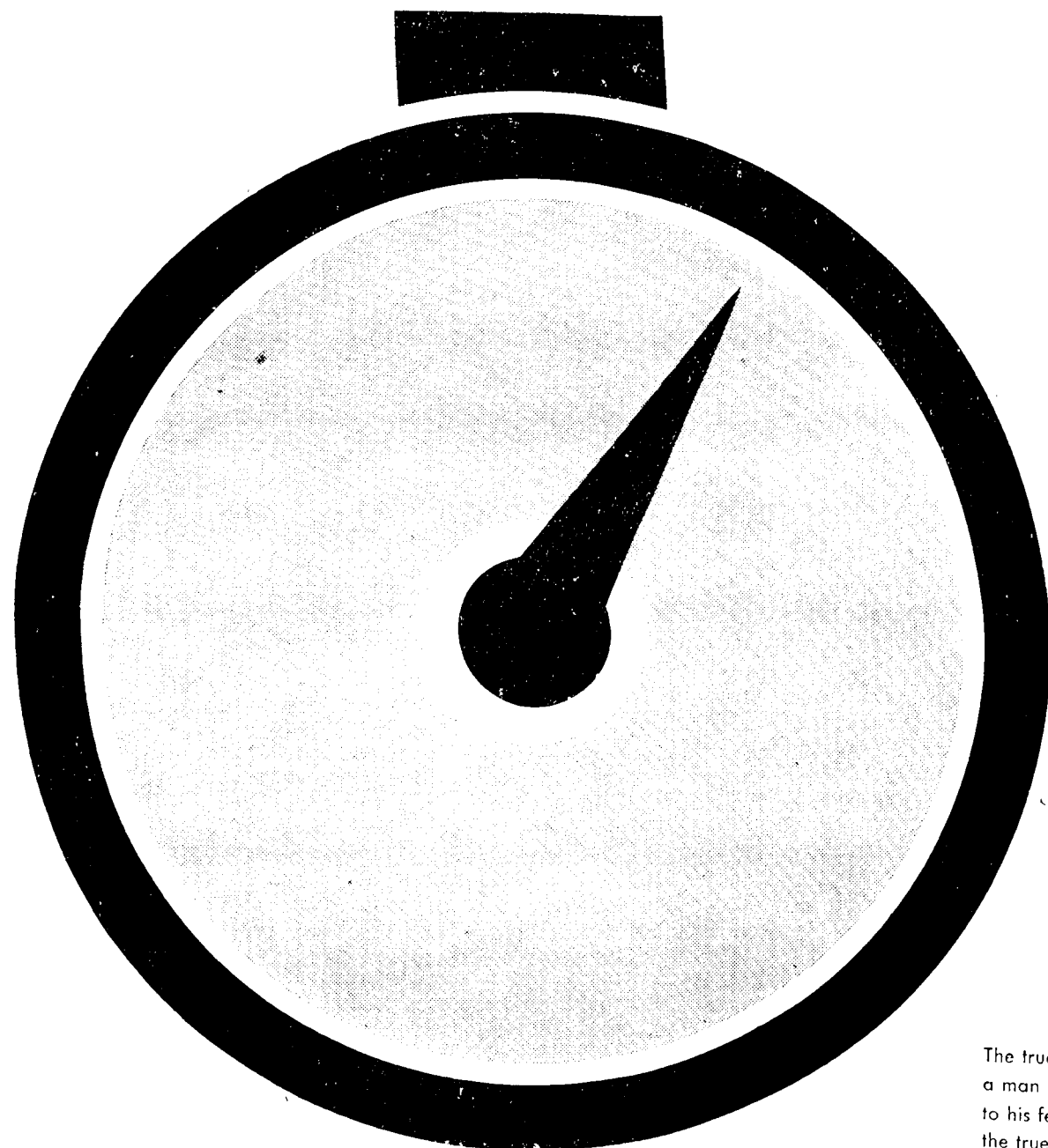
In this connection, the original reasons for limiting the size of a Raiffeisen type of society to a single village may be recalled. The object of Raiffeisen was "to create credit among small agriculturists out of the immaterial asset of mutual knowledge".* The funds he, thus, wanted to raise and lend were of small dimensions. Usually, as for instance in the case of societies in Belgium, the deposits collected used to be much larger than the funds lent. Third, Raiffeisen wanted that the society should deal only with those farmers who in their private life were known to be virtuous and who were in genuine need of credit. While he wanted to collect internal savings out of mutual trust, he had also to borrow funds from outside, whenever necessary. For this purpose, he created the system of joint and several liability or unlimited liability among the members—which was the only way out as the members were of small means. It was, thus, the character of the liability that, again, made utmost mutual knowledge, trust and control among the members absolutely essential. So the area of the society was to be a small village.

In India, on the other hand, our objects and approach, as explained earlier, are basically different. First, our movement essentially, is being fostered from the top. Second, we do not intend to confine the benefits of a society to a select few of proved character and honesty. When the society is thrown open to every individual in the village, it is absurd to take for granted the existence of mutual trust among the members. This points to the need for the formation of a society based on limited liability. (There is nothing original in this departure from the Raiffeisen principle, as several societies of this variety can be found in France, Sweden, Italy and elsewhere).

Third, the dimension of credit requirements of Indian peasants is so very large that it cannot, by any stretch of imagination, be satisfied by 'capitalising' the mutual knowledge or 'harnessing' the 'self-help' among a few individuals in each village. Consequently, funds have to be brought mainly from outside the village. This points to two important conclusions: That mutual knowledge among the members is not as indispensable now as when Raiffeisen started for the formation of a society; and that the society should have adequate share capital to enable it to borrow adequate funds from external agencies.

This adequacy will not be attained even if the primary unit covers a population of 1000, as has been recommended by the National Development Council. For, figures produced earlier, however, go to show that, on an average, out of a population of every 1,000 in the

*Co-operation at Home and Abroad. 5th Edition—C. R. Fay, p. 43.



measuring ourselves

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rural areas, those who are self-supporting, and therefore can be regarded as being eligible for loans in the first instance, are less than 200. It passes one's comprehension how a society with barely 200 or even less members, based on limited liability, can raise adequate funds to satisfy the credit requirements in the village. Thus, one irresistibly finds himself in favour of the view that a single society should embrace a group of compact villages,—how many should, however, depend on local conditions—in order that it may have adequate share capital and business turnover to pay its way. If 'harnessing' of 'self-help' does not, even then bring in adequate amount of share capital, financial assistance from the State by way of contribution to the share capital of the society in the initial stages should be provided for.

The need for State assistance is, therefore, as much a direct outcome of planning for an adequate rate of progress as "fostering" of Co-operation from the top; and it is no more un-co-operative than the latter. Some critics of the principle of State partnership seem to have suggested, as alternative, the raising of the credit limits of the societies upto say, 15 or 20 times the owned funds. They have ignored the fact that provision of such enormous sums from outside is no more indicative of 'self-help' than State partnership. Besides, they do not seem to have taken into consideration the fact that as many as 36 per cent of the societies existing at the end of 1956-57 had overdues exceeding 50 per cent of their outstandings, and another 37 per cent had overdues between 25 and 50 per cent of their outstandings.

VILLAGE COMMUNITY AS THE BASIS

It has been contended in favour of the idea of constituting the village community as the primary unit of the society that a programme of rural development in which a vital role is assigned to village leadership "it becomes necessary to select and revitalise some of those existing elements in the situation which are capable of making a positive contribution." The elements listed by Mr Tarlok Singh are:

- (1) The compactness of the village community, loyalty of each member to the group and to the community.
- (2) The concern of the village community towards its members.
- (3) The common problems in the village.
- (4) The leadership, which is primarily confined to the village.

The existence of these conditions, upto a degree, in the village cannot be denied. Indeed, where considerations of economic viability demand that 'a primary co-operative unit, serving certain business functions should be based on

a group of villages, it is precisely these elements which make for the sure success of the institution. Where, on the other hand, the functions of the primary institution, as in the case of panchayat, are general and comprehensive, the catalytic forces released by the planned economic development, as Mr Tarlok Singh himself put it, will activate these elements. But there seems to be little logic in the argument that just for the sake of 'revitalising' these elements, which, in the past, had no little part in hampering the healthy growth of any village institution, the co-operatives should be based on village community. What is in the first instance needed is a machinery to adequately 'harness' and 'discipline' these elements, which mainly a panchayat can, and should, do.

Another important aspect with respect to which a change over from the old practice is called for is the management of societies. The type of society which Raiffeisen established did not require elaborate machinery. All that it consisted of was, to quote C. R. Fay, ".....a small single room, probably at the back of a farming building, opened twice a week, and presided over by a single occupant—the accountant". It is interesting to note that even this accountant, whom Raiffeisen called "the soul of the society", was a paid man. It seems to be unthinkable that the societies in India which are expected to satisfy certain vital, growing needs of agriculture, such as credit, supplies and marketing, could be run efficiently by honorary workers. The experience of more than half a century has clearly underlined the need for discarding this practice.

RURAL INDUSTRIES

Rural industries, as stated earlier, play a vital role in reducing the pressure on land and in raising the incomes of the rural population. The employment opportunities that are expected to be created by the end of the Plan by the village and small industries amount to a very modest figure, namely, 4.5 lakhs. As against this the total number of employment opportunities needed in the rural areas is estimated to be 9 million by the end of the Plan. The need for expediting the programmes for the establishment of small and village industries cannot be over-emphasised. Provision of adequate credit, supply and marketing facilities for them is of utmost importance.

It has been recognised that the institutional arrangements for the provision of these facilities are very inadequate at the present moment. If, therefore, Co-operation is to play a vital role in this sphere, the need for modification of some of the established practices is clearly underlined. In this connection the recommendations recently made by the Working Group On Industrial Co-operatives,

(Chairman, Mr J. C. Ryan) seem to be forward looking.

It is noteworthy that the group has recognised the need for relaxation of co-operative principles in their application to the development of rural industries. The report observes: "But such education (of co-operative principles) is a long and slow process, and we in India, with our programmes for rapid industrialisation of the country on co-operative basis, can scarcely afford to wait until workers are trained in the principles of co-operation and methods of doing business."

Adoption of this realistic approach has led the Group to make a number of recommendations which involve some departure from accepted practices in several respects, but which are mainly designed to stimulate formation of a large variety of industrial co-operatives.

BURDENING CO-OPERATIVES

Having regard to the difficulties involved in building up firm foundations for the Movement, any attempt either at spreading co-operative approach to a large number of activities or at burdening co-operative societies with a bewildering variety of inconsistent functions is fraught with disastrous consequences to the Movement. The activities which must receive top priority for being organised on co-operative lines are determined by the immediate objectives in view. In other words, sound institutional structure will have to be built up for the provision of finance, supply of primary necessities for agricultural production and marketing and provision of better irrigation facilities. For, it is necessary to emphasise here that, for a long time to come, in India, as in Japan now, higher agricultural output will have to be attained mainly through intensive cultivation. Substantial improvements in production are not easy of attainment, unless the task of providing each one of the primary necessities of agriculture is entrusted to a separate society established with its own appropriate liability, area of operations, and membership. There is nothing new in this. For example, in countries where agriculture is mainly intensive, and where Co-operation has even had firm roots, this method has been followed. The huge organisational machinery necessary for running a supply co-operative to meet adequately the needs of the farmers, or the problems involved in supplying improved quality seed, do not seem to have been fully realised. The working of the supply societies in Denmark, Switzerland, Germany or France, and the huge organisation that has been built up in Denmark for the supply of improved seed, provide standing examples of the specialised nature of these activities.

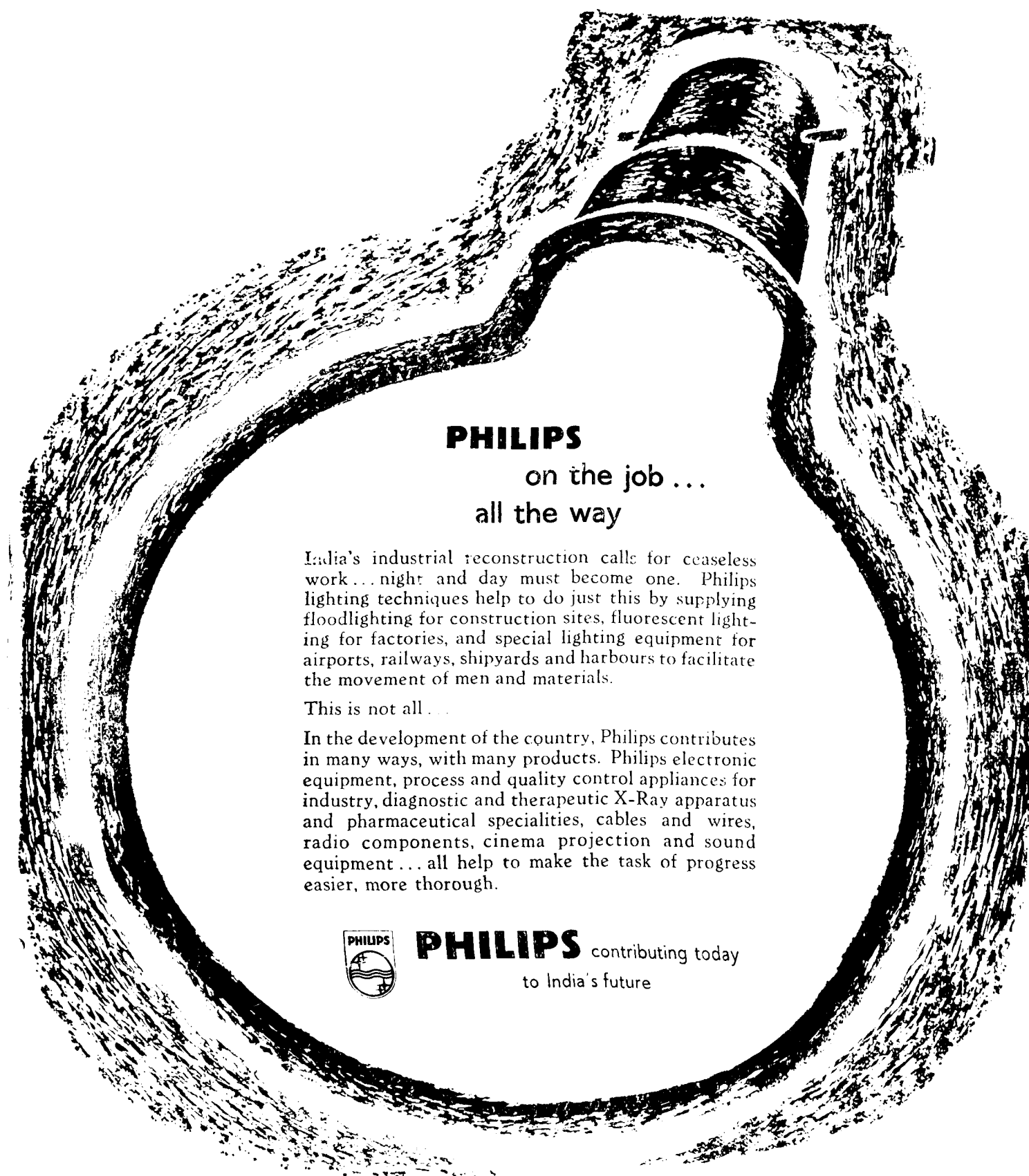
That, therefore, our policy makers should think of burdening infant co-operatives with an

astonishing variety of largely irreconcilable functions is amazing. It has often been argued that the interest of the members in the society can be increased by enlarging the functions of the society. It must be remembered that the lack of interest was mainly due to the failure of the society to fulfil even the primary requirements of the peasants, and partly to the part that politics have played in the affairs of the societies. Besides, a successful society in the West seldom undertook more than one specialised activity—which was the common object with which it was formed. 'Raising the standard of living of the population' is no common object for the purpose of floating a society by any stretch of imagination.

Among the activities which should be organised on co-operative lines at a latter stage is farming. The radical changes in attitudes of the people that co-operative farming implies seem to emphasise the dangers that any hasty implementation of this reform is pregnant with. The example of China in this regard is highly misleading. In China, the whole process of agrarian re-organisation from land reforms to the formation of agrarian co-operatives, through various stages, such as mutual-aid-societies and joint farming societies, has been completed in a remarkably short period in an unsparing manner. This was possible only under an authoritarian system of Government, and because of the active role played by the Communist Party in bringing about the change.

Lastly, the policy resolution is also unrealistic inasmuch as it aims at establishing co-operatives in all villages in the next few years, and at bringing within the co-operative fold all the rural families in the village by the end of the third plan. This shows a kind of target-consciousness rather than achievement-consciousness, which is hostile to the growth of a healthy Movement. The plight of the 1,30,000 and odd existing small-sized societies is well known. Every year a few thousands of them go into liquidation. Moreover, as at the end of 1956-57, 30,000 of them were running at a loss, while 40,000 or so did not make any loans to members, and 41,000 did not borrow from external sources. The task of making these societies viable units is by no means easy, and it calls for radical changes, such as amalgamation of weak societies, expansion of their turnover through enlarging the area of operations and share capital, and provision of paid management.

The damage that the implementation of the largely unrealistic policy resolution passed in a haste by the National Development Council can do to the cause of rural development seems to be irreparable. Needless to add, the earlier the defects are rectified better it will be for the country.



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Traction Problem on Indian Railways

By K. K. SAXENA

TODAY, steam locomotive is fighting for its existence. The first challenge to its supremacy was given as early as in 1890 when electric traction was successfully applied on British railways. The switch over in recent years from the age old steam traction to diesel traction has almost given a death knell to steam engine, especially in USA. Till atomic locomotive is devised the major problems with which the engineers in India are faced today are two fold. Firstly, to devise a suitable mode of traction on Indian railways, which may increase line capacity and at the same time facilitate movement of increased traffic necessitated by her successive Plans and her ever increasing industrial demands, without putting an extra burden on her financial resources or for that matter especially on her foreign exchange. Secondly, it should be able to effect considerable saving and economy in operational costs and consumption of fuel, especially that of high grade coal, of which a shortage is expected to develop by the end of the second Plan and the position is apt to deteriorate further in the third Plan period. It is often argued that this shortage can be counteracted through electrification and dieselization. The case for electric or diesel locomotive becomes all the more stronger because of its high availability, continuous operation, ability to haul heavier traffic and loads faster, better thermal efficiency and resultant economy in fuel consumption.

But it is questionable, whether dieselization is at all suited to Indian economy in the present context and how far immediate electrification is possible in the near future; and if not, how are we going to meet the challenge.

DIESELIZATION

Let us first take the case of dieselization. It was Rudolf Diesel, who built the first serviceable engine in 1897, which bears his name today. As early as in 1909-10 Prof. Georgei Valdimir Lomonosoff, prepared a number of designs for the Taskent railways in Russia and became the pioneer in the field of diesel railway traction. The progress continued upto the outbreak of war in 1939 during which time experimental stage was left behind and diesel railway traction entered as a better substitute to steam locomotive. Since 1945 onwards the march of diesel railway traction has been phenomenal especially in USA.

SUCCESS IN AMERICA

Today, America owns 80 per cent of the world's diesel locomotives and has been able to evolve standard types suiting to all classes of traffic. The spectacular success of diesel traction over electrification on railways is due

to several reasons. Large sources of oil in the United States have created circumstances not found in other European countries. The advent of diesel traction resulted in mass production of units resulting in low manufacturing costs. Unlike, the European railways which are largely nationalised; American railways are less influenced by the form of investment, as they are privately owned. American railroads stretch over very large distances with a very light train density. Apart from this, the greater permissible width, height and weight on United States lines has been of great benefit in the development of the diesel-electric locomotives and has resulted in much greater accessibility of engines and other equipment. Over and above all this, electrification is not economical as traffic between important centres need be split over various lines operated by companies mutually competitive.

CONDITIONS IN INDIA

Above conditions are not prevalent in India. Our oil reserves are not enough to meet our requirements and prices are too high to permit its economic application. Hence, change over from steam to diesel locomotives would necessitate not only imports of diesel locomotives but also of oil which would be costly and uneconomical. Even spare parts will have to be imported in large quantity as diesel locomotive maintenance calls for a regular supply of large variety of spare parts. Moreover, to build up our economy on imports would also not be justified in view of international situation and the possibility of interruption of supplies which may make it foolish to embark upon the capital expenditure which the diesel-electric locomotive on a large scale would involve. Apart from all this, the problem of foreign exchange will tax our resources all the more. It is also not possible for us in the near future to undertake mass manufacture of diesel locomotives so efficiently and economically for obvious reasons. In the absence of trained personnel and manufacturing works, repairs and overhaul to diesel units may also prove to be uneconomical in view of the complicated plant and machinery used.

COST FACTOR

The American experience has shown that the total fuel cost with diesel electric locomotives is about 50 to 70 per cent of what is incurred under steam traction for similar services. It should not be forgotten that in America oil is comparatively cheap as compared to coal. Roughly, it has been estimated that at the rate of oil consumption of three gallons (25.4 lb) per 1000 trailing ton miles and a corresponding coal consumption of

184 lb in India or 120 lb in America the fuel cost per 1000 trailing ton miles in terms of 1956 rates, would come to India for oil (Rs 3/12/-) and for coal (Rs 1/10/- to 4/2/-). Whereas, in America for oil and coal the cost would be 36 cents and 60 cents respectively.

It is obvious that total running cost per annum of diesel engine would be higher in India and therefore, it may not be economical to switch over as a general policy from steam to diesel traction unless, of course, oil costs can be reduced considerably. It may be pointed out that fuel costs especially those of oil are very variable and rather unpredictable. The relatively small oil reserves and its fast increasing use will result in rise in the prices of diesel oil in future. It has been estimated that by 1970, electric power costs in terms of 1950 US dollar will be possibly as much as 10 per cent below present level, whereas diesel fuel costs are expected to increase by possibly 25 per cent to 50 per cent.

Moreover, the cost of diesel locomotive is also 1 to 1½ times more than that of a corresponding steam loco, apart from a higher expenditure in respect of repairs, efficient maintenance at all times and depreciation. The normal life of an oil engine is about 15 years whereas a steam engine can go on for 30 to 35 years without much loss in efficiency and service reliance provided its boiler is kept in high working order. All this results in a higher capital cost and proportionately higher working cost in case of dieselization and therefore the whole scheme may break at the rock of finance.

ELECTRIFICATION

The close of 19th century saw the birth of electric traction. Its first application to tramway system which upto then had been predominantly horsedrawn, met with great and immediate success. The year 1890, is the landmark in the sphere of traction on railways, as it is associated with the beginning of railway electrification on the British railways and for that matter in the world. USA embarked in 1905, whereas in India the first smokeless electrically driven train made its first debut on February 3, 1925.

PROBLEMS INVOLVED

The case for electric traction on Indian railways, undoubtedly, stands on a better footing. Fortunately, we have a vast potential of hydro-electrical power to help us in this respect. Necessary coal for thermal power is also available in abundance and ample electric power would also be available from centralised thermal stations burning low grade coal. Schemes for the development of nuclear power are in progress. But the immediate possibilities of large

scale electrification on Indian railways are remote for two reasons. Firstly, due to heavy capital expenditure involved on fixed equipment, in the shape of overhead wires, structures, substations, rolling stock etc. Secondly, because of lack of power supply grids and of heavy electrical industries, manufacturing all electrical equipment and rolling stock within the country.

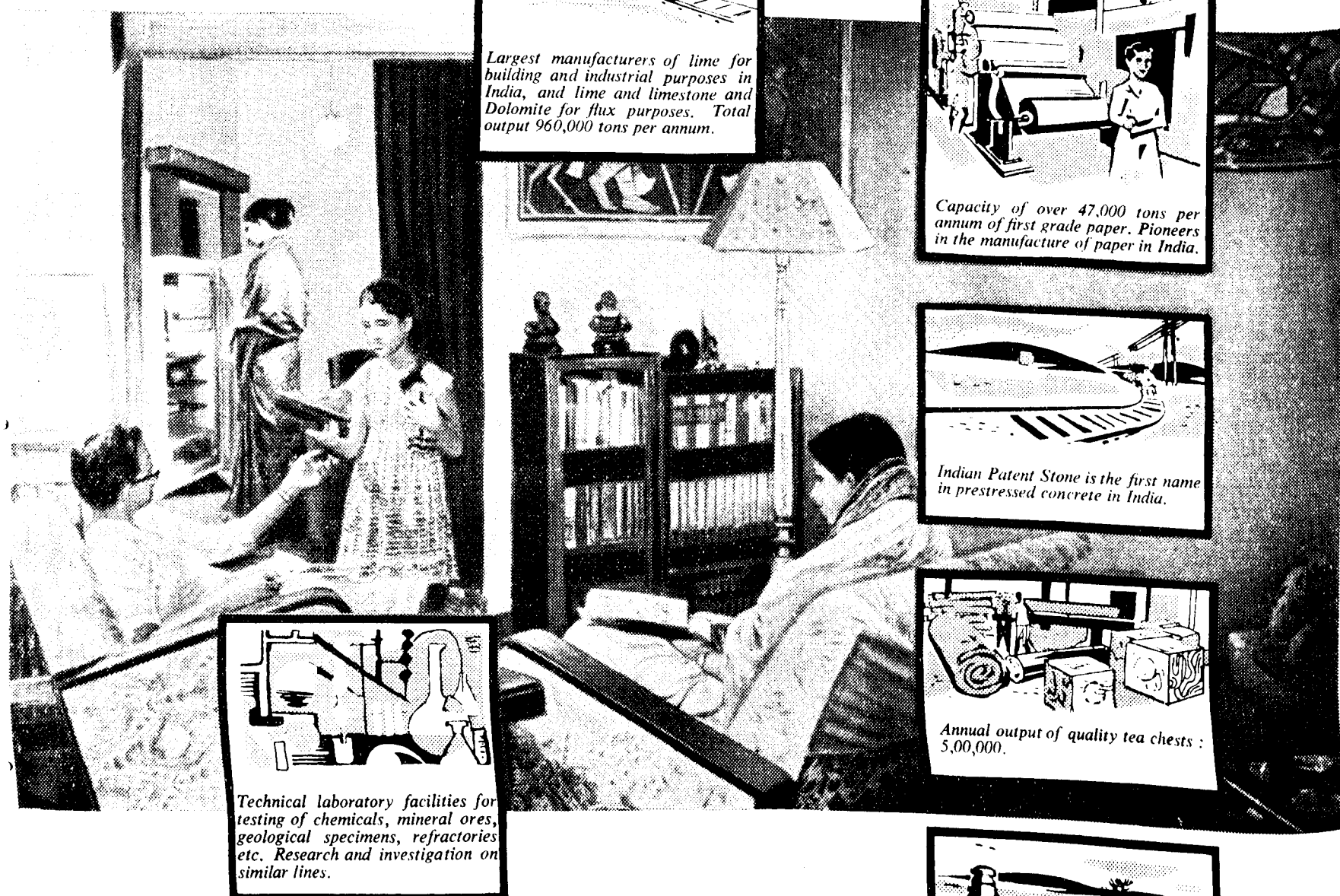
Initially, electrification is justified where the density of traffic is high enough so as to effect economies in operation and maintenance costs more than the depreciation and interest on the capital outlay. Further, increased hauling capacity of diesel or electric traction cannot be made use of without a change in the design of the wagons which would necessitate the replacement of the screw coupling by the automatic centre buffer coupler. This change over is not an easy task. Over and above all this, the introduction of diesel or electric locomotives will require a new operating plans and new time tables suitable for the new form of motive power. Such a plan would necessitate an efficient, economical and maximum use of the thus available new motive power and its high acceleration power. It would further necessitate improvements in communication, signalling, interlocking etc., with a view to reduce the running time to absolute minimum in order to have a better line capacity.

CASE FOR ELECTRIFICATION

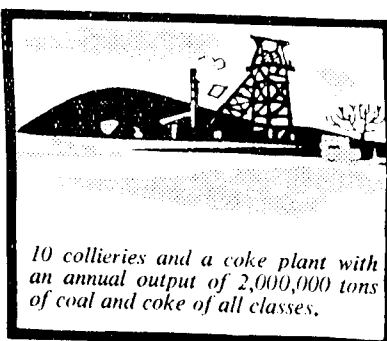
Obviously, all this development in this respect can only be slow and gradual because of the limitations already pointed out. But then this should not rule out the case for electrification. It has been estimated that in terms of coal consumption, a steam locomotive is only about a fourth as efficient as an electric locomotive. Further, electrification will ease the increasing pressure on our coal reserves. It would help in conservation of high grade metallurgical coal. It gives more flexible and economic operation with clean, fast and safe travel. Further, coal as a fuel would then not be required to be transported. The transport capacity thus released can be used for revenue earning traffic. Thus it helps in greater availability of the rolling stock. The introduction of this motive power would also result in reduction of number of locomotives required, and elimination of boiler washing, fire cleaning, fuel loading, watering or turning at terminals etc. At the same time electric locomotives can be used throughout the day whereas a steam locomotive can be on line for ten hours or so. Increased capacity of the line and economy in operational and maintenance expenses would result in increased earnings.

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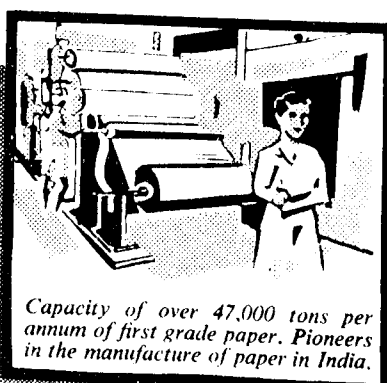
This is not a wealthy family, yet it is happy and contented. Father has a good job, mother has time to relax and entertain friends, and the children are getting a good education. Their comfortable home has amenities which, a generation ago, were privileges of only the rich.



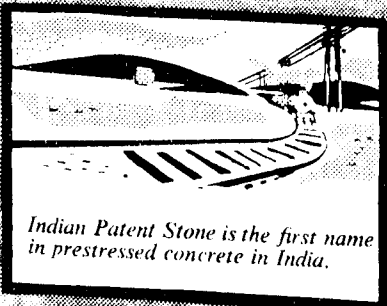
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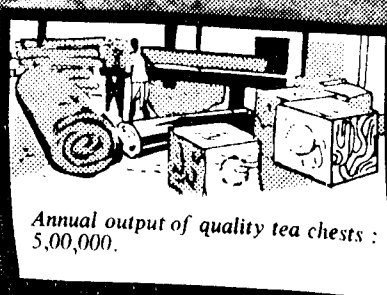
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A CHOICE

The adoption of a suitable mode of traction for any country which plans for its economic development is of paramount importance. It has been estimated that approximately 50 per cent of all railway operating costs, revolve around the utilization and maintenance of locomotives. In fact the entire economic life of the railroad industry depends upon the type and number of motive power units it uses in conducting its transportation business.

The choice between diesel and electric traction would depend not only on physical and economic conditions of a country but also on particular requirements of a region and its stage of industrial development. Its suitability would also depend on comparative energy costs (coal oil and water), traffic density, availability of trained personnel, rail-road competition etc. In India, dieselization can be rejected and its mass scale application would be hazardous and most uneconomical. Adoption of electric traction on Indian railways cannot be questioned. But electrification though justified has to proceed slowly and gradually; at first only on important routes or on saturated line sections, as and when the resources of country permit. It requires abundance of water or cheap coal power, low energy costs to justify high capital investment, a relatively high traffic density, maximum utilization of the motive power through adoption of latest mechanical aids to railway transport and above all establishment of necessary equipment and rolling stock industries. All this needs a very careful planning.

INCREASE LINE CAPACITY

No lasting solution can be achieved to the problem of coping with large traffic demands by importing a few diesel locomotives here or by opening a few electric trains there. To talk of electrification in the next few coming years on any scale worth the name, in a country where not more than a few hundred miles are electrified today, would be to mistake for an oasis in the desert. The immediate solution of the problem lies therefore in producing more of rolling stock and other equipment at cheap rates and throwing open more of lines. It would be necessary to adopt various other methods by which a line capacity can be increased to cope the increased traffic demands viz providing additional running lines, opening more crossing stations, increased terminal facilities, patch doubling, re-modelling of yards, automatic signalling, electrical humping, eliminating stops, securing higher average speeds, CTC etc.

ECONOMY IN COAL ESSENTIAL

The other aspect of the problem, that is fuel cost and its consumption, also cannot be over looked. There is a great need of conserving our coal resources to feed the growing industries. There has

been a progressive increase in coal bill of Indian railways. Consumption rate is also high as compared to prewar level. All this is due to variation and deterioration in the quality and price of coal. A shortage of high grade coal is also expected to arise by the end of the second and third Plans. To meet this shortage of high grade coal, it would be necessary to set up power stations designed to use very inferior coal. The case for change over from steam to electric traction, should be gradually examined with reference to the need of a particular area and the possibilities of its economic success. It is also necessary, to set up washeries for inferior coals of which there is ample supply in our country. Efforts should be made to design suitable boilers for use of cheaper non coking coals. All possible efforts should be made to avoid waste. Economy drives should be launched. In addition to all this, operation of new pits in the non-coking coal areas of Ranigunj and other coal fields should be taken up and additional railways lines necessary for the purpose should be provided. Efforts should be directed towards burning successfully two or three grades of coal. Wherever possible, methods for increasing the consumption of slack should be adopted. This would need ample research. To give relief to railways, short distance traffic must immediately be shifted to road, for which planned development of road transport is absolutely necessary.

A word about recent decision of the Government of India, to export 2,00,000 tons of metallurgical coal during the current year and to increase the quantity to 5,00,000 tons next year. This represents a definite departure from India's post war coal export policy which laid stress on the need to conserve resources, particularly of the higher grades of coal for future internal requirements. In view of limited coal reserves, a strict policy of conservation is essential to feed the growing industries, rather than a policy aiming at fast consumption of coal and its export.

MANUFACTURE OF ELECTRICAL EQUIPMENT

In the meantime, to cope with the future crisis, all possible exerts should be made for the development of adequate capacity for manufacture of heavy electrical machinery, traction equipment, transmission lines, service stations, over head wires etc. It has been estimated that of the total cost of electrification schemes, the cost of rolling stock alone, is more than 50 per cent. With the vast expansion of railways and electrification schemes, more and more rolling stock would have to be built in the country at economical rates. Imports will have to be reserved only for certain other capital goods of unavoidable nature. All this would need sufficient encouragement to industries manufacturing railway rolling

stock. Private capital in this respect should be invited.

NEED FOR POWER PLANNING

While we are thus busy in planning for electric traction on Indian railways, we should not forget one important factor, that is proper planning for power. The development of hydro-electric and other sources of power, should be carried out keeping in view the possible expansion programmes of the railways. Development of cheap power should follow railways as far as possible and not vice versa. It is high time when we recast over plans for future development of power, keeping in view this important factor i.e. the needs of the railways.

DEVELOPMENTS IN INDIA

Indian railway system is the largest in Asia and the fourth largest in the world. It is almost axiomatic that our country has only 27 route miles per 1000 square miles of territory as compared with 74 in USA, 87 in Japan, 120 in France and 204 in UK. Population wise too, the route mileage in India is only 9 per 1,00,000 people while the corresponding figures are 14 in Japan, 37 in UK, 60 in France, 138 in USA and 272 in Canada. Obviously, much has yet to be done for a country which is on the verge of a new industrial era which promises a richer and a happier life to the people.

SECOND PLAN

Under the planned development programmes of the country, large expansion of the basic and heavy industries would result in substantial increase in demand for traffic on railways. According to the latest estimates available, the railways are expected to be called upon to carry 168 million tons annually by 1960-61 as compared to only 114 million tons carried annually by 1955-56. Roughly, the increase in freight carrying capacity would be to the extent of 47 per cent. In addition to this, a provision for an increase of 3 per cent, per annum in passenger train services has been made. To cope with this increased traffic demand, plan provides for 842 miles of new lines, 1607 miles of doubling of track, 8000 miles of track renewals, 2364 locomotives, 11,575 carriages and 1,07,347 wagons, necessitating an expenditure of 1125 crores.

ELECTRIFICATION SCHEMES

It may be pointed out that, the first electric train ran in India from Bombay to Kurla in 1925 and since then only 240 route miles have been electrified so far. The second Plan originally provided for the electrification of additional 826 route miles, but subsequently the figure has been raised to about 1442 route miles to meet urgent operational requirements. Railway electrification during the Second Plan will cost over Rs 100 crores. This is in addition to the first phase of suburban electrification between Howrah and Burdwan, sanctioned

at an estimated cost of about Rs 12 crores in 1954. The electrification programme will cover all the Calcutta suburban sections and the main lines between; (1) Howrah and Tatanagar, (2) Howrah and Moghalsarai, (3) Asansol to Rourkela, (4) Igatpuri and Bhusaval, and (5) Tambaram and Villupuram. Out of the proposed total additional electrified route mileage of 1,442; it is proposed to electrify nearly 726 miles on the Eastern railway and 416 miles on the South Eastern Railway. The remainder is accounted for by 192 miles on Central Railway and the rest on the Southern Railway. It is planned to complete the high priority works by March, 1960. An agreement has been entered into with the French National Railways for technical collaboration, supervision of work etc under the electrification programme. Order for 100 A.C. electric locomotives have been placed on a consignment of firms from Belgium, Switzerland, France and West Germany at a cost of about 9.42 crores. Deliveries are scheduled to be completed by the middle of 1960.

The programme in the Second Five Year Plan can by no means be said to be an ambitious one. It actually represents the absolute minimum mileage which will be electrified to enable railways to carry second Plan traffic. Judged from economic considerations, many more of Indian railway lines are in urgent need of electrification. But due to the limitations already pointed out this work cannot be taken up on mass scale in a relatively short period of time.

EXPERT COMMITTEE'S RECOMMENDATIONS CARRIED TOO FAR

Recently the Expert Committee on coal consumption recommended that by 1975 not more than 50 per cent of railway transport should be carried by steam power, and a target of 30 per cent electrification and 20 per cent dieselization should be aimed at. To ensure rapid development of dieselization the Committee suggested that high priority should be given to indigenous design and manufacture of diesel plant and equipment and also to the increased production of diesel fuel and lubricants.

The target for dieselization as laid down by the Committee is too high. Dieselization as has already been pointed out is hazardous and also uneconomical in long run.

In conclusion, it may be pointed out that the targets fixed by the Committee are too ambitious and impracticable due to lack of internal resources, finance and foreign exchange shortage. Our engineers and planners should not forget one simple fact, that switch over from steam traction to electric or diesel traction is not a press button affair. It calls for large statesmanship, ingenuity, skill, research, planning and coordination. Progress in this field is bound to be slow. What is needed is a bold and a clear cut policy, suited to the physical-economic conditions of the country.

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Principles and Practice of Investment of Life Insurance Fund

A Discussion of New Policy

Dr. S. P. SHARMA

PRINCIPLES OF INVESTMENT OF LIFE INSURANCE FUNDS

Since the inception of Life Insurance business one problem which has been confronted by the insurers is the investment of funds. The funds accumulate with the insurer because insureds are charged level-premiums. In the form of level premiums he receives more than the actual cost of insurance during the first half of the policy period while in the second half of the policy reverse is the case. The difference between level-premiums and cost of insurance has got to be kept in reserve for the purpose of meeting the liability of insurer obtaining in future. During second half of the policy period, the insurer receives less than the cost of insurance because of level-premiums. The past reserves help him to meet the deficit but the main problem facing the insurer is that he receives crores of rupees in the form of growing business and he has to find an outlet for this growing fund. Actuaries and Insurance Management Experts have devised and enunciated various principles for the guidance of insurers which are as below:—

1. SECURITY OF INSURANCE FUNDS:

Security of insurance funds is the necessity of the first order. Numerous policy-holders chalk out their budgets, long-term and short term, on the security of the insured sum which they would receive at definite future date or their inheritors would receive after their death. If their claims are not paid in time all the benefits of insurance are not realised and, therefore, the value of insurance is reduced to nought. Insurers in order to meet the claims should invest their funds in perfect security. This is why a large part of insurance fund is invested in Government and Security.

Security of investments is secured by practising the principle of diversification while making investments. "We should not put all our eggs in one basket" is a good maxim which is generally followed by insurers in making the investments. This diversification is of different kinds. Investments may be diversified with reference to their classes. In other words it means that investments of one class alone or of a few classes should not be purchased by the insurer. He should purchase all types of securities e.g. Gilt-Edged

Securities, Semi-Government Securities and Commercial Securities. In the Commercial Securities also there may be further diversification. Debentures, Preference Shares and Equities should be purchased by the insurer. Further, Commercial Securities belonging to one industry or commercial activity alone should not be purchased. There should be industry-wise diversification also. A part of the funds may be invested in Jute Industry, Sugar Industry, Iron and Steel Industry etc., and in different types of economic activity like Transport, Engineering and others may be invested another part.

Further, there should be geographical diversification. The geographical diversification means that the fund should not be invested in one place alone. It should be sufficiently spread over the entire country. The geographical diversification should not only be limited to national sphere. It should be extended to international plane. It is because economic policies of a particular Government e.g. like Exchange Control, Industrial Policy, Nationalisation etc. may adversely affect the investments. If we limit our investments to one country alone and on account of adverse economic and political factors the investments are adversely affected, the interests of the policyholders and the insurer suffer. In the context of Indian Life Insurance it may, however, be added that the last principle is not applicable because the industry is nationalised and because we need more money for our expanding economy.

The other parts of the principles, however, apply. If the income from a particular type of industry, security or locality goes down it is likely that it may be compensated by counter tendency in the others. The risk of investment is reduced to the minimum. If a particular company is liquidated or a particular municipality is facing bad times and insurers own their security and if they have diversified the investment, the other investments will remain safe, and therefore, the insurers must follow this principle of security at all times.

2. PRINCIPLE OF ADEQUATE YIELD

While calculating premiums in life insurance business interest at a particular rate is always assumed. The insurer has to so make his investment as to earn at least that much rate of interest which was

presumed in the calculation of premiums. The Actuaries are conservative in assuming the interest rate and, therefore, they assume a modest rate in the calculation. The profit of the insurer can be increased by earning more rate of interest than assumed. Some persons have suggested that profitability should be the criterion of making insurance investments. But it is perfectly a mistaken idea because an insurer must not risk the money of policyholders. The money is a trust-fund. Insurer is not a speculator. There is a direct correlation between Yield and Risk. If there is greater yield the risk is also greater. Security of Capital is the first principle which must not be lost sight of. Insurer should, therefore, try to obtain only a modest income from investments.

3. PRINCIPLE OF READY MARKETABILITY

Some experts have suggested that the insurer should make investment in such a manner as to be able to sell them immediately if occasion arises. But that is not a very important principle and may not be generally followed because insurance contracts are long term ones. The income of a growing insurer is generally more than his outgo. Current income is generally adequate to meet current claims and, therefore, the insurer can meet them without being required to sell any part of his investments. But when the insurer follows the first two principles, the principle of Ready Marketability is automatically followed because a secured investment with adequate interest can always be sold.

Dr A. Krishnaswami, Member of Parliament opines (Indian Express 8-9-1958) that the Life Insurance Corporation should not pay much attention to the principle of security is guaranteed by the Government of India. Policyholders suffering any loss on account of the mis-investments by the Life Insurance Corporation will not suffer the loss because the Government of India would compensate for the loss. So according to the learned author the Life Insurance Corporation should try to maximise profits.

But the analogy is wrong. The Life Insurance Corporation is an autonomous Corporation. It is to run on business principles. The Government guarantee behind the Corporation does in no way minimise the responsibility of the Corporation in regard to sound management of its investments. If every time the Government has to

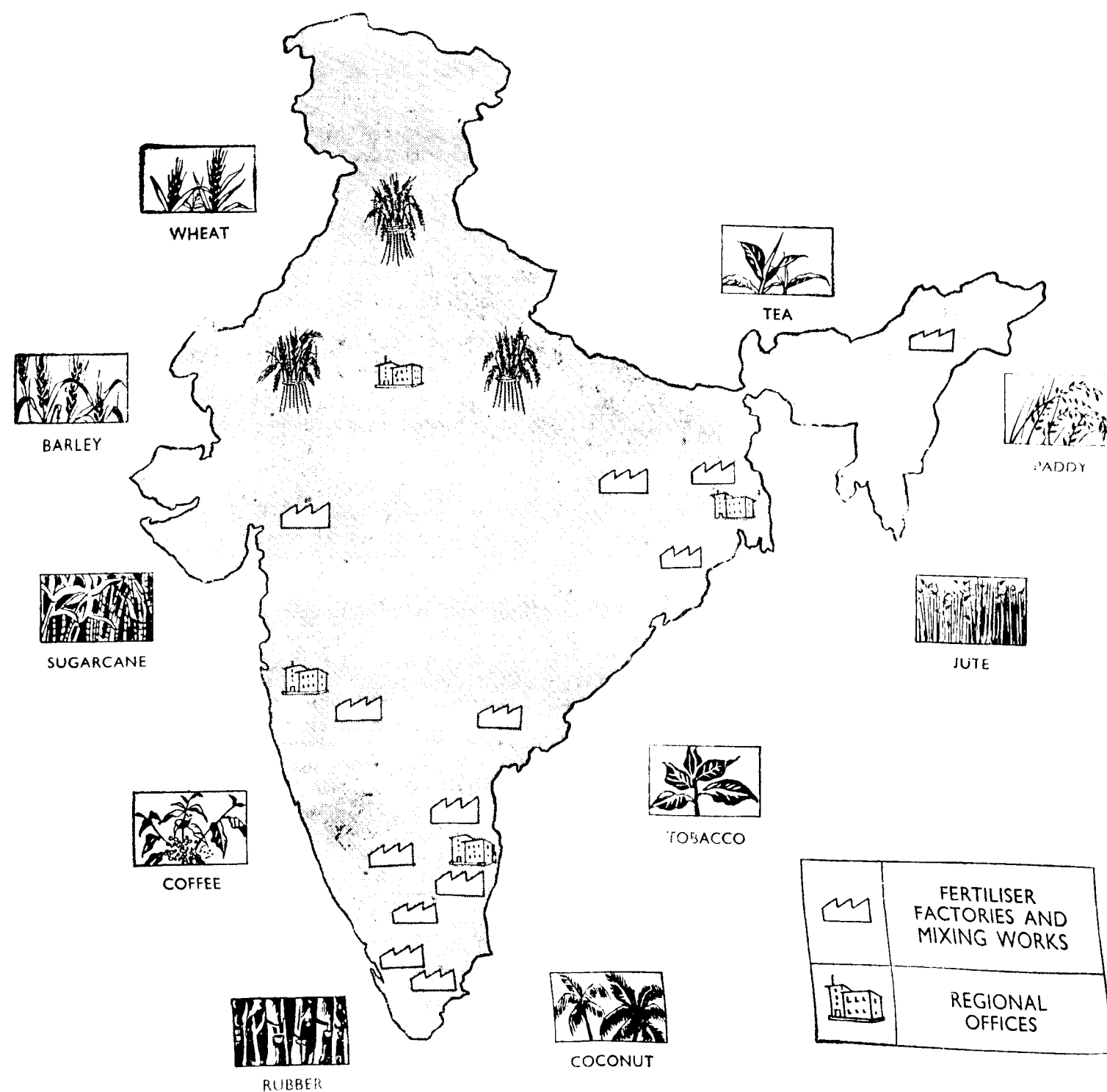
bear a loss it would like to interfere with the management of the Corporation. The interference in the day-to-day management of the Corporation will eliminate most of the advantages of having an autonomous Corporation. Moreover, the Government has no right to meet the losses out of its general budget and tax the entire population for the follies of the few involved in the mismanagement of the Corporation. Even if there is no loss to be borne by the Government of India and investment is made in 'BLUE SKY' Schemes, the Corporation would suffer great loss and bonus to policyholders will also be reduced. Therefore, as Mr J. B. Maclean observes, the principle of security is the foremost principle which must be observed while making investments.

To safeguard, therefore, the interest of policyholders the Governments of practically all important countries have made provision for legislative regulation of investments. The Government of India has not been an exception. In the year 1938 an Act was passed under which a provision was made to make it obligatory on insurers to invest 55 per cent of their funds in Gilt-edged Securities. But later it was found that the provision did not work well and cases of mismanagement of investment came to the notice of the Government of India. Other developments were also there with the result that the Government of India had to pass in 1950 a major amendment to the Insurance Act, 1948. It was Section 27-A under which there were detailed provisions guiding the insurers in India in making investments of their funds. Under this particular Section a minimum of 25 per cent of the investments were required to be in Government Securities and another 25 per cent in Government or other approved securities and the balance in approved investments. The principal categories of approved investments were Municipal Securities, Ordinary shares of a company which had paid Dividend at not less than 4 per cent for seven preceding years, Preference Shares of a company which had paid Dividend on its Ordinary Shares for five preceding years, Debentures secured by a first charge on the immovable property or plant of a company provided the Book Value or the Market Value, whichever was less, of such property or plant was more than three times the value of such Debentures. Section 27-A also provided that the investment in

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On account of various circumstances, later on Life Insurance business was nationalised on 19th January, 1956. In the Life Insurance Corporation Act provision was made under Section 9(2) to set up an investment committee and the Government could notify whereunder Sections 27 and 27-A of the Indian Insurance Act could apply to the investments of the Corporation. Investment Committee was set up but no notification to apply the provisions of Indian Insurance Act to the investments of the Corporation was issued. The Investment Committee, therefore, adopted a modified version of Section 27-A to guide its work. This Committee consists of 4 Official and 3 Non-official members and its work is of an advisory nature giving general guidance. The modified Rules adopted by this Committee provided that the Corporation could make investments in industrial securities to the extent of 30 per cent of the Subscribed Capital of that concern. The minimum yield of the securities was prescribed as below:—

- 4 per cent for Debentures
- 4½ per cent for Preference Shares
- 5 per cent for Ordinary Shares.

Investment Committee was entitled to have before it all investment proposals before they could be executed but its recommendations were of an advisory character although they were normally accepted. In some cases, therefore, the Investment Committee was bypassed and the Munda Deal, too popular to need any mention, resulted from this nature of things. The Government of India failed to notify modified version of Section 27-A of the Indian Insurance Act applying to the Life Insurance Corporation investments as promised by the then Finance Minister, Mr C. D. Deshmukh. Later on, Mr Nehru also enunciated, in a general manner, the policy of the Government with regard to the Life Insurance Corporation's investments. But nothing substantial came out and the Life Insurance Corporation policy remained a matter for speculation and debate. The one-man Commission headed by Mr Chagla also brought in the fore-front certain principles and matters of policy. Many discussions took place in press, platform and parliament.

NEW POLICY

It was only in August, 1958 that the Government of India came out with a definite policy to be followed by the Life Insurance Corporation in the matter of its investments.

Under Section 43(2) of the Life Insurance Corporation Act Section 27-A of the Indian Insurance Act has been applied to the Life Insurance Corporation investments. The notification contains modified version of Section 27-A and provides the frame-work within which the

Life Insurance Corporation can operate. The maximum holding in Ordinary Shares was raised from 10 per cent to 30 per cent of the Subscribed Ordinary Capital. Not only that, this limit can also be raised with the prior approval of the Government of India. Approved investments in those Shares are allowed on which Dividend at not less than 4 per cent has been declared in 5 out of 7 preceding years. With the prior approval of the Central Government Life Insurance Corporation can make investments in private limited companies also. While chalking out this policy the Reserve Bank of India as well as the Life Insurance Corporation were consulted.

Under the Scheme investments have been divided into 3 broad categories:—

1. The Government and approved securities which generally mean Gilt-Edged Securities.
2. Investments approved under Section 27-A and
3. Other Investments.

The limitations are that at least 50 per cent of the total funds should be held under category (1), 35 per cent under category (2) and 15 per cent under the category (3).

While making the policy statement in the Parliament Shri Morarji Desai, the Finance Minister of India promised that the business of the Corporation shall always be carried on to the best advantage of the Community i.e. primary obligation to policyholders whose money the Life Insurance Corporation holds in trust will be kept in mind and it will never lose sight of the fact that being the largest investor in India it has to keep before it the interests of the Community as a whole. It will, therefore, invest in social advancement of the country also. As its funds are drawn from all over the country they will be invested for the good of the entire country. For this purpose it will have diversification of its investments.

The attitude of the Life Insurance Corporation towards the Stock Market has also been made clear. The Life Insurance Corporation shall not indulge in speculation or take advantage of temporary fluctuations in the Stock Market. It shall invest on a long term basis but it shall not preclude it from certain market operations, when circumstances so warrant. It will actively examine its investment portfolio and decide whether certain of its holdings are worth keeping or disposing off or adding to. For example, it may sell during boom periods and purchase during depression periods. It will invest for the advantage of the Community by evening out the fluctuations in the Stock Market.

REVIEW

It is thus clear that the new investment policy provides for reasonable freedom of operations for the Life Insurance Corporation and safety and yield on the investments as latitude has been given to the

LIC AND STOCK EXCHANGE

So far as the influence of the Life Insurance Corporation over Stock Exchange prices is concerned there have been divergent opinions even among experts. With a total amount of over Rs 380 crores the Life Insurance Corporation is the single largest investor in India. Whether it may like it or not its operations do influence Capital Market. It is, therefore, very essential to have a policy for the purpose. The Life Insurance Corporation is interested in market stabilisation because it has crores of rupees invested in securities. But it should not indulge in speculation for its primary function is life insurance business. As observed by many experts before the Chagla Commission it is not possible for anybody to check a rapidly falling market. Defective policies of the Government may be the cause of the excessive fall. The cure cannot be the Life Insurance Corporation's operations. It is desirable to correct wrong approaches. Moreover, the policy need be co-ordinated with the policies of major financial institutions like the Reserve Bank of India, the State Bank of India, Industrial Financial Corporation etc. It may be noted that personal distress of an ambitious industrial empire-builder need not be removed at any time by the Life Insurance Corporation. Whenever purchases are to be made brokers should always be consulted.

If too many private limited companies started by the Government are financed the private Corporate Sector may starve. On June 30, 1958 total investments of the Corporation amounted to Rs 381.75 crores. Out of this 72 per cent was invested in Government and approved Securities and only 18.8 per cent in Industrial Securities. With the new Companies Act importance of managing agency as a source of finance has declined and a void has been created in the investment market. The Life Insurance Corporation is playing an important role to fill that gap e.g. it is underwriting securities but if adequate purchases are not made of the corporate securities in a diversified manner Corporate Sector may not show healthy expansion. Of course, the securities of new companies should be purchased with great care and caution. As far as possible Plan Projects should be favoured, but if their prospects appear to be bleak they should not be touched.

An eye should be kept on the composition of the Board of Directors of the Companies, securities of which are being purchased. Persons of bad character and whose record of business has not been good should not be dealt with. It should be specially so, whenever a 'Package Deal' is the basis of transaction. In such cases the Government of India should communicate the directive in writing and the prices should be left to be settled by the Life Insurance Corporation Officers. One day's prices should not be the basis of transaction because prices may be manipulated in 5 minutes in any stock market as was observed by Mr A. B. Shroff, Mr G. Bhagwandass, and other experts before the Chagla Commission. Further, the dealings should be through brokers and after proper valuation of Shares and other Securities. For all this the Investment Department of the Corporation shall have to be manned by experts in different branches of investments. The Investment Department of the Life Insurance Corporation should be well-equipped with necessary material and men. It may be divided into sections—each one of which may be under the control of specialised persons.

One other defect in the new investment policy is that 15 per cent of the total fund may be invested in "Other investments". It clearly indicates that they may be invested for general welfare of the Community and for social purposes. The Life Insurance Corporation was established for the specific purpose of sound management of life insurance business. These other investments may be politically expedient but from business point of view totally unsound. 95 per cent of the Surplus of the Corporation has to be specifically reserved for the benefit of policyholders. The remaining 5 per cent may be utilised by the Government but this 5 per cent also should not be wasted in Blue Sky Schemes. It is, therefore, essential to reduce the percentage of 15 per cent at least to 5 per cent. In the absence of such a provision history of Transport and Communications Ministries may be repeated.

The Life Insurance Corporation carries on business in foreign countries also and there is competition with the well organised foreign insurers. In the Investment policy one sentence reads, "Its funds are drawn from all over India and will be invested for the good of the entire country." We get funds from outside the country also. This very sentence may create unfavourable psychological effect on our foreign customers and business may be diverted to foreign insurers. So no opportunity should be lost to drop the sentence from the policy statement. Even if it is done the policy remains unchanged.

The Indian Economy—Before and After

By HARVEY STOCKWIN

A LIFETIME is a continual awakening. Old concepts crumble and give place to new. The word 'Surrey' once conjured up for me a picture of comfort, ease, nice-smelling pipes, and cricket largely because my connection with the place was limited to an uncle who reflected all these qualities. It was only later that Surrey became just a place.

Similarly there was a time when the word 'Asia' produced some odd mental images, which eighteen months travel have removed. As with the general so with the particular—in this case, the Indian economy. I had an entirely different concept of it when I was on the outside looking in, to that which emerges now that I am on the inside looking out.

Perhaps it would be more correct to say that originally there was no concept worth the name at all. It is difficult to remember the state of not-knowing, but as far as I can recollect when I left Cambridge University in June 1955, despite my contacts with many Indian students, I had little or no appreciation of India's economy and development. I had certainly never heard of the First Five Year Plan. I am quite willing to admit that in this I was exceptionally ignorant. But being less insular in outlook than most of my fellow countrymen, and also a fairly assiduous newspaper reader, I can truthfully add that I had never seen an article on these topics up till then. So, while acknowledging that the only generalisation it is safe to make is that it is unwise to generalise, I would draw the conclusion that even in Britain now, and to a lesser extent in the U.S.A., there are a very large number of reasonably well-informed people (leaving alone the mass electorate) who have little or no idea of the nature of the Indian economic problem, its extent, and the remedies being tried. I shall return to this point later.

My ignorance however was not total. There was a very vague awareness of Asian poverty in the back of my mind. I had also written one article on the population problem with a few facts taken from the 1951 Indian Census. I posed the question "Will Malthus be proved right after all?" and made the text book points that had led to the clergyman being too pessimistic about the nineteenth century, i.e. that he had failed to foresee the opening up of the prairie, the advent of the steam ship and railway train, that he ignored the fundamental truth that as living standards increase, families decrease. But, I argued, there are no vast fertile areas left to be opened up, the pressure of population on land is

fast increasing in India (and China), if not by a geometrical progression, at least at a fairly considerable rate. It was by no means certain that increasing living standards in those countries resulted in fewer children. The only hope was for scientific inventions to open up now barren areas such as the Sahara or for the desirable but impossible mass adoption of birth control methods.

Again I remember seeing, but not bothering to read, an article on the work of Vinove Bhawe in India's villages. In England the village has become the habitation of a small minority. I was unaware that it is still the largest social unit for the vast majority of human beings, that one could never know India by visiting Madras, Bombay and Calcutta.

There it is then. On the outside little information, small comprehension, much apathy and microscopic knowledge. How has the picture changed?

To start with it has a proper perspective. I have been able to see the extent and nature of that terrible all-pervading phenomenon—poverty. "Asian poverty" is of course one of those glib phrases which enshrine our scant knowledge of the world in which we live. Speaking for myself, I can say that I had no knowledge of the reality behind the cliché. Poverty is a strange concept to my generation, not old enough to remember the passing misery of the Great Depression. I say "passing", remembering what I have since learnt from textbooks about the degradation and waste of those years. For I now see that such suffering is as nothing compared with the permanent depression in which so many live, when unemployment is not to be measured by numbers, being rather a permanent state of existence. Seeing all these things, one is sad in the knowledge that in 25 or 50 years there will still be millions living well under the standard below which I should hate to see anyone fall, and the conclusion one reaches is inescapable: that above all the tumult of clashing ideologies the most urgent problem in the world is "developing the underdeveloped countries," (which is, of course, another one of those glib phrases). For it seems to me that to refer to "underdeveloped economies" fails to express the depth and the urgency of the problem. In this connection, too, to talk of a "socialist pattern of society" would appear to be thinking in terms of a very long-term ideal; even the Welfare State slogan of a "standard of living below which none shall fall" cannot be fulfilled within a few generations. Would it not be more practical if the

slogan-of-the-moment was "the barest necessities for all"?

Behind the slogans, however, one can appreciate that in India a very determined attempt is being made to develop the economy, to change it from being an appendage of the industrial economies of the colonisers to having an industrial entity of its own. I can now appreciate what the Indian students meant by "exploitation"; very few Britons would be willing to acknowledge, even today, that this is what Empire meant for the countries comprising it. I can also see what those selfsame students meant when they berated capitalism. At home the glaring sins of "capitalists" are not so obvious and they do not, therefore, provoke the same wrath. Again in this connection I must, in all honesty, submit that I have found that too many Indian "capitalists" would appear to have followed in the colonial footsteps, in that they would appear to be more interested in exploiting rather than expanding. The Governor of Bombay was recently reported as referring to the bad name given to India by many Indian businessmen. I must regretfully endorse this. Business ethics is a delicate subject, but the fact has to be faced that many stories are abroad which damage India's reputation. Like the one for example of the American firm which ordered some rare Assam birds from some Indian exporters, and found, after the birds had been in the States for a few weeks, that the painted colours began to wear off the not-so-rare birds.

All of which leads one to appreciate the need for planned development. I must admit to leaving England sceptical as to what a Plan can achieve for an economy. This scepticism may be well grounded in the light of American or British experience but in an "underdeveloped" economy, where the private sector, apart from whether it has the enterprise or not, has not the resources for what is needed, one sees that the boot is on the other foot. I cannot profess to having a complete comprehension of the success or otherwise of the First Five Year Plan. But it seems to me that a great deal of change has been effected and that therefore one can criticise India not, as for some of her neighbours, because she is not doing anything, but for the way in which things are being done. A picture emerges of a still predominantly rural economy, (in which questions such as land reform and community development are of vital importance) which must industrialise in order to create the wealth necessary for the greater prosperity of an ever-expanding

population. A blank has been filled in, if inadequately. Inevitably certain reactions and question-marks have arisen as a result. To begin with—was I so very wrong when I wrote on population? I am still sceptical about the use of birth control methods although the other day I came across the interesting suggestion that the use of such should be propagated through the Community Development administration.

Meanwhile the pressure on land grows, and the working population is said to increase by two million every year. Despite the different cultural background, perhaps it will be the same here as in the West, and increasing living standards, brought about by successive plans, will result in smaller families. All the same I fear that the pincer movement of increasing population and increasing prices will annihilate progress, in that potential increases in wealth will only go to maintain existing standards, and that also there will never be a substantial enough increase in jobs and incomes so as to encourage the small family wherein fewer children have greater opportunity.

One's fears can only be enhanced, too, by the fact that there is so little discussion of these problems. Population is, of course, a widespread threat capable of dislocating the best laid plans. Inflation is an even more universal danger, as prices in the twentieth century apparently refuse to obey Newton's law that whatever goes up must come down. I have seen three general elections in the last three years, Britain, 1955, Ceylon 1956, and India 1957. Rising prices concerned the voter as much as anything else on all three occasions, but on none of these occasions did they hear much about the remedy for their worries from the politicians.

Both population and inflation are overall considerations which may diminish the value of a successful Second Five Year Plan. The question for example as to whether or not the expedient of deficit financing has been or will be overused is a long term one. What of the short-term worries as to whether the Second Five Year Plan will be successful in the first place?

I wonder if the future economic historian will not criticise the first Five Year Plan on the score that it should have promoted more basic heavy industry so as to save foreign exchange for the Second? Did it require all that amount of foresight to foresee the present shortage? On this issue particularly it seems that India is unaware of the crisis she is facing and that Mr Ashoka Mehta is not exaggerating in his conviction that "we

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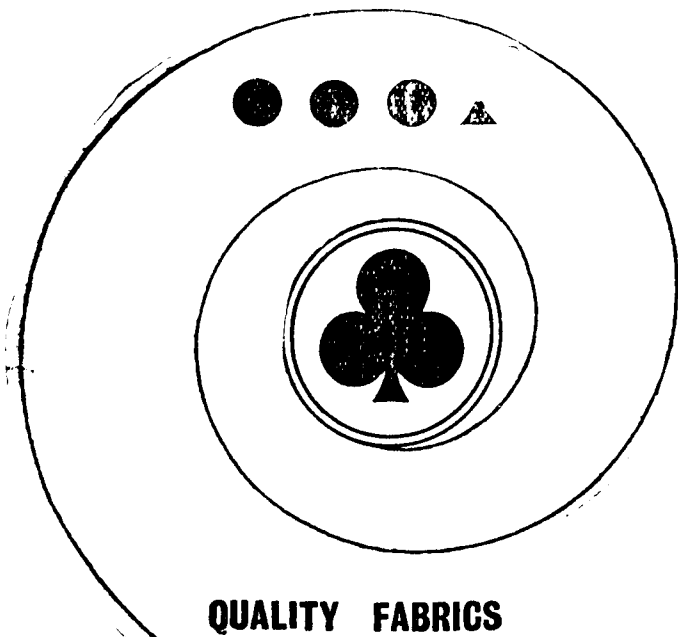
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are merry-making on the brink of a volcano". As he pointed out Kashmir is as nothing if inflation is not counteracted, if production and savings do not rapidly increase, and if the exchange gap is not closed. A leading planner assures me that with wise handling all will be well, and I hope he is right. Nevertheless it is obvious that while the spirit for development is very willing the flesh is undeniably weak. As I view things, the success of a continuing economic revolution is paramount. Should not the elections themselves have been subordinated to this end? Instead of being a time for rousing useless passions and prejudices, could they not have been a means for obtaining more public cooperation, for educating the people on what lies ahead, and thereby filling them with useful zeal for the attaining of that goal? I must report that according to my reading the elections increased apathy rather than diminished it. As I have said the rising prices of food and cloth were scarcely mentioned, especially by the winning party, yet frank discussion might have erased fears and enhanced willingness to help. The public were frequently asked to cooperate by the Prime Minister, but it seemed to me that the exhortation lacked substance. If the way in which food shortages and inflation will be combated had been explained greater enthusiasm would have been easier to arouse. Then, too, perhaps the hoarders, variously estimated at having put away anything between 500 and 5000 crores, might have been tempted to invest their "store of value" more productively? I am reminded of the story one of my teachers used to tell of the Franco-Prussian war of 1871 when France was burdened with what was thought to be a crushing indemnity. It was paid off in a surprisingly short time when the peasants produced some of the gold they had stored away. A sense of national need is more easily induced by a war; India has, I believe, to try and induce it without waste of blood and iron.

To remove complacency will be difficult where there is so much poverty and insecurity, although it is also true to say that the greatest amount of "don't care-ness" as often found amongst those who are not afflicted by these twin diseases. It might have been easier if as I suggested earlier greater attention had been paid to the short term practical needs rather than to long term ideals (or slogans). Today reports are coming from the all-important rural areas of near famine and grave shortages, indicating that "basic necessities for all" are still not provided, although the provision of such is surely an absolutely vital foundation upon which planned building can proceed? Such reports would seem to indicate that the necessary priorities are still not properly worked out. I can admire the spirit which indulges in such important changes as that to decimal coinage—but should such expenditure and energy not await until the fundamentals are put right? And whatever may be the desires and hopes behind it there is no doubt in my mind that prohibition, far from improving the ordinary man's lot, only subverts it as even more resources and energy now go into the illicit trade than ever went into the legal one. Get down to the more fundamental problems of removing illiteracy and improving education and perhaps the drinkless State will be added unto you—though I very much doubt it. Quite frankly I find it impossible to appreciate the mutual backslapping that the prohibitionists have been giving each other of late. It is always annoying to see otherwise sensible people proceeding down a cul-de-sac when the main road is clearly indicated. (And may I add that I find human nature very much the same the world over, and so cannot sympathise with those who believe prohibition will succeed in India even though it has failed elsewhere?) There also seems to be, here as elsewhere, a lack of empirical rationality towards such concepts as "nationalisation", "private enterprise" etc. Surely the idea of state ownership or control in an underdeveloped economy should apply first and foremost to the creation of new wealth rather than the taking-over of old wealth producing units? If abuses exist in the 'old' cannot they as effectively be cured by the strict enforcement of regulation? On the other hand I must admit that things are made difficult for the country by "private misenterprise". Nationalisation, which should await more prosperous days, as in the case of insurance, has to come higher up on the list of priorities. Again, nationalisation, when all is said and done, is only going to function as it should when the ethical ideal of socialism, of each being as much concerned with another's interests as ones own, is firmly implanted. This has been demonstrated in Britain where the all important question of human relations within industry has not improved merely through the state taking over. Indeed in some it has positively worsened. Where nationalisation has worked well it has been as much because the men at the top were imbued with the same spirit that makes for efficient and considerate private enterprise. I have found here in India that nationalisation, understandably concerned primarily with the creation of wealth, has not paid the necessary attention to human relations. The discontent I have discovered in the insurance corporation and airlines could so easily be ameliorated without recourse to government by ordinance, and efficiency would be that much greater as a result. This is a huge subject not to be lightly entered upon. Sufficient to say that I find India, like other countries, suffers because there are far too many mostly politicians, of course, who appear more concerned with the slogan not the effects, who look only for the form without considering the substance.

Likewise I feel that far more important than the real or imagined dichotomy between the public

and private sectors is the promotion of enterprise whoever may own the particular economic unit. There is a very great need for more enterprise, whether from government or individuals, for example, in the promotion of exports. The market comes easily to the manufacturer in India but outside and particularly in the West he must exert a lot of energy in going to it. In this connection my particular hobby horse is cigars. I shall miss my Trichinopoly when I return to England. I am sure there are thousands like me who would spend their ₹ S D. on this commodity if it was easily available. I believe I am right in saying that very few cigars are exported. I wonder if anyone has been "enterprising" enough to explore the market possibilities?

Returning to the rural areas for a minute, I must express admiration for some of the community development I have seen, where there was evidence to suggest that, in part, this has already become a peoples' programme with government assistance instead of the reverse. There can be no quarrelling with community development as an ideal, (indeed when one considers the large amount of man-made filth in such cities as Calcutta one suspects that it would be a good thing if an urbanised gram sevak was trained to bring a greater civic consciousness to the citizens). Unfortunately there also seems to be some evidence that in some areas the community spirit for development has been ousted by more selfish considerations. Again, is the very necessary partner to C. D. called "land reform" as widespread and as effective as it should be?

All these scattered considerations are a part of the perspective which emerges "on the inside". I hope I shall be forgiven for asking so many (impertinent or pertinent, according to your taste) questions. One realises that in the UK, the USA and the USSR, for example, democracy for all intents and purposes was absent and great misery was prevalent while industrialisation was taking place. India has much suffering but the masses are no longer inarticulate. Her attempt at industrialisation at controlling what were, and still are, regarded as the forces of a cruel and malevolent Fate, is therefore that much more an intriguing experiment. Coming here after a year's stay in Ceylon I must express some disappointment with the "New India" that I heard so much about. Amongst a few at the top of society one finds a great deal of drive which is admittedly doing wonders. The disappointment comes because, first, that drive has not been translated into a national effort, mainly, one suspects, because, regrettably, the Congress is no longer the national movement which it became in the drive for independence. Secondly, there is also the sad realisation that much good work and many good ideals run aground because of the corruption and greed of a few. India, in its attempt to raise the masses' stan-

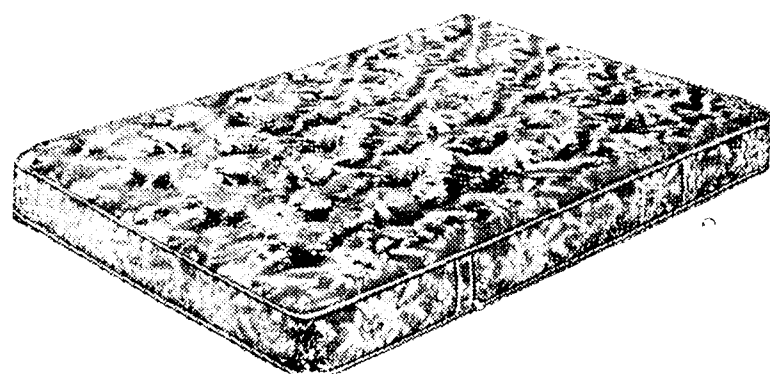
dard of living, would appear to be inflicting more pain on herself in the process than is absolutely necessary. External factors are hardly less kind. Ten years after partition India and Pakistan still find it necessary to divert ever increasing resources to the problem of defence, when they could be so much better used elsewhere. Dr. B. N. Ganguli of the Delhi School of Economics writes that "it would be optimistic to expect Pakistan and India to evolve a kind of regional preferential arrangement by means of which the two economies may reciprocally assist each others' development through mutually advantageous trade, which may be a half way house to the eventual formation of a customs union". How much unnecessary suffering has been brought about by all those who obeyed the imperial precept to divide and rule, by all those who put the cause of political power and religious orthodoxy before that of economic advancement and a people's welfare.

But if one sees a lack of cooperation internally, then there is also a lack of sympathy and understanding internally as well. This may be due in part to the fact, suggested earlier, that there are too many knowing all too little about the problems which beset India, and Asian countries generally. More propagation of the problems of poverty rather than the problems of peace would perhaps be more likely to get a solution of both.

One is left sadly reflecting on the fact that for the last few years Britain has been spending £1500 million a year on defence—though no one feels any the more secure thereby. This has gone on National Service "skills" that are now admitted as useless, on armaments that will soon be obsolete. Then one remembers that any one such year's expenditure is equivalent to the whole of the enhanced foreign exchange gap of the Second Five Year Plan. If only Britain had found it in her heart to turn such an amount India-wards then we should be nearer the fulfilment of "peace" and "democracy", the cause of which the arrangements were ostensibly meant to serve.

"On the inside" I at least look forward to the day when countries like my own will charge a "development tax" for less prosperous countries. That in itself will be a step nearer to "one world". But there remains, after all, the best way in which Malthus could be finally proved wrong. That is for us all to see ourselves as members of a universal electorate and in that vision to be motivated by the desire to-be-done-as-you-would-be-done-by. Then all present aid for undeveloped countries would be seen as merely an expedient flea-bite compared with what should be done by the privileged for the underprivileged in a world which is, tragically enough, still savage to so many and kind to so few.

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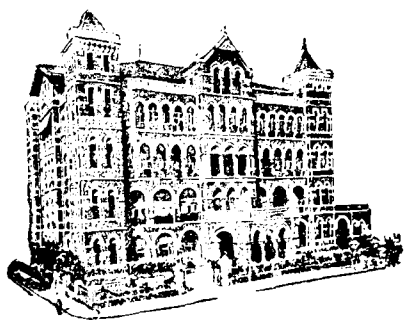
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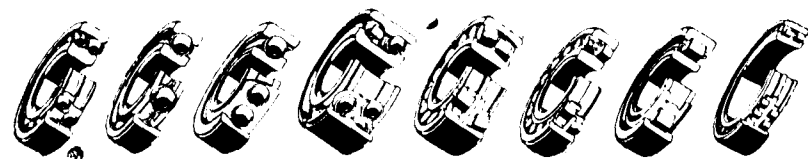
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Movement of Prices

THE price situation continued to be a source of anxiety for the authorities as well as for the public for the major part of the year and, towards its close, has been responsible for important policy decisions. The fiscal and credit policies and action taken under the Essential Commodities Act or through constitution of food zones and cordons, to regulate supplies and prices, have succeeded in keeping prices under control to the same extent as the periodic inoculation drives in dealing with endemic cholera in the Calcutta area. Experts in epidemiology hold the view that the lower Gangetic Valley is the home of cholera and that there is no prospect of its eradication until a Metropolitan Water and Sewage Board is constituted for the Calcutta Industrial area. Economic experts also seem to have arrived at the view that a trend towards higher prices is endemic in the economic system during a period of planned development, calling for comprehensive price control. This can be effected through eliminating the chance of external infection through the inflation of money supply, as well as through building up the resistance of the system through increased production. The particular measures that can be adopted with hope of success will depend on the scope for action in these different spheres, of monetary policy, agricultural production and stepping of production of industrial consumer goods. Considering the level of outlay that must be maintained during the next two years to reach the second plan targets, reduction in the money supply does not seem likely to be a practical proposition. While the money supply fluctuates according to the trading seasons, the trend is steadily upwards from year to year.

Shortage of foreign exchange has imposed an affective veto on measures to increase or maintain the supply of consumer goods

through imports, or through expansion of facilities for internal manufacture. Shortage of materials which have to be imported has been responsible for sharp declines in many lines of production. As for agriculture, it remains at the mercy of the seasons. Experience of the years since 1947, when strenuous efforts were made to step up agricultural production, show that the cumulative increase in production that can be legitimately attributed to the Grow More Food campaign is hardly adequate to neutralise the fluctuations from year to year caused by seasonal factors.

The decline in the general level of prices which set in from August 1957 continued up to the beginning of March when the trend was reversed. The steep and steady increase in prices continued up to the middle of September. The subsequent months have witnessed a slight decline.

The General Index of wholesale prices at the end of January 1958 was lower at 105.6 as compared with the position at the same time in 1957 when the index stood at 107.8. Prices during 1957 had moved from 107.8 in January to 105.1 in March and then risen to the peak of 112.4 in July and subsequently declined to 106.3 in December. Over the year as a whole, the General Index had registered a fall of 1.4 per cent.

During the current year, on the other hand, while the trend towards higher prices during the period March to August repeats last year's pattern, the rise is far more steep, from the low of 104.9 at the end of February to a peak of 116.9 in the second week of September. Subsequent reduction in prices has brought the index to 112.3 by the end of November 1958.

The rise in the price of food articles and especially foodgrains was the major factor responsible for pushing up the general level.

The index for 'All Food Articles' increased from 102.2 at end of January 1958 to 121.8 in the second week of September. Industrial raw materials recorded an increase from 112.8 to 119.5 during the same period. Fuel Power, etc., increased from 114.4 to 115.9.

Manufactures have been fairly steady, recording an increase of about 1.4 per cent from 107.5 to 109. The comparative stability of price index of manufactures cannot afford much comfort, for it reflects the slump in cotton textiles and cement more than increased industrial production. 'Liquor and Tobacco' is the only sub-group to record decline in prices. The index fell from 96 at the end of January to 90.5 in the second week of September.

Within the group of food articles, Cereals recorded the most significant increase which has been reflected all along the line of prices, as well as in the Consumers' Price Index which has increased at all centres. The All India Index has increased from 111 in January 1958 to 120 in August. (provisional)

The monthly average index for rice has increased from 101 in January to 118 in September: Wheat from 86 to 105; jowar from 103 to 108; Bajra from 114 to 131; gram from 64 to 95 and other pulses from 89 to 111. For cereals as a whole the increase has been from 97 to 115.

The dominant influence in the movement of prices observed during the year was the shortfall in the production of rice in 1957-58 as a result of prolonged drought which affected rice producing States of Eastern India. The shortfall in rice alone was estimated at 3.5 million tons. Production of all food grains which

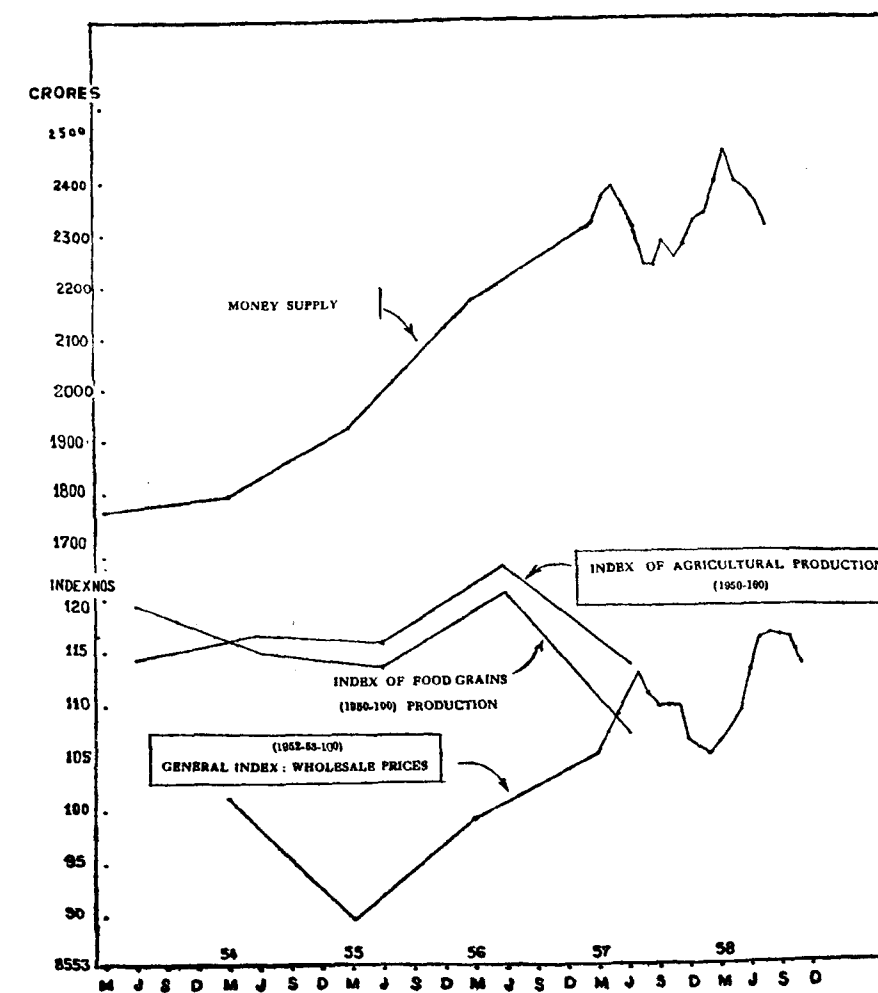
had reached a peak of 68.7 million tons in 1956-57 recorded a shortfall of 6.7 million tons in 1957-58.

The policy of selective credit control, restricting advances against food grains, initiated in 1956-57, was continued. Action was also taken under the Essential Commodities Act, 1955, to empower State Governments to requisition stocks from dealers at prices equivalent to the average market prices ruling in the preceding three months. The system of wheat and rice zones was also in force as well as prohibition of movement of food articles from specified deficit areas.

The steady rise in prices during the second and third quarters of 1958, and its extent, suggest that the measures to achieve price stability adopted by the Government were not as effective as the improvement noticed towards the close of last year led one to expect. It will not, therefore, be unreasonable to conclude that this adverse experience has been responsible for the decision taken by the National Development Council, that the wholesale trade in food grains should be taken over by the Government.

As regards industrial production, the index for June at 128.2 recorded a substantial decline of 24.0 per cent as compared with the corresponding month last year. The index at the beginning of the year was 145.1.

Another factor responsible for maintaining a steady upward pressure on prices is the level of development expenditure. With the slowing down of industrial production in the wake of import restrictions, the variations in the money supply are more clearly reflected in the level of prices.



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Progress of Light Engineering Industries

THE progress of the Engineering Industries in general and especially of the sector engaged in the manufacture of light items of machinery and consumer goods, is among the more heartening features of the industrial development of the country during the last one decade. While the General Index of industrial production for 1957, taking 1951 as the base year, was 137.3, the general index for the production of engineering goods of all categories was 241.3 for 1957 and increased to 257.1 in July 1958. The general index of industrial production for that month was 147.3. The index for engineering goods comprehends the progress achieved in the three separate groups, namely:

1. Metal products, except machinery and transport equipment.
2. Machinery, except electrical Machines.
3. Electrical Machines, apparatus, etc.

The indices for these three groups, which practically comprehend the whole of the light engineering industry, except for transport equipment like bicycles, for the month of July 1958 are given below along with the indices for the years 1957 and 1952 for the sake of comparison.

	July, 1958.	1957.	1952.
1. Metal products except Machinery and transport equipment	221.6	225.2	88.5
2. Machinery except Electrical Machines	531.5	296.2	83.7
3. Electrical Machines, etc.	331.5	246.7	104.2
4. Index for General Engineering and Electrical Engineering	257.1	241.3	92.8
5. General Index of Industrial Production	147.3	137.3	103.6

The growth of production is even more striking if we consider the individual items. During the period 1952 to 1957, the production of sewing machines, electric motors, radio receivers, fans, 1 pressure lamps have increased about three-fold, diesel engines, bicycles and spinning frames about four times, Machine tools six-fold, screws seven times and manufacture of razor blades more than thirty times.

Most of the industrial units engaged in the light engineering industry were established during the war years, when stoppage of imports created the incentive for local manufacture. During the succeeding years, concerns which started as small repair shops have developed into efficient manufacturing units, meeting the entire demand of the country for a

wide range of products which, even a decade ago, were being imported. Apart from meeting the home demand, many manufacturers have met with encouraging success in foreign markets. For instance, during January to July 1958 as many as 3,672 sewing machines worth about Rs 6 lakhs were exported from India. Indian-made electric fans are being exported to 35 different countries. Pressed metal ware, mostly domestic utensils, hurricane lanterns, bicycles, hand tools, batteries, and electric cables and conductors are among the items which have an export market.

The basis and foundation for the development of the Indian engineering industry is the establishment of a strong metallurgical industry, manufacturing both ferrous and

1958, will give an indication of the extent to which the engineering industry is dependent on imported material and how severely it will be affected by a shortfall in imports.

	million tons
1955	1.2
1956	1.73
1957	1.62
1958 (first half-year)	0.64

The sharp restrictions imposed on the imports of materials and equipment, as a consequence of the foreign exchange crisis which hit the country early last year, have created considerable difficulties for the engineering industries. Many firms engaged in the fabrication and processing of iron and steel and other metals, were obliged to

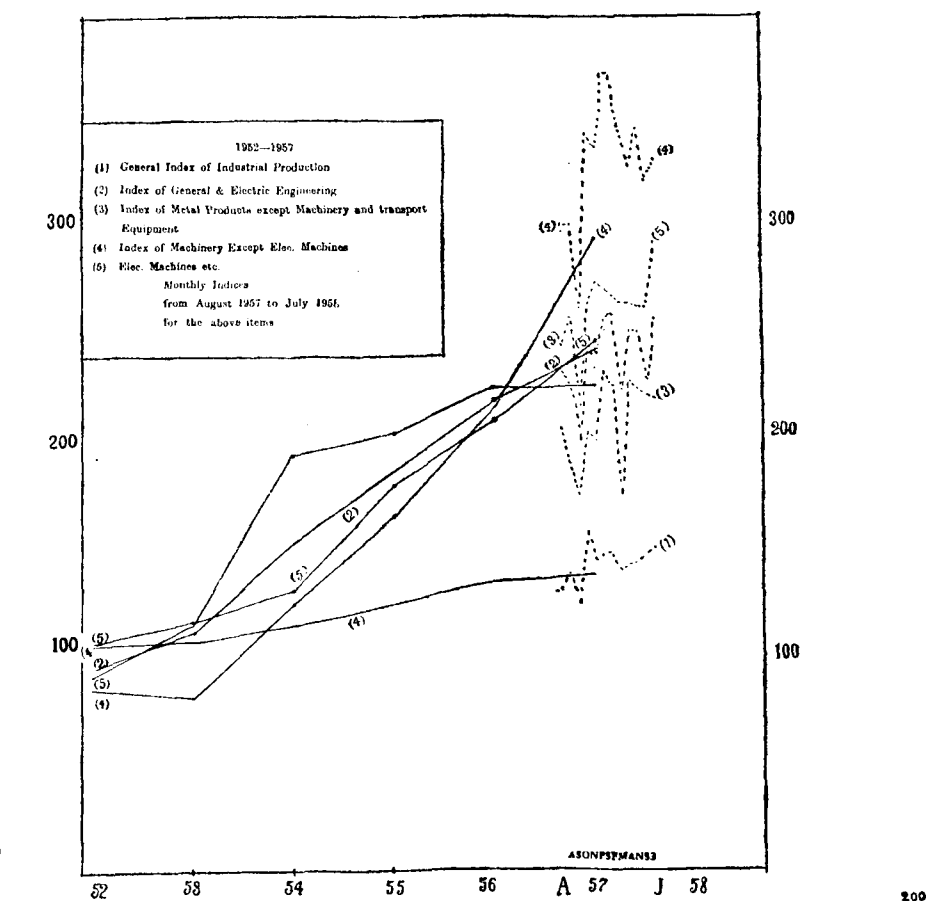
also be seen in the sharp fluctuations in output during the period August 1957 to July 1958 which cannot be attributed to any other reason like fluctuations in demand. The indices of production for a number of representative items for the years 1956, 1957 and July 1958 are given below.

	1956.	1957.	July, 1958.
Sewing Machines	293.3	376.6	486.3
Diesel Engines	165.8	229.6	313.3
Pumps (power driven)	113.6	154.0	120.1
Machine Tools	254.1	530.3	676.7
Electric Motors	251.4	328.9	524.9
Storage Batteries	149.6	154.5	159.0
Electric Lamps	198.0	213.6	203.0*
Electric Fans	159.5	246.9	304.2
Radio receivers	181.9	230.3	258.3
Conduit Pipes	275.4	281.2	110.5*
Hurricane Lanterns	130.3	109.3	95.5*
Pressure Lamps	133.9	147.9	111.3*
Enamel Ware	187.1	173.6	216.5
Bicycles	581.0	691.8	620.6*

Those items showing a decline in output in July as compared with the year 1957 have been marked with an asterisk. But this decline in most cases cannot be taken as indication of a steady trend. The figure for power driven pumps, for instance, was at or above the 1957 average from February to June and rose to 179 in May. In the case of bicycles also the production during the first half of the current year was maintained well over the average for 1957 and was as high as 936.5 in February. The output of conduit pipes has been below the 1957 levels. In the case of hurricane lanterns the production has been lower in 1957 as compared with 1956 and the decline has continued in 1958.

While the important role of the basic metal manufacturing industries, as well of the industries making heavy machines, has been generally recognized, in the high priority accorded to them in the allocation of resources, there is a regrettable tendency to take the light engineering industries for granted. Otherwise it is difficult to see how, under a regime of planned industrial development, the sharp fluctuations in production have been allowed to occur leading to fall in export potential and in employment. If, on the other hand, the pivotal role of the engineering industry had been recognised, the record of progress would have shown a steady upward trend.

The large metal-making plants, like the heavy machine building plants, are spectacular affairs involving heavy investment; they naturally make the headlines. But it should be recognised that the completion of these projects by themselves, essential though they are, cannot make any difference to the standard of living or the meaningful level of industrialisation. It



non-ferrous metals. We owe it to the vision and initiative of the late J. N. Tata, whom the Prime Minister has described as a "great Indian respected throughout the country", that we had a well-established iron and steel industry when the country embarked on a programme of planned industrial development. While the existing steel industry has provided indispensable help for the start of engineering industries, the inadequacy of indigenous output, both in terms of quantity as well as in respect of particular special grades which are not manufactured in India, has acted as a powerful brake on progress. The following table, showing figures of steel imports for the last three years and for the first half of

slow down operations and to reduce their workforce. Some of them even closed down completely. But the set back to production, it is gratifying to note, has not been as severe as might have been expected from the merciless slashing of imports. As the figures given in the following table show, production has not only been maintained but even stepped up during a period of restricted imports. The effect of import restrictions has been to slow down the rate of expansion that might have been expected if materials had been available without let or hindrance. It is likely that the full effect of the shortage will be reflected only in the figures for the last quarter of 1958 and first quarter of 1959. The impact of the shortage of mate-

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is only the activity of the numerous small firms, engaged in processing and fabricating the products of the steel making plants, that gives meaning to the steel output as an economic indicator.

Apart from meeting the requirements of a rapidly growing domestic market, the engineering industries have also opened out a promising field for augmenting export earnings. At the last annual meeting of the Export Promotion Council, it was stated that India exported 112 engineering items to 42 foreign countries. In spite of the difficulties caused by shortage of materials, engineering industries recorded a higher level of exports in 1957 over the previous year. Significant increases were recorded in the exports of diesel engines, sewing machines, electric fans, centrifugal pumps, agricultural implements and oil mill machinery. Other engineering goods which recorded increased exports were sugar mill machinery, bolts, nuts and rivets galvanised iron products, cast iron products, water fittings and stainless steel ware. On the other hand, hurri-

cane lanterns, bicycle components and accessories, hardware, dry batteries, and steel barrels and trunks showed a downward trend.

The value of the export of some of the items are given in the following table.

	(In lakhs of Rupees)	
	1956.	1957.
Diesel Engines	4.28	10.9
Sewing Machines	4.3	5.6
Electric Fans over	12.7	18.0
Centrifugal Pumps	0.53	1.2
Oil Mill Machinery	8.6	14.2
Rice and Flour Mill		
Machines	0.34	1.4
Cutlery	4.8	8.0

Out of the total exports of Rs 4.39 crores in 1957 export worth nearly 1.3 crores went to South East Asia which is the biggest market for Indian engineering goods. West Asia took goods worth nearly 1.28 crores and Africa for about Rs 76 lakhs. In addition some items are also exported to European countries. The export of sewing machines to Yugoslavia last year is a notable instance.

Survey of Light Engineering Industries

THE growth of the Light Engineering Industry in India is mainly a development of the post-war years. While the war gave an impetus to the indigenous manufacture of many types of engineering goods, the production was naturally geared to the war effort. The production for the general market in 1947 for instance was not of more than marginal significance. It was only after the attainment of independence that the Engineering Industry and the consumers of these products became aware of the scope for development which was progressively expanded under programmes of planned development.

The progress registered by most of the industries included the category of Light Engineering Industry during the last one decade has been phenomenal, as can be seen from the table (inset). Manufacture of Sewing Machines has increased from 6,000 in 1947 to 1,67,000 in 1957. Bicycles from 32,000 to 7,91,000; Power Driven Pumps from 6,000 to 64,000; Diesel Engines from 684 to 16,644. These figures will give some indication of the rate of progress achieved by the Engineering Industry. The total production of the Light Engineering Industry in 1957 amounted to Rs 60 crores in value. The corresponding figure for 1948 was about Rs 7 crores. A brief survey of the manufacture of different items classified under Light Mechanical industries and Light Electrical Industries is given below:—

LIGHT MECHANICAL INDUSTRIES

The Sewing Machine industry in the country was started on the eve

of the last war and it has made remarkable progress in subsequent years. There were two organized units engaged in the manufacture of complete Sewing Machines at the beginning of the First Plan. At present there are five organised units in addition to numerous concerns in the small industries sector. The industry in 1958 had an installed capacity of 81,000 machines. The Planning Commission estimated the demand in 1956 for domestic and industrial type machines at 1,30,000 and 1,50,000 machines per year. The off-take in 1961 is assessed at about 300,000 per year, including provision for 30,000 machines for export. The target for installed capacity at the end of the Plan period has been fixed

Industry	LIGHT MECHANICAL INDUSTRIES				Second Plan Target for 1960-61				Actual Production			
	Annual Capacity		Annual Production		1947		1957		1st half 1958		No. of manufacturing units to which figures relate	
Sewing Machines (Nos. '000)	85	300	6	167	102	81	6	17	102	81	6	17
Bicycles (Nos. '000)	685	1,250	32	791	484	776	20	20	484	776	20	20
Hurricane lanterns (Nos. '000)	5,500	6,000	910	4,345	1,595	4,268	10	10	1,595	4,268	10	10
Pressure lamps (Nos. '000)	...	...	19	94	42	136	8	8	42	136	8	8
Powerdriven Pumps (Nos. '000)	86	86	6	64	39	68	29	29	39	68	29	29
Ball and Roller bearings (Nos. '000)	900	2,400	...	1,577	1,239	600	1	1	1,577	1,239	600	1
Diesel Engines (Nos.)	...	...	684	16,644	11,494	22,164	17	17	16,644	22,164	17	17
(a) Stationary	...	...	...	3,336	2,222	6,000	2	2	3,336	2,222	6,000	2
(b) Vehicular	...	...	...	3,365	1,381	6,288	5	5	3,365	1,381	6,288	5
Razor Blades (Nos. lakhs)	...	...	74	8,143	3,689	5,825	19	19	8,143	3,689	5,825	19
Screws (Gross '000)	...	...	...	1,402	942	1,241	9	9	1,402	942	1,241	9
(a) Wood	...	...	...	1,402	942	1,241	9	9	1,402	942	1,241	9
(b) Machine	...	...	...	711	14,116	5,026	30,000	22	711	14,116	5,026	30,000
Enamelware (Nos. '000)	...	...	81	2,160	529	2,940	4	4	2,160	529	2,940	4
Expander Metal (Tons)	...	...	168	2,868	1,650	6,744	4	4	2,868	1,650	6,744	4
Duplicators (Nos.)	...	...	5	2,616	1,894	4,600	6	6	2,616	1,894	4,600	6
Crown Cork (Gross '000)	...	...	...	15,396	8,703	33,000	3	3	15,396	8,703	33,000	3
Typewriter (Nos.)	...	...	235	2,558	940	3,042	3	3	2,558	940	3,042	3
Twist drills (Nos. '000)	...	...	...	208	109	288	5	5	208	109	288	5
Steel Files (Dozens '000)	...	...	...	3,253	1,302	4,189	4	4	3,253	1,302	4,189	4
Grinding wheels (lbs. '000)	4,726	3,360	...	...	...	...	...	...	4,726	3,360	...	...

Source: Monthly Statistics of Production of Selected Industries and other Government Publications.

*Including miniature bulbs.

at 85,000 on a single shift basis. The Plan for the Sewing Machine Industry has provided for development of manufacture the Small Scale sector. It is expected that the organized sector of the industry working on multi-shift basis, together with the production of the small units, will be able to meet the expected demand in 1960-61. Sewing machines are exported to 25 countries. Exports during 1957 amounted to Rs 5,60,683.

BICYCLES

The first factory manufacturing cycles in India was established at Bombay during the Second World War and went into production in 1941. At present there are 20 big and small units engaged in Bicycle manufacture with a rated capacity estimated at 7,76,000 in January 1958. This has increased to 925,500 in August 1958, which is higher than the target for the last year of the Second Plan. There are 6 units in East Punjab, 4 in Uttar Pradesh, 3 in West Bengal, 2 in Delhi and 1 each in Bombay, Bihar and Madras States. The level of requirement in 1960-61 is estimated at 1.25 million including 150,000 for export. The target is expected to be achieved through the organized sector as well as the decentralized sector of the industry. The latter is expected to produce about 2.5 lakh cycles per annum by 1960-61. The large scale units are expected to offer employment to about 8,000 workers and, including the decentralized sector, the total number of workers engaged in the industry may rise to about 15,000. There has been a gratifying improvement in the quality of the bicycles manufactured in the country. Indian cycles are now being exported to neighbouring countries like Burmah, Ceylon, Malaya and Saudi Arabia.

HURRICANE LANTERNS & PRESSURE LAMPS

There are now about ten units engaged in the production of Hurricane Lanterns with a capacity of

about 4.2 million for which production figures are available. There are also 8 units engaged in the production of Pressure Lamps with an annual capacity of 1.36 lakhs. Production of Hurricane Lanterns which was about 5.5 million in 1955 has been declining in subsequent years. In view of the extension of rural electrification programmes, the demand for Hurricane Lanterns is not likely to exceed 5 millions per year by 1960-61, including the provision of one million for exports. The Production Target for 1960-61 has been fixed at 6 millions.

Various sizes of lanterns, are now being manufactured in India. These compare in appearance and performance with reputable foreign makes, are durable and give trouble-free services. The industry has developed a sizeable export trade in East Africa, Malaya, Ceylon, Burmah and the Persian Gulf countries.

The Pressure Lamps manufactured in India are of the hanging type of 300 candle power and over 400 candle power. Production in 1957 was 94,000.

The total investment in the Hurricane Lantern industry was estimated at about Rs 50, lakhs at the beginning of 1955. The number of persons employed is about 2,750.

POWER DRIVEN PUMPS

There are 31 units manufacturing Power Driven Pumps with a capacity of about 75,000 out of which output figures are reported for 29. Most of the units are concentrated in Bombay and Madras. The target for 1960-61 has been fixed at 86,000. The demand for pumps, taking into account the additional area of 21 million acres to be brought under irrigation, is estimated at about 86,000. In recent years India has been exporting Centrifugal Pumps to neighbouring countries in South East Asia, West Asia and East Africa.

DIESEL ENGINES

There are 17 units engaged in the manufacture of various types of Diesel Engines of the stationary type with installed capacity of 22,164 engines on a single shift basis. Multi-Cylinder, Horizontal and Vertical engines upto 300 H.P. are made in the country. With extension of rural electrification schemes, the demand for Diesel Engines for agricultural purposes is expected to diminish. It is estimated that demand will be of the order 20,000 to 21,000 per annum ranging from 1 to 50 H.P. In the future development of the industry, stress will have to be laid on the production of larger engines above 50 H.P. for rural electrification, marine propulsion, rail traction etc. Government have issued two licences for the manufacture of high power engines ranging from 100 to 1000 H.P. Indian Diesel Engines are being exported to a number of foreign countries. There are two concerns manufac-

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turing Diesel Engines for road vehicles, with an annual rated capacity of 6000 engines.

SCREWS

The manufacture of Wood and Machine Screws in the country is carried on by 57 units distributed all over the country. Installed capacity on a single shift basis of the reporting units is about 5,825 thousand gross. Actual production increased from 74,000 gross in 1947 to 81,43,000 gross in 1957.

The installed capacity of machine screws has increased from 3,30,000 gross in 1952 to 12,40,000 at present. Production increased from 148,000 gross in 1952 to 14,02,000 gross in 1957.

RAZOR BLADES

The manufacture of Indian Razor Blades started in 1948 and at present there are 5 organized units, with an installed capacity of about 6288 lakhs. Domestic requirements are estimated at about 500 million blades, so that the industry at its full level of production will

have a substantial margin for export. A beginning has been made in introducing Indian Razor Blades in the neighbouring countries.

TYPEWRITERS

There are three units with an installed capacity of 33,000 typewriters. Output increased from a monthly average of 772 in 1955 to 1799 in March this year. The number of machines manufactured in 1957 was 15,398 and 8703 in the first six months of 1958.

In addition to the items mentioned above, a variety of hand tools, agricultural implements, spraying equipment, steel furniture, containers, abrasives and grinding wheels, ball and roller bearings, builders' hardware, galvanized iron buckets and bath tubs, enamelware, electric accessories, scientific instruments, wire netting and barbed wire, steel trunks, bolts and nuts, aluminium utensils, cast iron products are manufactured in the country. More than a hundred items are exported to over 40 countries.

Light Electrical Industries

ELECTRIC MOTORS

THE Electric Motors industry has made very substantial progress in the decade since 1947. Production has increased from 38,000 H.P. in 1947 to 469,000 in 1957. There are at present 21 units manufacturing Electric Motors; out of these production figures for 14 units, with the rated capacity of 340,000 H.P. per annum on single shift basis, are included in the monthly statistics of production of selected industries published by the Government. The total number of units licensed during the Second Five Year Plan is 22. When the expansion scheme and the installation of the new units are completed, the total rated capacity would increase to 1,310,990 H.P. Production has increased from 251,915 H.P. in 1955 to 469,000 H.P. in 1957 and 291,000 H.P. in the first 6 months of 1958. A wide variety of Electric Motors both of the squirrel cage and slipring type, with range upto 285 H.P. are manufactured in the country. Some of the firms also make motors of 300 to 350 H.P. The production includes special types such as, Loom Motors, High Torque Motors, Dual Speed Motors, Hollow Shaft and Vertical Spindle Motors for Turbine Pumps, Motors with Class B Insulation, Coolant Pump Motors, Flanged Motors etc. Electric Motors made in India have been exported to Burma and some countries in the Middle East.

The target of Fan manufacture for the year 1960-61 has been fixed at 600,000 under the Second Five Year Plan. There are 19 units engaged in the industry. All types of ceiling and table fans both A.C. and D.C. are being manufactured in India in addition to the special types like pedestals, exhaust fans, railway carriage fans, cabin fans etc. The quality has been remarkably improved and Indian fans compare with the best manufactured elsewhere. The industry has developed an extensive export market in neighbouring countries. During 1957 fans of the value of over Rs 18 lakhs were exported.

ELECTRIC LAMPS

The Electric Lamp manufacturing industry was established in

1934. There are at present 11 manufacturers with a total rated capacity of 430 lakhs for all types of lamps including 360 lakhs for G. L. S. Lamps 7 lakhs for other types of filament lamps. The manufacture of fluorescent tubes was started in 1952 and the installed capacity at present is about 8 lakhs.

The types of lamps manufactured covers a wide range including G.L.S. lamps of 15 to 1000 Watts in clear, frosted, inside white and day light finishes, reinforced construction lamps, ornamental lamps, locomotive head light lamps etc. Fluorescent tubes are available in two colour shades, namely daylight 6,500°K and colour Matching White 4,200°K Tube in Deluxe Warm White shade. The industry's capacity for filament lamps will be raised to 50 million by 1960-61 and of Fluorescent tubes to 2 million. Production in 1957 of G.L.S. lamps was over 32 million and of Fluorescent Tubes over 1 million.

STORAGE BATTERIES

The rated capacity of the 12 organized units in the storage battery industry is estimated at 3,16,800. In addition there are some small units engaged in the manufacture of storage batteries. The industry has made considerable progress in diversifying its production, which includes Motor Cycle Batteries, Heavy Duty Batteries required in buses and trucks, marine engines aircrafts, tractors and tanks. The manufacture of accessories such as containers, separators, oxidizers etc. has also been taken up since the commencement of the Second Plan. Total output has increased from about 70,000 in 1947 to 324,000 in 1957. The demand of storage batteries will increase with the growth of motor transport and is expected to reach 4,20,000 in 1960-61. The targets of capacity and production in the organized sector have been fixed at 3,50,000 batteries per annum. The remain-

ing 70,000 batteries per year are expected to be produced by the small scale units.

DRY CELLS

Installed capacity for manufacture of Dry Cells has increased from 13.2 crores in 1947 to 22.44 crores at present. Production increased from 886 lakhs in 1947 to 1814 lakhs in 1956. Output in 1957 was lower at 1,665 lakhs. There are 5 units in the organized sector engaged in the manufacture of Dry Cells. The demand for dry batteries by 1960-61 has been estimated at about 22.5 crores. For which the industry has adequate capacity.

RADIO RECEIVERS

There are 17 units manufacturing radio equipment, with a total rated capacity of 2,40,600 sets per annum. The overall demand for radio receivers by 1960-61, it is estimated, will be of the order of 200,000 to 225,000. Actual production has increased from 3,036 in 1947 to 1,90,691 in 1957. With the opening of a number of new broadcasting stations and stepping up the power of the existing ones to enable them to serve larger areas, the demand for receivers is expected to increase, enabling the industry to utilize its full installed capacity. Most of the components excepting valves are now being manufactured in the country.

AIR CONDITIONING EQUIPMENT

Manufacture of Airconditioning Equipment in different sizes and refrigerators has been recently started in the country. The output of Airconditioners is estimated at about 7,000 units per annum. With the manufacture of motor compressor sealed units, the production will be increased to 15,000 units per annum. The installed capacity for domestic refrigerators is 3,600 units. The production in the first 6 months of 1958 was 605.

HOUSE SERVICE METERS

The manufacture of House Service Meters started in 1951 with the establishment of a factory producing A.C. single phase meters of 10 amps. capacity in Travancore. There are at present 5 units manufacturing House Service Meters and their present installed capacity is 3,33,000 per annum. Production has increased from 80,676 meters in 1953 to 330,000 in 1957. During the first six months of 1958, the output was 1,64,212.

CONDUIT PIPES

The manufacture of Conduit Pipes, which are used for covering Electric Wires, has grown with the growth in demand. The installed capacity which 30 lakhs running feet in 1948 has increased to 84.8 lakhs Rft. in 1957. Production has increased from 17 lakhs Rft. in 1948 to 111.6 lakhs in 1957. Both solid drawn and welded conduit pipes, either galvanized or black-enamelled, are made in the country. There are ten units engaged in this industry.

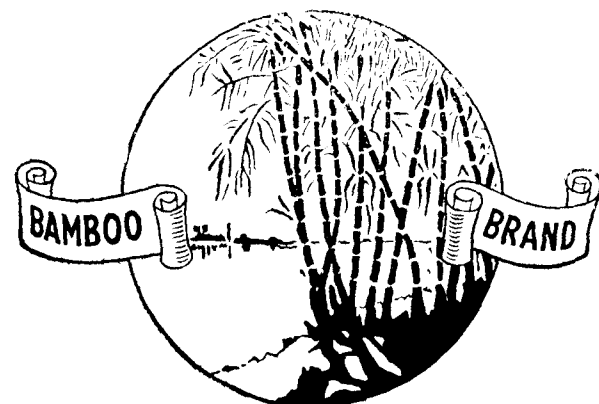
LIGHT ELECTRICAL INDUSTRIES

Industry	Second Plan Target for 1950-61		Actual Production		1st half 1958		Installed Capacity		No. of manufacturing units to which figures relate.	
	Annual Capacity	Annual Production	1947	1957	1958	1958	Capacity	Capacity		
Electric Motors (H.P. '000) ...	600	600	38	469	291	340	14			
Electric Fans (Nos. '000) ..	600	600	160	524	314	402	19			
Electric Lamps:										
(a) Filament lamps (Nos. '000) ...	86,000	80,000	7,620	32,130	14,572	43,080	11			
(b) Fluorescent lamps (Nos. '000) ...	2,000	2,000	...	1,019	458	800	1			
Storage Batteries (Nos. '000) ...	350	350	70	324	169	317	13			
Dry Cells (Nos. lakhs) ...	2,245	2,250	880	1,665	785	2,244	5			
Radio Receivers (Nos. '000) ...	213	225	3	191	97	240	17			
Domestic Refrigerators (Nos.) ...	...	...	...	948	605	3,600	2			
House Service meters (Nos. '000) ...	...	...	...	330	164	333	5			
Conduit Pipes (Rft. '000) ...	...	...	...	11,162	4,382	8,486	10			

Source: Monthly Statistics of Production of Selected Industries and other Government Publication.

*Including miniature bulbs.

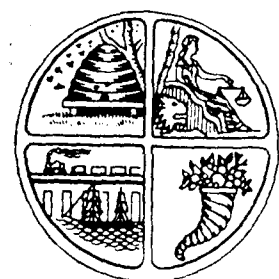
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Transport Situation

EVER since the Second Plan was finalised it has generally been felt that the increase in transport facilities envisaged will prove insufficient to meet the demand in full. It is not as though Government have not been aware of the importance of building up adequate transport facilities for even in their draft outline the Planning Commission have emphasised the need for orienting the transport system to the needs of industrial development. In this regard the commission have observed: "It is common experience that when an economy develops rapidly the pressure of transport increases to an even greater extent. During a period of rapid development an efficient system of transport can yield high dividends if it is co-ordinated efficiently with programmes for increasing production." It is, therefore, clear that transport planning must have as the governing principle that the estimated transport facilities which will be available at the end of the Plan period should preferably be in excess of demand or at least equal to it.

But it cannot be said that the trend of transport development so far is such that one can confidently maintain that transport facilities at the end of the Second Plan will record the required expansion. As a matter of fact it is now generally apprehended that the transport situation will show a big gap between capacity and demand. It is no doubt to be expected that strenuous efforts will be made in the remaining period of the plan toward augmenting the transport facilities. Even so, it appears that the nation has to be prepared for embarking on the Third Plan with a sizable deficit in this regard.

Railways' Progress:

It is, however, gratifying to note that the programme of development of the railways which is the life-line of industry, trade and commerce in the country is progressing ahead according to schedule. In this connection it must be acknowledged that transport has been given a high place in the Second Plan. Out of a total outlay of Rs 4,800 crores as much as 1345 crores, which work out to 25 per cent, have been allotted for transport. But the lion's share of this has gone to the Railways. The reason for this apparent partiality for one mode of transport when there are three other claimants such as road transport, coastal shipping and inland waterways, is obvious. In the context of the limited resources available and in view of the need for developing transport facilities as quickly as possible, the decision to give the railway the major portion of the task is not to be won-

dered at. For one thing, the railways have demonstrated in unmistakable fashion their ability to shoulder big responsibilities. Despite the fact that they had started the First Five Year Plan with greatly depleted resources and heavy arrears of track renewals, they have made commendable progress in many directions during that Plan period. To note one important aspect only, as against a target increase of 10 per cent in tonnage, the actual achievement at the end of the plan was 24.8 per cent. Moreover as against Rs 400 crores allotted, the actual expenditure totalled Rs 423.73 crores. The Second reason why the railways have been elected to the all important place in the transport sphere is the simple fact that they are the only well organised sector. At the end of the First Plan the railways had a route mileage of over 35,000 more than 9,700 locomotives, a fleet of 263,000 goods wagons and more than 24,000 coaching vehicles on line as compared with 103,000 miles of metalled motorable roads, only 13,800 miles of national highways, about 52,000 passenger buses and 91,000 goods vehicles. Further, the railways have made large strides towards self-sufficiency in equipment and rolling stock. Locomotives manufacture has also been making steady progress.

Thus, the railways have been allotted Rs 900 crores, which figure includes Rs 150 crores to be found by railways themselves. Adding the Rs 225 crores that they will be spending from the Railway Depreciation Fund, the total allotment for the railways under the Second Plan amounts to Rs 1,125 crores. The main items of expenditure are as under: Rolling Stock Rs 380 crores, line capacity work including expansion of goods sheds Rs 186 crores, track renewals Rs 100 crores, electrification Rs 87 crores, new line construction Rs 66 crores, workshops, plants and machinery Rs 65 crores, staff quarters and staff welfare 50 crores, rail-users amenities Rs 15 crores, and signalling and safety works Rs 25 crores. The balance of Rs 158 crores is to be spent on a number of items.

The expenditure for 1957-58 has been estimated at Rs 218 crores and the railways have already made commitments amounting to Rs 1024 crores. The outlay of Rs 1125 crores is expected to give a goods carrying capacity of 156 million tons—42 million tons above capacity at the end of the First Plan. The Railways had initially planned for increase of 61 million tons in capacity. Recently, railways have been authorised to plan for their original target.

It is evident that the transport plan as far as the Railway's part

is concerned may be confidently expected to attain its target or even exceed it. An important point that emerges from the present trend of development of the railways is that they will continue to keep their prominent positions as regards providing cheap and reliable transport facilities. If anything they will emerge at the end of the current plan more fitted than any other form of transport to take up new responsibilities. The drive toward self-sufficiency has already reduced its dependence on foreign suppliers to a considerable extent. By virtue of this development the railways in the next plan period can undertake expansion projects more easily than now. With the steady increase in the indigenous production of equipment, rolling stock and locomotives future further railway planning will largely become a question of direction.

Road Transport:

Coming back to the transport situation as a whole the prospects are far from bright. It has been estimated that after taking into account the contribution from the railways, coastal shipping and inland waterways there will be about 90 million tons still left to be carried. Against this lift there is road transport which is presently capable of taking about only 20 million tons. In other words, though we have already left behind us the half way mark of the Second Plan period, the quest for transport facilities to carry about 70 million tons is still on. Government spokesmen now do not make any secret of the fact that if there is not to be any serious traffic dislocation in the country, road transport should be enabled to increase its capacity as much as possible within the next two years.

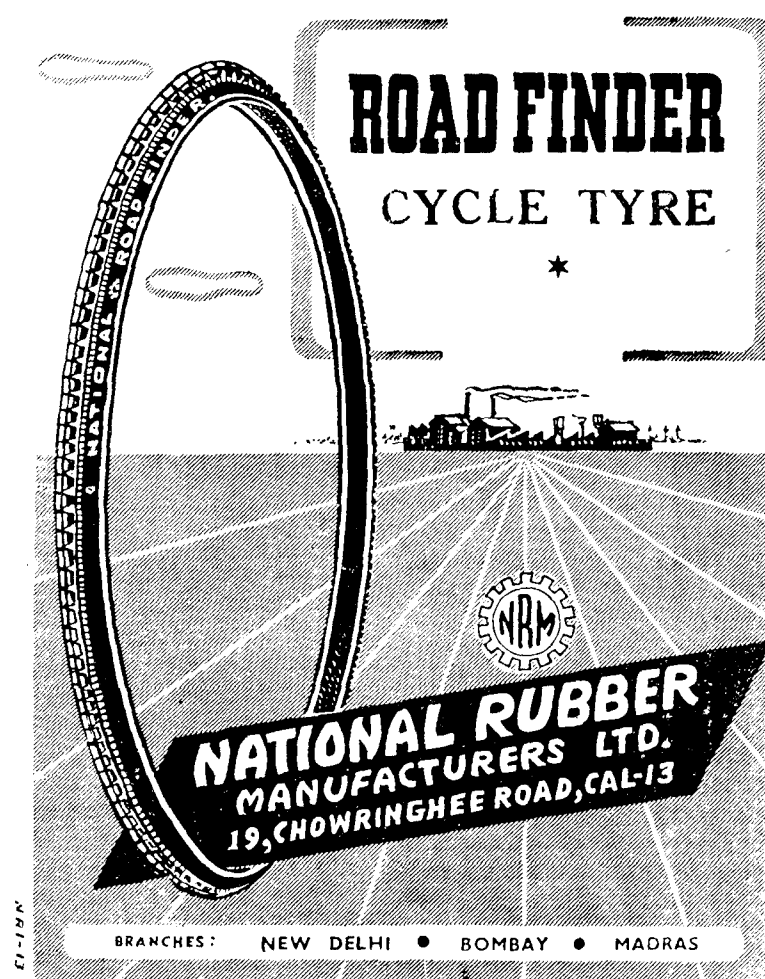
This belated appeal to road transport for help has given added strength to the critics of the transport policy. It is argued that the present difficulties have arisen because the warnings given at the commencement of the Plan about the need for planning for adequate transport facilities, had not been heeded. Presumably Authority thought that demand would not be far in excess of the facilities. This basic wrong calculation seems to have been responsible for the comparative neglect of road transport.

Government's earlier lack of active interest in road development is also well borne out by the size of the provision under this head and the rate of expenditure actual and programmed during the period of the plan. Road development has been given an allotment of Rs 246 crores. There is an additional Rs 25 crores to be drawn from the Central Road Fund. Of

the total outlay the Central Ministry of Transport gets Rs 94.7 crores for its programme while the States have been given Rs 151.4 crores. From the trend of expenditure in the first two years it would appear that the entire allotment may not be expended by the end of the plan period.

It is, however, gratifying to find that development of road transport has of late come to receive the active attention of Government. An indication of this new awareness of the importance of road transport is the creation of a separate Ministry for Transport and Communications as distinct from the Railways. Under the able stewardship of Mr S. K. Patil, Union Minister for Transport and Communications, the problems of road transport are now being tackled energetically. In the course of last two years or so a number of measures have been initiated with a view to accelerating the development of road transport. The Motor Vehicles Amendment Act has afforded some needed relief. The State Bank is now extending a helping hand by providing funds to operators for acquiring lorries on hire purchase. Moreover, there are at present as many as five separate bodies dealing with the various problems connected with road transport. The Inter State Transport Commission, as its name itself shows, is dealing with the problems of inter State road transport. The Road and Inland water Transport Advisory Committee has made a number of recommendations. Perhaps the most important of these bodies is the Transport Reorganisation Committee which is presumably engaged in an exhaustive enquiry into the problems of reorganisation of road transport. The Central Ministry of Transport is working on a 20 year Road Plan beginning from 1961. This is based on a draft plan prepared in consultation with the Chief Engineers of various States. The main aim of this plan seems to be the doubling of the existing road mileage.

While it is to be admitted that the new efforts in the direction of stimulating the development of road transport will go some way in making valuable addition to the overall transport facilities, it is idle to expect road transport facilities to increase to such an extent in the course of the next two years as to take care of the entire lift that is likely to be in excess of the capacity of the other three modes of transport put together. For, the essential prerequisites to a rapid growth of road transport are yet to be provided. It may, however, be confidently expected that the new trend in road transport development may become well pronounced toward the close of the current plan period.

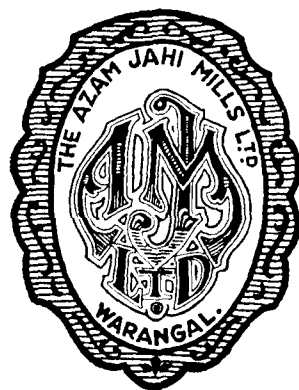


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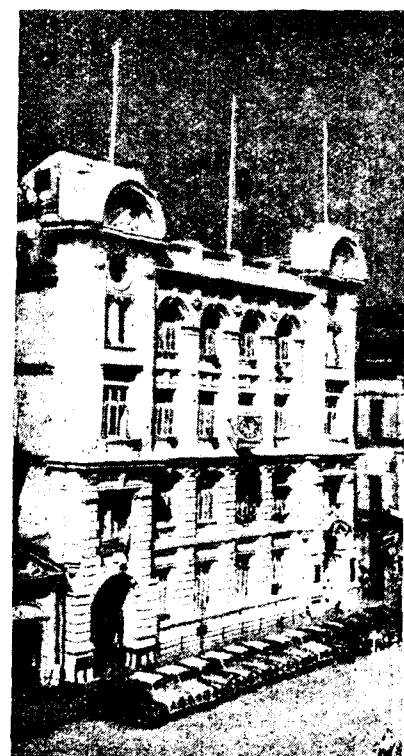
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Brick Making

By B. L. JALAN

THE two grave problems facing India are dire poverty and threat to freedom. The Self-help Scheme has, therefore, been designed to raise the standard of living of about 30 crores of the people living in five-and-a-half lakhs of villages. The Scheme, when implemented throughout the length and breadth of the country, will add to the income of these people and therefore also to the national income of India, Rs 4,000 crores (\$8,400 million or £3,000 million) every year.

The Scheme has been based on the realisation that labour is wealth. It demonstrates how the 38 crores people of India are her great asset.

The fundamental condition of the Scheme is that all working adults in the villages should contribute daily extra one hour of work in eight months of the busy season and two hours in four months of the slack season for individual and co-operative development.

Calculated on the above basis, every working adult contributes, on an average, 480 hours or 60 man-days every year. Providing liberally for contingencies and excluding all children below 15, old people above 64 and a large part of the female population, there are at least 11 crore persons (see Appendix One) who can subscribe to the Scheme. (This accounts for only 31 per cent of the whole population and about 37 per cent of the rural population). In other words, total contribution of 660 crore extra man-days can be secured under the Scheme. Basing the estimate on an average wage-rate of Rs 1-8 per man-day, the contribution would add, only in terms of labour, about Rs 1,000 crores every year to the national income.

At the end of the First Year Plan, only 18 per cent of the cultivated area possessed some means of irrigation. It is proposed to raise this proportion to 28 per cent by the end of the Second Five Year Plan. That is, 72 per cent of the area will still remain to be irrigated. Ignoring for a while the possibility of growing a third crop and 12 per cent of the cultivated area for contingencies, even if 60 per cent of the area could be provided with means of irrigation one additional crop would give a yield of Rs 3,000 crores on the basis of the present agricultural income of the country estimated at about Rs 5,000 crores. Since the Self-help Scheme seeks to provide such facilities through a chain of free wells or tanks throughout the country, it is capable of further increasing the income of the people in the villages by this amount.

The total figure of Rs 4,000 crores as the estimated increase in income by the Self-help Scheme is thus arrived at by adding up Rs 1,000 crores through irrigation. This compares well with the proposed increase of Rs 2,680 crores in the national income of the whole country during 5 years under the Second Plan, which is only 67 per cent of the increase in income within one year of the Self-help Scheme.

This increase will not only raise the standard of living in the country-side by raising the per capita income by 50 per cent* but will also tremendously increase the demand for industrial goods as buying power of about Rs 2,000 crores will be created for manufactured goods. According to the 1954 Census of Manufactures, the total gross product of industry was estimated at Rs 1,300 crores. Thus an increase in the demand as envisaged will bring about a more than 100 per cent increase in our industrialisation and we will need 400 more cotton mills, 150 more sugar mills, 10 million tons of more cement and so on. This will give a tremendous relief to our unemployment problem even in the cities.

The outstanding feature of the Scheme is self-help, which distinguishes it from its sister projects. It visualises utilisation of voluntary labour on self-sufficient basis and dispenses with the need of outside financial assistance. The Scheme is devised even in its detail on the principle of self-help. The task of village development in India is stupendous as, on the one hand, it involves about 30 crore people and five-and-a-half lakhs of villages, and on the other, the country's financial resources are limited. The principle of self-help renders the task easier and makes this Scheme capable of rapid extension throughout the length and breadth of the country.

However, it will be essential for such extension that the social workers should work shoulder to shoulder with village people who are extremely poor and do not get even two square meals a day. Political workers go often to these innocent people and make many promises but in the end they actually leave them to their fates after getting the votes. Thus, they have lost all confidence in such schemes and, indeed, in themselves. They are very much frust-

*The per capita income in the whole country has been estimated at Rs 281 (\$59) at the end of the First Plan. The figure of Rs 200 (\$42) is roughly estimated as the per capita income in the villages.

rated and it is necessary to work with them to arouse confidence in them and to generate a feeling of enthusiasm. In fact, this is the secret of all fruitful social work in the villages.

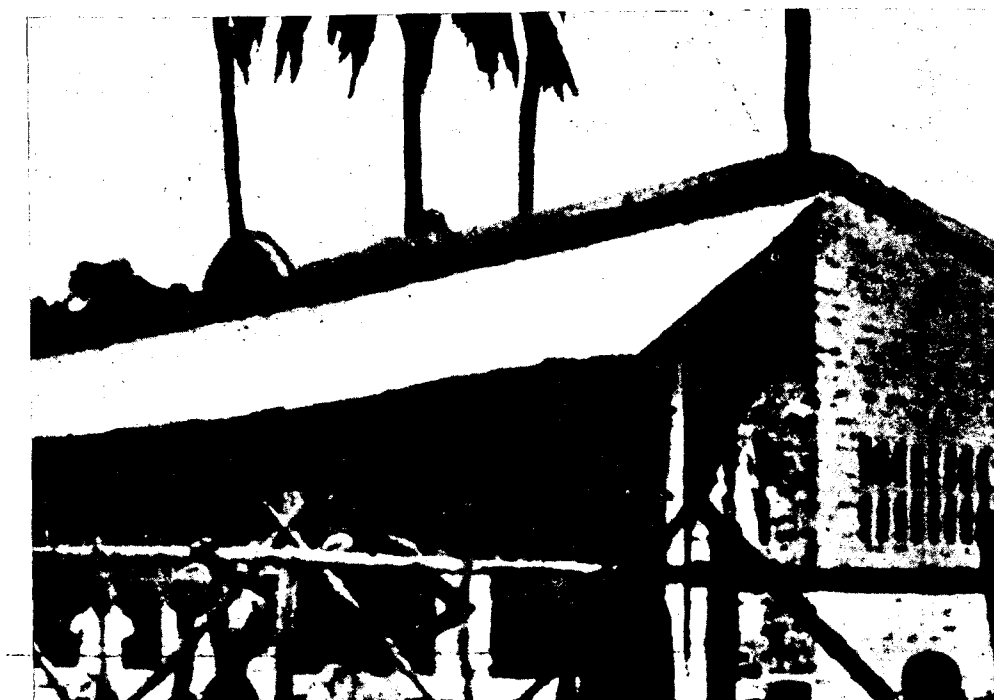
It will also not be out of place to mention here that most of the schemes for rural reconstruction in almost all under-developed countries lay great stress and assign high priority to social education. If and when the education is not accompanied by concrete constructive activity or improvement in the standards of living of the masses it produces an adverse effect. People become conscious of their deficiencies and try to assert their rights in a state of vacuum, which is bound to generate growing frustration in their minds with the natural result that they become restive and agitated and give expression to their feelings against the prevailing order and demo-

cracy. In other words, more harm than good is done to political stability. This is a development of profound significance and its impact must be properly weighed by all democratic political and social reformers. The Self-help Scheme is particularly suited to our needs in this context. It creates better living standards first and gives all premium to voluntary work.

In the task of economic rebuilding of a new India and attainment of real Swaraj of the conception of Mahatma Gandhi, the task of expansion of living of the masses it produces an adverse effect. Let the doctrines of 'SELF-HELP' and 'VOLUNTARY LABOUR' bring about real SWARAJ to the masses. Indeed, 'Self-help voluntary labour' which is a challenge to poverty and dictatorship, should be our torch-bearer in the economic advancement of the nation.



In the thatched bamboo structure (above) was housed the local primary school at Poleghat (24 Parganas). This provides a revealing contrast to the self-constructed school building (below) using self-made bricks. The two illustrate in some measure the revolution the Self-help Scheme may bring about in the appearance of the country-side and the living standards of our masses.



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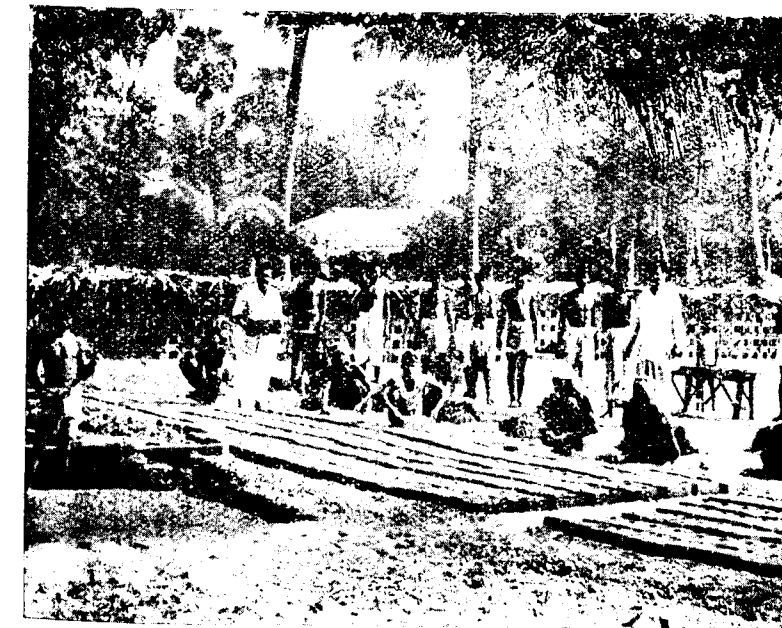
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Brick making is a very easy art and can be learnt in no time. The young men of village Talpukur (14 miles off Calcutta) also took up the Scheme with great zeal. A non-professional village worker makes bricks at the rate of 50 or more per hour.



Like brick-making, many other work can as well be done by village people themselves. The people appreciated this truth when they found the Author also working hand in hand with them. A completed 'Self-help House' may be seen in the rear.



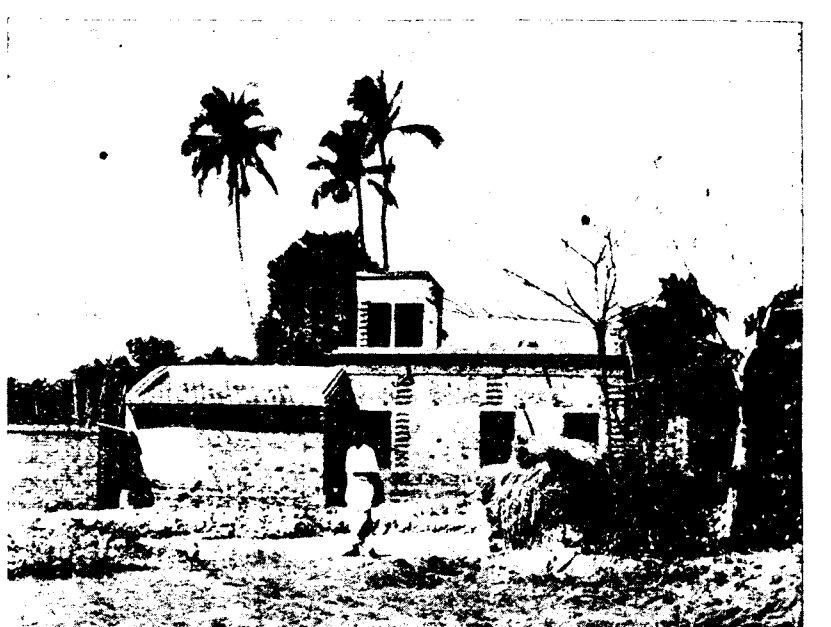
The old man of Keyapukur (24 Parganas) is no professional bricklayer but has learnt the art and lays bricks as efficiently as any other; and adopts a system which is employed elsewhere in the country.



Over 16 thousand houses, completed partially or fully under the 'Build your own House Scheme', have proved the validity of Self-help Scheme on a mass scale. The people of Pyrinagar, Kaina, among thousands of others, may be very well proud of their efforts in building these one-room self-help houses.



The fifteen-feet broad Keyapukur Road has thus taken shape with a height 5 to 8 feet. Inaccessible villages have thus been linked with the outside world by this enviable stretch of road as an artery of rural life.



The Self-help Scheme is a flexible one. The owner of the house seen in the picture could secure a pucca flat roof and a much bigger house by contributing labour for extra bricks. He proposes to add another floor to the house in the near future.

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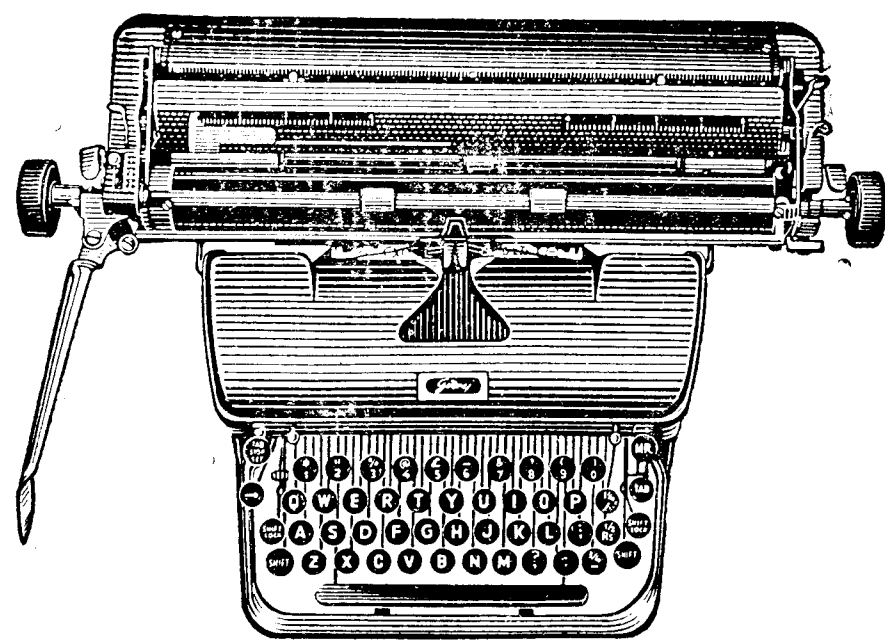
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Management Patterns & Problems of State Enterprises

By Dr S. R. MOHNOT, D. PHIL

AT the end of 1947-48, the gross value of fixed assets owned by the Government of India, together with the working capital engaged in operating them, amounted to Rs 875 crores. It increased to around Rs 1,200 crores by the end of 1950-51. The First Plan contemplated a net addition of about Rs 1,200 crores and the Second Plan of Rs 3,800 crores. The planners have envisaged a total capital outlay in the public sector between 1956 and 1961 of Rs 2,412 crores in industry, power, transport and communications.

The Industrial Policy statement of 1948 contemplated a fair extension of the State sector in industry. The 1956 Policy reinforced its predecessor in this regard. The Second Five Year Plan was characterised as an industrial plan. Meanwhile, the objective of the Socialistic Pattern of Society was adopted. The Plan clearly enunciated one of its principal objectives as "to attain a rapid growth of the national economy by increasing the scope and importance of the public sector".

The investment of the Government of India in industrial and commercial undertakings aggregated Rs 3.34 crores before the commencement of the First Plan. It increased by Rs 47.42 crores between 1951-52 and 1955-56. It has been proposed to invest a further sum of Rs 670 crores under the Second Five Year Plan.

The emphasis, in the public sector, has been and would continue to be on basic and heavy industry. The industries in the State sector will, therefore, bear greater impact on the future structure of economic organisation and institutions in the country than what is apparent from the relative data on outlay.

However, the Government investments are fairly spread over a wide range of industrial and commercial activity. Thus there are purely commercial units as the Life Insurance Corporation and the State Trading Corporation. There are institutions to provide financial and commercial services such as the Reserve & State Banks, the Western and Eastern Shipping Corporations, Export Risks Insurance Corporation. There are heavy industries such as the Locomotive Works, Coach and Aircraft Factories. There are other engineering industries such as of machine tools, precision instruments. There are basic industries as of steel, fertilisers, coal mining. The public sector has also covered the field of consumer industries such as anti-biotics, DDT, telephones, hotels. There are public utilities such as railways, civil aviation.

It is argued that consistent with the diverse needs of different industries and as a matter of historical conditioning, the State is bound to adopt various manage-

ment patterns for different industrial and commercial undertakings. Thus traditional departmental working is favoured for posts, telegraphs and telephone services and railways; departmentally controlled separate units for some; and autonomous corporations for others.

While we can have autonomous corporations for operating civil aviation, the myth of indispensability of departmental functioning in case of utilities like railways and posts, telegraphs and telephones has been exploded already. We may also recall that prior to the taking over of the management of the railways by the Government, companies like the B.B. & C.I. were already operating them. In countries like the United States, railways and even telephone services are owned, controlled and managed by private corporations.

The issue is not merely of convenience. A divorce of control of economic activity from administration is a matter of fundamental significance in our historical growth. The much desired diffusion of economic power would not take place only by a shift in the seat of concentrated power to the hands of the State. Modern States, not excluding India, have been amassing almost unprecedented amount of economic control and power. Real democratisation of our social, political and economic institutions will be achieved only when proper decentralisation of control and authority could be secured at the State level.

While divorce of control and management from the State through the creation of autonomous public corporation would be the basis, decentralisation has to be achieved at various levels, both vertically and horizontally. Wherever possible, each corporation should be split up regionally or functionally. Thus a monolithic Life Insurance Corporation should be split up into 4 to 6 Zonal Corporations. The business of one is not dependent on other zones. Therefore, there would be no difficulty if each zone was to be administered by a separate independent corporation. This would enable each unit to compete with others and thereby secure increased business and greater efficiency in its operations. Such splitting is very cumbersome in services like railways where trains have to traverse across the boundaries of several zones. Yet such demarcation for purposes of decentralisation has, in fact, been made by creating zonal railways. The authority and powers of the life insurance units could be further divided by functional bifurcation between business operations and investments. The Life Insurance Corporation has to handle nearly Rs 500 crores of investments and the rate of in-

crease is around Rs 40 to Rs 50 crores per year. There is no reason why the functions of making investments should vest in the Corporation which secures, operates and controls life insurance business.

Most of the industrial units already installed or proposed to be set up are of a monopolistic character. In some cases, oligopolistic structure will be secured in association with a limited number of private units such as in the case of locomotive manufacture, steel production, and fertilizer industry. The prices of the products of these industries have been or will, for sometime atleast, continue to be State controlled. In several cases, the sole buyer of the products of these units is the State itself. Thus the sole buyer of the products of Chittaranjan Locomotive Works and Perambur Coach Factory will remain the Railway Ministry. In some other cases, the State makes monopolistic buying in association with a few private units as in the case of ship-building industry. In all these cases, scientific costing and price fixation could be made possible only if these industries are operated on the basis of independent units and uniform costing principles and methods are adopted. It is not necessary to emphasize the need of such costing and pricing if we have to regulate correct comparative prices, assess and ensure maximum efficiency and secure economic justice through regulation of comparative incomes and costs of consumer products. A reliance has generally been placed so far on the occurrence or absence of so called 'scandals' as a measure of inefficiency or efficiency. This is an entirely crude and unreliable method.

The management of all the State enterprises on the basis of independent autonomous corporations would save the day-to-day operations of these units from the whims and fancies of ever-changing political and civil personnel and would infuse an amount of stability in their policies, a much needed requisite for their efficient and business-like functioning.

In this context, it is not understood why it was necessary at all for the Government to entrust the setting up and the management of all the three steel plants, each with a capacity of a million ton per year, to one Hindustan Steel Corporation, Ltd. The management of each of the three units, Rourkela, Bhilai, and Durgapur could have been conveniently entrusted to three separate units. It was all the more necessary to do so as the bases of financial and technical participation in all the three units are different.

The State has been able to secure different kinds of participation from different kinds of agen-

cies in the setting up and operations of industrial undertakings. On the financial side, they have secured various proportions of equity or loan capital from private agencies, domestic or foreign, international institutions or foreign governments. There has also been participation between the State & Central Governments. Similarly, they have secured various kinds of technical assistance from such agencies on different bases. Thus in most of the cases like that of the State Trading Corporation, the Nangal & Sindri Fertilisers, the Hindustan Heavy Engineering, the Life Insurance Corporation, the Hindustan Steel, the Neyveli Lignite Project, the Eastern & Western Shipping, the Government of India have put in 100 per cent of the capital investment. They have put in 20 per cent of capital in the Civil Explosives Factory, 25 per cent in the Indo-Stanvac Petroleum Project, 55 per cent in the Travancore Minerals, 66 2/3 per cent in the Hindustan Shipyard, 84 per cent in the Ashoka Hotels, 90 per cent in the Indian Telephone Industries, and so on.

In the case of the DDT factory, the UN International Children's Fund undertook to provide the equipment worth about Rs 12 lakhs and the World Health Organisation, the technical assistance involving an expenditure of about Rs 5 lakhs. The Housing Factory was established in association with an Indo-Swedish firm, Basakha Singh Wallenberg, Ltd. In the case of the Hindustan Machine Tools, the Government secured the participation of Oerlikon Machine Tool Works, Zurich. The Indian Rare Earths factory is owned jointly by the Governments of India and Travancore Cochin. They have employed Societe de Produits Chimiques de Torus Rares as technical assistants.

Notwithstanding the varied types of collaboration and participation of varied kinds of agencies in the industrial enterprises, we could adopt a uniform management pattern, namely, the public corporation. In fact, independent functioning which may be possible under such management will greatly help in catering to all types of requirements occasioned by varied types of industries, of various sizes and involving varied types of collaboration.

The 'Public Corporation' form of management has a great advantage that it combines public responsibility with flexibility of private enterprise. While the executives incharge of the undertakings can take their own quick decisions in matters of day-to-day management, the Government can lay down, from time to time, major directions of basic policy consistent with larger needs of the community. The recent experience of



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the functioning of our State enterprises has clearly shown that this kind of framework and division of functions and responsibility will admirably suit our needs. Even the LIC-Mundhra episode, which occurred in the framework of a public corporation, does not at least for two reasons, detract from the utility of such a form of management. First, the episode took place when the rules of the game were, in fact, ignored. Secondly, deliberate wrong decisions are likely to impair the soundness of any system of management.

The need of independence and autonomy of public enterprises was amply emphasised in the Gorwala and the Appleby Reports. It is this problem, indeed, of the relationship between the Administration and the Parliament, on the one hand, and the industrial undertakings, on the other, that necessitated the appointment of the Parliamentary Committee under the Chairmanship of Shri Krishna Menon. The problems of autonomy and accountability could be best solved in the 'public corporation' form of management. As the responsibilities and functions of the State are expanding in various spheres and directions, it is not merely appropriate and convenient, but it is only through a scientific system of delegation of authority from one tier to the other that we could achieve an efficient and productive administration. A Government department is traditionally suited to divisions of responsibility and not to a co-ordinated, properly geared system of delegation of authority.

To sum up, it can be said that there is a clear case for adopting 'public corporation' as a form of management of all State undertakings, from broadcasting, telephones, telegraphs and postal services down to railways, other public utilities, and purely industrial enterprises such as manufacture of DDT, telephones, fertilisers, etc.

Most of the State industrial undertakings have been registered under the Indian Companies Act. As a result of the new Statute of 1956, the suffix of 'Private Ltd.' has been added to most of these companies. The management of these undertakings has very little in common with those of other private enterprise companies, private or public, and in fact, both the terms 'Limited' and 'Private Limited' become very misleading. The State companies, although registered under the common Company Law, are for all practical purposes, public corporations. There is a need, therefore, that these should be termed as such. The least that could be done is that they may be called "(State) Company" or "Corporation" so that one could easily distinguish State controlled enterprises from the units of the private sector.

The structure of financial management of public undertakings would be easy once the 'Corporation' form of organisation is accepted. The initial capital, including working capital, but excluding

short term liquidating capital, should be on equity basis. The public and other agencies should be invited to subscribe equity and loan capital of State enterprises within a 50 per cent limit. The Government should, on the contrary, through its various agencies like the Life Insurance Corporation and other financial institutions, freely partake in the capital structure of private companies. This two-way traffic will usher in a new era of mixed economy in this country.

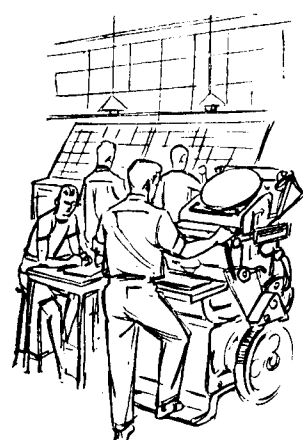
Whether fixed-yield capital could be raised for further expansion would depend on (1) the amount of capital needed, (2) the nature of the unit, (3) the efficiency of the operation of the unit and (4) the age and prospects of the unit. Each State undertaking should develop its own capital through reserves by ploughing back profits since the share of general State revenues should be a fixed percentage as a reasonable yield on capital. Once this method of fixing a uniform rate of yield on capital and of reserves is adopted along with fair incentive wage system for workers and administrative, technical and executive personnel engaged, the pricing policy of such enterprises, whether competing or not with other units, would be automatically solved.

Management problems of State enterprises present a perceptible divergence from those of the private sector. This divergence emerges from (1) nature and size of such enterprises, (2) communal nature of control and impersonal agency of management, and (3) the social objectives. State enterprises are generally (i) restricted to a limited sphere of industries, (ii) generally operate under non-competitive conditions, either on buying side or selling side or both, and (iii) assume large size. The State being a group agency, business enterprises in the public sector lose (i) the personal touch and initiative of management, (ii) flexibility in decision making; but gain (a) larger resources, economic, material and human; and entail (b) complexities of public administration as distinguished from "cut-to-need" administration in private industry.

The major problem for any public corporation in an industrial undertaking is the question of accountability. There could be three definite and important links in the chain of public accountability. First, there should be independent audit. Secondly, there should be independent investigations at the instance of Advisory Boards, the Government or the Parliament. Thirdly, detailed audit reports and accounts along with expert reports of costing and efficiency should be presented to the members of Parliament and thoroughly discussed on the floor of the House. The Parliament could act as a body of shareholders, both active and vigilant, unlike those in private industry. All these reports should be treated as public documents and published for public attention and comments.

As regards the personnel problem, there are two aspects. First, all directors of Public Corporations should be whole-time officials. We should follow the American example in this respect. Absentee-directorships do a great damage to the efficient functioning of such enterprises, while serving no useful purpose. However, the adoption of such a practice would mean that these enterprises may have to forego the advice of experienced industrialists. It may be necessary, therefore, that separate policy-making Commissions should be constituted for groups of similar units. Membership of such commissions may draw upon members of parliament, economists and businessmen of the country. In effect this would mean that we have a policy-making board and a functional board as the executive head of each unit. This two-tier system of advice, policy-making, management and vigilance will ensure an efficient and business-like functioning of State enterprises avoiding, at the same time, both red-tapism of Government administration and too personal decision-making in private enterprise.

Secondly, the Government administration and industrial management personnel should not be mixed up together. There should be a separate service to man the positions in industrial undertakings. This point was emphasised by the present writer in his paper presented to the Ninth All India Commerce Conference in 1955 and it is gratifying to note that an Industrial Management Pool has since been constituted although selection of the personnel has been unduly delayed. It is time that we gave up the theory that a Government administrator is good for any job in all sectors and for all purposes. At any rate, the differences between the nature of functions and nature of decision-making procedure between the jobs of administrative and business executives should be clearly understood. While a Defence Secretary may work as well as a Secretary in the Ministry of Finance, it does not necessarily follow that he will as well be, notwithstanding his high administrative calibre, an efficient Managing Director of a steel mill. In the matters of cost-consciousness, economy of industrial operations, progressive and more human but less direct personnel relationship and businessman's attitude in contractual transactions, an administrative executive working as a business executive is faced with an entirely new situation. The practice of quick transfers between units of different industries and between industrial units and Government Departments should be given up forthwith. In this scheme of things, there is still less reason for allowing a general administrator to hold simultaneous positions in industrial undertakings and Government Departments.



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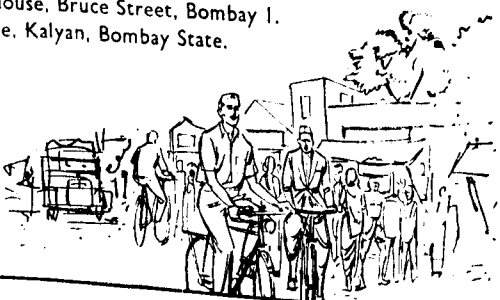
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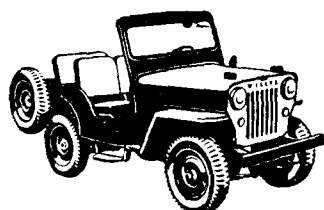
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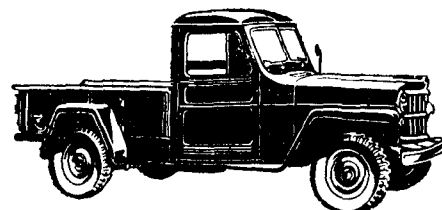
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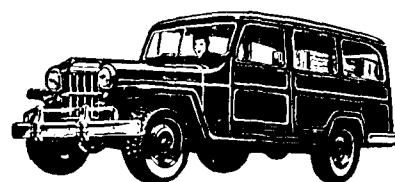
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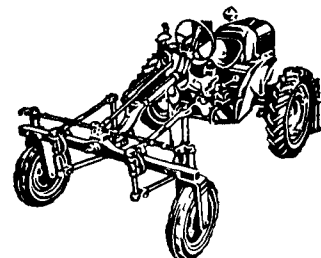
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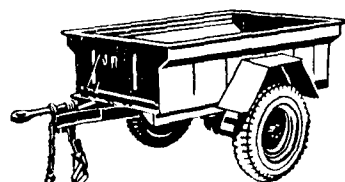
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States' Plan

THOUGH, the Second Plan, about to complete its third year, has only two more years to go, final prospects for the progress of the Plan seem to be still clouded by uncertainty regarding foreign exchange, internal finance etc. The scaling down of the total Plan outlay to Rs 4,500 crores from the original figure of Rs 4,800 crores by the National Development Council at its meeting in Novem-

ber, has no doubt made things easier. Still, doubts about internal resources are far from being completely removed and the recent appraisal of the total resources position by the Planning Commission, reveals an uncovered gap of about Rs 280 crores.

The progress of the plan in the States, is also far from encouraging, and uncertainty would seem to lurk in the path of the States' Plan also for the rest of the two years.

Name of States	Plan provision 1956-61	Estimated Expenditure for 3 years	Percent Expenditure
Andhra	174.77	89.57	51.0
Assam	57.97	31.48	54.3
Bihar	190.22	83.38	43.8
Bombay	350.22	177.27	50.3
Kerala	87.00	42.18	48.0
Madhya Pradesh	190.89	76.16	39.9
Madras	152.26	90.85	60.0
Mysore	145.13	60.94	42.0
Orissa	99.97	51.53	51.5
Punjab	162.68	91.77	56.4
Rajasthan	105.27	52.19	50.0
Uttar Pradesh	253.10	135.11	52.4
West Bengal	157.67	83.66	53.1
Jammu and Kashmir	33.92	14.79	44.0
Total	2,161.04	1,080.88	50.0

The position at the end of the first three years is that against an original outlay of Rs 2,161.04 crores for the entire plan period, only about 1,080.88 crores has been incurred during the first three years. The balance of outlay for the rest of the Plan period thus comes to exactly half of the total provision. The average of outlay for the remaining two years is therefore far higher than the average for the last three years.

The outlay actually incurred reveals a shortfall of Rs 170 crores, against original budget estimates for the three years at Rs 1,250 crores.

A more discouraging feature of this progress is the comparatively poor achievement in States like Madhya Pradesh and Mysore which have a balance of expenditure which works out to 61.1 per cent and 58.0 per cent respectively of the original target. Madras is in the forefront with an outlay which comes to 60 per cent of the Plan provision, while Punjab, Assam and Uttar Pradesh are not far behind.

Behind this failure of the States' Plan to come to expected levels lurks the shortfall in anticipated balances from current revenues as the main factor. While, the original target for all the States has been worked out on the basis of an estimated additional tax effort on the part of the State Governments to the tune of Rs 370 crores, the tax effort put in by the State Governments so far would seem to reach a figure of only Rs 173 crores at the end of the Plan. Increase in non-Plan expenditure and the States' reorganisation scheme were additional factors which interfered with the progress of the Plan.

Difference in the Plan's progress between States, reflects not only

divergence in resources raised but also the varying proportion of Central assistance received by the States.

States	(Rs in Crores)
Andhra	55.1
Assam	16.3
Bihar	43.4
Bombay	74.2
Kerala	17.5
M. Pradesh (For 2 Years)	31.76
Madras	45.2
Mysore	35.6
Orissa (For 2 Years)	26.6
Punjab (For 2 Years)	35.8
Rajasthan	28.9
U.P. (For 2 Years)	45.65
W. Bengal (For 2 Years)	28.35
Jammu & Kashmir	12.00

It is evident that though Central assistance works out to an average of about 50 per cent of the total outlay incurred, there is variation between States. For Andhra Pradesh particularly the proportion of Central assistance works out to nearly 60 per cent of the outlay, while in the case of Kerala and Bombay this is less than half.

However, the States' Plan seems to have been upset by the downward revision of the total Plan outlay by the National Development Council. Against the original outlay of Rs 4,800 crores, the outlay has now been fixed at 4,500 crores. It is inevitable that the axe should fall on the States' Plan also. For, in the appraisal of the resources position by the Planning Commission, on the basis of which the revision of the total Plan outlay has been done by the National Development Council, the revised outlay of Rs 4,500 crores is composed of a Central share at Rs 2,452 crores and States' share at Rs 2,043 crores (States' figure includes a total outlay of Rs 60 crores for the

Union Territories) Though at one stage it was hoped that the original outlay could be met on the basis of the division of the Plan outlay into two categories composed of Part A with a total at Rs 4,500 and Part B with a share at Rs 300 crores, since, at the last meeting of the National Development Council, no mention was made of the Part B of the Plan, it can now be taken for granted that the total plan outlay, can under no circumstances exceed Rs 4,500 crores.

Even with the Plan target at Rs 4,500 crores, the Planning Commission do not seem to be sure of the resources position. The Planning Commission's latest estimate of resources after taking into account domestic resources at Rs 2,028 crores, external assistance at Rs 1,100 crores, and providing for deficit financing at Rs 1,092 crores, adds up to only Rs 4,220 crores. The uncovered gap of Rs 280 crores is made up of Rs 82 crores in the States and Rs 198 crores at the Centre. The position with regard to the States now seems to be that to fulfill their revised Plan targets, they would need to incur an expenditure of Rs 946 crores for the rest of the Plan period and this includes also the uncovered gap of Rs 82 crores. (The balance of outlay of Rs 946 crores when added to the three-year outlay already incurred would give a five-year outlay of Rs 2,027 crores which in comparison with the revised outlay of Rs 1,988 crores would seem to be rather high. In this connection it has to be pointed out that the figures for expenditure already incurred are based on earlier estimates and would in the light of subsequent figures available for some States seem to err on the high side. According to latest estimates, expenditure incurred in the four States in the South adds up only to Rs 266.1 crores against the total of Rs 283.54 crores as made out by the figures given in the table at the beginning.)

The question, therefore, is whether the State Governments would be able to raise additional resources to the tune of Rs 82 crores in the remaining two years. The Planning Commission would seem to feel that there is scope for more taxation and in fact have indicated that the major part of the funds should come from tax measures. Betterment levies, and irrigation levies are what the Planning Commission seem to be having in mind as the probable sources. So far, only two State Governments have taken action on this line. However at the recent meeting of State Government representatives with the National Development Council, about 7 States which include Andhra Pradesh, Bombay, Madhya Pradesh, Bihar, Uttar Pradesh, Rajasthan have agreed to raise

taxes. Out of these States, Andhra Pradesh, Uttar Pradesh, did not levy any new taxes in the current year's budget.

However, even tax efforts failing, there seems to be no need for undue pessimism about ability to raise the required resources. The Planning Commission seem to have woefully underestimated the resources potential of the gilt-edged market, which has never been known to fail in times of need. In fact, the gilt-edged market has been the best performer for the State Governments in the last three years. The State Governments realised a sum of Rs 63 crores from public loans in the first year against a budget estimate of Rs 44 crores. In the second year, most of the State Governments voluntarily kept out of the market in favour of the Centre in deference to the wishes of the latter. Resort to the gilt-edged market has, again, met with resounding success in the third year. Against a total amount of Rs 47.50 crores, sought by the State Governments loan application exceeded the amount on offer by about Rs 15 crores.

In the background of such admirable responsiveness of the gilt-edged market, there seems to be no valid reason for diffidence about financing the balance of outlay for the States. The resources position could further be strengthened by intensifying the small savings campaign. The performance of the past should not have much relevance since the administrative machinery designed to step up collections has left much to be desired by way of proper streamlining and coordination. The improvement that has been reported in agricultural production in this year provides another happy augury for the Plan's success.

The Plan outlay for the fourth year for some of the States has now been announced. The allocations for Andhra Pradesh, Assam, Bihar, Bombay, Madras, Punjab, Uttar Pradesh, and West Bengal are Rs 37.62 crores, Rs 12.25 crores, Rs 41.22 crores, Rs 87.70 crores, Rs 33.62 crores, Rs 35.19 crores, Rs 50.0 crores, and Rs 37.54 crores, respectively. The Plan provision for the States as a whole for the fourth year is provisionally placed at more than Rs 500 crores of which Central assistance would be of the order of about Rs 250 crores. The balance of outlay for the last year of the Plan would therefore be less than Rs 450 crores. If it could be presumed that the State Governments would, at all costs, try to avoid shortfalls in expenditure on the Plan in 1959-60, fulfilment of their commitments in the last year of the Plan would raise little doubts and the Plan could thus be safely seen through.

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Four Insurance Balance Sheets

[Aside from the analysis of General Insurance given in the article which follows, it is interesting to trace the progress of General Insurance during 1957 by a study of the accounts of four of the leading companies].

New India

The accounts of the New India Assurance Company Limited for 1957 indicate that net premiums fetched rather more at Rs 6.33 crores against Rs 5.64 crores in 1956. The sharpest rise, in this context, has been registered in the Fire Insurance Revenue Account wherein net premiums improved from Rs 2.90 crores to Rs 3.24 crores. However, the net claims also rose from Rs 2.85 crores to Rs 3.29 crores for all three departments. After increasing the additional reserve by Rs 4.64 lakhs, the profit has declined from Rs 44.82 lakhs to Rs 32.73 lakhs. The dividend has been maintained at Rs 3 per share, and the carry forward is more or less unchanged, but, in the Appropriation Account, the transfer of Rs 13 lakhs to Investment Reserve in 1956 has been skipped and so, too, the transfer of Rs 2 lakhs to Dividend Equalisation Reserve; moreover, while the reserve for taxation claims Rs 3.75 lakhs, no such provision is needed to be made in respect of 1957 results. On the other hand, an exchange reserve has been credited with Rs 5.46 lakhs against nil, and the reserve for doubtful debts gets more at Rs 1.15 lakhs against Rs 0.35 lakhs.

The balance sheet of New India shows that, against the paid-up capital of Rs 1.07 crores, Reserves amount to Rs 2.60 crores, marking an increase of Rs 0.52 crores over the previous year. Moreover, the three insurance funds aggregate more at Rs 4.83 crores against Rs 4.45 crores. The Directors' Report points out that the increase in reserves is due to the fact that an amount of Rs 0.52 crores was received as compensation for loss of life business and loss of right of management; and this amount has been credited to the newly created Capital Reserve.

The classified summary of assets indicates that the market value, at Rs 8.27 crores, falls short of the book value which is Rs 8.48 crores. This is mainly because guaranteed and preference stocks in concerns in India, with a book value of Rs 29.13 lakhs, had a market value rather lower at Rs 21.85 lakhs; also ordinary share holdings of New India had a market value of Rs 1.95 crores against book value of Rs 2.08 crores.

Hercules Insurance

The accounts of Hercules Insurance Company Limited disclose that premiums in the Fire Department amounted to Rs 35.17 lakhs. After providing for an estimated liability, in respect of outstanding claims at the end of the year, and after keeping the reserve for unexpired risks at 50 per cent of the premiums, the surplus transferred from the Fire Department to the Profit and Loss Account is Rs 3.63 lakhs. In the Accident Department, net premiums were placed at Rs 7.95 lakhs. The reserve for unexpired risks is at 50 per cent of premiums, and the profit transferred to the Profit and Loss Account is Rs 2.39 lakhs. In the case of the Marine Revenue Account, wherein premiums were placed at Rs 50.18 lakhs, the reserve for unexpired risks is shown at 100 per cent of premiums, and the surplus taken to the Profit and Loss Account is Rs 1.05 lakhs.

The Profit and Loss Account shows, besides, an income of Rs 3.31 lakhs from interest and dividend as well as miscellaneous receipts. After providing Rs 3.11 lakhs for depreciation in investment and Rs 3.40 lakhs for taxation, the balance carried down is Rs 4.36 lakhs. The dividend declared was at 20 per cent absorbing Rs 4.80 lakhs, and the balance carried forward at Rs 3.41 lakhs is slightly lower than the Rs 3.85 lakhs brought in.

According to the balance sheet, as at the end of December, the capital of the company is Rs 24 lakhs in 20 rupee shares of which Rs 10 per share has been paid. The Reserves and Surplus add up to Rs 53.58 lakhs, while the three departmental funds aggregate Rs 36.74 lakhs. On the other side of the ledger, Investments are shown at Rs 86.91 lakhs, whereas cash balances exceed the paid-up capital, in being placed at Rs 27.41 lakhs.

The classified summary of assets indicates that, under every head, the market value of assets exceeds the book value, though largely nominal. Thus, Government of India securities with a book value of Rs 18.54 lakhs are shown to have a market value of Rs 18.93 lakhs. However, in the case of ordinary shares, the market value, at Rs 20.70 lakhs, exceeds the book value by Rs 2.14 lakhs.

Concord of India

The accounts of Concord of India Insurance Company Limited disclose that premiums in the Fire Department are more or less unchanged at Rs 32.04 lakhs. However, with some rise experienced in Claims, and after keeping the provision for unexpired risks at 50 per cent of premium income, the surplus transferred to Profit and Loss Account is lower at Rs 2.06 lakhs against Rs 2.92 lakhs in 1956. The Accident and Miscellaneous Insurance Department, on the other hand, while reporting a small increase in premium income, and after providing for unexpired risks at 50 per cent of premium income, shows a smart rise in the surplus from Rs 0.79 lakhs to Rs 1.65 lakhs. Lastly, in the Marine Department, while the premium income has been somewhat lower, and with the provision for unexpired risks maintained at 100 per cent, Concord of India has experienced a surplus of Rs 0.48 lakhs against a loss in 1956 of Rs 1.38 lakhs.

The Profit and Loss Account discloses that, over and above the improvement in the profits from the Departments, Concord of India also experienced a sizable increase in its income from interest and dividends. As a result, the provision for taxes has had to be raised from Rs 2.15 lakhs to Rs 3.68 lakhs and the balance carried down is substantially higher at Rs 3.24 lakhs against Rs 2.07 lakhs. The dividend has been maintained, and absorbs Rs 2.70 lakhs.

The balance sheet discloses a capital of Rs 13.50 lakhs, consisting of 10 rupee shares, of which Rs 5 per share has been paid up. The Reserves and Surplus including premium on issue of shares, amount to Rs 12.55 lakhs. Moreover, the three insurance funds aggregate Rs 35.49 lakhs.

Investments of Concord of India are shown at Rs 55.96 lakhs, but this is in spite of disinvestment in Government securities to the extent of over Rs 4 lakhs; this is because of an increase in Investments of Rs 4 lakhs in ordinary shares. Cash, Deposits and bank balances add up to a very substantial figure at Rs 47.30 lakhs.

According to the classified summary of assets, market value in every instance exceeds the book value, though by nominal amounts.

Triton Insurance

The accounts of Triton Insurance Company Limited for 1957 show that premiums in the Fire Department rose by over Rs 5 lakhs to Rs 26.06 lakhs from Rs 21.92 lakhs. However, as a result of a much higher claim experience, the profit, after providing for unexpired risks at 50 per cent of premium income, has shrunk to Rs 0.27 lakhs from Rs 1.05 lakhs. The marine account, on the other hand, reveals a decline in the premium income, but a rise in the surplus transferred to the profit and loss account. Premiums fell from Rs 9.32 lakhs to Rs 8.89 lakhs, and the surplus, after providing for unexpired risks at 100 per cent of premium income, rose from Rs 2.15 lakhs to Rs 2.71 lakhs. Not much change is noticeable in the miscellaneous department, wherein premium income was placed at Rs 1.68 lakhs against Rs 1.51 lakhs and the surplus, after providing 50 per cent against unexpired risks together with an additional reserve of Rs 1 lakh, was shown to be Rs 0.18 lakhs against Rs 0.15 lakhs. In spite of a small increase in the income from interest, dividends and rents to Rs 2.52 lakhs, the balance of profit is seen to be lower. The provision for tax is cut to Rs 2.30 lakhs from Rs 3.00 lakhs. But the provision for depreciation on investments has been stepped up to Rs 1.09 lakhs from Rs 0.63 lakhs. After sundry other adjustments, the balance carried down is lower at Rs 1.25 lakhs as compared with Rs 1.85 lakhs in 1956. The dividend was maintained at 45 per cent. The carry forward was slightly lower at Rs 3.13 lakhs against Rs 4.47 lakhs brought in.

According to the balance-sheet of Triton as at the end of 1957, the reserves and surplus total Rs 49.29 lakhs as compared with the paid up capital of Rs 5.75 lakhs. In addition, there are the three departmental funds aggregating Rs 21.76 lakhs. On the assets side, investments are placed at Rs 77.40 lakhs, and cash balances amount to the considerable figure of Rs 38.87 lakhs. The summary of assets indicates that their market value generally exceeds the book value; consequently, the Rs 4 lakhs standing to the credit of the Reserve against Depreciation of Investments may be said to be "free".



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Insurance in India

A Review of 1958

By A. C. GUHA RAY

LIFE Insurance Corporation of India admittedly has many ills but it must be said in its defence that it is a prematurely born baby. From 19th January 1956 to 1st September is a little over seven months. A baby so prematurely born must be rickety and unformed. That is not the fault of the baby, but of those who had the baby prematurely delivered. The criticism that is often levelled against the Corporation is to a certain extent misplaced. It should be correctly levelled against its parents. It now appears in retrospect that that the custodian regime should have been prolonged for at least two years for proper integration by easy process of the varying complexities of more than two hundred companies. Corporation should not have preceded integration but integration the Corporation. Only then the Corporation could have found its proper level. The present ills of the Corporation are largely attributable to its prematurity. Inexperience coupled with theoretical bias of the architects have done incalculable harm to the cause of life insurance in the country. It will take years for the Corporation to undo the harm of premature birth and yet it has inevitably to take with good grace all the buffeting it receives at the hands of the public.

The very brief historical reference is necessary to understand the unspectacular progress of the Corporation in 1957 and 1958. In the year 1957 the Corporation completed a business of Rs 273 crores. In the year 1958 up to 15th December completed business is reported to have reached the figure of Rs 211.4 crores as against a placement of Rs 294.3 crores on the same date last year. Corporation authorities confidently expect before the year ends a completed business of about Rs 310 crores, a record in life insurance in this country. Unfortunately, the Corporation has not so far been able to publish its balance sheet and revenue account of 1957. No authoritative figures are therefore available about premium income and expenses in the year 1957 or after.

The most important innovation in the matter of life insurance in the country in the year 1958 arose out of the findings of the Chagla Commission and it related mainly in the applicability of certain sections of the Insurance Act 1938 to the Life Insurance Corporation of India from which the Corporation was hitherto exempt. By a notification in the Gazette of India Extraordinary dated 23rd August

1958 the Central Government directed that several sections of the Insurance Act would apply including Section 40B relating to limitation of expenses and Section 27A duly amended relating to investments of the Life fund. The applicability of Section 40B is of great significance if it is remembered that Mr Deshmukh whilst piloting the Life Insurance Corporation Bill through Lok Sabha was directly opposed to it. And yet its applicability now underlines the view that the prematurely delivered baby is now well formed and that the teething period is now over. This view is not entirely correct although the Corporation is now well in the way of being stabilised.

Regulations relating to limitation of expenses will guard against reckless expenditure. The Corporation therefore will now have to run as a business institution carefully balancing income and expenses. Government of India have left to the discretion of the Corporation the issue of payment of bonus to its staff having due regard to the regulations relating to limitation of expenses. The additional expense will be sustainable if the Corporation will have sufficient revenue to incur this additional expenditure after meeting other commitments within the framework of Section 40B of the Insurance Act.

A modified version of Section 27A now guides the investments of Life fund. This is again a direct result of the much discussed Mundhra episode and forwards the recommendations of Mr Justice Chagla. Apart from fifty per cent to be kept invested in Government and other approved securities, the balance will be kept invested in what are known as "approved investments". They comprise mainly of debentures cumulative preference shares, and other shares paying dividends for five years out of six or seven years immediately preceding investment, loans on immovable property and to various cooperative and housebuilding societies. The Corporation has however to invest in equity shares of a company up to thirty per cent of the subscribed equity share capital and it has also the freedom and the power, under new regulations, to invest fifteen per cent of the Controlled Fund other than in approved investment.

The regulatory provisions have been approved by the Parliament and they now condition investment of the Life fund for which again returns, in the prescribed forms, are now to be submitted to the

Controller of Insurance as in company regime.

The organisational problem of the Corporation did not undergo any structural change in the year 1958. There has been, however, wide devolution of powers to branch and divisional offices with a view to arming these units with sufficient authority to dispose of daily references in a quick business-like manner and to ensure that acceptance of proposals and issue of cover notes are not hindered by traditional office red tape.

The administrative difficulties have also been largely resolved following the recommendations of the Senior Services Committee headed by Mr S. Lal I.C.S. The original set up of the Corporation was hastily conceived and in many cases due weightage for experience, educational background and the position held in the Company regime were not given in making the various postings immediately following nationalisation. After months of labour the Senior Services Committee could plan reorganisation without at the same time jeopardising the basic organisation to which the Corporation for months have been accustomed. The resulting effect of the new postings has, on the whole, been salutary and is likely to be reflected in the Corporation's working in the coming years. Likewise, the difficult and the intricate problem of categorisation of the field staff has also been resolved during the year. There were as many as 5,000 field offices which had to be fitted in Corporation's grades, formulated and devised after months of labour and scrutiny. Endless conferences, discussions and examination of the individual cases taxed heavily on the patience of the Corporation and the field staff. It must be said to the credit of both the parties that both of them showed remarkable patience and there was, on the whole, a serious endeavour to appreciate each other's difficulties. Eventually formulae were devised which resulted in mutual satisfaction to both of the contending parties.

Non-life business continued in the year as a private enterprise although this is not entirely correct. Government of India assumed control over a few general insurance companies following nationalisation of life insurance by virtue of share control the life companies had over the general companies. Government of India continued to trade activities with the subsidiary companies in direct competition with the insurers in the private

sector. Indian Insurance Companies Association Pool has been the forum for some years for distribution of Government business amongst Indian insurers. In 1957, Government of India stipulated that fifty per cent of Government business should go to the Government subsidiaries, the balance of fifty per cent being divided equally amongst Indian insurers. The agreement is due for renewal on 31st December this year, but the Government of India is reported to have decided that Government business, in its entirety, will be channelled to subsidiary government companies with the stipulation that allocation of fifty per cent of the business to private companies will remain unimpaired. This will mean that I.I.C.A. Pool as an entity and forum for channelling Government business will, to all intents and purposes, be replaced by the management of Government subsidiary companies. The exit of the Pool as a forum for distribution of Government business and its replacement by Government Companies is profoundly significant and its implication should not be lost sight of. Active State trading in a business so long the exclusive preserve of private enterprise is not merely for the sake of trading profits.

The year was devoted by general insurers in the country in an endeavour to comply with the provisions of the Code of Conduct formulated initially in 1956 and elaborated in 1957 and thereafter Insurers are bound by the terms of the undertaking they have given to the Government resulting in the Executive Committee, General Insurance Council having plenary powers as to terms, course and character of general insurance business in the country. The Code is even today more an experiment than a settled fact. It is being constantly changed and amended with the result that insurers have to change and alter their terms of business and maintenance of records with a view to conforming to the terms of the Code. And yet rebating and malpractices are reported to continue and mar the otherwise good name of the insurers. It appears that the Companies are making sedulous endeavour to pay homage to the form rather than substance and the spirit of the Code. This self-deception has been fostered mainly to divert business and premium income in a market where expansion of gross premium income is more important than the revenue account of the trading itself. Numerous rules and regulations hedge

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"Experience is a comb which nature gives to men when they are bald"

(TRADITIONAL PROVERB)



In Industry they say:

"BURMAH-SHELL for planned lubrication"

(INDUSTRIAL PROVERB)

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when it comes to making sensible economies in lubrication overheads. Our 'Planned Lubrication' Service guarantees that every wheel in industry gets the correct grease or lubricant, in the correct quantities at the correct time. We stock over 400 different grades of lubricants to enable us to do this important job, and our service to industry has become quite proverbial. So if lubrication problems are getting you down—keep your hair on, and ring up your nearest Burmah-Shell office. They will be delighted to help you.



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the trade and since ever increasing rules, regulations and codes have not been able to influence materially the reportedly unethical character of business procurement, it requires to be seriously examined as to whether elimination of most of the rules would not be better for the trade.

The year under review was again devoted to an examination of an alternative to Rule 17E of the Insurance Rules, whereby quantum of permissible expenses is measured by gross premium written direct in India. Its inherent contradictions were known. If permissible quantum of expenses is directly hinged on gross direct premium written in India, there is bound to be scramble for business resulting in alleged malpractices. Unfortunately no generally acceptable alternative was found although many systems were considered.

In 1958, for the first time in India, field officers in general insurance were made to appear in examinations. The examinations were simple and tests were elementary in character. The Executive Committee, General Insurance Council, has in view creation of a class of field officers who have minimum knowledge and a general background of the trade so that they can be of service to their various customers. The scheme, on the whole, has been accepted in the country. There can be no dispute with the view that field officers must have some background for the present complexities of trading in business and industry call for specialised knowledge on the part of insurers and their staff. Nevertheless disqualifying inspectors who have been long in the trade and who have made a name simply because they have failed to pass an examination devised by the Executive Committee will be resented and will be a source of controversy if a practical and realistic view is not taken on this issue.

On and from 1st January 1958 motor insurance premium rates have been generally enhanced all over India. The increase has been, in some regions, quite steep. Mounting claims and increasing repairing charges have directly influenced the rate revision. In India road facilities particularly in large cities are inadequate to cope with the increased traffic of lorries and large fashionable new cars. The demands of trade very largely enhanced by the ever increasing requirements of Plan projects have put a heavy strain on existing road facilities. Quite a large part of the accidents are due to inadequate narrow uneven roads hardly designed for modern demands of traffic. Therefore, although the insurers are called upon to fork out from their own pockets the

additional levy for faults largely not their own, the insurers perforce have to charge enhanced premiums if their carefully maintained statistics call for the increased levy is in no small measure due to very inflated costs and general price rise.

Preliminary work in the matter of revision in fire insurance rates commenced at the beginning of 1958. According to arrangements entered into with the Government of India by the Tariff Committee, revision in fire rates was due in the year. Mr Setalvad, outgoing Chairman of the Tariff Committee in his presidential address questioned the propriety of revision in rates every three years and particularly in 1958, when the Committee could inaugurate a system of collection of statistics only in the year 1956, resulting in the Committee having statistics for only one year. Nevertheless, all preliminary work in the matter of revision in rates was completed but no announcement about reduction in rates has so far been made, presumably because of the realisation that any proposal for reduction in rates in the year can only be arbitrary rather than scientific in the absence of adequate statistical material in the hands of the Committee.

India has made signal progress in the matter of writing re-insurance business as a professional reinsurer with the formation of the India Reinsurance Corporation Ltd. Unlike Pakistan, the India Reinsurance Corporation Ltd. is an enterprise in the private sector, its share capital being wholly subscribed by general insurers in the country. Mere direct writing in insurance does not complete the process if there is reinsurance overseas particularly when Indian reinsurance, because of comparatively lesser holding power, must necessarily be heavy. The India Reinsurance Corporation has thus removed a long felt want, and India can now boast of having an integrated insurance market of her own. The balance sheet and the revenue accounts of the Corporation for the year 1957 published in 1958 could not, for obvious technical reasons, be spectacular. Its teething trouble is almost over and it will be able to show in early course balanced results. It had to start, for reasons of its own, commerce business with automatic cession from the member companies. This, in some ways, conflicts with the ethics of a professional reinsurer. The minimum cessions, however, provide the Corporation with a base on which it has to build its edifice. The efforts of the Corporation are now directed to that end. That will naturally call for high managerial skill and technical equipment

which, it is hoped, the Corporation will have in abundant measure.

The 1957 Insurance Year Book, devoted to non-life business only published in 1958, contains analysis of figures for the year 1956 of the general insurance companies. The figures, therefore, are rather out of date. And yet a consideration of some of the salient features is necessary because they reflect, in some measure, the trend in the course of trading in general insurance.

A significant feature in the Year Book is the analysis of insurers who contravened Section 40A of the Insurance Act relating to limitation of expenses. While in the year 1951, 35 Indian and 11 non-Indian companies contravened Section 40C of the Insurance Act, the

position was reversed in 1958, when 21 Indian and 36 non-Indian companies contravened the terms relating to limitation of expenses. The trend proves that Indian insurers have steadily rising direct premium income written in India, while non-Indian insurers have declining premium income. It also proves that Indian companies have, on the whole, lesser management expenses than foreign insurers operating in India. Whilst contraventions in terms of the Act have to be recorded they do not necessarily reflect on the solvency of the companies. That have to be judged in the context of many other factors and not levy contraventions of certain standards fixed by the Government, which even do not correctly reflect reckless expenditure. This will be borne out from a study of the following figures.

Ratio to net premium income of	Fire		Marine		Miscellaneous	
	Indian	Non-Indian	Indian	Non-Indian	Indian	Non-Indian
Net Claims	55.0	21.3	69.6	46.7	48.7	42.0
Expenses including Commission	46.9	54.9	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

It will be seen that balance is more favourable for non-Indian insurers than Indian insurers. Likewise, outgo by way of claims is lesser for non-Indian insurers, although they have larger management expenses. It is sound prudence to pay less in claims, more in salaries and amenities and then to show favourable balance.

Following figures show gross premium income written in India and net premium income in India of Indian and non-Indian insurers.

GROSS PREMIUM WRITTEN DIRECT IN INDIA

		(Rs Thousands)				
Year		Indian Amount	Insurers Proportion	Non-Indian Amount	Insurers Proportion	Total of all Insurers
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	(Rs Thousands)				
	Indian Amount	Insurers Proportion	Non-Indian Amount	Insurers Proportion	Total of all Insurers
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	5,33.67	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

It will be seen from a study of gross premium income written direct in India that Indian insurers have a steadily rising premium income, whilst non-Indian insurers have falling premiums. The percentage for Indian insurers in relation to total premium income of all insurers has shown a steady rise from 56.5 in 1951 to 62.7 in 1956. It was otherwise with non-Indian insurers. Their income fell from 43.5 per cent to 37.3 per cent in 1956. Net premium income of Indian insurers meaning net pre-

mium income both in India and overseas has shown a rise from 7,74,80 in 1951 to 9,07,90 in 1956 representing 52 per cent and 56.7 per cent of total net premium income of all insurers in India. The fall for non-Indian insurers from 48.0 per cent to 43.3 per cent in premium income does not, however, compare unfavourably with their gross premiums written direct in India. Indeed, it is more favourable than their Indian counterparts. Amongst others, it is an indication of their higher retaining capacity.

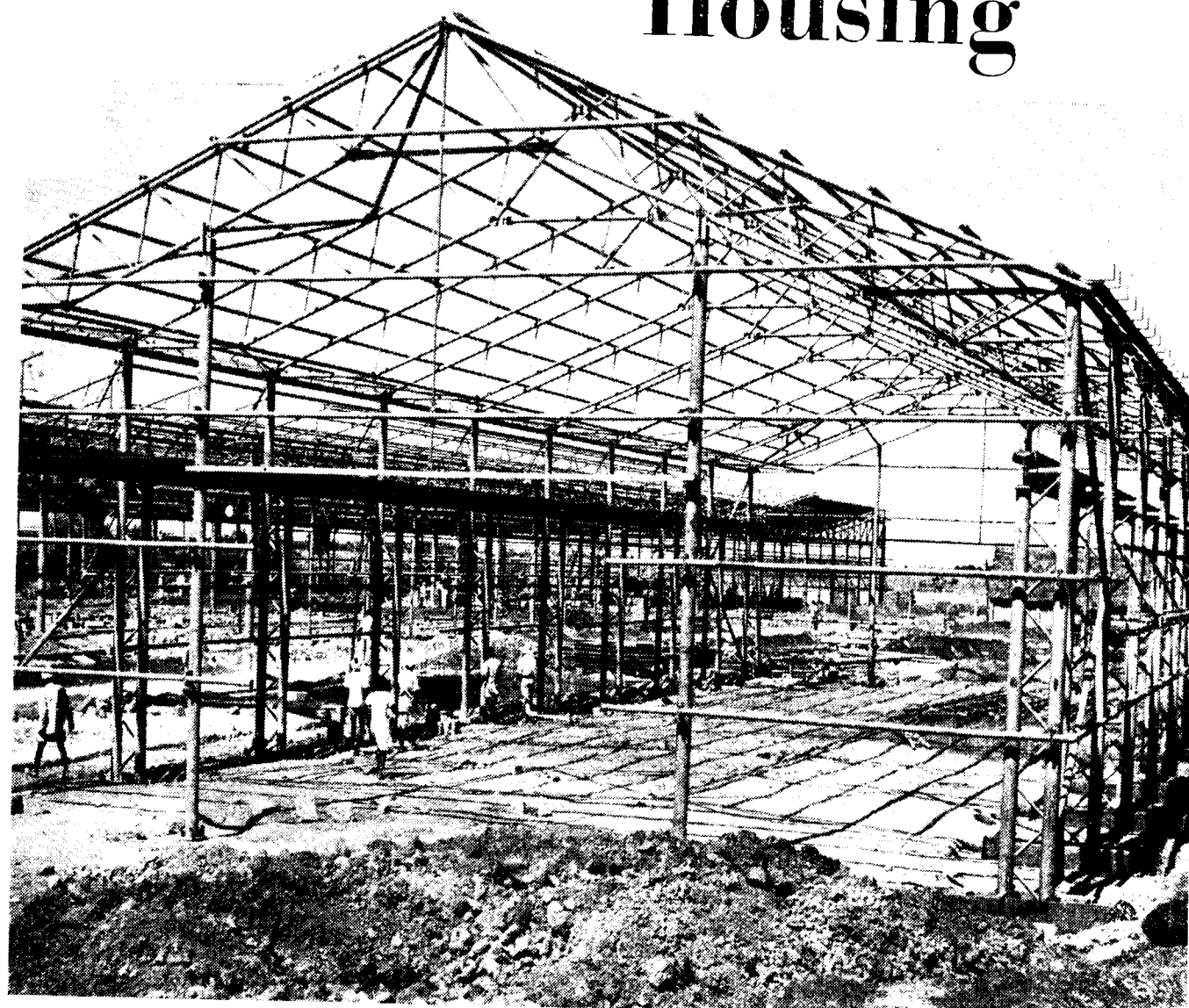
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Special Studies for Company Managements

We present here a special section of 8 articles, two of which deal exhaustively with their subject, which will be of particular interest to company managements.

The Last Ten Years in Management and Labour Relations

By M. SUR

TO the casual observer the last ten years may seem a chaotic period in industry, marked by uneven advance—tremendous achievements such as the hydel projects and the new steel plants on one side, and on the other widespread labour unrest and indiscipline—with over-much intervention by Government in the private sector to complicate an already complicated situation. The development that may go unnoticed in all this is the formulation of a new concept of management as well as a new approach to the problem of industrial relations. The change is by no means complete. It is doubtful, even, whether the underlying premises of the new theories have received any widespread acceptance among management ranks, but the ground-work has been largely completed, and the outlines of the new structure can now be seen.

To form a proper picture of the new management that is developing one must trace the influence on management of recent labour legislation, the case-made law of industrial courts, conventions drawn up by tripartite agreement, and the teachings of the West on productivity and management philosophy.

GOVERNMENT POLICY

Government intervention falls into two stages: first the period of labour legislation; and secondly the attempt to influence developments by tripartite discussions and the formulation of agreed conventions. Both have been directed towards the same object, namely to introduce democratic methods in industry in consonance with the concept of a socialistic pattern of society. Government intervention has been based on the principle that the country could not afford to wait for the gradual development of a new concept of management and industrial relations. Just as the pace of industrialisation had to be speeded up by equal expansion of the public sector of industry, so the pace had to be forced to change the outlook of management. Industry in India at the time of Independence consisted largely of three types: the old-fashioned family business run on authoritarian lines which, even when it was benevolent, was still an autocracy; the foreign-owned business, usually in the form of a managing agency which, though it was influenced to some extent by Western ideas, still had many of the elements of the family business; and the business run by traders and financial entrepreneurs who took up manufacture as a side line without much technical or organisational knowledge. To expect such diverse forms of enterprise to combine in a forward march towards such advanced

ideas as democratising industry was obviously a forlorn hope unless the pace were forced by Government. So there was in the early stage a spate of labour legislation.

Most important of this labour legislation was the Industrial Disputes Act of 1947 in the new ideas which it introduced. Whilst attempting to improve the machinery previously tried out for conciliation and adjudication of disputes, the Act at the same time endeavoured to give a new slant to the problem of industrial relations, and in its statement of aims and objects noted that "industrial peace will be most enduring where it is founded on voluntary settlement, and it is hoped that the Works Committees will render recourse to the remaining machinery provided for infrequent." Things did not work out this way, but the point to note here is the emphasis, even in 1947, on the voluntary settlement of disputes, which was further stressed in the amendments made to the Act in 1956. "It shall be the duty of the Works Committee to promote measures for securing and preserving amity and good relations between the employer and workmen" states Section 3(2) of the original Act. How they were to set about this was not specified, and in fact works committees, where they have functioned properly, have, with one or two exceptions, been more more in the nature of welfare committees than bodies for the settlement of disputes. The trade unions did not want works committees with wider powers because they feared they might usurp the trade union function. A later effort by Government to encourage the voluntary formation of joint Unit Production Committees to strengthen co-operation between management and labour also met with little response.

Whilst the Factories Act of 1948 made many new and important provisions for workers' welfare and safety, the important points to note here are that the Act increased the responsibility of management by placing on them the onus of complying with safety regulations; gave the provincial Governments power to make rules requiring representatives of workers in a factory to be associated with the management of welfare arrangements; and made compulsory in factories employing 500 or more the appointment of a Welfare Officer. When the functions of this officer were laid down in the Central and State Rules it became clear that he was not merely to see that the welfare provisions of the Act were complied with, but that his primary duty was to help "maintain harmonious relations between the management and the workers."

Although some progressive firms had introduced labour and welfare officers before this date, the development of personnel management and a proper personnel policy in industry owes much to the impetus given to it by the compulsory appointment of welfare officers, though at the same time it has suffered to some extent because the welfare officer's duties have been circumscribed by State rules.

The high hopes entertained by the legislators were not justified by results, for, after all, conversion cannot be achieved merely by the law. Moreover there was one fatal weakness in the new legal structure. While the purpose of the Industrial Disputes Act and the Trade Union (Amendment) Act was to encourage joint negotiation as the correct method of handling industrial relations, this object was largely balked by the failure to implement the trade union law and so introduce compulsory recognition of trade unions. The rest of the system was incomplete without the recognised representative bargaining agent for the workers. The result was an overwhelming number of references to conciliation and adjudication. Judges with little background knowledge of industry were faced with very varied problems and naturally contradictory awards were made by different judges and in different States. Government was compelled to introduce the Labour Appellate Tribunal to act as a court of appeal and to bring about some standardisation. This it achieved by and large, but references to appeal became so numerous that, at the instance of the trade unions, Government abolished the appellate court in 1956. The result has been an enormous increase in the number of references to the High Courts and the Supreme Court.

Has the machinery of compulsory adjudication of disputes hampered the growth of an independent trade union movement? There are many who blame the system for the present weakness of the unions, and Shri V. V. Giri has attacked it as 'public enemy No. 1' of joint consultation and voluntary settlement of disputes. There is no doubt that the trade unions have leaned heavily on the industrial relations machinery to help them, preferring to rush to conciliation and adjudication rather than to work out solutions across the bargaining table. It has been at once an admission of their weakness and a stumbling block to the removal of that weakness. Many leading trade unionists admit it, but they cannot bring themselves to the point of doing without it. At the last meeting of the State Labour Ministers, the Central Labour Minister suggested as an

experiment that no case should be referred to adjudication for a period of six months, but the Labour Ministers rejected the idea and the unions supported them. A confession of weakness, no doubt, but also, it seems, a correct assessment of the situation which in recent years has been complicated by rival unions, so that quite a large number of the cases now being referred to adjudication are the result of disputes between rival unions rather than between employer and employee.

With the appointment of Shri Gulzarilal Nanda as Central Labour Minister, there has been a definite change in outlook of the Government. The new Minister from the first set his face against further labour legislation, and declared it would be his policy to consolidate the work already begun and to bring about changes by persuasion. Though the aim remains the same, the means now adopted are different, for the minister believes that more lasting change can be brought about by establishing conventions and codes of conduct through tripartite agreement. His instrument is the Indian Labour Conference, a tripartite body representing Government, employers and workers, rather than the legislature. And so we have seen emerge in recent years the Code for Discipline in Industry, Criteria for Recognition of Trade Unions, Code of Inter-Union Harmony, Grievance Procedure, and agreed recommendations for setting up Joint Management Councils as an experiment in a number of industries, and for meeting the problem of rationalization in the textile industries.

THE INFLUENCE OF CASE LAW

We have seen that Government's deliberate policy of introducing a "socialistic pattern of society" attempted to accelerate changes in management's attitude to labour. Such changes were inevitable in a democratic country, once labour had become sufficiently organised to be able to bargain collectively and Western ideas of labour management had penetrated into Indian industry, but such changes, if left to the natural course of events, come about slowly. The changes that have taken place in ideas of management prerogatives in the last ten years have been quite startling. This does not mean that the ideas have been fully adopted or even willingly accepted. Management has in most cases come into line very unwillingly and is still fighting a rearguard action in other cases, but there are fortunately others who see in the new ideas a challenge to them to show what they can do and who are prepared to follow the Darwinian pattern of adaptation.

Having considered the lines of Government policy, we will now trace the effect on management prerogative and practice firstly of the case-made law of the industrial courts, and secondly of the wider approach of the new philosophy of management being preached by the various Management Associations, the Hyderabad Administrative Staff College, and the National and Local Productivity Councils. The first has been restrictive, but the second is constructive.

RELATIONSHIP OF MASTER & SERVANT

Taking first the case-law, the most striking change to be noticed is in the relationship of master and servant. The old principles of British Common Law governed the relationship of master and servant in this country until the industrial courts began to introduce new concepts more in line with the ideas of a Welfare State. These concepts have now been endorsed by the highest courts in the land.

British common law regarded the wage bargain as "a contract between an individual employer and an individual worker" and left to the two parties a general liberty of bargaining so long as the results thereof were not against the public interest. The Supreme Court of India in the case of Crown Aluminium Works* has broken right away from this:—

"The old principle of absolute freedom of contract and the doctrine of laissez-faire have yielded place to new principles of social welfare and common good.... In deciding industrial disputes in regard to wage structure, one of the primary objectives is and has to be the restoration of peace and goodwill in the industry itself on a fair and just basis to be determined in the light of all relevant considerations. There is, however, one principle which admits of no exceptions. No industry has a right to exist unless it is able to pay its workmen at least a bare minimum wage."

Here are two very important restrictions on the freedom of contract between master and servant; first the entrepreneur is no longer free to start a business as long as he can find labour at the price he is prepared to pay. He has no right, the Supreme Court has declared, to start a business or to continue it if he is unable to pay his workmen at least a bare minimum wage. Secondly the wages that he pays are not just a matter for arbitrary decision by the employer, nor necessarily decided on his capacity to pay, for, if this should become the subject of an industrial dispute, then the industrial court in determining a fair and just basis for wages will take into account all relevant considerations, which may include such questions as the cost of living in the locality, the standard of wages

*LLJ I 1958 1.

in neighbouring firms or industries, bonus or other amenities paid by the company, the minimum subsistence figure for an average family, and "some amount of frugal comfort"—as the recent Engineering Tribunal in Calcutta put it—as well as the financial position and prospects of the company.

CLOSURE

If the employer decides to close down his business, whilst the High Courts and the Supreme Court have endorsed his right to do so, they have also upheld the right of the industrial courts to investigate whether the reasons for such closure were bona fide. If, for instance, it was found that the closure was arranged in order to avoid implementing an unwelcome tribunal award, or to get rid of troublesome workers, and the employer had started a new business on similar lines but with a new set of workers, the closure would not be regarded as bona fide, and reinstatement of the old workers or heavy compensation to them for loss of employment would be awarded.

Closure, in any case, will attract the provisions of Section 25F of the Industrial Disputes Act and involve the company in payment of retrenchment compensation to those of its workers who have had not less than one year's continuous service, at the rate of half a month's pay for each year of service. Even where closure is for 'unavoidable reasons' compensation must be paid, though it is limited to a maximum of 3 months' pay, but the term 'unavoidable reasons' does not cover closure due to financial difficulties or loss or accumulation of undisposed stocks.

TRANSFER OF BUSINESS

Under the common law the owner of a business had the right to sell or transfer that business and to terminate the services of the employees. Whether the new owner took over the employees depended upon the contract made between him and the former owner. The employees' rights were limited to the notice or pay in lieu of notice to which they were entitled under their contract of service. Now, whilst an employer still has the right to transfer his business to another, there are certain restrictions to his free action. If the employees' services are terminated by the first employer, then they are entitled to retrenchment compensation; if their services are retained they can claim credit for the full length of their service from the new employer on retirement, and this obligation cannot now be avoided by the device of termination of service by the first employer and fresh appointment by the new owner of the business. The High Court of Bombay has held that:

"An employer cannot deprive his employees of the benefits that have accrued to them by reason of past services merely

by transferring his business to another person. By continuity of service it is not meant necessarily legal continuity but only continuity in fact. Thus, if the transferor gives notice of termination of service and the transferee makes a fresh appointment, this by itself, although it may in law amount to a break in continuity, will not affect the continuity of service for the purpose of determining industrial relations."*

RIGHT TO PUNISH AND TO TERMINATE SERVICE

The unrestricted right to 'hire and fire' and to punish, formerly considered the exclusive prerogative of the employer or the management, does not accord with the ideas of a socialistic pattern of society, and has come under constant criticism from the industrial courts. Since this was to management generally the most sacred of its prerogatives, interference with the right to select, correct and reject workers as it saw fit has been stubbornly resisted from court to court and in every conceivable case, but it has been a losing battle. Whereas formerly management knew that a dismissed employee could only take action in the civil court for compensation for loss of employment if he had a very good case, now they know that even to enforce their legal rights under the certificated Standing Orders of the company they have to follow a procedure of charge-sheeting, properly recorded enquiry and top management decision before they can dismiss an employee even for flagrant misconduct. Failure to carry out this procedure, or even a technical mistake in the procedure itself, may undermine their case if it goes to an industrial court.

There is an unfortunate rigidity about the procedure for punishment and dismissal required by the courts, which derives from Civil Service conditions of employment—the only written rules known to industrial judges and from which they naturally borrowed extensively—but the principles of 'natural justice' on which they are founded are in conformity with the principles of a Welfare State. These principles are not in themselves new and are applied in ordinary jurisprudence, but their application to disciplinary cases in industry is novel. Briefly they are that no decision should be taken by someone who is biased; that no-one should suffer derogation from his existing rights without his case being considered; that no decision impairing any person's rights should be based on inaccurate or inadequate facts, and that a citizen is entitled to know the reason for any decision which may result in injury to him.

RIGHT TO REGULATE

The right to regulate the number of employees and to reduce that

*LLJ I 1958 36

number according to the exigencies of the business has also been so circumscribed that it can hardly be called a right any more. While the employer can, in theory, take on any number of men, in practice he has to keep an eye on the future, for he may not find it so easy to reduce that number if he needs to do so at a later date. He can, according to law, reduce the number of his employees, provided he gives the required notice and pays the required compensation, but in practice his action may be subjected to the scrutiny of an industrial court to see if it is bona fide, or his whole business may be so disrupted by strike at the first hint of retrenchment, that it may pay him to retain unwanted staff rather than risk a stoppage of work. If he does retrench, he will in the future have to give the retrenched men the first chance of re-employment, and to that extent his right to select new employees is restricted.

CONDITIONS OF EMPLOYMENT

It may be said that certain restrictions on conditions of employment have been placed on the employer from the time of the first Factory Act, but these related to health and safety. The Industrial Employment (Standing Orders) Act went further and required certain conditions of employment to be defined in standing orders and certified by Government after the trade union, if any, or the workers, had been given a chance to raise objections. At first the certifying officer had no power to adjudicate upon the fairness or otherwise of the draft standing orders, although tribunals often did so. Now, since the amendment to the Act, the certifying officer has been given the right to judge the fairness or reasonableness of the draft orders, and an appeal is allowed to the labour court.

Standing orders have done much to standardise working conditions, and their object, which was to ensure that employees knew their rights as well as their duties, has been achieved, but the great stress laid by industrial courts on the strict observance of standing orders has given rise to the impression among workers that anything that is not in the standing orders is 'illegal'. Since standing orders are limited to the subjects listed in the schedule to the Act, they are not intended to be exhaustive, and this has been pointed out frequently by the courts. However when employers sought to extend them, certifying officers usually objected and so did the unions, for the standing orders act both ways—they tie down the employees as well as the management.

RIGHT TO TRANSFER AND PROMOTE

What is left of management's former prerogatives? The courts have endorsed that it is for management to decide on the necessity for transfer, and on promotion, but even these powers are to some extent hedged around. Thus

transfer, which can be argued to be discrimination against any employee or 'victimisation' on account of his trade union activities, may be taken by the courts as an 'unfair labour practice'. Even promotion which involved transfer to another factory or another locality has sometimes been found to be victimisation. As to demotion, that comes under the heading of punishment and has to be dealt with as such; and withholding of increments also requires documentation to prove that it is not unfair discrimination, lest the case should at a later date be disputed before a tribunal.

The effect of all these restrictions has been that managements have to watch their every step lest a slip is made which may later rebound upon them. This has had the unfortunate effect of inducing an over-legalistic outlook on problems of industrial relations matched by a similar outlook on the workers' side. Each, in fact, is inclined to act with an eye to a possible future adjudication.

VOLUNTARY NEGOTIATION

The change in management attitude is not entirely due to the pressure of Government and industrial courts. There were many employers convinced of the need for a new approach to the problems of industrial relations, and for a proper personnel policy. Speaking in October, 1947, Mr M. A. Masters, President of the Federation of Indian Chambers of Commerce, said:

"We shall have to revise our notions about, and make a more generous approach towards the solution of this complicated problem. The claims and rights of labour and the duties and obligations of capital will have to be readjusted and resolved, not in the light of any preconceived social or economic theories, but in accordance with the immediate and urgent needs of the country and also with the just and proper demands of the workers."

Recognition of the need for a proper personnel policy, experience on which could be drawn from the West, combined with the compulsory appointment of welfare officers in factories employing 500 or more, have led to the rapid development of the profession of personnel management, to the organisation of training courses for personnel officers in various universities, and to the growth of an all-India professional body, the Indian Institute of Personnel Management. It was obvious that ideas could not be taken over wholesale from Western experience, but needed to be adapted to the Indian environment and tradition. Naturally there have been many setbacks, for a completely new relationship can only be achieved by continuous experimentation and adjustment. Political rivalry among trade unions has—as will be discussed later—been one of the most serious

causes of setback. However definite progress can be traced in the conscious attempt to develop a new relationship by joint consultation and bipartite agreement, which will not only settle outstanding demands but lay down a policy and a framework within which joint action can be taken. So far only a few companies have gone so far as broad collective agreements on general policy and joint action, but the number who settle outstanding grievances by collective bargaining instead of adjudication is growing. Some examples are given below.

On the question of bonus, for instance, there are now quite a number of agreements offering different solutions from that worked out by the various tribunals and now known as the 'Bombay Formula'. There is, for instance, the I.T.A. agreement covering tea garden labour in Assam, which makes bonus a first charge on net profits, without making any allowance for rehabilitation, and which gives bonus calculated on a zonal basis in proportion to the profits of certain sample gardens in each district, but also links it with attendance. There is the Hindustan Lever agreement which gives a fixed bonus equivalent to one-sixth of the basic earnings for the year; and the Bata agreement which gives a quarterly bonus at the rate of 15 per cent of basic salary, subject to certain conditions. Then there is the quite different approach to bonus of the agreements in the three factories of the Indian Aluminium Co., which state that the payment of bonus on earnings or profits is not sound and that the rational method consists in relating bonus to production.

Incentive schemes are jointly agreed in the Hindustan Lever and the Indian Aluminium agreements. Job evaluation is provided for in the latter as well as in the Tata agreement, through joint committees. The Joint Steamer Companies have by agreement introduced direct recruitment and employment of inland water transport crews, whose employment had always been through the serangs.

Agreement to settle all disputes by negotiation without recourse to strikes and lockouts was, as everyone knows, achieved by Mahatma Gandhi as far back as 1920 in Ahmedabad, though not at the time followed elsewhere. The Ahmedabad system broke down in 1954, but in 1955 a new agreement was reached by which all future disputes were to be settled by negotiation and failing that by arbitration through a mutually selected arbitrator. This example has been followed in the Bata agreement, and by Tatas in relation to any disagreement on the fixation of the standard working force.

Perhaps the most interesting of all the features in these various collective agreements is the mutual recognition of rights and responsibilities of both management and

unions. These are most clearly brought out in the Bata, Tata and Indian Aluminium agreements, which give recognition to the union as the sole bargaining agent. In Tatas the company accepts the principle of union membership security, that is to say collection of union subscriptions through the pay bill, provided legislation is suitably amended to allow for such deductions. Indian Aluminium does not go so far towards the closed shop principle, but gives facilities for collection of dues on pay day by allowing a representative of the union to be present near the pay desk.

Article 1 of the Indian Aluminium agreement is worth quoting in full, as it sets out the whole purpose and philosophy of joint consultation and direct negotiation:

"The purpose of this Agreement is to provide orderly collective bargaining relations, to secure prompt and fair disposition of grievances, to establish fair wages and other working conditions, to maintain harmonious relationship between the employees and the Company, to prevent strikes, lock-outs and slow-downs, to attain efficient and uninterrupted operation in the Plant and to promote the stability and prosperity of the industry for the benefit of all who are dependent on this industry."

"For achieving the above objective the Company and the Union agree to encourage the highest possible degree of friendly, co-operative relationship between their respective representatives at all levels and with and between all employees. The Company and the Union believe that this goal depends primarily on attitudes between people in their respective organisations and at all levels of responsibility. Both parties believe that proper attitude must be based on full understanding of and regard for the respective rights and responsibilities of both the Company and the Union."

While a collective agreement may not prevent disputes arising, and may indeed produce new problems in its implementation, the importance of these broader agreements is that they lay down a procedure for dealing with these difficulties, and at the same time both parties recognise their responsibilities in making the agreement work. There is, therefore, under these agreements a far better chance of establishing sound industrial relations.

Two cases can also be quoted of collective agreements being reached despite the existence of rival unions. The Aluminium Industries Ltd., Kundara, in Kerala, was able at the instance of an agreed mediator to make an agreement for three years jointly signed by six unions, although these unions had overlapping jurisdiction and were affiliated to the three main central federations. The agree-

ment was signed in December, 1957, and is still working. In the National Carbon Company, where two rival unions had cases pending at all levels from conciliation to the Supreme Court, the workers themselves became disgusted with the delays of the law and took the initiative to have all outstanding disputes settled by negotiation. For this purpose a negotiating committee was set up through the works committee and the resulting agreement was signed by members of the works committee, the negotiating committee and the leaders of the two unions.

Finally this review of progress on the voluntary side would not be complete without reference to the growth of Management Associations and Productivity Councils. Management development, as it is called in the West, embraces the systematic approach to the recruitment and training of management personnel, and the planning of management succession. The haphazard selection, and promotion by seniority of management and supervisory staff can no longer meet the requirements of rapidly expanding industry and the introduction of new technology. Management must be trained for the job, and this includes not only knowledge of new techniques but knowledge of 'man management' also. In any large organisation more than half a manager's time may be taken up in dealing with problems that are fundamentally problems of human relations and not technical at all. Within recent years a number of Management Associations have come into being in industrial areas, whose primary object is to propagate knowledge of the new management methods needed to fit a modern manager for his job. They have grown out of a spontaneous recognition by forward-looking managers of the need to revise methods and introduce a new approach or a new philosophy of management. Their work is now being co-ordinated by the All-India Management Association, and a three-month residential course for senior management staff is now available at the Administrative Staff College in Hyderabad.

The Management Associations are a spontaneous growth, but there is a further movement sponsored by Government through the National Productivity Council for the setting up of local Productivity Councils, grouping together the various local associations which have a common interest in promoting various aspects of productivity in industry. In the work of all these bodies there is a common emphasis on the importance of human relations in industry and the need for a new approach to industrial problems which will associate labour with management in finding joint solutions to common problems.

LABOUR UNREST

Why, when such momentous changes in the relationship of management and workers have

been taking place, has this period seen so much industrial unrest? Is it on account of the changes, or is it because the changes have not been fast or radical enough?

It is a well-known historical phenomenon that revolutionary outbreaks occur not when things are at their worst, but when they begin to improve and reformers start tinkering at the old structure, so it was to be expected that the reform of management-labour relations would release forces which it might not be able to control.

The Indian Constitution had held out promise of a new deal for labour. Government was definitely embarked on a policy of socialistic reform by gradual means through the pressure of moral persuasion as well as the law. The industrial courts took their cue from the Government policy, as expressed from time to time, and started applying to industrial relations the principles of 'natural justice'. There was much vague discussion on industrial democracy, joint consultation and finally participation of labour in management. All these developments tended to arouse the efforts of organised labour. It was on account of the weakness of the trade union movement that Government had felt it must intervene to speed up changes which might have come about naturally if the unions had been organised nationally rather than politically, and had had sufficient bargaining strength. But while Government policy made labour more vocal, it unfortunately did not have the effect of strengthening labour organisation or encouraging the growth of national and regional unions, which were essential if the movement was to grow to maturity. Trade unionism remained fragmentary and disunited, though more politically conscious than before, with the result that its economic aims often became submerged in its political aims and its units controlled by the various political parties.

Certain features of the last ten years have tended to canalise trade union demands, though they have not united their efforts. Most important has been the rising cost of living, which gave justification for constant demands for wage increases. Then rationalization and modernization gave rise to the fear of and the outcry against retrenchment. The recognition of bonus as a legitimate claim on profits released an annual flood of bonus demands, just as recognition of gratuity as a condition of service also increased the demand for better retiring benefits. The fact that these subjects were fought over again and again in the industrial courts gave them prominence and made both managements and unions conscious of them in all their dealings with each other.

Labour unrest had been widespread after the war, as was only natural with the rapid adjustment to peace conditions and the upheavals following independence. The Industrial Disputes Act of 1947

was passed in order to deal with this situation, but the machinery of conciliation and adjudication, which aimed at the preservation of industrial peace, seemed on the contrary to bring about more labour troubles. Negotiation and conciliation seemed to make little progress under the shadow of compulsory adjudication, and both parties tended to fall into the habit of saying, "Let the dispute go to the Tribunal." It was not surprising that the new machinery was over-worked in the early stages. Cases piled up, delays were inevitable, leading to a sense of frustration. Contradictory awards in some cases added to the confusion and the Government was forced to introduce the Labour Appellate Tribunal in 1950. Appeal courts then became as crowded as the original courts, and the unions began to blame all the delays on appeals, so that Government was persuaded to abolish the appeal court in 1956,—but what happened? Appeals began to go in great numbers to the High Courts and the Supreme Court, and the jurisdiction of industrial courts was again and again contested under Article 226 of the Constitution. The Allahabad High Court has recently roundly condemned the practice of managements to raise the question of jurisdiction in the higher courts when a tribunal award was not to their liking, and there is no doubt that many appeals have not been really justified. Unions blame employers, but it should be noted that about 25 per cent of recent appeals have been preferred by the unions themselves, and it is also noticeable that many recent appeal cases have been referred by Government Departments which are the employers of the opposite parties.

GROWTH OF ILLEGAL STRIKES

A manifestation of the frustration felt over delays in adjudication is the increasing number of illegal strikes—that is to say strikes started during the pendency of conciliation proceedings in essential services and during the pendency of industrial court proceedings. So frequent have been these cases of illegal strike and so obvious the Government's reluctance to take any action against the offenders, that the clause of the Industrial Disputes Act dealing with illegal strikes has become a dead letter and its only use is as an ineffectual argument on the management side. Tribunals, moreover, have now confused the issue by allowing that a strike, though technically illegal, may be justified, while a legal strike may be unjustified. A recent judgment has gone further and declared that a strike is only illegal if accompanied by violence or subversive activity!

There is now on the part of both management and unions who have been through all the laborious processes of adjudication a growing feeling that adjudication is not only lengthy and expensive but often leaves in its trail as many

problems as it solves, and there appears to be in consequence some falling off in the number of cases referred for adjudication, and at least among the larger companies and better organised unions, as already discussed, more willingness to settle disputes by negotiation. This is a healthy sign and may indicate that the industrial relations machinery is beginning to settle down at last to its proper purpose.

It is a pity that no distinction has ever been made between the two types of case which go to adjudication. One is the case of an individual or group of workers who claim is that he or they have suffered an injustice through punishment or dismissal. This is a matter which can be decided on the facts through the normal judicial procedure. The other type of case is where an economic claim is made for the workers as a whole or a category of them for increased wages or better amenities. This calls not for a judicial decision but arbitration. There is no question of who is right or wrong. Had this second type of case been removed from the industrial courts and handed over to conciliation boards, the disputes raised could have been settled by careful consideration of all the factors involved instead of in the atmosphere of legal battle. This would have helped to encourage settlement of disputes by negotiation and arbitration rather than by adjudication.

A further factor that is helping to encourage internal settlement of disputes is that to a large extent standardisation has been achieved through rulings on appeal on many subjects, such as bonus and general conditions of employment so that there is now a general framework laid down and it is known that the courts will not go outside this. Thus there is less of the element of gamble in a reference to adjudication, and if the unions wish to get better terms than the tribunal standard they can only do so by direct negotiation and astute bargaining. Standardisation has also helped personnel managers and the labour advisers of the various employers' associations to persuade top managements not to let every demand go to adjudication, but to study the trends of awards and agreements in other industries and work out bipartite settlements within the general framework instead of handing their cases over to the lawyers to fight on legal grounds before the tribunals. It is most noticeable that in industries like jute and engineering, where the main economic demands have been settled by major awards, disputes in individual companies, if not settled in the early stages within the company, are usually solved through the intervention of the labour advisors of the employers' association. Thus a voluntary conciliation service is operating either before or alongside the Government conciliation service, and is successfully dealing with the majority of disputes.

PATTERNS OF UNREST

There is no doubt that the pattern of industrial unrest has changed in recent years. The sporadic and widespread strikes of the post-war years were to a large extent controlled once the new industrial relations machinery began operating properly. In the second stage strikes were often called more as a demonstration of the union's strength in its struggle for recognition, in order to impress either the employer or the tribunal with the wide support for the union's demands. In the third stage, as explained above, 'illegal' strikes became common, due to a large extent to the frustration of the workers with the delays of the industrial relations machinery, but also due to growing indiscipline. Serious alarm was felt in the coal-fields and in the plantations, for instance, on account of the concerted acts of violence against managerial staff. It is not easy to trace the exact causes of industrial indiscipline, but certainly they are a symptom of the wider indiscipline of public life, whether among citizens or students. On the sociological side it can be traced partly to the breakdown of traditional sanctions of family and community life without anything to take their place on the economic side to unemployment, to bad housing conditions and uncontrolled growth of towns on the political side to the sudden release of independence and the loss of the clear objective which nationalism had formerly provided, political consciousness which was immature, and political leadership which paid only lip service to non-violence and constitutional methods.

The combination of these factors was unfortunate enough, but recent acute political rivalry between unions has sharpened industrial strife and led to strikes which are much more of an inter-union struggle for supremacy than an economic weapon directed against the employer. The outstanding recent examples are the strike at Jamshedpur and the trouble in the plantations of Kerala. In other cases an apparently complete strike is also the result of union rivalry, for strike action may be taken by one union and joined by another not from unanimity of outlook, but from fear of losing membership to the more militant union. This was exemplified both in the recent Dock strike and in the strike of the Calcutta tramwaymen. Thus political factors introduce a number of cross currents into the situation, making it extremely difficult for either Government or management to know what steps to take to maintain industrial peace.

WHO IS TO BLAME?

Neither Government nor management are without blame in this situation. It was the Congress party, of which the Government is composed, that was largely instrumental in forming the I.D.A., although that body now loudly proclaims its independence from the party. For some years there have

been constant complaints that Congress Governments favoured INTUC, and there are now complaints that the Communist Government of Kerala favours AITUC. These complaints might be discounted as political propaganda had not many impartial observers also levelled this criticism against the State Governments. The failure to implement the Trade Union (Amendment) Act and so make compulsory the recognition of representative trade unions has also been ascribed to the desire not to hamper the growth of INTUC.

Employers on their side, by their persistent refusal in the majority of cases to recognise unions have contributed to the growth of rival unions. No doubt some favoured multiple unions, fearing the strength of a united union movement. Others have intervened unwisely and tried to influence workers to form 'moderate' unions, and when recognising unions, have stipulated that they should have no outside affiliation, thus preventing normal growth through federations. Others have recognised and entered into full negotiations with their unions, but have been unwisely paternalistic in their relations with the unions, thus paving the way for propaganda by a rival that the recognised union's leader is the company's dalal—a factor seen in the recent Jamshedpur clash. To sail between the Scylla of opposition to trade unionism and the Charybdis of too much favour to a recognised union, it may be argued, is difficult indeed in these days of political controversy, but both attitudes spring ultimately from the old-fashioned approach to the problem of industrial relations, and a lack of appreciation of the part that responsible unions can and should play in modern industry.

WHAT HAVE THE CODES ACHIEVED

What has Government's policy been in the face of growing indiscipline in labour ranks and multiplicity of unions? (The term 'multiplicity of unions' does not adequately express the situation, although it is favoured by Government, for there might be several unions in a concern without any rivalry between them if they represented different crafts or different cadres, but the crux of our present troubles is that the unions are antagonists prepared to fight each other as readily as to fight management.) Apart from a few amendments to existing Acts, as already pointed out, the present Labour Minister has from the first set himself against further labour legislation, and is doing all in his power to encourage settlement of grievances and disputes by joint consultation, following in the Ahmedabad traditions in which he was nurtured. To persuasion he has added a new feature in the drafting through tripartite conferences of conventions or codes of conduct to deal with certain situations. Starting with the problem of rationalization he was singularly successful in getting agreement to

a procedure in the textile industries. This was followed up by the agreement of a Code for Discipline in Industry worked out by the Indian Labour Conference in 1957, and by the Agreed Criteria for Recognition of Trade Unions and the Code of Inter-Union Harmony in 1958, and the drafting of a Model Grievance Procedure. The adoption of these codes has been something of a personal achievement for the Labour Minister, for it is certainly not easy to persuade all parties to agree on a common statement of policy.

The cynical may say that these codes are not worth the paper they are written on, and certainly so far they have been more honoured in the breach than in the observance. Possibly the fact that everyone is talking about them that each party is blaming the other for breaches is the most that can be expected for the present. The Minister's aim has been achieved in so far as they are being used as a yardstick. The process of persuasion is after all a very slow one, but then the enforcement of legislative provisions is also slow and requires elaborate machinery, whereas the process of public opinion works by attrition and gradually wears away opposition. There is no guarantee that the various units affiliated to the national bodies will apply the codes or that the national bodies will be able to discipline them if they do not, but there is, after all a limit to which organisations can make public statements of policy without attempting to support them by action.

The Code for Discipline in Industry, for instance, states that both management and unions agree that "no unilateral action should be taken in connection with any industrial matter and that disputes should be settled at appropriate level", that there should be no strike or lock-out without notice, and that differences should be settled by mutual negotiation, conciliation and voluntary arbitration. The first part admittedly is very vague—for what is an industrial matter?—but if whenever any change is introduced or any direct action taken without previous notice or consultation it is pointed out that there is a violation of the code, both management and unions will hesitate before taking such action in future.

Similarly in the Code for Inter-Union Harmony it is stated that every employee has a right to join the union of his choice and no coercion shall be exercised in the matter, and that there shall be no dual membership of unions. It is well known that these principles are violated every day in inter-union relationship, but at least conciliation officers in trying to sort out the tangles that result can press home their points by reference to the code. This is presumably what the Minister means when he calls these agreements a yardstick for future action. They are not a whip; they cannot enforce compliance; but they can measure

the extent to which the parties have deviated from their declared aims, and in this way exercise some moral influence. Of course if the parties to the agreements have entered into them with their tongues in their cheek and no honest intention of applying them, then they will fail in their purpose. At present, it is true, there does not seem to be much honest attempt to apply them, but only time can show whether the Minister has correctly judged the force of public opinion in this direction.

RECOGNITION OF TRADE UNIONS

It is when we come to the question of recognition of trade unions that we find the real crux of the present problem of industrial relations. As already pointed out, when the Government decided to shelve the Trade Unions (Amendment) Act of 1947 and so left recognition of unions to the voluntary decision of management, they not only weakened the industrial relations machinery that they had just set up through the Industrial Disputes Act, but also weakened the trade union movement as a whole. The fragmentary growth of trade unions is largely due to their non-recognition by the employers and to the fact that there is no machinery for selecting the most representative union in any industrial unit. As any seven men can register a trade union, this has provided a golden opportunity for unscrupulous careerists, but it has also adversely affected genuine trade union activity. Leadership within the workers' ranks has not developed mainly from fear of victimisation. It has been a very real fear in some cases, and it is this which has led tribunals to take so suspicious a view of all cases of termination of employment. It is this fear which has made unions lean heavily on the support of outside officers. It is not reasonable of management to complain of the outside influence on trade unions and yet take no steps to recognise their own trade unions, for it is this very non-recognition that has driven them to seek the backing of outsiders. Where sound relationships are built up with a recognised union, then it is found that the outside leader, if there is one, intervenes very little in the affairs of the union, merely lending his name for its prestige value and signing agreements already reached.

The search for outside leadership has led to 'empire-building' among trade union leaders. A recent survey of trade union leadership in Bombay revealed that one leader was president of 17 unions and secretary of two more; another was an office-bearer of 20 unions. In Jamshedpur Michael John is said to be president of 30 unions or more. As the strength of the unions at present is largely derived from leaders who are outside and often quite unconnected with industry, their outlook is bound to be more political than economic. Education is also an important factor which encourages outside leader-

ship. The Bombay survey showed that 30 out of 45 leaders were graduates and only two appeared to be non-matriculates. Some had had brilliant academic careers and eight were fully qualified lawyers. That most of them could not be called careerists was evidenced by the fact that these men had chosen an unstable life when they could have obtained secure jobs with better monetary prospects. Nevertheless the fact remains that most of them had no first-hand knowledge of industry.

Many people were against the idea of compulsory recognition of trade unions at the time that the Trade Union (Amendment) Act was passed, maintaining that it would be better to leave the trade unions to establish themselves and win recognition from their own strength. It has not worked out this way because of the background of compulsory adjudication of disputes and the unforeseen intensity of union rivalry. At a conference of personnel officers in Delhi in 1958 it was most noticeable that the majority strongly favoured some machinery for recognition of the most representative trade union as an essential step towards industrial peace, though they were not unanimous as to the type of machinery they would adopt. Such a conference 10 or even 5 years ago would have been very divided on the question of trade union recognition, but it is now felt by those who are handling the problems of industrial relations to be one of the chief stumbling blocks to peaceful negotiation and collective bargaining. How can sound relationships be built up when there is always the chance of a new union appearing on the scene and refusing to recognise agreements concluded even with a properly recognised union? And when union rivalry rears its head, how is management to know which is the majority union without any means of testing their strength? Management cannot go to the Registrar of Trade Unions and obtain figures of paid up membership of unions; claims for membership made by rival unions are usually exaggerated, and it has been found again and again that where friction is sharp between two unions the workers may be bullied into paying subscriptions to both out of fear of intimidation.

There have been repeated demands for Government to take some action on this question, or at least to give some assistance in deciding the thorny question of which union is the most representative, but the Labour Minister is firmly against legislation on the subject. His solution is yet another convention—the Agreed Criteria for Recognition of Trade Unions, which was drawn up at the last tripartite Indian Labour Conference at Nainital. This aims at recognition for a period of two years of the union which is most representative, provided it has a membership of at least 15 per cent of the workers in the establishment, or 25 per cent of the workers of a local industry, and states that only

unions which observe the Code of Discipline will be entitled to recognition. This is all right in theory as far as it goes, but what of the procedure for verification of the representative character of a union, which is surely the key point? The convention is not very helpful. It approved generally the suggestions for verification contained in a memorandum prepared by the Ministry of Labour, but added that the procedure should be made more adequate. The recommended procedure is based on the existing procedure for ascertaining the strength of the all-India organisations of workers and their associate unions. The organisations furnish figures which are test-checked by the Central Chief Labour Commissioner. The memorandum further suggested that copies of the claims for membership should be made available to the other federations to check each other's claims to the affiliation of individual unions and that the Labour Commissioner should furnish particulars of verification to the federations explaining why any of their claims were rejected.

This seems a not very reliable method, and not really applicable to the problem of the representative union within an industrial unit and it may well be asked why in a country, where election by ballot has been introduced with remarkable success, the same principle should not be applied to industry. The Minister does not favour balloting to decide which union should be recognised, and many others agree with him. It is true that a ballot would mean tremendous upheaval in a company during the preceding electioneering campaign—it does so in the United States—but at least it would settle the question for a definite period. And what are the alternatives? The Trade Union (Amendment) Act which was not enforced had suggested that the representative union should be decided on the basis of percentage of membership, and many still favour this as likely to cause less disturbance in industry, but there still remains the need for checking membership figures and for seeing that individual workers do not join more than one union. The convention agreed at Nainital suggests that where the result of verification by the Departmental machinery is not accepted by the parties, a committee composed of the representatives of all central trade union organisations should go into the question and resolve the dispute. For this purpose the central trade union organisations should have standing machinery to provide panels of persons for different localities. If this procedure fails, it was agreed that the question should be left to an agreed independent agency. This all seems very involved, and reading between the lines there appears to be a lack of confidence in verification by the Departmental machinery, which is not very encouraging. This means that there is still no assurance that if management makes an agreement with what it considers the most repre-

sentative union today, that agreement may not be challenged tomorrow. It would be a great pity if the voluntary trend towards settlement by negotiation, which we have already noted, should be halted because the unions which have signed agreements cannot 'deliver the goods'.

GRIEVANCE PROCEDURE

The fourth convention that the Government is trying to establish relates to Grievance Procedure, and a draft model has now been drawn up, which envisages that an aggrieved employee shall first present his grievance verbally to the appropriate officer and expect an answer within 48 hours. If not satisfied he can then go alone or with a departmental representative to the head of the department, and 3 days is given to the latter to answer. If still aggrieved the worker may then request the forwarding of his grievance to a Grievance Committee which should make its recommendations to the Manager within 7 days. Only after all this procedure has been gone through should recourse be made to the machinery under the Industrial Disputes Act. In theory this may be all right, though rather clumsy, but in practice every organisation must work out its own best method of handling grievances, and it does not seem wise to have a special grievance committee, for that will surely encourage grievances.

JOINT CONSULTATION AND PARTICIPATION IN MANAGEMENT

We have noted that the trade unions were not very keen about works committees, and that this was one of the main reasons why they have not on the whole been very successful. In some companies they are working very well, and we have noted earlier a case where a collective agreement was made through the works committee in order to bring rival unions together, but in the majority of cases they have not been very effective. Now, however, the unions are changing their views. Works Committees must necessarily be limited in their scope for their functions should not overlap those of the unions. It was the intention of the framers of the Industrial Disputes Act that works committees should play a definite part in preventing or resolving disputes and in building up peace in industry, but the Act showed muddled thinking if it was at the same time the intention to encourage the development of trade unions. It was not enough to give the unions a part to play in the election of works committees.

Similar muddled thinking prevented the development of unit production committees, and confuses the latest attempt to introduce participation of workers in management. People do not all mean the same thing when they speak of workers' participation in management. Other terms used are association of workers with management, joint consultation and co-

operation. They have slightly different meanings if carefully examined, but their aim is roughly the same, that is to give workers a greater say in the work organisation and therefore a stronger feeling of belonging to and taking part in a common endeavour. Abid Ali, Government delegate to the I.L.O. 4th Asian Regional Conference put it this way: "One way to promote better labour-management relations to create in the minds of the workers a sense of active partnership. This can be achieved if workers are associated more closely with the management of undertakings." While many agree with this as a general theory, the question is how far it should go in practice. Does active partnership mean suggestion schemes or a worker representative on the board of directors; works committees after the English pattern, co-determination as in West Germany or management councils as in Yugoslavia which, within the limitations of the overall plan, control the manager; It is fairly agreed now that workers' representatives on boards of directors would not achieve much and might embarrass the unions, though some still cling to this idea. Government, with the blessing of the Indian Labour Conference has recommended experimental Joint Councils of Management in companies where relationship between management and workers is good and where representative unions are recognised. The functions of these councils as set out in the Model Agreement drawn up by the Standing Labour Committee, excludes discussion of wages, bonus and individual grievances, which are the functions of the trade unions, but declares that the councils should be entitled to receive information on production, sales and the annual balance sheet, and "to reduce the danger of apathy councils may be entrusted with administrative responsibilities of safety and welfare measures, vocational training and apprenticeship schemes, working hours and holidays." But though the councils "should exercise supervisory, advisory and administrative functions on matters concerning safety, welfare, etc., the ultimate responsibility shall rest with the management." Decisions of the councils "shall be implemented without delay. If they are not implemented in time, reasons should be given for the delay."

The Minister has said that the present scheme of labour participation in management is only a natural extension of the apparatus for industrial relations, redress of grievances, works committees, collective bargaining and so on. He wants to try it as a voluntary experiment first and then later see whether legislation is required. The principle of joint management councils was approved by the Indian Labour Conference in 1957 and a Model Agreement was drawn up. Various companies have announced their intention of setting up experimental councils, but the latest report of the Sub-Committee

of the Conference is that progress is not satisfactory. Is all this an attempt to run before we can walk? If works committees generally have not succeeded, will joint management councils do so? A number of leading trade unionists have frankly admitted that they do not think the trade union movement is ripe yet for joint management councils, and that much more organisation and education is necessary before they can play their part effectively in such a form of participation. A few companies, whose relationships are already good, may make a success of it, but on the whole the idea seems premature.

In any case one may doubt whether formal participation through joint councils would be effective unless they had the powers of control that are only possible in State owned enterprises where there are no shareholders to consider. The joint management councils as at present envisaged are little more than works committees and production committees rolled into one. What is far more important and constructive is the building up of informal participation, through continuous, day-to-day consultation and communication at all levels and both upwards and downwards to create a climate in which each individual worker has the confidence that if he has a suggestion to make it will be considered and, if found suitable, implemented. This gives to every individual a far greater sense of participation than the occasional election of a representative to a body whose purpose and powers are but dimly understood. It is the common fate of elected representatives to joint committees that after a while they lose the confidence of their electorates who think they have been in some way 'won over' by the management. Real participation must be a continuous process, which gives the satisfying sense of belonging. In the outstanding experiment carried out at the Calico Mills, Ahmedabad,* it was the fact that management allowed the workers to try out their own grouping of the work, and even shut down work during working hours to hold conferences with the workers when things went wrong in the experimental shed, that evoked the tremendous enthusiasm and sense of participation among the workers that carried the experiment even through a period of intense local propaganda and demonstration against rationalization. This is a form of participation which cannot be built up by legislation or tripartite agreements. It can only be achieved by a management imbued with a real desire to work together with the workers. It is in this changed outlook that we must look for future constructive effort, not in mere obedience to the letter of the law or lip service to tripartite conventions.

*Productivity and Social Organisation The Ahmedabad Experiment A. K. Rice, Tantrik Institute of Human Relations.

Some Aspects of Employment Planning in Under-Developed Countries

By NITISH R. DE

THE employment approach towards economic planning is of comparatively recent development. In the nineteenth century the doctrines of Friedrich List and the German Historical School making out a case for "strong nationalistic theory of industrialisation" were not prompted by any desire to create alternative high-income employment for under-employed agricultural workers. The primary objectives were to increase national power, to elevate the country to the level of other progressive countries, to reduce the dependence on imports and finally to get rid of foreign enterprises. Japan, whose rapid rise as an industrial country has made history, did not have any employment bias in its official industrial policy. Soviet Union too did not have any employment target in the plans. In course of the past two decades or so, unchecked growth of population bringing about an uneconomic pressure on land and slow rate of growth in industrial sector in some of the backward countries, brought about a new challenge and resurrected the ghost of Malthus. Simultaneously, the rigours of economic crises in more mature economies highlighted the fangs of unemployment on a large scale. As a consequence, the orthodox economic thought went through a change and a theoretical frame-work to underscore employment and income objective in economic policies was established. Thus, says Dr Datta, "most of the recent studies of the economic development of Eastern Europe are based on plans for diversion of the 'surplus agricultural population'. In Poland's three-year plan (1946-49) industrial reconstruction was expected to lay the basis for a 'permanent absorption' of the increase in population and for the elimination of 'agricultural over-population'. In almost all other Eastern European plans the Soviet model of planning has been combined with the aim of diverting the 'surplus' agricultural population to industrial occupations."¹ In India too the exigencies of the situation prompted the Labour Investigation Committee (1946) to observe that "a nationwide programme of full employment is a very urgent necessity so far as labour is concerned" and that "a programme of Full Employment by which we mean a situation in which there are more jobs than men, is imperative in the case of this country which has been suffering long from the evil of unemployment".² Now, after over a decade, it is true that our economists and policy-makers seized, as they are, of the physical dimensions of the problem would not venture such facile statement

of policy. Nevertheless, even in their statistical ignorance, the members of the Labour Investigation Committee said the obvious truth. Even in the context of a mature, free enterprise economy problem of unemployment becomes, at times, a knotty issue. In spite of New Deal Policies, Beveridge Plan and the counter-cyclical fiscal and other remedies suggested in Keynesian and Post-Keynesian literature, the waves of economic crises even in post-war era, have caused many landslides in the level of employment. We may cite two very recent instances. In the recent US recession (1957-58), according to official statistics, the number of unemployed rose from 3,200,000 in early 1957 to 5,100,000 in February this year (1958). According to Mr Meany, President of the AFL-CIO, the number of partially unemployed expressed in terms of fully unemployed would number 1,800,000. In Britain more people were unemployed in September this year than at any time since the war, except for two months of a fuel crisis in 1947. Official figures show that unemployment increased by 30,000 between mid-August and mid-September, bringing the total to 476,000. Along with these instances, it should, however, be pointed out that the character of unemployment brought about by over-production crisis in mature economies is different from that of an under-developed country where the problem is essentially one of stagnancy of economic growth and as such the measures adopted to fight the evil in two types of economies will be different in character.

For a proper assessment of the unemployment problem in an under-developed country like India the issue that we confront at the outset is that of high demographic rate of growth. In between 1891 and 1921 the rate of growth was 5 per cent whereas the rate shot up to about 40 per cent in between 1921 and 1951. 1951 census places India's population figure at 35,68,79,394. In the revised projections adopted in the Second Plan, "for the period 1951-60, the assumption of a 12.5 per cent rate of growth over the decade could perhaps be retained. . . . the rate of growth assumed for the decade 1961-70 is 13.3 per cent. For the decade 1971-80 the rate assumed is 14 per cent. On this basis population would total 408 million in 1960-61, 434 million in 1965-66, 465 million in 1970-71 and 499 or almost 500 million in 1975-76. These estimates are intermediate between the upper and lower estimates put forward by the Census Commissioner in the Census Report,

1951 and. . . . they may well prove to be on the low side".³ Messrs. Ansley Coale and Edgar Hoover of the Princeton University working on the problems of "population growth and economic development in India, 1956-1986" came to the finding that on the basis of the fertility rate being high, medium or low, population in India would be 775,534 or 589 million in 1986. This rate of demographic growth viewed in the perspective of economic development indicates that the total national income rises under low fertility assumption by about 200 per cent in a 30-year period, which implies an average annual increase of 3.8 per cent. The growth itself shows an acceleration, rising from 3 per cent per annum at the beginning to more than 4½ per cent at the end. Under the high fertility rate, however, national income increases by 126 per cent in the 30 years or at the rate of 2.8 per cent per annum.

At the end of the period the rate would be 1.7 per cent. "In terms of per-consumer income the contrast is much more striking. Under low fertility, per-consumer income increases by 92 per cent during the period, and in the last five years is rising at the rate of nearly 3½ per cent per year. Under high fertility, the initial improvement of per consumer income tapers off by 1976 and is followed by an actual retrogression. At no time is the consumer as much as 20 per cent better off than in 1956".⁴ Historical studies indicate that countries given to economic growth have passed through three phases: (a) the period of stability with rates of births and deaths both high; (b) the period of rapid increase with quickly declining death rates and slowly falling birth rates; (c) the period when birth rates and death rates have both become stable at a low level.⁵ The following table gives a clearer picture:

TABLE I.

Countries.	Birth and Death Rates—(per 1,000 population).				
	1951.	1952.	1953.	1954.	1955.
Canada	27.2/9.0	27.9/8.7	28.2/8.6	28.7/8.2	28.3/8.1
China	49.9/11.6	46.6/9.9	45.3/9.5	44.5/8.1	45.3/8.6
India	24.9/14.4	24.8/13.6	26.7/15.0	28.4/13.2	30.5/12.7
Japan	25.4/10.0	23.5/8.9	21.5/8.7	20.1/8.2	19.4/7.8
U.K.	15.8/12.6	15.7/11.4	15.9/11.4	15.6/11.4	15.4/11.7
U.S.A.	24.5/9.7	24.7/9.6	24.6/9.6	24.9/9.2	24.6/9.3

Source:—U. N. Monthly Bulletin of Statistics, June, 1956.
*Birth Rate; †Death Rate.

Although no scientific conclusion on the basis of a study of only 5 years is possible, it is, however, indicative that whereas UK and USA are in (c) stage which Japan is approaching, India is still in an earlier stage. An astute thinker Dr Gunnar Myrdal has pointed out that "the under-developed countries today have a population about one-third larger than at the outbreak of the Second World War; they can be expected to double their population within the next thirty or forty years. In all under-developed countries, even in those with a fairly favourable relation between population and natural resources, a rapid increase of population, by requiring increased investments merely in order to maintain the standard of living at present levels, will tend to hamper and slow down economic development. This implies that a given rate of development will require greater sacrifices. The national plan should therefore include a population policy aimed at controlling fertility. A vigorous and successful birth control campaign will be needed already to prevent the rate of natural population increase from rising."⁶ It is thus no mere pessimism when in as early as 1946, Prof D. Ghosh recommended the adoption of a comprehensive policy of population-con-

trol as a prior condition for the successful operation of an industrialisation programme.⁷

The up-shot of this discussion is that in the employment perspective of planning, a positive and effective population control policy is the first essential for a country like India. Given the high fertility rate in 1986 the national income would be 226 per cent of 1956 production (=100) and per consumer income 114 as against 100 in 1956. Thus one of the objectives of our Second Plan which is to raise the level of living will be defeated as the standard of living 30 years hence would continue at the present day low level. The remedy in the shape of family planning thus assumes a magnitude of primary importance. But in our plan this vital issue has been dealt with in a somewhat cavalier fashion. The target of 300 urban and 2,000 rural clinics in the course of the second plan is most inadequate. In view of the fact that under the revised plan (May, 1958) resources allocated to social services were cut down by Rs 135 crores it is certain that even this modest programme would remain unachieved. The more serious objection to the manner in which the problem has so far been tackled is the failure to create an active public opinion in favour of the need

for family planning throughout the country. Whereas the success of the scheme ultimately depends on its acceptance by the rural population, it is indeed unfortunate that in the urban areas where the lower middle and the working classes, through the sheer weight of existence at subsistence level, are in a state of psychological preparedness for any workable remedy, we have substantially failed to forge ahead with the scheme. By our neglect we may not only aggravate the unemployment situa-

tion but also stake the prosperity and happiness of the future generations.

In order to appreciate and assess the unemployment problem as we find it today—we may have a look through the existing occupational structure which will show that not only primary occupations but also tertiary occupations deserve our attention. The large number of low-earning domestic servants gives a deceptive high percentage to tertiary group which in mature economies indicates a stage of higher economic development.

TABLE II.

Distribution of Working Force by Occupations.			
Items	Number (in million)	Percent.	
1. Primary occupation (Agriculture, Fishery, Forestry, etc.)	104/110.0	72.4	
2. Secondary occupation (Mining, Manufactures, Building, Construction, etc.)	15/16.0	10.6	
3. Tertiary occupation (Distribution, Transport, Public Administration, Domestic Service, etc.)	24/26.4	17.0	
4. Total	143/152.4	100.0	

*The pattern covers the working force of 1951 census as tabulated by the National Income Committee, 1954.
†Projection for 1956 on the assumption that the pattern of 1951 did not significantly alter.

Agriculture, animal husbandry and ancillary activities alone (forestry and fishery excluded) account for 71.8 per cent of the total working force. Such a high per centage of working force in primary occupations which is characteristic of under-developed countries (New Zealand and Australia are exceptions) generally indicates low real per capita income. India is no exception. The National Income Committee points out that in 1948-49 the net output per engaged person in agriculture is about a quarter of the corresponding figure for mining and factory establishments and the average for secondary occupation would be 80 per cent above that for agriculture.⁸ It is more or less an incontrovertible fact that given the needed tenancy reform, fixation of land ceiling and requisite change in the technique of production, a sizeable increase in agriculture output is possible in India with less number of farm hands. In other words, the existence of disguised unemployment in addition to out-right unemployment is indicated. Our dependence on climatic conditions for success of agriculture is proverbial. The Grow More Food Campaign started in 1949 with the objective of attaining self-sufficiency by March, 1952 with the target of 4.8 million tons of production over 1947-48 level at the prevailing rate of consumption had to be given up in 1951 when a severe drought compelled us to import 4.7 million tons of food grains from abroad. Similarly the favourable rainfall in 1953-54 gave us a bumper food grains yield of 68.87 million tons but the adverse weather conditions in some of the subsequent years saw us to drain foreign exchange resources for food imports. The inescapable lesson is that the army of seasonal unemployed in the primary occupations are abnormally large under adverse circumstances. In the double-cropped areas seasonal unemployment is not an important problem but only

about 16 per cent of the Indian cultivated area is cropped twice. On the basis of the above Dr Datta came to the obvious conclusion that "any scheme of diversion of agricultural workers to non-agricultural high productivity employ-

ment—provided the rate of diversion is faster than the rate of increase of the rural working population—will not only reduce the initial excess and raise average income but also make labour more productive in agriculture."⁹

We may at this stage undertake a physical evaluation of the problem on the basis of some statistical studies and surveys. According to the All-India Agricultural Labour Enquiry Committee which conducted a survey in 1950-51, 16 per cent of agricultural labourers are totally unemployed. The Report, however, does not furnish any data on unemployment among rural non-agricultural workers. Mr B. N. Datar on the basis of Dandekar Report, the survey of rural unemployment in UP (1954), Faridabad Survey, the AICC Survey of the rural areas in Delhi (1953) and the under-employment survey conducted in Travancore-Cochin came to the conclusion that "about 24 million man-years of employment were required for keeping the economy in good gear from the employment point of view" in 1951¹⁰. To this, however, has to be added the annual accretions to the employable population which is of the order of 1.8 to 2 million. Under the Datar Projection the statistical frame-work therefore stands as follows:

TABLE IV.

(Figures in millions).			
In urban areas.		In rural areas.	
New entrants to labour force	3.8	6.2	10.0
Backlog of unemployed	2.5	2.8	5.3
Total	6.3	9.0	15.3

TABLE III.		Million
Unemployed at the beginning of 1951 including under-employed	...	24
Plus	...	9
Minus	...	6 to 7 (a)
Total	...	26 to 27

(a) It is extremely doubtful if additional employment in fields such as trade, commerce, etc. during 1st Plan period could be as high as 1.5 million to 2.5 millions. Direct employment in the public and private sectors excluding the above heads was estimated as 4.5 millions (Vide Second Plan—p. 119).

Dr V.K.R.V. Rao too undertook a statistical study according to which 4 million may be taken as the number of unemployed among non-agricultural rural workers whereas the number of unemployed among agricultural labour is 2.4 million. 6 million are taken as number of unemployed among urban workers. Thus the total of unemployed labour stands at 3.4 million in 1956. In his estimate the number of under-employed and the disguised unemployed among agricultural labourers when converted in terms of unemployed would work out at 3.4 million in terms of man-years. Further on the basis of pure guess-work he estimates that the number of under-employed among 48.7 million non-agricultural rural workers and 8.6 million urban workers would be 1.5 million unemployed in terms of man-years. Because of difficulty in calculating to any degree of exactness, Dr Rao has left the persons in disguised unemployment out of consideration for the Second Plan period. So, the total of unemployed and under-employed in all sectors is 8.3 million to which has to be added 9 million heads who would join the labour force as new entrants. Thus under the Rao Projection the total number of jobs required during the Second Plan period are 17.3 millions.¹¹

In the Second Plan itself the discussion and analysis of the size and nature of the unemployment problem are extremely sketchy and superficial. National Sample Survey data were utilised to work out the figure of urban unemployment which is 2.8 millions. 3 million is allowed as margin for frictional unemployment. The new entrants to urban labour force are taken as 3.8 millions on the basis of 33 per cent increase in the rate of urban population during 1951-61. This may, however, prove to be on the low side. Mr Asoka Mehta quotes a recent study in Indonesia according to which "not only the largest cities are growing faster than the smaller ones, but also that cityward movement was considerably more important for non-economic reasons than economic ones."¹² There is a more fundamental reason why efflux from rural areas can take an unusual turn—conversion of disguised unemployment into open unemployment. Dr Raj writes, "The problem of employment in under-developed economies is essentially a problem which grows in size. For, with the progress of economic development and the consequent changes in physical and mental environment the remnants of the older form of social organisation may be expected to release the surplus labour they still hold. In other words, it is of the essence

The different statistical abstracts quoted above are clearly at variance. The size of unemployment indicated by Mr Datar does not tally with either the Rao Projection or the Five Year Plan estimates. Inadequate statistical data, arbitrary guess work and acts of omission not only account for this discrepancy but also indicate that the Plan estimates are far from reality and that the actual size of unemployment is likely to be bigger. For an accurate statistical measurement of the problem we shall, however, have to wait for the completion of 1961 census, when complete data on unemployment would be collected.

Be that as it may, the acuteness of the problem would continue even at the end of the Plan period, for, the provision of additional employment to the tune of 7.9 millions has already been given up. On the basis of rephrasing of the plan the total of additional jobs is expected to be 6.5 millions only outside of agriculture.(a) It is estimated that 2 million new jobs were created during the first two years of the plan and in third year one more million jobs are likely to be created. It is further hoped that in the tempo of economic activities during the last two years of the plan 3.5 millions more will be absorbed. The deleterious effect of shortage of foreign exchange and internal resources may however slacken the tempo and

(a) In the light of the over-all shortfall in the primary sector during the Second Plan period it is doubtful if the plan estimate of additional employment of the order of 1.6 million to absorb new entrants to the labour force in rural areas will be achieved—Vide 2nd Plan—p. 118.

even the run-down target may not be achieved. Thus, we find that not only the back-log of unemployed, under-employed and disguised unemployed labour force would continue to suffer but that the new entrants to labour force would substantially go on without employment at the end of the Second Plan period.

The implication of the continuance of an explosive employment crisis is far reaching. The employment survey undertaken by the Gokhale Institute of Politics and Economics in Poona indicates that the burden of the incidence of unemployment is heaviest among the backward classes. Two surveys done by the Institute in 1936-37 and in 1954 indicate that the percentage of unemployment among the Mahars, a scheduled caste, has increased from 5 per cent in the first survey to 9 per cent in the second survey. In West Bengal the government undertook an unemployment survey in Calcutta in 1953 and among the families covered 51 per cent were Bengali speaking. Nearly 37 per cent of the total families belonged to the middle class. The survey revealed that 65 per cent of the total unemployed were either matriculates or of higher educational attainments and 71 per cent were willing to do manual work.¹⁴ Thus, the common belief that the Bengalees were still averse to manual work no longer holds good. In the context of such a serious situation it is also clear that in the race for economic survival, the backward and poorer classes will be the worst sufferers. Their standard of living being already low will possibly be lower not only in real terms but also in money-wage terms. The Labour Investigation Committee thought that a surplus labour force had been created in the urban areas by the system of recruitment through jobbers who were interested in securing new jobs for as many new entrants as possible, and thus help to create conditions favouring a large turnover.¹⁶ In the present crisis even without the institution of jobbers a larger volume of unemployed and under-employed will, in their anxiety to avoid starvation, offer their labour, at depressingly lower wage rate and they may even be willing parties to a clandestine violation of various labour legislations. We thus face a contradiction in a democratic society where side by side exist economic activities to advance rate of growth and disruptive forces to corrode the roots of an welfare state. The immediate future also holds out no substantial hope. The National Council of Applied Economic Research undertook recently a techno-economic survey of Bihar and it recommended an investment of Rs 480 crores in the Third Plan (1961-66) in Bihar which would create employment for only about 1.2 million persons and is thus likely to absorb that number of the labour force in the State as will enter the market during the plan period. The back-log of un-

employed and under-employed will continue as before.¹⁶

The crucial question, therefore, is as to how to plan the economic activities with a view to creating the maximum employment potential in the country. The problem is one of choice of criteria and no ready-made solution, for such a ticklish problem, can be indicated. Some remedies suggested clearly under-score fundamental changes in our socio-economic patterns. Dr Raj feels that unless all the surpluses from land—rent, interest, etc.—are collected in the hands of the State the absorption of surplus labour in development work, particularly in the primary sector of production, will not be possible. Sweeping suggestions are also there. Mr B. B. Patel suggests, "As employment increases and wealth keeps pace with purchasing power, the weightage on cottage industries will diminish. They will stand on their own and due to improved techniques, advanced skill and co-operation would be able to withstand the machine. Till then they need to be protected even at the cost of closing down factories like WIMCO and BATA and rice mills and restricting qualities of mill-made cloth to provide employment and to protect the artisans.¹⁷ In our enthusiasm for employment oriented plans, we need not be carried away by mere emotion and suggest unemployment for skilled labour of such useful concerns as Bata and Wimco to provide employment for unskilled labour in cottage and small-scale industries. Besides, we may as well note that even in Japan, which promises to be an ideal to many backward economies, in spite of government assistance, the small-scale sector is "distinctly inferior to the large-scale sector in productivity, earning power and wages. One study reveals that in Japan the wage level of industrial workers fell markedly with each drop in the size of establishments, the average annual wages in the small establishments in 1952 being two-thirds less than in the large establishments. Furthermore, the conditions of work in the small enterprises are usually worse than in the large ones and their earning power is also lower."¹⁸ Mr Patel might, however, argue that the remedy is to eliminate competition from large-scale industries. But one should not overlook the danger inherent in such an attitude. The national economies although interdependent are also competitive and unless we can step up or even maintain our export market we shall suffer a defeat in our mission of economic advancement. If other countries by revitalising their economic front with the technologies offered by automation and atomic energy go ahead of us at a faster pace we shall, in our obstinacy to create employment potential at any cost, stagnate our growth with traditional techniques.¹⁹ China's growing challenge to our exports has already upset our exchange-earning position for, a large portion of Rs 58 crores

decline in India's exports during the first half-year of 1958 was on account of Chinese competition in cotton textiles, coal, oilseeds and vegetable oils, coir and light engineering goods. Thus higher productivity and lower cost of production assume a significant importance and in the light of threat from more advanced countries how long can we keep away from such automation techniques as the tea-picking machines and the electronic devices to raise coal from under-ground?

The need for this warning is warranted by the fact that our leaders and planners have, of late, become anxious about growing unemployment crisis and public opinion also is becoming more vocal about this defect in our planning. At this stage it is important to bear in mind the limitations of labour-intensive techniques, which, however, have to play a vital role in the backward economies. The case of Ambar Charka is an obvious illustration. It is found that an average worker produces about 6 hanks of yarn per working day (eight hours) and if the value of materials, depreciation cost etc. are deducted from the market price of yarn produced, then, the net daily earning of a worker will be one anna and nine pies.²⁰ Thus, in the name of subsidising cottage industries to help ease the rural unemployment we are financially patronising a palpably inefficient production technique. The suggestion of the Village and Small-scale Industries Committee (Karve Committee) to impose a cess or an excise duty on the production of a large industry is not an easy solution as has recently been demonstrated in the case of the cotton textile industry in Bombay where many uneconomic units had to close down for various reasons of which the imposition of heavy excise duty was one. A comparative study, on the other hand, indicates that a weaver operating a "Banaras" type semi-automatic handloom can earn Rs 5 a day after cost of materials, depreciation etc. is deducted from the price of cloth produced.²¹ Thus even in the employment perspective the choice should fall on hand-loom weaving sector than on spinning by Ambar Charka.

In the matter of choice of criterion for investment, "the capital-intensive investment" school, expresses itself against the adoption of labour-intensive techniques on the ground that unless capital is invested in certain key industries, to start with, the needed "take-off" into "self-sustained" growth will not be generated. The genesis of economic growth in the U.K., the U.S.A., the USSR, Germany and Japan sustains the logic of this orthodox marginal productivity approach, according to which, in an under-developed economy with "investment in any direction should be discontinued at a point at which the marginal productivity of capital is higher and that

of labour lower. than would be appropriate if the country had more capital and less labour. To this extent the principle will favour spreading more capital rather widely and thinly throughout the economy and using labour-intensive rather than capital-intensive methods of production".²² As is expected both approaches have their good and bad points. Small-scale investments with low capital-intensity will provide diversified training facilities in entrepreneurship and management and wider diffusion of employment opportunities and other benefits which are clearly advantageous to a country like India.²⁴ On the other hand, the studies of Mr V. V. Bhatt on some selected small-scale, medium-scale and large-scale industries in India suggest that the ratio of the net value of plant and equipment to the gross value of annual output was considerably higher in the small-scale firms than in the large-scale ones, confirming thereby that the small-scale firms could also be capital-intensive.²⁵

A more intimate study of the theme suggests that some conflicts in criteria, which can be grouped as follows, are obvious, (1) maximum employment per unit of capital, (2) maximum output per unit of capital, (3) maximum rate of growth of output and employment and (4) maximum rate of profit.²⁶ If time lag factor is allowed for, then, the area of conflict can be somewhat minimised. It can be argued that over a long period the capital-intensive method, through favourable effects on savings and capital accumulation, may create greater output and employment potential and thus ultimately harmonise criterion (2) with criteria (1) and (3) and possibly also (4). But for a country like India the disequilibrating forces in the interregnum may as well counter-balance the benefits of a capital-intensive industrial pattern. Heavy imports, shyness to invest to the full the additional savings and above all, the rapid rise in the number of unemployed may unleash such socio-economic forces as to neutralise the possible "long-run" benefits. Concentration of industries in over-populated urban areas will increase social over heads and divert resources to these items of expenditure. For a country like India, to derive the full benefits of economic growth, a new, integrated industrial technique is called for under which low capital input per worker with high output is indicated. It is evident that such an industrial technology will bring about a more rapid expansion of both output and employment than would be possible with the technologies developed in the countries with less population pressure. But it would be a mistake to consider such a task as entirely an engineering problem of evolving a new pattern of invention and innovation. The more pressing issues are the problems of outlook and organization. To place labour-intensive techniques

on an efficient and competitive footing in those industrial and agrarian sectors where they have possibilities, the needed atmosphere has to be created.

Countries from which we can take a cue are China and Japan. Conditions similar to those of our country have also existed there and in a way are still there, particularly, in China. While it will be extremely useful to turn to them for lessons and inspiration we should not, however, lose sight of the historical perspective in which the achievements of those countries are to be viewed. Rapid industrial progress of Japan at a very high rate of savings and investment was achieved in an atmosphere of imperial expansionist policy which is obsolete in the present time. Besides, we have already pointed out the comparative inefficiency of the small-scale industrial units in Japan. We should remember that by encouraging inefficient cottage or small industries we shall substitute one type of disguised unemployment by another. In case of China the primary distinguishing factor is the prevailing political system in that country. Many an organizational technique whose success essentially depends on the pattern of politics is not likely to yield the same or even similar dividend under divergent political systems.

But, even after due weight is given to these considerations, we can emulate their experience in our drive for employment planning. The comparative preponderance of small and medium industries in Japan has been mainly due to two factors—supply of electric power and provision of service co-operatives. Rural electrification is essential for a diversified pattern of cottage and small industries. Electrification is a capital-intensive industry whose employment potential is not high but it can be increasing the productivity of such industries as silk manufacture, power-loom weaving, small machine and repair shops, toy making, flour mills, oil mills, rice mills, saw mills, leather foot-wear, soap factories, etc. divert surplus agricultural workers to the industries. Electrically operated tube-wells, in the context of our food crisis and major irrigation projects which have long 'fruitful-lag' will also be useful. But here also our achievement has been meagre. At the end of the first plan only 7000 small places were electrified and the target of 10,000 villages during the second plan period even if completed, would cover only 3 per cent of total Indian villages. Development has also been uneven, for, except in some of the southern states, particularly Madras, no other area has yet derived much benefit under rural electrification scheme. The most important deterrent is, however, the issue of cost. Wherever large grid-transmission and feeder lines exist it is easier to extend spur lines to nearby villages. The capital investment will be less but this is not possible everywhere. Compared to

urban areas because of small load density and load factor, the capital investment per kilowatt of demand and per unit of consumption will be higher. "In fact, the rule of thumb-methods adopted in sanctioning extensions to rural areas in some southern states indicate that the achievements so far were perhaps the result of indirect assistance for rural electrification. The gross return on the capital outlay, ranging from a minimum of 5 per cent (as in Kerala and parts of Mysore) to a maximum of 12 per cent in the case of hydro-electric grid areas, can hardly be considered satisfactory at the present time to cover the entire working expenses in addition to depreciation and interest charges."²⁷ The indirect assistance by triggering off a chain reaction in the growth of agriculture and industry may in the long run bring about higher load density and lower cost. It may, however, be pointed out that the institution of farm co-operatives and industrial co-operatives can derive more advantage out of rural electricity rather than individual small farmers and craftsmen, for whom, cost of electricity is an important item. The co-operatives can also eliminate the waste of idle electric power by diversifying co-operative activities.

Japan has achieved considerable success in the field of service co-operatives. "The co-operatives help the Japanese farmer in credit, purchase, marketing and processing. More than 95 per cent of the peasant families are members of such co-operatives. These co-operatives provide 77 per cent of the total agricultural finance, they supply 64 per cent of the fertilizers and market 96 per cent of the surplus rice and 85 per cent of the surplus wheat and barley of the farmer."²⁸ It is, however, true that in Japan the farmer has to pay a high rate of interest on loans (as high as 11 per cent for fertilizers and 10 per cent for cattle and implements) and surely the Indian cultivators cannot afford high interest charges. The Balwantrai Mehta Committee has rightly pointed out, "At present it is only the credit-worthy and, therefore, the well-to-do farmer who is able to secure credit from cooperative societies. The poorer farmer, especially, the share-copper, is completely deprived of this source of credit." The remedy, once again, is the co-operative farming in which China has made rapid progress.

Thanks to the co-operative movement, China, whose quota of food-grains import, in addition to raw cotton, was to the tune of about 2 million tons, has not only succeeded in wiping out the deficit but is now in a position to export some food grains and meet her full requirements of cotton. In Szechwan province the co-operatives initially concentrated on improving agricultural techniques, growing more than two crops and providing more manure and fertiliser. The pressure on land being too

high the co-operatives extended their activities to subsidiary occupations, such as, carpentry, brick and tile making, processing soya beans, piggeries, poultry, water mills for processing rice and so on. Not only food crops but commercial crops, cotton, raw silk, jute etc. have been successfully brought under co-operative cultivation which do not suffer from any undue price fluctuation as in India. Price stabilization for agricultural crops is an important state function in China. The area of co-operation has been extended to the acquisition, on reasonable payment of orchards, tea gardens, groves of mulberry trees and timber producing groves which, run on co-operative lines facilitate considerable amount of regular work to surplus agricultural labour. The use of silt as a basic manure seeks to indicate how on the one hand the shortage of fertiliser is met and on the other the surplus man-power is utilised. "The first step is to take out the silt from the canal bed and deposit it in canoes. The canoe is brought to the bank and the silt is transported in buckets carried on human shoulders. . . . It is a heavy work. Physical labour is, however, no consideration to the Chinese when it came to such an important matter as manuring their fields."²⁹ The same zeal and concentrated effort has been demonstrated in conquering and cultivating the vast mass of Loess Hills along the middle reaches of the Yellow River, reclaiming fallow lands and increasing double-cropped areas. Shortage of cattle stock and paucity of mechanised tools have been compensated by labour-intensive techniques. It is true that all these achievements have been possible through regimentation of vast multitude of human beings. But nothing can be achieved at the cost of individual initiative. That is why, the individual in the cooperative pattern has been allowed to retain a small plot of land for personal cultivation. The pattern of 'Norm' to measure the quality and quantity of work by a member of the co-operatives is flexible enough to accommodate the disparity in personal performance. Every co-operative has an annual plan and a long range plan of three to five years. This is worked out in terms of production targets, employment for the labour force, requirements of finance as well as supplies. The movement has, however, reached its present stature through several stages. After land tenure system went through the needed change, temporary mutual-aid teams were set up to tackle the agrarian problem. Then at a comparatively slow pace agrarian co-operatives of simpler type came up and in the third stage a complex and comprehensive pattern was evolved.

The need for co-operative farming in India has been recognised in the Second Plan. It is admitted that the main task during the Second Five Year Plan is to take such essential steps as will provide sound foundations for the develop-

ment of co-operative farming, so that over a period of 10 years or so a substantial proportion of agricultural lands are cultivated on co-operative lines. But no definite target was fixed except that it was decided to locate at least one co-operative farming society in every N.E.S. block during the plan period so that there would be about 5,000 planned experiments working in all parts of the country. But in actual implementation the failure has been considerable. There are 1600 existing co-operative farming societies and according to the Planning Commission not more than 50 per cent of them can be said to be genuine or reasonably successful.³⁰ The National Development Council laid down the target of 3,000 such societies during the last 3 years of the Plan, 600 of which should be started in 1958-59. The State Governments after due consideration decided that they could start only 513 farms during the current year. Thus, the modest target of 5,000 farms is a far cry. The plan objective of securing a sound foundation for the development of co-operative farming has thus remained a far-fetched ideal. In the context of this indifferent attitude towards co-operative farming by the authorities, it is not at all surprising that the Balwantrai Mehta Committee would reveal that in the NES blocks the additional food production was nowhere near the publicised figure of 20 per cent but was only 10.8 per cent and in some blocks even as negligible as 2.7 per cent.

In China the agrarian problem was not complicated by the existence of a large population of landless labourers as in India where disparities in land holding is also considerable. Less than 5 per cent people cultivate more than one-third of the total area. On the other hand, about two-thirds people cultivate less than 15 per cent of the total area. Under-employment is a serious problem and yet there exists a large work potential. The Patil Delegation to China had occasion to mention that "there is plenty of scope for the extension of irrigation by the provision of more wells, tanks, embankments, etc. Tanks constructed in the past have to be repaired. For conservation of moisture bunds have to be constructed. Large areas have gone out of cultivation due to soil erosion. These are to be reclaimed. In many places erosion of soil has to be checked. There are areas which suffer from water logging and need drainage. Most of these improvements, being of labour intensive nature, require investment mainly in the form of human labour. . . . And yet. . . it has not been possible to avail of the surplus labour for the execution of schemes of improvement and intensification of agriculture."³¹ Because of the operation of the Law of Diminishing Returns, uneconomic size of holdings and various cost items involved in the efforts to improve the yield capacity of land, it is found that in India in small

holdings the costs exceed the income.

We are thus led to the unassailable conclusion that without co-operatives we cannot solve the problem either of low farm yield or of unemployment. The difficulty in an unregimented socio-political pattern to mobilise land and man-power in the manner of China is thought to be enormous. Without entering into a debate on this issue, it is, however, possible to suggest that, as a beginning, individual farming on co-operative lines can be experimented upon. "The essence of individual farming on co-operative lines may be described as follows:—all functions, which cannot be executed in the limited boundaries of a single small farm, or, are beyond the capacity of the small holder, such as planning including field arrangements and cropping scheme, the financing of investments, the keeping of large-sized equipment, the wholesale supply and marketing, etc. should be turned over to the co-operative society for improved individual farming. All other functions of farm management which can properly be executed within the boundaries of a single small farm should remain with the independent individual."¹ Simultaneously the landless labour and the volunteers among small farmers can form the nucleus of co-operative farmers with possession of re-distributed land after ceiling fixation, reclaimed land and land otherwise obtained. Given the proper atmosphere and a government machinery dedicated to the cause, co-operative movement cannot but succeed in India. Without the producers' co-operatives the needs of each one of the 50 million families engaged in agriculture have to be ascertained and provided for, which in a dynamic

world is a task impossible of attainment.

Once the co-operative movement gets rooted in the soil, like China, we shall be able to extend the activities resulting in higher productivity and more employment. We have already observed that under-employment is itself a serious issue in India. Our cottage and small industries, at their present level of organization, are also no exception to this. It is true that to the extent these provide part-time supplementary employment to seasonally unemployed cultivators, they reduce the degree of rural unemployment but raise the problem of under-utilisation of capital. Ill-paid full-time work in these industries only makes the problem larger in magnitude. The Kanungo Committee estimates that an active handloom is worked for about 200 days in a year and that the proper employment period for handloom should be 300 days. A backward country is in short supply of capital and as such under-utilisation of capital is a definite economic waste which should be avoided or at least sought to be minimised. Technological unemployment cannot also be an issue which can be ignored. In a competitive world market rapid changes in industrial techniques are bound to be reflected in unemployment of this category and India is no exception. Although in the second plan this issue has been ignored in the context of perspective planning its relevancy is undeniable. It is not easy to suggest remedies to such issues but once the spirit of co-operation emolliates the pace of economic growth much of the present day ills of small and cottage industries will be over. Small and cottage industries planned on the basis of co-operatives can by reducing organisational

overheads function in a better manner than the individual units. Dr V. K. R. V. Rao while discussing employment policies for India suggested the formation of a National Labour Force recruited from the classes which at present have either little or no income and particularly from those areas where the incidence of economic distress is high. They would be meant for constructional activities such as building dams, factories, roads, schools, hospitals, etc. In the Second Plan itself the proposal was mooted out in a thoughtful manner. "It is suggested that in collaboration with other departments co-operative departments should investigate the directions in which labour co-operatives could by stages replace the existing contract system, so that each area derives the maximum possible benefit in terms of income and employment from works which are undertaken for its development. It should be an important aim in district and village planning to organise labour and construction co-operatives on sound lines...."² Criticism of contract labour still continues and in spite of the policy enunciated in the plan no serious effort has been made to form and encourage labour co-operatives for constructional jobs.

Lastly, it is not enough to think in terms of converting unskilled labour into skilled workers in order to raise their level of usefulness unless there is a conscious effort in man-power planning so as to eliminate or even minimise the wastage in the utilisation of skilled workers. There are innumerable instances where in spite of over-all shortage of technical personnel, many a qualified engineer suffered from involuntary unemployment. The Prime Minister, more than once, suggested that a national roster of technical and scientific

personnel returning from abroad should be maintained and that they should be granted an allowance till they were suitably absorbed. Lack of co-ordination between the public and the private sectors and also between the different State Agencies in the domain of man-power planning must be the reason for this sad state of affairs. From a report of the Directorate of the National Employment Service it appears that in certain parts of the country there is demand for electricians, fitters, turners, doctors, motor mechanics, machinists, etc. who are found surplus in certain other areas.³ There are various well known reasons for the comparative immobility of labour in India. One primary reason is, however, the continuance of a narrow regional sentiment which has not only impeded the emergence of a healthy national outlook but has also resulted in under-utilisation of man-power. Over and above, the state agency responsible for the placement of skilled personnel is still organizationally inadequate and its field of operation is extremely limited. The task of employment planning in India is so vast and intricate that it is necessary that the National Employment Service should be made organizationally strong with authority to plan and co-ordinate employment activities in primary, secondary and tertiary occupations. Once, as in the case of the three public sector steel projects and the central heavy machine building plant, the standard complement of a project is tentatively decided upon showing the break-up of personnel in different categories of jobs and occupations, then, it becomes easier to plan for their recruitment either by way of training the freshers or by bringing in personnel from places where they are in excess of requirement.

Labour Participation in Management

Participation by Labour in the management of industrial undertakings, is universally acknowledged as an important element in the maintenance of industrial peace. The maintenance of industrial peace has become imperative for India in order that the plans for the economic rehabilitation of the country may proceed without interruption. The question as to whether our labour force should be given a share in the management of industrial undertakings, and if so, in what form and to what extent, have therefore come to the forefront during recent times. In some foreign countries there is statutory provision for workers' participation in management. And where the experiment has been tried, it has been found to yield beneficial results by way of increased production, more economic use of raw materials, and less industrial disputes. About two years ago, a study group of ten under the leadership of Mr. Michael John M.P., toured some Western countries under Government auspices, and made an on the spot study there of the practices and procedures obtaining in regard to workers' participation in management. The study group submitted a report which forms useful reading. Before dealing with the study group's findings and the recommendations made by them and the subsequent developments that have taken place in India in this direction, we may note briefly the form which workers' participation in management has taken in foreign countries.

The system of workers' participation in management is reported to be functioning very successfully in Yugoslavia. Workers are trained in the art of business management by the Trade Unions in that country, and this is probably one of the contributing factors for the success of the system there. Workers participate in the management of industrial undertakings in Yugoslavia pursuant to a law passed in 1950. That law provides for the formation of a Workers' Council and Management Committee for every industrial undertaking. The workers of the undertaking elect the Council, the strength of which varies according to the size of the undertaking. For a large undertaking the Council may consist of over a hundred representatives, while for a small undertaking, the Council may consist of just fifteen representatives. The members of the Council hold office for one year, and meet about eight times a year, or oftener if necessary. All major questions are dealt with by the Council and this includes approval of the Balance Sheet, distribution of the profits, major questions of policy and administration, and control over officials. The Management Committee is elected by the Council. The Committee is a small and compact body and is, so to say, the executive for the Council. The manager of the undertaking is always a member of the Committee.

The Committee also holds office for one year only; but may include representatives of the retiring Committee, to the extent of not more than a third its total strength. There is also a provision to the effect that no person may be a member of the Committee for more than two years at a time. The Council deals with all day-to-day matters, and is in charge of the detailed administration of the undertaking. An important point to note is that no outsiders are permitted to be in the Workers' Council or the Management Committee.

In West Germany also workers' participation in management has been functioning successfully for several years. The system has been in vogue in that country under two statutes enacted in 1951 and 1952. The first law applies to joint-stock undertakings employing more than a thousand workers, and provides that the undertaking shall constitute a Board of Supervisors of eleven members, five to be elected by the shareholders, five to be nominated by the trade unions concerned, and one to be elected jointly by the shareholders and workers. The Board of Supervisors is the policy-making body for the undertaking. The actual execution of the policies is entrusted to a Board of Management of three representatives, one of whom will be a representative of the workers. As stated earlier, the above provisions apply to large undertakings. All other undertakings fall under the second enactment made in 1952. The principal difference between this and the earlier enactment is that in this case, the employees' representatives on the Supervisory Board shall not exceed one-third of the Board, except in the case of mining and iron & steel industries where the workers' representatives are to be equal in number to those of the shareholders. The law of 1952 provides also for the formation of Social Committees, Personnel Committees and Works Councils. These Committees consist entirely of workers' representatives, and while the first two deal with social and personnel matters, the last one, i.e. the Works Council deals with working hours, and other similar matters.

In the United Kingdom, workers' participation in management takes the form of Joint Committees. Such joint committees have to be formed in all Government-owned enterprises, and it is compulsory. For private undertakings however, the formation of joint committees is only optional. The joint committees consist of an agreed number of workers' representatives to be elected by them, and a certain number of management's representatives nominated by the management. The joint committees have jurisdiction to deal with such matters as welfare, safety, health, discipline, training etc. Terms and conditions of service, wages, and

other matters of like nature cannot however be dealt with by the joint committees.

Workers' participation in management is in vogue in Sweden as a result of voluntary agreement between employers' organisations and trade unions. Here also the participation has taken the form of joint committees. The functions of the joint committees are much the same as in England: wages and terms and conditions of employment are outside their jurisdiction. Every undertaking with a labour force of twenty-five or more workers has to form a joint committee. The strength of each joint committee is generally between five and ten, selected partly by the workers, and partly by the management. The workers' representatives are elected by the concerned trade unions, from among employees who have put in a minimum period of service of one year, and who are above twenty-one years of age. The joint committees meet four times a year, and oftener if necessary, and the meetings are held at a place provided by the management, but outside working hours. In Sweden, the joint committees have been functioning mostly as advisory bodies.

In Belgium, the joint committees function with somewhat greater powers. They can discuss and make suggestions on such subjects as productivity, terms and conditions of service, appointment of auditors, standing orders, social welfare etc. The joint committees are constituted under law, and every undertaking with a labour force of fifty or more workers has to constitute such joint committees. The workers' representatives on the joint committees are elected by the unions, and as a rule only senior members of the union are so elected.

The system of workers' participation in management is functioning in France in all sectors, with statutory sanction. Private undertakings employing fifty or more workers are required to have Works Committees, the strength of which varies with the size of the undertaking. The workers' representatives are elected by proportional representation from among candidates put up by the unions. The Works Committees have advisory powers in regard to certain other matters. The former includes such matters as day-to-day running of the factory, organisational matters, appropriation of profits, etc., while the latter includes welfare measures, housing, canteens, provident funds, loans to employees etc.

Workers participate in the management to a much greater extent in all nationalised undertakings in France. Administration of the nationalised undertakings has taken the form of a three-tier system. At the top is a general Administrative Body for each industry. Next comes the Board of Directors for each undertaking. Finally,

within each undertaking there are Works Committees. In the Administrative Bodies referred to above, the strength of the workers' representatives is generally about one-third, though there is no uniformity in this matter. The workers' representatives are nominated by the most representative unions in the industry, on the basis of their own strength in the industry. For the nationalised mines, electricity undertakings, and gas undertakings, the Administrative Bodies are the National Coal Board, the National Electricity Board and the National Gas Board respectively. The National Coal Board consists of eighteen members, six appointed by Government, six representing consumers, and six representing the employees in the industry. The Board director, supervises, and co-ordinates the operations in the various coal-fields, plans coal production, promotes research and training, and advises Government on fuel prices. The National Electricity Board and the National Gas Board also consist of eighteen representatives each, constituted similarly as above, and with similar powers. In the mining industry, the middle tier is the Regional Board established for each coal-field. Each Regional Board has eighteen representatives, seven of whom are appointed by the most representative trade unions, and the remainder represent the National Board and the consumers. The Regional Board is responsible for production, operation and marketing. As regards the nationalised electricity and gas undertakings, in each region there are electricity distribution departments, and gas production and distribution departments, each administered by a Regional Board of eighteen members. Of this, four represent the National Board, eight represent consumers, and six represent the workers.

Though Insurance is nationalised in France, there is no over-all Administrative Body as in the case of mining, electricity and gas. Instead, each insurance undertaking is managed by a Board of thirteen members comprised of a Chairman appointed by Government, three nominees of the National Insurance Council, three representatives of insured persons, three members appointed by the most representative trade unions, and three nominees of the State. The National Insurance Council is a central body of twenty-one members, seven appointed by the State, seven representing insured persons and seven representing insurance employees. The Council advises the Minister on Insurance matters.

For the nationalised banking industry in France, there is a National Credit Council, functioning as the central agency to deal with matters concerning the organisation of credit. It consists of thirty-eight members, out of which seven are nominated by the most representative trade unions. The func-

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tions of the Council are mainly advisory. The four main deposit banks in France are each managed by a Board of twelve members, consisting of four representatives of trade unions, four representatives of industry and Commerce, and four nominees of the State.

The system of joint consultation is thus widely prevalent in France.

The experience of foreign countries has been that the system of workers' participation in management has had beneficial effects in Yugoslavia it has resulted in increased production, greater efficiency, and savings in use of raw materials and stores. In West Germany it has brought about a better atmosphere of trust and co-operation between management and labour, and has resulted in increased wages, better welfare amenities and greater job security for workers. In France, it has resulted in notable increases in the total output of the coal, electricity and gas industries, and greater labour productivity. It may be expected that with participation in the management, workers are bound to feel a greater sense of responsibility, and as a consequence, may be more hesitant to raise disputes or resort to strikes. But participation pre-supposes a certain level of education and general knowledge, and a certain measure of ability to appreciate economic problems. These are woefully lacking in the case of Indian Labour. The position in India is such that workers are unable to manage the unions all by themselves, and have to include outsiders in their

managing committees. And it is well-known that such outside influence has been none too beneficial. On the other hand, the legal sanction for the inclusion of outsiders in the managing committees of trade unions has given room for political parties to use the unions for their own ends, much to the detriment of the larger interest of the country. So much so, that at the 17th session of the Indian Labour Conference held in May 1958, the Union Labour Minister had to openly appeal to keep politics out of the Unions. Despite this, it is surprising that serious attempts are being made to popularise workers' participation in management in India, without first raising the general level of education and knowledgeability of our workers. Even the study group mentioned in the opening paragraphs of this article, found that before anything in the nature of workers' participation in management could be attempted in India, it was necessary that workers must first be educated to realise the importance of the role they have to play in the industrial economy of the country; and the scheme, if at all, could be tried even as an experimental measure only on a voluntary basis. At the 15th session of the Indian Labour Conference held in New Delhi in July 1957, the study group's report was considered, and it was decided that joint councils of management should be set up as an experimental measure. In the first instance, in about fifty selected industrial undertakings, on a voluntary basis.

The Conference set up a sub-committee to consider the subject further. The sub-committee met in New Delhi in August 1957, and drew up a list of industries which should be covered by the experiment during the initial years. It is of interest to note that among the criteria adopted by the sub-committee for the selection of undertakings to try the experiment, one was that the undertaking should have a well-established strong trade union functioning. This was followed by a seminar on the subject organised in January 1958; by then, only thirty units had actually volunteered to try the scheme. Thereafter not much progress was made, according to the reports submitted to the 16th session of the Indian Labour Conference held in Naini Tal in May 1958, and 17th session of the Standing Labour Committee held in Bombay in October 1958. From the Minister's speech at the Labour Committee meeting it appeared that even among the thirty units that had volunteered to try the scheme, Joint Management Councils had been constituted only in about a third of the units. It was stated however that where the scheme is being tried earnestly, encouraging results had already been visible; that in one instance, all dissident elements among the workers had merged with the dominant union in order to make the scheme successful; and that in another instance, rival unions had come to an understanding for the purpose of securing representation on the joint councils. These are no doubt good portents for industrial harmony, but, as we said before, until the level of education and general knowledge among workers is raised substantially from what it is now, participation by workers in management in India, cannot be on any appreciable scale.

Before concluding, we may mention the schemes of workers' participation in management operating in two important units in India, one in the public sector, and one in the private sector. In the Tata Iron and Steel Co. Ltd., the scheme is in force by virtue of an agreement entered into by the company with its workers in 1956. Joint Departmental Councils, a Joint Works Council, a Joint Town Council, and a Joint Consultative Council of Management, have been set up as a result of the agreement. Workers and the management have an equal number of representatives on these Councils. The Joint Departmental Councils study the production problems pertaining to the particular department to which it relates and suggest measures to promote and rationalise production at the departmental level. The Joint Works Council deals with production problems of the works as a whole. The Joint Town Council deals with social and other activities relating to the township. The Joint Consultative Council of management advises the management on the working of the industry as a whole, including financial matters, but will not deal with matters relating to shareholders, confidential matters, and matters relating to taxation.

In the Hindusthan Machine Tools Private Ltd., workers' participation in management is provided for under an agreement entered into by the company with its workers' association. Under the scheme enunciated under the agreement, there is a Joint Council of ten members, five nominated by the managing director of the company, and five nominated by the Workers' Association from among its members not more than two of whom may be non-employees. (Thus outside influence is not eliminated). The Council is to have a Chairman, a Vice-Chairman, and two Joint Secretaries. If the Chairman is a representative of the management, the Vice-Chairman should be a representative of the workers, and vice-versa. The members are to hold office for one year, at a time; but retiring members will be eligible for re-nomination. For meetings of the Council, the quorum is four members, consisting of two representatives of the management and two representatives of workers. The decisions of the council shall always be unanimous decisions only. The Council is to endeavour to improve the working and living conditions of the employees; to improve the productivity of the company; to encourage suggestions from the employees; to assist in the administration of the labour laws; and to serve generally as a channel of communication between the company and its employees. The Council must be consulted by the company on matters relating to administration of standing orders; introduction of new methods of production and manufacture involving re-deployment of men and machinery; and closure, reduction in, or cessation of company's operations. The Council is to have the right to receive information, discuss, and offer suggestions relating to the general economic situation of the company; state of the market, production and sales programmes; organisation and general running of the company; manufacturing methods and working processes; annual balance sheet and profit and loss account; expansion programmes; and all matters affecting the economic position of the company. The Council is, finally, to be entrusted with the responsibility in respect of matters relating to administration of welfare measures; supervision of safety measures; operation of vocational training and apprenticeship schemes; preparation of schedules of working hours, breaks during working hours, and of holidays; payment of rewards for valuable suggestions from employees; and such other matters as may be agreed on. The above arrangements are to be in force for one year in the first instance, but may be renewed for such further term as may be agreed upon.

In conclusion it has to be mentioned that despite workers' participation in management being in force in the Tata Iron and Steel Company Ltd., since 1956, there was a major strike in that factory this year, which goes to show that workers' education should come first, and participation, next.

On Bonus

BETWEEN 1948 and 1958, very large number of industrial disputes have been raised by workers on questions relating to bonus. These have all followed a more or less common pattern. Where the employer has distributed no bonus, workers have claimed that the employer has made huge profits and ought to have declared a bonus. And where the employer did distribute a bonus, the workers' contention has been that the employer has made much greater profits than made out in the accounts and that the bonus should have been of a larger amount than what was given. If there were a Statute laying down in detail as to how the bonus to be given should be worked out, it might have helped somewhat to reduce the number of disputes that had been raised by workers during the last ten years in regard to bonus questions. But we have no such Statute in India. In the Latin American countries there is legislation on this subject. For instance, in Venezuela every undertaking is required to distribute among all its employees at the end of each financial year at least ten per cent of the net profits made in the course of that year. The profits are to be distributed in proportion to the salary or wages earned by each employee during the year. But the individual share of each employee is however not to exceed two months' salary or wages. The employers are required to pay seventy-five per cent of the share to the employees in cash, and to deposit the remainder in the name of the employee in the workers' bank or in any other approved bank. The manner of determining the net profit is also prescribed by the Statute. The net profit is the gross profit minus general expenses minus interest on the invested capital at the rate of six per cent minus ten per cent of the remainder for reserve funds. In Colombia the law provides that a share of the profits shall be distributed to all workers on a graduated scale according to the amount of the profit. The workers' share varies from five per cent of the amount by which the profits exceed twelve per cent but do not exceed fifteen per cent, to twenty per cent of the amount by which profits exceed thirty-five per cent. The amount to be distributed to each worker is determined in accordance with a point system based on the following factors:—(i) wage or salary paid; (ii) family responsibilities; (iii) seniority; (iv) regularity of attendance; and (v) efficiency and honesty. The share of any individual worker is not to exceed half the wages or salary due to him for the financial year. Only half of the worker's share is to be paid in cash, and the other half is to be deposited

in his name in the approved banks. Bolivia, Brazil, Chile, Mexico and Peru are some other countries which, by legislation, have conferred a right upon the workers to share in the profits of the concern in which they are working.

No law has so far been passed in India for regulating profit-sharing. However, in the course of the adjudications during the last ten years on question relating to bonus, a large volume of case-law has developed, particularly in the decisions of the Labour Appellate Tribunal, and these have enunciated many valuable first principles for determining bonus questions. The rest of this article is devoted to a discussion of some of these first principles.

There was a time when bonus was regarded as an ex-gratia payment dependent on the good will of employers and could not be the subject-matter of adjudications. The ex-gratia theory of bonus however has long since been exploded in industrial courts. Tribunals have consistently held that whenever an industry earns substantial profit, the management has a moral obligation to pay the workers a share of the profits as bonus since the workers have not been given a living wage. Every industry which has got the capacity to pay is bound to pay the living wage to its workers. But where it has not got that capacity or where its prosperity is uncertain and its stability is in question, or where it underwent losses, it may not find its way to pay the living wage. Bonus aims at making up this gap between the current wage and the living wage. Hence, as the worker is entitled to a living wage, he may very well claim bonus to the extent the current wage falls short of the living wage. In that sense bonus partakes of the character of a deferred wage, though it cannot be placed on the same footing as deferred wage, for, it would then mean that a company would be under a liability to pay bonus even if it had suffered losses. When an industry is running at a loss or has earned insignificant profit, Tribunals cannot reasonably direct payment of any bonus even in the form of deferred wage. Any such direction will react adversely on the industry itself and ultimately on the workers. So, in the event of a loss no claim for bonus could be entertained. A question might arise that if bonus was meant to make up the deficiency between the current wage and the living wage, then there could be no claim for bonus after the living wage had been reached. Even then a claim for bonus would lie, for, if there are profits, the entire credit or the benefit thereof cannot be

arrogated to capital alone. Labour must have contributed a large share for such achievement. So why should it be denied the benefit? Thus, even after the goal of living wage has been attained, the claim for bonus will still lie.

That every industrial undertaking requires for its successful operation the joint efforts of those who supply money and those who supply labour cannot be disputed by any one at the present day. It cannot also be disputed that the workers are entitled to a fair living wage which should be a first charge on an industry subject to its capacity to pay. It follows as a necessary corollary from these propositions that workers have an industrial claim of an equitable, though not of a legal nature, to ask for a share in those profits of the industry to which they have contributed by their labour, especially so if their wages have not reached the living standard. It is from this standpoint that employees have an industrial claim for an annual bonus from the surplus profits of the industry. It is for this reason that workers are being given bonuses, which may be ex-gratia payments from the standpoint of the Civil Law, but which are certainly equitable claims from the standpoint of industrial relations. The moral or the equitable right of the employee to get a share in the profits is not due to his status as a partner in the undertaking, but to the obligation of the employer to pay an equitable share in the surplus profits in the form of a bonus, on the ground that even the living wage is not generally sufficient to enable him to save money for extraordinary expenditure. It must however be clearly understood that the employee is entitled to such a share on account of the contribution he has made by his labour to the increased profits of the industry in which he is working. Even where the prosperity of the concern is due in a large measure to judicious planning in the manufacturing and commercial spheres done by the management and the progressive introduction of mechanised methods of manufacture, it cannot be gainsaid that without the willing and active co-operation of the labour force such planning would have been fruitless, and it must be recognised that the employees have made their due contribution to the prosperity of the concern though of course there are other factors which have simultaneously made their contributions to the sum-total of prosperity. As a matter of justice and fairness it follows that employees should be given a chance of participating to a reasonable extent in the fruits of the prosperity the edifice of which they have laboured sincerely to build up

in collaboration with others. Bonus may therefore be regarded as something legally due.

In the Muir Mills' case, the Supreme Court of India has laid down some principles, which may be regarded as fundamental, for determining claims for bonus. Unless the undertaking has made a profit during the year in respect of which bonus is claimed, and further, unless the workers have contributed towards the earning of those profits, a claim for bonus will not be justified. Further, where these conditions are fulfilled, Labour would be entitled to bonus only if, after meeting the following prior charges, a distributable surplus is left over:—(i) income-tax payable on the year's profits; (ii) depreciation; (iii) carry forward to reserves for rehabilitation of plant and machinery; (iv) a return of six per cent on the paid-up capital; (it may be mentioned here that in the subsequent case of the Assam Tea Co. Ltd., the Supreme Court allowed return on paid-up capital at the rate of seven per cent in view of the greater risks to which this industry is exposed, it being an agricultural industry); and (v) return on other capital employed in the business, at the rate of four per cent generally, and five per cent in the case of the tea industry.

In regard to the provision to be made for income-tax, there are some important points to be noted. Firstly, whether the company is in fact liable or not liable to income-tax in respect of the particular year is not relevant at all. So also, whether the company has or has not paid the tax due is not relevant. Secondly, income-tax exemptions granted to the company on account of past years' losses and unabsorbed depreciation should be left out of account. Thirdly, foreign income-tax paid or payable should be deducted. Lastly, the method of working out the provision for income-tax is: the trading results of the particular year should first be worked out, the statutory depreciation allowable for that year should be deducted therefrom, and in respect of the balance the income-tax payable should be calculated, and the amount so arrived at will be the provision to be made on account of income-tax.

The question arises here as to how the profits are to be worked out, i.e. what are the kinds of income that may be excluded in working out the profits and what kinds should be included, and also what items of expenditure should not be deducted from the income so arrived at and what kinds of expenditure may be deducted. Differences have often cropped up between Management and Labour on these matters, and there are

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quite a few rulings by tribunals on the subject. The general principle that has been followed is that items of income that are unrelated to workers' efforts should not be included in the income side. So also all receipts of a capital nature. On the expenditure side such items as managing agency commission, directors' commission, legal expenses, leave salaries, passage allowances, entertainment allowances, bad debts written off, voluntary bonus payments, increased wages paid during the year in respect of past years as a result of tribunal awards have all been allowed to be deducted from the income.

There has been much difference as to what should be the provision for depreciation, particularly as to whether initial allowances given as additional depreciation under the Income-tax Act, and unabsorbed arrears of depreciation should be deducted or not. Happily the point has been finally decided by the Supreme Court in 1958 (1) LLJ 239; only normal depreciation, including multiple shift depreciation but not initial or additional depreciation may be deducted.

A great deal of controversy has raged round the point as to how

the amount to be carried forward to reserves for rehabilitation of plant and machinery should be worked out. That an amount should be carried to reserves for the purpose of rehabilitation of plant and machinery cannot however be disputed. For, in order to ensure a return to the investor on the capital subscribed by him, it is essential that the plant and machinery of the concern in which he has made the investment should ever be kept in good working condition. The depreciation allowed under the Income-tax Act is only a percentage of the annual written down value, and so the depreciation fund built up by the amount set apart yearly under that Act cannot be expected to be sufficient to meet the cost of rehabilitation. An additional amount will therefore have to be set apart every year so as to make up the shortfall between the amount required for rehabilitation and the amount available in the depreciation fund. A necessary prior charge on the profits will therefore be a provision for rehabilitation, replacement and modernisation. The procedure to calculate the amount to be set apart for this purpose is: first, it

should be ascertained in respect of every machine as to when it was installed, what is its expected life, and when it may require to be rehabilitated, replaced or modernised; then, the approximate cost of rehabilitation, replacement or modernisation should be worked out. From this latter amount, the break-up value of the old machinery and the amount available in the depreciation fund in respect of that machinery should be deducted. The balance represents the total amount that has to be found for rehabilitation, replacement or modernisation of that machinery. Dividing this by the number of years equal to the anticipated life of the machinery at that point of time gives the amount to be carried to reserve in this connection in the particular year in question. Admittedly, this will be a difficult process, as the items of machinery may be too numerous to permit of individual calculation in respect of each machine. To get over this a system of multipliers has been adopted in some cases. Thus, in the Bombay Mill-Owners' case, a Full Bench of the Labour Appellate Tribunal ruled that the value of the block should be multiplied by 2.7 to find out the cost of rehabilitation. This was a device for equating the purchase value of the machinery to the present value of machinery which must be purchased to replace it. From the amount so arrived at, the present break-down value of the block together with the amount available in the depreciation fund were deducted. The resultant balance was divided by the number of years within which the rehabilitation was to be made. And thus the annual provision for rehabilitation was calculated. It has to be noted however that the above multiplier of 2.7 will apply only to old machinery purchased prior to 1939. Prices having gone up after the War, machinery purchased or buildings erected thereafter would have cost much more, and so only a lesser multiplier than 2.7 may reasonably be applied to them. The multiplier will therefore necessarily have to be varied according to the year of purchase of the machinery or erection of the buildings. The multiplier has to be applied to the original cost and not to the depreciated value. The procedure to be followed in this regard may be illustrated by reference to the case reported in 1953(2) LLJ 858. In this case, the original value of the block as on 1st December was Rs 34.35 lakhs. The cost of rehabilitation was worked out by multiplying this by 2.7 which came to Rs 92.75 lakhs. According to the books of account, the break-down value of the block was Rs 4.64 lakhs, and the amount in the depreciation fund was Rs 16.74 lakhs. Deducting these two from Rs 92.75 lakhs, gave the figure of Rs 71.38 lakhs. Further, the rehabilitation was taken as necessary to be done within fifteen years. So, dividing Rs 71.38 lakhs by 15 years gave the figure of Rs 4.76 lakhs as the

amount to be set apart annually over a period of fifteen years for purposes of rehabilitation.

The other two items to be deducted from the profits by way of prior charges are the return to be allowed in respect of paid up capital, and the return to be allowed in respect of other funds employed as capital. As a rule, on ordinary shares and deferred shares, return is allowed at the rate of six per cent. In respect of Preference Shares, the fixed rate of preference dividend, whatever that may be, has always been allowed. For example, for a ten per cent Preference Share return will be allowed at ten per cent, while for a five per cent Preference Share return will be allowed only at five per cent. For the tea industry, return on paid up capital was allowed at seven per cent for the special reasons mentioned earlier. For bonus shares return has been allowed at four per cent in respect of the year in which they were issued, and at six per cent in respect of subsequent years. This is on the basis that during the year of issue the bonus share should be treated not as paid up capital but as other funds employed as capital. And in respect of such 'other funds' only four per cent has generally been allowed. In the tea industry alone, the Supreme Court has allowed a return of five per cent (in respect of such 'other funds employed as capital') in the Assam Tea Company's case. It may be mentioned in this connection that before a return can be claimed on such 'other funds employed as capital', the management has to prove that the amounts in respect of which the return is claimed were actually utilised in the business during the period in question.

After the profits have been ascertained and the prior charges have been deducted from them in the manner detailed above, the balance available represents the distributable surplus. There have been a few rulings to the effect that the entire surplus need not be distributed, but a portion may be carried over. There is however no definite indication as to how much may be carried over. The Labour Appellate Tribunal has ruled however that the total bonus to any individual worker should be not more than four to five months' basic pay.

Before concluding we may take note as to how the distributable surplus is to be divided as between the workers inter se. This has to be done on the basis of the aggregate of the basic wages earned by the worker during the period to which the profits relate. Workers dismissed for misconduct, as also those who have not put in a minimum period of service (generally 35 days) may be excluded from the distribution. All others, including those who had left service at the time of the distribution are entitled to the bonus.

Norms for Wages

THE minimum basic wage that the lowest category of worker should get is of great importance both from the point of view of the worker as also of the Industry. So far as the worker is concerned, the importance arises from the fact that, as a rule, the profit bonus to which he may be entitled is invariably related to his basic wages. Moreover, until recently, contributions to the provident fund have also been on the basis of the basic wage. Further, except in a few cases where it is a flat rate, the dearness allowance is generally linked to the basic wage. And, when a worker retires, the gratuity he gets is also a multiple of his basic wage. Thus, the minimum basic wage is most important to the worker. So far as the employer is concerned, the importance of the question arises from the fact that the general experience has been that as between two units in the same industry, located in the same region, there cannot be any considerable disparity in the lowest wages payable to the lowest category of workers: if there is any such disparity, it causes discontent, and results in disruption of industrial peace. It therefore becomes important for the employer to determine as to what should be the minimum wage for the lowest category of workers, and as to how it should be worked out. Besides the worker and the employer, the State is also interested in this issue. For, it has to prevent industrial disputes, and disparity in wages is a major factor in this regard. More important still, the State has to protect and/or improve the national standard of living, and for this it is necessary to ensure certain wage standards. Thus, in the question of minimum wages for unskilled workers, Government, Employers, and Workers are all deeply interested.

In considering the question as to what should be the minimum wage and how it should be computed, we have first to take note of the fact that there are three different levels of wages. These may be stated as a living wage, a fair wage, and a minimum wage. These three concepts have never been clearly defined; but, they are generally understood to be somewhat as follows. The minimum wage provides for bare physical subsistence, and nothing else besides. The living wage provides not only for bare physical subsistence, but also for the maintenance of health and decency, as also a measure of frugal comfort and some insurance against the more important misfortunes of life. The fair wage is something in between the minimum wage and the living wage. It includes subsistence cost, plus some frugal mea-

sure of comfort and decency to keep up the efficiency of the worker. The fair wage is not a static conception: it varies according to the standard of living in different countries, and varies also according to the times. However, the subsistence cost is fundamental to all three concepts of wages. So, the question arises as to how the subsistence cost should be computed.

Before proceeding to deal with this question, we may mention the practice and procedure obtaining in this regard in some foreign countries. We need not look to the United States for this purpose. That is a highly developed economy, with a very high standard of living, where things regarded as comforts in some countries are regarded as necessities more or less. On the other hand, the law and practice in Australia would be a better guidance in regard to this subject, so far as India is concerned. In Australia, the wage is a 'needs' based wage. It comprises a basic wage and a prosperity loading. The basic wage is adjustable according to the cost of living index number for various parts of Australia. The prosperity loading is a constant additional amount. The total wage is arrived at by adding the prosperity loading to the need-based basic wage. The wage in Australia is one appropriate for the normal needs of the average employee, regarded as a human being living in a civilised community, and provides not merely absolute essentials such as food, shelter and clothing, but also for a condition of frugal comfort estimated by current human standards. And the basic living wage of an adult male employee must (according to the Queensland Industrial Conciliation and Arbitration Act, 1932) be not less than what is sufficient to maintain a well-conducted employee of average health, strength and competence, together with his wife and three children in a fair and average standard of comfort, having regard to the conditions of living prevailing among employees in the calling in respect of which such basic wage is fixed and providing that in fixing such basic wage the earnings of the children or wife of such employee shall not be taken into account. It has to be mentioned here, that in Australia, care is taken to ensure that in the same industry located in different States, there are no wide variations in wages, and that the capacity of the industry to pay is also taken into consideration.

In New Zealand, under the Industrial Conciliation and Arbitration Act, the basic rate of wages for adult male workers should be such a rate as would, in the opinion of the Court, be sufficient to

enable a man in receipt thereof to maintain a wife and three children in a fair and reasonable standard of comfort. The Arbitration Court is charged with the duty of fixing and revising wage rates. The various principles or criteria of wage regulation adopted by the Court include that wages should be uniform within each grade of work, appropriately differentiated for different grades, adequate to provide a living wage, and within the capacity of industry to pay, and that while fixing wage rates the Court should take into consideration the rise or fall in retail prices as indicated by the indices published from time to time by Government statisticians. At one time, the Court in New Zealand had expressed the opinion that if an industry cannot pay the workers engaged in it a reasonable living wage it is in the interest of the community that it should cease operations and that such workers should become absorbed in some other and more profitable industry. At some other times, however, the economic and financial conditions affecting trade and industry in New Zealand were regarded as paramount considerations by the Court.

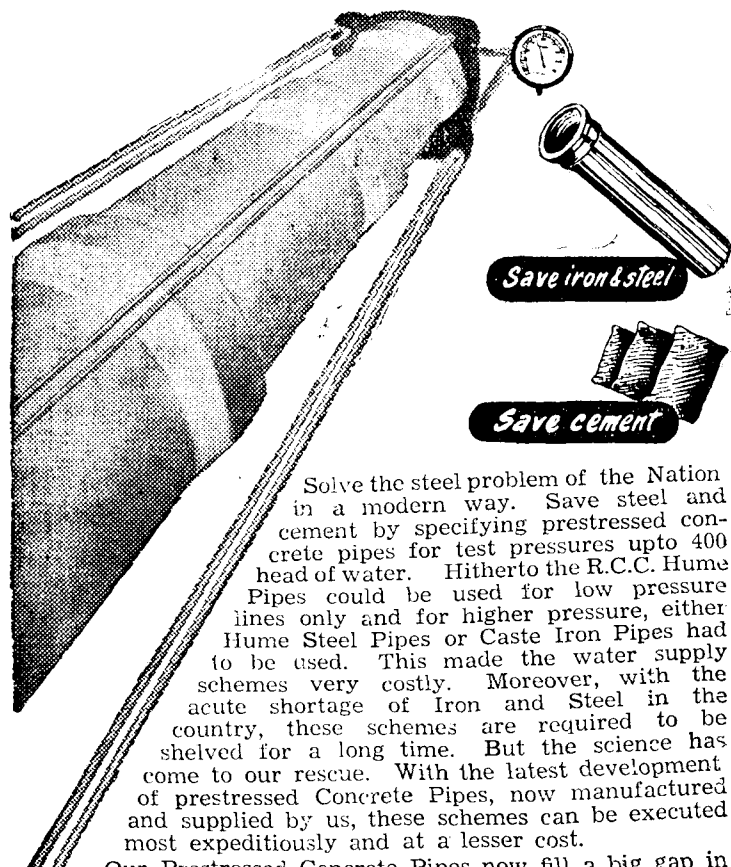
In Great Britain, there are broadly two considerations, which, subject to an estimate of the economic position and prospects of the trade, enter into the determination of wage rates. The basic consideration is the necessity of securing that every normal worker employed in the trade shall be paid a rate which, in a period of full employment, will yield a wage which avoids the reproach of sweating, in other words, a wage on which, at least maintenance is possible. There are therefore nominal rates below which the wage ought not to be allowed to fall. The second point is that workers should be paid at rates more or less equivalent to the rates offered to workers in comparable occupations. But both these considerations operate within the general framework of the Trade Board's estimate of the rate which the market conditions of the trade permit it to pay. The minimum rates of wages, so far as practicable, have to secure for able-bodied men such wages as are adequate to promote efficiency and to enable a man in an ordinary case to maintain himself and his family in accordance with such standard of comfort as may be reasonable in relation to the nature of his occupation.

While the minimum wage has to provide the minimum necessary to live, it cannot be fixed without reference to other circumstances of a practical character, in other words, the needs of an individual are not the only consideration. The prevailing rates of wages for

the same or similar occupations in the same or neighbouring localities is an important factor that has also to be taken into account. The level of the national income and its distribution is another factor. The place of the particular industry in the economy of the country is a third factor. In the case of export industries, the competitive position of the industry concerned in the international market is a fourth factor. The wage-paying capacity of the particular undertaking is also a very important factor. Any attempt to fix minimum wages on a uniform basis throughout India, is therefore bound to give rise to numerous difficulties. The pattern of living presents wide variations as between the different regions of the country. Moreover, in each industry the productivity of the worker presents wide variations as between the different zones: for instance, it is well known that in the cotton textile industry, the worker in Bombay produces more than his counterpart in Bengal. Further, even in the same industry in the same region, different undertakings have varying financial capacity. The classes of employees in each class of establishments is also different in different areas. Wages will also have to depend on the degree of skill required for that particular industry even from the lowest category of workers, the strain and fatigue involved in the work (which will also to a great extent depend upon the climatic conditions of the region), the mental and physical requirements of the work, the disagreeableness of the work, and the hazards attendant on the work. In considering the question of minimum wages, all these factors have to be taken into account, and they vary from region to region. The question of fixing norms for minimum wages is thus a problem which bristles with difficulties.

The Central Pay Commission, in their report (1947) enunciated certain principles and recommended certain practices, which have generally been accepted as precedents by all wage-fixing authorities in India. They recommended a minimum wage of Rs 30 per month for the least skilled worker in Central Government undertakings, and in doing so, they observed that "the State must now take some step forward in the direction of giving effect to the 'living wage' principle....The question is to what extent....The 'standard of living' like the 'poverty line' is to a large extent a relative conception. It reflects national conceptions and these are, in turn, shaped by the national income. The 'poverty line' may be drawn at the line below which an individual would be under-nourished, or it may be drawn well above the

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nutritional minimum, at a point where a choice of diet and the chance of some cultural life or recreation will also be possible." The Commission, however, expressed the view that in the initial stages the minimum wage should be related to the normal wage level prevailing in the country, and that at present, the country can only aspire to rise above the 'poverty' line in the first sense mentioned above.

That was in 1947. Two years later, another authoritative pronouncement on the principles underlying a minimum wage, was made by the Fair Wages Committee in their report (1949). That Committee considered the problem of fixation of a fair wage for industrial labour. They felt that even in the then economic conditions of the country, the minimum wage must provide not merely for the bare sustenance of life, but for the preservation of the efficiency of the worker by providing for some measure of education, medical requirements and amenities. They however thought that the fixation of a minimum wage on the basis of a living wage which ensures not merely a bare physical subsistence but also the maintenance of health and decency, a measure of frugal comfort and some insurance against the more important misfortunes of life, may not be possible immediately, and that a wage conforming to the

living wage can be fixed only when it is found to be within the capacity of the industry to pay. They tried to evaluate the weight to be given to other considerations such as the productivity of labour, the existing level of the national income, the place of the industry in the national economy, the effect on the community in general and on the industry in particular, and the like; and they found that it was not possible to assign any definite weight to any of these factors involved in the calculation of a fair wage, and they decided that the weight to be attached to a particular factor was a matter for the wage-fixing authority in each case.

Industrial Tribunals in West Bengal have enunciated certain principles in regard to the fixation of minimum wages, which we may next note. Stated briefly, they are to the effect that the minimum wage of a worker is practically equivalent to bare subsistence cost for a family of three consumption units plus housing cost and cost of clothing befitting such a family. The fair wage will be something more, ensuring over and above this, some decency minimum and comfort minimum. From the cost of a worker's family the cost of a middle-class clerk's family is arrived at by increasing the former by eighty per cent, which is the accepted method of calculation as per Mr Justice Rajadhyaksha's

report in the dispute between the Central Government and its employees in the Posts and Telegraphs Department. As to the actual method of calculation of the minimum wage for a worker, according to Dr Akroyd's Food Norm, 3,600 daily intake of calories is necessary for the upkeep of an adult worker in Bengal. This would approximately work out to five rupees per month on the 1939 level of prices when the cost of living index is assumed to have been 100. A workman's family is supposed to consist of two adults, that is, the man and his wife, and two dependent children, together forming three consumption units. So, the expenditure on the head of 'Food' would come up to fifteen rupees per month for such a family. The above cost of food would, according to economists, represent only sixty per cent of the total expenditure; the remaining forty per cent would represent the cost on clothing and accommodation. So, the cost of clothing and accommodation per month for such a family would work out to ten rupees. So, the total cost of a worker's family of three consumption units at a cost of living index at 100 in 1939 would amount to twenty-five rupees per month. It is also the accepted theory of economists that prices would stabilise somewhere between 160 and 180. So the cost of a worker's family is expected to stabilise at forty rupees per month, which figure is obtained by multiplying Rs 25 by 1.6. The cost of a middle-class clerk's family with three consumption units would be eighty per cent higher than the corresponding cost of a worker's family. So, if the above figure be multiplied by 1.8, the total cost of a middle-class family of three consumption units is obtained at seventy-two rupees per month. Even this wage-level may be deemed to include in a small way the frugal comfort and decency which a fair wage represents. For, while the above wage level has been arrived at by taking into reckoning the necessary cost of a family of three consumption units, an employee does not have two dependent children at the very outset of his career. As a rule, he has such children only at the seventh or eighth year of his service. So, until the seventh or eighth year of his service, the above wage level admits of some extra amount which can be spent for comfort and decency. By the seventh or eighth year, the annual increments which the worker would have obtained, would be able to take care of the additional cost arising from addition to the family. So, the minimum wage as computed above, is really, in some measure, a fair wage.

A significant development in regard to the fixation of norms for minimum wages took place in 1957 at the Fifteenth Session of the Indian Labour Conference held in New Delhi. That session of the Conference accepted the principle that subject to the capacity of Industry to pay the same, the

minimum wages of industrial workers should be fixed with an eye towards enabling them to meet the minimum human needs. The minimum wages of each worker should be such as to suffice the requirements of three consumption units. Food requirements should be for a net intake of calories as recommended by Dr Akroyd for an average Indian adult of moderate activity. It may be stated here that Dr Akroyd had recommended 3000 calories for a man doing moderate work, and 3600 calories for one doing very hard work. As regards clothing requirements, the recommendation of the Conference was that this should be estimated on the basis of a per capita consumption of eighteen yards per annum. It is not clear whether each dependent child will be taken as one head in the per capita computation; this was not clarified at the Conference. In regard to housing this was to be on the basis of the minimum under the Industrial housing scheme. Fuel lighting and other items were recommended by the Conference to be taken as forming twenty per cent of the minimum wage. Applying the above norms we get the following results. We have noted earlier, that in West Bengal, Tribunals have held that fifteen rupees per month would be necessary for food requirements for a worker's family of three consumption units, when the cost of living index is 100. Taking the present cost of living index as 380, the cost of food requirements would be Rs 15 multiplied by 3.8, which gives Rs 57. As regards clothing, assuming that the expression 'per capita' in the recommendation of the Conference refers to each consumption unit, the annual requirement of clothing would amount to fifty-four yards. And, assuming an average price of Rs 1.50 nP per yard of cloth, this would work out to Rs 81 per annum or Rs 6.75 nP per month. In regard to rent, the minimum under the Industrial Housing Scheme is Rs 13 per month. Adding these three items gives the aggregate figure of Rs 76.75. One-fourth of this has to be added for fuel, lighting and other requirements, which takes up the minimum wage to Rs 95.94 nP, or, say, Rs 96 per month. As against this the present rates of minimum wages in Bengal are somewhere around Rs 67 per month in the Jute Mill Industry, Rs 69 per month in the Coal Industry, and Rs 71 per month in the Engineering Industry. So, fixation of minimum wages on the basis of the above norms will mean a very substantial increase in the wage bills, which the industries concerned may perhaps find it difficult to bear. Fortunately, the Conference had recommended that in fixing minimum wages on the basis of the above norms, due regard should be had also to the capacity of the particular industry or undertaking concerned to pay minimum wages at that rate. But for this safeguard, the recommendation would have given rise to much difficulty.

The Taxation of Closely Controlled Corporations

1. WHY SUCH CORPORATIONS ARE TREATED DIFFERENTLY

IN most countries, the laws relating to corporate taxation have usually made a distinction between companies in which the voting power is widely distributed among the public, and those in which the voting power is held or controlled by a small group of persons. The taxation of distributed profits of companies is generally linked to the personal assessment of the shareholders concerned. The greater the proportion of the distributed profits among the shareholders the greater will be the revenue to the State. But if a major portion of the profits is retained by the company without distributing the same among its shareholders, it reduces the revenue to the State correspondingly. Where the voting power in a company is widely distributed among the public, it may be presumed that if the company chooses not to distribute a major portion of its profits, it does so having regard to the requirements of the company's business, and not on considerations unrelated to the company's interests. But where the voting power in a company is held by a small group of persons, then it becomes possible for them to postpone or reduce the distribution of profits by the company without much difficulty, as the decision to distribute or not distribute rests only with the small number of persons. By retaining a greater portion of the profits with the company as undistributed, their own tax liability becomes reduced. And so, in the case of such closely controlled corporations, the decision to distribute or not distribute is liable to proceed not merely on the grounds of the company's interests alone but also on grounds of the shareholders' personal gain thereby. Further, it becomes possible also to utilise the amount of the profits so withheld from distribution for financing the personal expenditures of the shareholders concerned, since the decision as to on what items the company's funds may be spent rests in the hands of a small group of shareholders. Thus, closely controlled corporations afford room for loss of revenue to the State. That this is not a groundless apprehension can be gathered from the following findings of the second Taxation Enquiry Commission. Of the 4583 private companies assessed to tax, they were able to collect data regarding shareholding in 3005 companies. In these it was found that as many as 2589 companies i.e. 86 per cent were controlled by four or fewer persons. Out of these, 944 companies, i.e. 32 per cent, the majority of shares in each case was owned by one shareholder, and in 937 companies representing almost 32 per cent, the majority of shares was held in each case by two shareholders. With such a large number of closely controlled

corporations, the State has necessarily to be on guard to ensure that the power to retain profits as undistributed is not abused.

2. PROCEDURE IN THE UNITED STATES

In the United States very stringent regulations have been laid down in respect of the distribution of earnings of closely controlled corporations which are referred to as 'personal holding companies'. A 'personal holding company' is one in which at any time during the last half of the taxable year, more than fifty percent in value of its outstanding stock is owned directly or indirectly by or for not more than five individuals. An individual is considered as owning the stock even where it is owned by his brothers, sisters, spouse, ancestors and lineal descendants. A special surtax is payable by 'personal holding companies' on their undistributed profits, and the same is in addition to the normal tax and surtax. The additional surtax is at the rate of 75 per cent of the undistributed profits up to 2000 dollars, and 85 per cent of the amount of undistributed profits in excess of 2000 dollars.

3. PROCEDURE IN THE UNITED KINGDOM

In the United Kingdom, the taxation of closely controlled corporations is governed by Sections 245 and 246 of the Income Tax Act. Under Section 245 it is provided that with a view to preventing the avoidance of the payment of surtax through withholding from distribution income of a company which would otherwise have been distributed, where it appears to the Special Commissioners that any company to which the section applies has not, within a reasonable time after the end of its year of accounts, distributed to its members a reasonable part of its actual income from all sources for the said year, the Commissioners may by notice in writing to the company direct that for the purposes of assessment to surtax, the said income shall be deemed to be the income of the members. And under Section 246, the test as to whether a company has distributed a reasonable part of its income is, whether, having regard to the current requirements of the company's business and such other requirements as may be necessary or advisable for the maintenance and development of the company's business, the company has made a reasonable distribution. The above provisions apply to any company which is under the control of not more than five persons, and which is not a subsidiary company or a company in which the public are substantially interested. In determining whether a company is or is not under the control of not more than five persons, persons who are related to each other as husband,

wife, ancestor, lineal descendant, or ascendant brother or sister; persons who are nominees of any other person together with that other person; persons in partnership; and persons interested in any shares or obligations of the company which are subject to any trust or are part of the estate of a deceased person will respectively be treated as a single person. A company will be deemed to be one in which the public are substantially interested if shares of the company (not being shares entitled to a fixed rate of dividend) carrying not less than twenty-five percent of the voting power have been allotted unconditionally to, or acquired unconditionally by, and are, at the end of the period for which the accounts of the company are made up, beneficially held by the public and have also been the subject of dealings in a stock exchange in the U.K., and have also been quoted in the stock exchange.

4. PROCEDURE IN AUSTRALIA

In Australia, private companies are required to distribute the whole of their 'distributable income' less a 'retention allowance' permitted by the statute. 'Distributable income' means simply the taxable income less the income-taxes. The retention allowance is a percentage of the 'distributable income' after deducting therefrom any incomes received by way of rents, interests or dividends. On the balance of the income, the percentage for purposes of the retention allowance is 50% where such balance does not exceed £1000/-; 40% on the next £1000/-; 35% on the next £1000/-; 30% on the next £1000/-; and 25% on the remainder. Even where its shares are quoted in the stock exchange, a company will be deemed to be one in which the public are not substantially interested if three-fourths of its voting power is held by not more than twenty persons.

5. POSITION IN INDIA PRIOR TO 1955

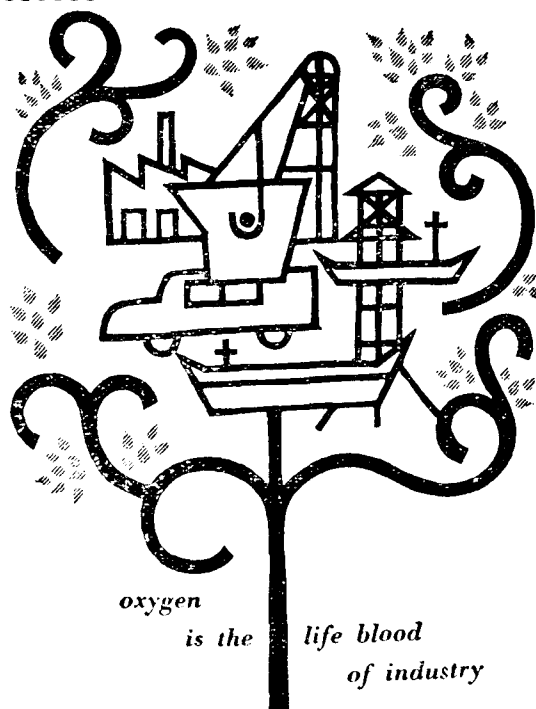
Provisions for a differential tax treatment of closely controlled corporations are contained in Section 23A of the Income Tax Act. The section has undergone extensive changes in 1955 and subsequently. Prior to 1955, under the old Section 23A companies to which the section applied were required to pay tax on the basis that at least 60% of their assessable profits, less income-tax and corporation tax, have actually been distributed. But if the company had accumulated undistributed profits equal to its paid-up capital plus loan capital, or the actual cost of its fixed assets, whichever is higher, then the company was expected to distribute the entirety of its distributable profits. Where any company (to which the sec-

tion was applicable) had failed to make the distribution as above, then the entire distributable profits of the company were deemed to have been distributed, and the concerned shareholders were charged tax accordingly. The section was applicable only to companies in which the public are not substantially interested. And a company was deemed to be one in which the public are substantially interested if the shares of the company (not being shares entitled to a fixed rate of dividend) carrying not less than twenty-five percent of the voting power were held by the public, and if the shares had been the subject of dealings in the stock exchange.

The procedure of taxing the shareholders on the basis that they shall be deemed to have received their respective shares of the undistributed profits of the company gave rise to many practical difficulties not the least of which was that it necessitated the re-opening of the assessments of the individual shareholders. Accordingly, in 1955, some major changes were made in Section 23A, on the basis of the suggestions given by the second Taxation Enquiry Commission.

6. MAIN CHANGES MADE IN 1955.

The procedure of assessing the shareholders in respect of the undistributed profits of the company was dropped. Instead, the company itself was made liable to an additional super-tax, of four annas per rupee of the undistributed income. Another change was, that whereas under the old section companies were expected to distribute a certain percentage of their 'assessable income', they were now expected to distribute a specified percentage of their 'total income less income-tax, corporation tax, and other taxes, both Central, State and Local. The percentage required to be distributed was sixty per cent as a rule, but in all cases where the company's accumulated reserves exceeded paid-up capital plus loan capital or cost of fixed assets, the percentage to be distributed was cent per cent. There was a provision requiring the income-tax Officer to give notice to the company concerned before applying Section 23A, but not in the case of all companies. A further major change was that where a company desired to retain a greater portion of its profits (than allowed by the statute) as undistributed, and this was for genuine requirements of the company, it could apply to the Commissioner for permission to do so, and on such permission being accorded, it would not be liable for the additional super-tax. There was a further provision allowing industrial undertakings to appeal to a Board of Referees from such decisions of the Commissioner. The section continued to be applicable to companies in



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which the public are not substantially interested, but the definition of companies in which the public are substantially interested was changed the substance thereof being that shares carrying more than fifty per cent of the voting power should be in the hands of the public; that the voting power should have been held like that throughout the year; and that the majority of the shares should not have been held by less than six persons. But in the case of industrial undertakings, it was permissible for sixty per cent of the voting power to be held by less than six persons.

7. SUBSEQUENT CHANGES.

In 1956, a modification was made to the effect that in the case of investment companies falling within the purview of Section 23A, the super-tax on the undistributed profits will be at a flat rate of eight annas in the rupee. The minimum distribution required of industrial companies was also lowered from sixty per cent to fifty per cent.

Then in 1957, several other changes were made. The section was re-cast. The percentage for minimum distribution of available profits was described as 'the statutory percentage' and what this will be for various classes of companies was laid down in a new Explanation 2, which was added to the section. The percentage for minimum distribution of dividends required of an industrial company (i.e. a company whose business consists wholly in the manufac-

ture or processing of goods, or in mining, or in the generation or distribution of electricity or any other form of power) was reduced from fifty per cent to forty-five per cent. For a company which derives income partly from industrial activities and partly from other activities, the minimum distribution was fixed at forty-five per cent with reference to the industrial part and sixty per cent with reference to the non-industrial part. In the case of companies with large reserves, the percentage for minimum distribution was reduced from hundred percent to ninety per cent. In the case of investment companies the percentage was retained at hundred as before, and in the case of other companies not covered by any of the above, the percentage continued to remain as sixty. Failure to make the distribution as above entailed levy of a penal super-tax of fifty per cent in the case of investment companies, and thirty-seven per cent in the case of other companies, on the undistributed balance of the total income less the Central, State and Local taxes as stated earlier. The procedure for adjudication by the Commissioner and the Board of Referees on the need of retention of funds, introduced under the amendments made in 1955, was abolished. It may be mentioned however that the assessment for the years up to 1956-57 continue to be subject to the old provisions (i.e. the provisions as amended in 1955). A further important amendment made in 1957 related to the

conditions under which a company will be deemed to be one in which the public are substantially interested. Under the old provisions, the section will be attracted even in the case of a company more than fifty per cent of whose shares are held by genuine public companies and/or statutory corporations. Since shareholding by any public company or statutory corporation in effect constitutes holding by the public, the amendment made in 1957 clarified that shares held by Government or statutory corporations shall be considered to have been held beneficially by the public. One of the essential conditions for the applicability of Section 23A was that the effective control of the company was in the hands of less than six persons: the 1957 amendments provided that in computing this number of six persons, the Government, a statutory corporation or a genuine public company shall not be taken into account. Thus, if more than fifty per cent of the shares of a public company are held by less than six companies in which the public are substantially interested, Section 23A will not apply.

We may finally take note of an amendment made in 1958. In certain circumstances, the declaration by a Section 23A company, of a dividend or a larger dividend than that declared, will only result in a loss of revenue as for instance, in a case where most of the shares are held by charitable institutions which are exempt from tax. It would be pointless to apply Section 23A in such cases. And the amendment accordingly enables the Income Tax Officer to exercise his discretion in such cases and desist from applying Section 23A.

8. SOME IMPORTANT CASE-LAW.

The Bombay High Court has held that an Income Tax Officer should not pass an order under this section if he is satisfied that having regard to the losses incurred by the company in earlier years or to the smallness of the profit made, the payment of a dividend or a larger dividend than that declared would be unreasonable. This reasonableness or unreasonableness has to be judged only with reference to the two factors mentioned in the section, i.e. losses incurred in earlier years, or the smallness of profit. Both these factors are absolute in their nature and have to be judged *per se* without reference to any other factor: (1949 I.T.R. 493). Profits for the purposes of the section means actual profits from the commercial point of view and not the assessable profits: (1955 I.T.R. 1). In one case, during the two accounting years 1938 and 1939, the company made a profit of Rs 30,000/- and Rs 15,000/- respectively, and the whole of the profit was distributed among the shareholders as dividends. The assessable income of the company during these two years was computed by the Income-tax authorities at Rs 1,26,581 and Rs 1,24,787 respectively. The Income-tax authorities applied Section 23A on the ground that the company had not distributed by way of dividends sixty per cent of its

assessable income. The High Court held that the assessee company could not have distributed as dividends more than it did, and had it done so it could only have been by drawing on its capital and distributing it, which was prohibited by law; that on the facts of the case the Income-tax Officer was bound to be satisfied that the payment of a larger dividend would have been not only unreasonable but impossible having regard to the smallness of the profit made by the company; and that if the Income-tax Officer was satisfied in this case that a larger dividend could have been reasonably paid, then his satisfaction was based on no evidence: (1950 I.T.R. 762).

The burden of proving that the company is one in which the public are substantially interested within the meaning of the section, is on the Company: (1946 I.T.R. 653). The expression 'public' in the section is used in contradistinction to the Directors. There must be voting power exercised which must be independent of the control of the directors. If members of the public who are shareholders are under the control of the directors, and if their voting power is controlled by the directors, and if the votes cast by them are not their own votes but in substance the votes of the directors, then for the purposes of the section the shares, in effect, are not held by the public at all, but are held by the directors. In each particular case it must be found as a fact whether a director exercises *de facto* control over a shareholder: and if it is found as fact then that particular shareholder will not be considered as a member of the public. What has got to be found is not the mere possibility of control, but actual control: (1953 I.T.R. 338). Shares of a company were given by one of the directors to his niece as a gift on the occasion of her marriage. Those shares, taken together with others in regard to which no dispute arose, carried more than twenty-five per cent of the voting power in the company. It was held that the niece should be regarded as a member of the public, and that the company was one in which the public was substantially interested: (10 I.T.R. Suppl. 85). In a company registered in Uganda, the Respondent, a shareholder and director, held 73.96 per cent of the voting power. His brother, also a director of the company, held 25.99 per cent. Five other persons held one share each, making together 0.5 per cent of the voting power. The shares held by the Respondent's brother had been purchased from the Respondent for full value: it was not suggested that he was a nominee of the Respondent. There being nothing to indicate that his brother was acting in concert with him, the brother must be regarded as a member of the public. Inasmuch therefore as the brother held shares commanding more than 25 per cent of the voting power, the company must be deemed to be one in which the public are substantially interested: (1941 (2) K.B. 194).

On Depreciation Allowance

PLANT and machinery used for business purposes decline in value by reason of wear and tear during the year, and in the computation of business profits some allowance has therefore to be made for the capital consumed in producing those profits. Depreciation allowance is therefore an inescapable element in the conception of business profits, and is a necessary charge that must be entered before there can be said to be a taxable profit. Many methods for allowing depreciation are recognised under the tax-laws of the world. We may mention a few of the more outstanding methods. Under the 'Percentage Depletion' methods certain proportion of the current market value of each year's production is treated as a capital wastage allowance, deductible from taxable income, without reference to the acquisition cost of the asset. Because it is based on the current value of the product rather than on some historical cost of the original asset, this method has the great advantage that it is related to current price levels in a simple and effective way. It has the further advantage of being non-discriminatory as among assets acquired at different times or under different price-levels. Another method of writing off assets is to postpone the write-off until the assets have been completely used up or have been finally disposed of by the owner. Under this method no depreciation allowances are granted as long as the asset is owned, but when the asset is finally disposed of, the taxable gain or loss is recognised. This has been called the 'Final Reckoning' method. There is a third method referred to as the 'Cash-flow' method. Under it the full deduction is taken in the year in which the investment is made. The favourable tax effects of using cash-flow depreciation offer tremendous incentives for its use. Its adoption would markedly simplify tax computations and tax enforcement. In the United States, this method is allowed in respect of physical assets which tend to have very short lives, and all expenditures which result in no tangible physical asset. Under the 'Straight-line' method, the annual provision is given by the original cost of an asset divided by the number of years of its estimated or assumed life, that is, the original cost is distributed in equal instalments over the useful life of the asset. Under the 'Declining balance' method also referred to as the 'Written-down-value' method, a fixed percentage is charged for depreciation each year: it is not a percentage of the original cost, but of what remains of the original cost after deducting the sum of depreciation allowances in the previous years. Lastly may be mentioned

the 'Sum-of-year-digits' method under which the depreciation rate is determined by dividing the number of years remaining in an asset's life by the sum of each of the digits in its life. This is often referred to as the SYD method. In the United States, the Internal Revenue Code of 1954 permitted unrestricted use of the SYD method for the first time, the declining-balance method at double the 'straight-line' rate, and also any other method that gave no more than this latter method over the first two-thirds of the useful life of an asset. These were in addition to the straight-line method, and were restricted to new assets with a life of three years or more acquired in 1954 or later years. It is also permissible in the United States for a tax-payer and the Department to enter into a written agreement regarding the useful life of an asset and the rate of depreciation to be allowed. A slight variation of this is followed in Australia, where for the purpose of calculating the depreciation to be allowed in respect of any asset, the Commissioner is empowered to make an estimate of the useful life of the asset, assuming that it is maintained in reasonably good condition, and the annual depreciation rate will be fixed accordingly.

'DIMINISHING BALANCE'

In India, depreciation is allowed on the 'Diminishing balance' method in respect of all assets except ships (other than ships ordinarily plying on inland waters) in respect of which depreciation is allowed on the 'Straight line' method. Depreciation is allowed only up to an amount representing the original cost of the asset to the assessee: (In making this statement we are not taking into account the development rebate to which we are referring later). The rates of depreciation vary according to the type of the asset. For many of the common types of machinery, the depreciation rate is ten per cent per annum of the written down value, i.e. the original cost less depreciation allowed in the past. For others it varies from seven per cent to twenty-five per cent of the written-down value. In respect of certain assets such as furniture, furnaces, bulbs, bearings etc., the cost of replacement is allowed as a deduction in lieu of depreciation. The rates of depreciation have been fixed keeping in view generally the estimated life of each asset. Rates have been fixed on an 'item basis', i.e. for individual items of plant and machinery such as motor cars, type-writers etc.) as well as on a 'group basis' (i.e. over-all rates prescribed for the entire plant and machinery used in special types of industries such as sugar facto-

ries, flour mills etc.) Assessee have the option to claim the rates applicable to individual assets wherever the individual rates are higher than the over-all rates fixed for the concerned industry. The amount of depreciation allowance for any year in respect of an asset is proportional to the number of months of its use in the year. In the case of seasonal factories, if they have been working during all the seasons of the previous year they will be entitled to a full year's depreciation: otherwise it will be proportional to the number of seasons actually worked in relation to the total number of workable seasons. Where machinery and plant are worked on double or triple shifts, an extra depreciation allowance up to a maximum of fifty per cent of the normal depreciation allowance is allowed on certain classes of machinery and plant. To ascertain months of use of the plant or machinery, the total number of days for which they were worked during the year should be taken, and depreciation will be allowed on the total number of months completed. Sundays and public holidays should be treated as working days for this purpose: so also periods of labour trouble such as strikes or lockouts; similarly, any periods of compulsory closure due to power cuts. Periods of power cut will not however be eligible for double or triple shift allowance. If a small part of the machinery remained idle during the year, depreciation should be allowed on the entire machinery. Depreciation is allowed only in respect of assets owned by the assessee and used by him during the relevant year for the purposes of the business under assessment. In addition to normal depreciation, additional depreciation equal to the normal depreciation is allowed in respect of all new buildings, machinery and plant: but this additional depreciation is allowed only for the first five years commencing with the year of installation or erection, and in any case, not beyond 31st March 1959. Over and above this there is a development rebate of twenty-five per cent of the actual cost of the machinery or plant, allowed in the year of installation or erection, but only in respect of new plant and machinery. Depreciation unabsorbed against profits in any year is allowed to be carried forward indefinitely: but when losses and unabsorbed depreciation occur together in any year, the losses will have to be set off first against the subsequent year's income, the income being calculated after charging depreciation. It may be mentioned here, that under the above depreciation provisions (including the development rebate mentioned later) 86½ per cent of the cost of assets is possible of recoupment within the first

five years. Where the asset is sold, or discarded, or demolished or destroyed in any year, the difference between its written down value and its sale or scrap value is allowed as a deduction in such year: this is called 'the balancing allowance'. If the sale proceeds etc., exceed the written down value, the excess of the sale price over the written down value is treated as taxable profits: this is referred to as the 'balancing charge'. But it is limited to the difference between the original cost and the written down value: any part of the sale price realised over and above the original cost is treated as a capital receipt. It may be stated, finally, that where a business is succeeded to or purchased by another, the depreciation allowance due to him in respect of the assets taken over, will be on the original cost to the successor or purchaser.

'ORIGINAL COST'

The 'original cost' basis of depreciation followed in India suffers from the serious defect that it assumes that prices remain stable, whereas in point of fact they do not. The depreciation allowance under the original cost basis enables a fund to be built up free of tax, which approximately equals the replacement cost only if the latter were equal to the original price. If replacements fell due in a period of extended inflation, the normal depreciation reserves will obviously be inadequate to meet the replacement costs even of similar assets, since prices will have risen substantially. Unless the shortfall can be met by raising external finance and/or by diverting other reserves, it would not be possible for a business to preserve intact its physical assets. Prices of capital assets have actually risen three to four fold during the post-war period: despite this the depreciation allowance continued to be at the old rate. The internal resources also have not been sufficient to meet the needs of industry in this regard. At the same time, circumstances have not been favourable for securing funds from the capital market or from any other external source. Industry was thus, in the post-war period, confronted with the grave problem of replacement of fixed assets. The second Taxation Enquiry Commission considered all these, and observed that any indication of a decline in the potential of industry even to continue production at an existing level because of inability to replace worn-out assets would be a serious national problem. It would be poor policy to invest in new concerns, whether in the public or the private sectors, if the productive capacity of established undertakings were in danger of deterioration due to difficulties of financing replacement.

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In order to obviate these difficulties, and in order that expansion and development of productive enterprises may be specifically assisted, the Taxation Enquiry Commission recommended the grant of a development rebate.

The scheme suggested by the Commission was: The development rebate should be allowed on all specific acts of investment in fixed assets in the form of plant and machinery. In the year of installation of fixed assets by an assessee, a portion of the costs of new assets—they recommended that it should be twenty-five per cent—should be charged to revenue. This should be in lieu of the initial depreciation allowance that was being given then; but the additional depreciation given for the first five years of installation should continue. The development rebate should be available for purchases of fixed assets of all kinds, whether intended for replacement or for expansion, and to new as well as existing concerns. The Commission were of the view that to the extent that expansion is stimulated by this measure, there will, in due course, be a larger flow of taxable profits and greater receipts in consequence of the allowance. The allowance should afford a direct stimulus to expansion and replacement, and aid the efficiency and competitive power of the industries assisted. In order that there may be no abuse of the tax relief afforded by the development rebate, the Commission suggested that the development rebate should be given only to selected industries of national importance; that the rebate should not be given either in respect of renovated plant and machinery or on such assets bought second-hand; nor should it be applicable to assets other than plant and machinery, or to motor cars and such other transport as may be considered by Government to be capable of being used for private as well as for business purposes; that when the development rebate has been granted for any new plant and machinery, the sale of such plant and machinery will not be allowed if it is made to a person or a corporation or any other taxable entity the major portion of whose business income is not subject to Indian Income-tax; and, finally, that the rebate will not be allowed if the asset is utilised for a purpose other than that for which it was acquired, unless it would have qualified for the development rebate even for the latter purpose at the time it was purchased.

DEVELOPMENT REBATE

Pursuant to the recommendation of the Taxation Enquiry Commission, the development rebate was introduced in the Indian Income-tax Act in 1955. It is applicable to all new plant installed after 31st March 1954. Machinery and plant entitled to the development rebate will not be entitled to the Initial Allowance, but will be entitled to the Additional Allowance. (for the first five years of

installation). Whereas the Initial Allowance applied to machinery, plant and buildings, the development rebate applied only to machinery and plant. Further, including the initial allowance, the aggregate of the depreciation allowances could not exceed cent per cent of the original cost: but, inclusive of the development rebate, the aggregate of the depreciation allowances will amount to 125 per cent. While the Commission had recommended that the development rebate should be given only to new investments in selected industries of national importance, the scheme as implemented in the Income-tax Act was applicable to new investments in any undertaking, and not merely to some selected ones. The safeguards suggested by the Commission in regard to sale of plant and machinery which had obtained the benefit of the development rebate were not adopted in 1955.

LARGE CONCESSION

With the introduction of the development rebate, our depreciation allowances became a large tax concession. Thus, an industrial company which has assets for which the standard rate of depreciation is ten per cent, can write off more than 86 per cent of its original cost in five years. The total tax-rate being fifty per cent, this meant that in a period of five years the company would be saving by way of taxation more than 43 per cent on its investment. This is a very large concession, which is not given anywhere in the world, except for shipping in the United Kingdom. The effect of the development rebate itself is that it is a saving of tax on an amount equal to the allowance. For instance, if, machinery worth Rs 50 lakhs is installed by a company, the company would be entitled to a development rebate of Rs 12.5 lakhs. As the rate of tax applicable to Indian companies is 51.5 per cent of its total income, the tax saved by the company will be 51.5 per cent of Rs 12.5 lakhs, i.e. Rs 6.44 lakhs. This sum of Rs 6.44 lakhs is a clear gain to the company, and the company can do whatever it likes with this amount. It can distribute it as dividends, or use it otherwise: it can even fritter it away over unproductive expenditure. Government considered that this position is unreasonable: the tax saved represents sacrifice made by the State in order to enable expansion and development, and that therefore some restrictions should be put on its utilisation. Accordingly, by the Finance Act 1958, the grant of development rebate in respect of machinery and plant installed after 31st December 1957 or ships acquired after 31st December 1957 was made subject to the following conditions: (i) an amount equal to seventy-five per cent of the development rebate admissible should be debited to the Profit and Loss Account of the relevant 'previous year' and credited to a reserve account; (ii) during a period of ten years next following, this reserve

may be utilised only for purposes of the business of the undertaking. The reserve should not be used for distribution by way of dividends, or profits, or remittances outside of India as profits, or for the acquisition of assets outside India; (iii) the asset on which the development rebate is allowed may not be sold or otherwise transferred by the assessee (except to Government) before the expiry of ten years from the end of the year in which the asset was installed: (it may be noted that this was also what the Taxation Enquiry Commission had recommended in 1954); and (iv) because of the special conditions imposed under the Electricity Supply Act of 1948, the above restrictions do not apply to electricity supply companies. If these conditions are infringed, the rebate already allowed will be deemed to have been wrongly allowed, and the concerned assessment will be rectified by deleting the allowance.

OBLIGATORY RESERVE

The obligation of creating a reserve of seventy-five per cent of the development rebate by debiting an equal amount to the Profit and Loss Account, may create difficulties in cases where the book profits are insufficient or non-existent. This difficulty will particularly arise in the case of new industrial undertakings which produce income at a tardy rate, as also those existing undertakings which embark on large developmental plans whose cost is very large in comparison with the income so far earned. In order to relieve the hardship in such cases, the Finance Act 1958 provided that if the total income for any year before allowing development rebate falls short of the full amount of the rebate, the amount of the rebate will be limited to such total income. Correspondingly, the obligation of creation of a reserve will be narrowed down to seventy-five per cent of the development rebate actually allowed. The balance of the rebate will be allowed to be carried forward for being claimed within the next eight years.

Assesseees are normally expected to create a separate reserve to comply with the above requirements. There may however be cases where industries, by reason of Government participation or otherwise, they are obliged to maintain reserves for developmental purposes. In such cases, the development rebate may be included in such reserve. If an assessee is already maintaining a reserve to which not less than seventy-five per cent of the development rebate allowed has been credited during the year, and these reserves are not used for the distribution of profits or for remittances outside India, the creation of a further separate development reserve is unnecessary.

While the reserve cannot be utilised for the distribution of profits or dividends, or for remittances

outside India as profits, or for creation of assets outside India, it can be utilised for all other purposes of the business of the undertaking. Expenditure by way of investments in the business, acquisition of stocks and stores or assets, repayment of all kinds of liabilities incurred in course of the normal running of the business, may all be made from the reserve. Amounts remitted outside India for the purpose of acquisition of plant and machinery which are to be brought back and installed in an industrial undertaking in India will not be deemed to be an infringement of the condition relating to the utilisation of the reserve. But utilisation of the reserve for a purpose which is not a purpose of the business of the undertaking will be an infringement. Thus, if an engineering concern utilises the reserve for acquisition of cotton or jute shares, or for advancing a loan totally unconnected with the business, it will be deemed to be an infringement.

CONDITIONS PRECEDENT

In the condition attached to the allowance for development rebate, that the asset shall not be sold or otherwise transferred for a period of ten years except to Government, the expression 'Government' will include both the Central and State Governments, according to the General Clauses Act. The expression 'sold or otherwise transferred', though strictly speaking it will include hypothecations and mortgages, the Ministry of Finance have ruled, that, since hypothecations and mortgages can hardly be avoided by many industrial undertakings who have to take loans from banks, the Industrial Finance Corporation, or Government, or financial institutions, these transactions will be deemed to be in the ordinary course of business and will not be deemed to be an infringement of the condition relating to sale or transfer.

Another major change made by the Finance Act 1958 in regard to the development rebate relates to the allowance for ships. In the case of new ships acquired after 31st December 1957, the rate of the allowance has been increased to forty per cent. The benefit of the rebate will however continue to be given in the case of a second-hand ship, acquired by an Indian owner and plying in Indian waters for the first time.

Before concluding, we may also refer to a change made by the Finance Act 1958 in regard to depreciation allowance. The Central Board of Revenue have generally held the view that no depreciation allowance is admissible in respect of assets which are sold, discarded, demolished, or destroyed in the course of the 'previous year', and do not remain the property of the assessee at the end of that year. In order to place this beyond doubt, it has been incorporated in the Statute in the new sub-section 4B in Section 10 of the Income Tax Act.

Valuation of Assets for Wealth Tax

"EVERY CARE WILL BE TAKEN to ensure that valuation of property is made on a fair basis. Investments will be valued at their market value and, for purposes of determining the value of immovable properties, provision is made for appeals to a Committee consisting of a professional valuer and a person conversant with local property values. In the case of companies, the valuation will be made of the unit as a whole and, generally speaking, this will be on the basis of Balance Sheet values."

—From a pamphlet issued by the Ministry of Finance, October 1957.

The Wealth Tax Act received the assent of the President on the 12th September 1957. It is deemed to have come into force from the 1st day of April 1957. Under the Act a tax is to be levied with effect from 1st April 1957 on every individual, Hindu undivided family, and company, at the rates specified in the Schedule to the Act, in respect of their net wealth as on the 'valuation date'. 'Valuation date' is defined as the last day of the 'previous year' as specified in the Income Tax Act. 'Net wealth' means the amount by which the aggregate value of all the assets belonging to the assessee on the valuation date is in excess of the aggregate value of all the debts owed by the assessee on that date. Only individuals who have a net wealth of more than Rs 2 lakhs, Hindu undivided families with a net wealth of more than Rs 4 lakhs, and companies with a net wealth of more than Rs 5 lakhs are liable to the wealth tax. The incidence of the tax is such that an individual with wealth of Rs 10 lakhs will pay Rs 4000/- a year, one with wealth of Rs 20 lakhs will pay Rs 13000/- a year, while one with wealth of Rs 50 lakhs will pay Rs 57000/- a year. A company with assets of Rs 20 lakhs will pay only Rs 7500/- a year while another with assets of Rs 50 lakhs will pay only Rs 22500/- a year. Some specific items of wealth such as agricultural lands, works of art, household effects, shares in new industrial concerns, jewellery up to certain limits, will not be included in the net wealth. Banking, Shipping and Insurance Companies are totally exempt from the tax. New industrial companies will be exempt for five successive assessment years from date of incorporation. New industrial units set up by existing companies will similarly be exempt. Shares held by one company in another will be excluded from the wealth of the holding company.

Under the Act, the tax is levied on the value of the net assets. The value of any asset is specified in the Act as 'the price which in the opinion of the Wealth Tax Officer it would fetch if sold in the open market on the valuation date. It is provided also that where an assessee is carrying on a business for which accounts are being main-

tained by him regularly, the Wealth Tax Officer may, instead of determining separately the value of each asset held by the assessee in such business, determine the net value of the assets of the business as a whole, having regard to the balance sheet of such business as on the valuation date, and making such adjustments therein as the circumstances of the case may require.

In other words, what the Act says is that for the purposes of the Wealth Tax the value of all assets shall be their market value. The question therefore arises as to how the market value is to be found. The ascertainment of the market value is not a simple process in all cases. For instance, take the case of shares in a private company whose articles contain a specified provision to the effect that its shares shall not be transferrable except to an existing member or his legal heir. The shares of such a company cannot be sold in the open market, and so, clearly, they have no market value as such. This is but one instance to show that the ascertainment of the value presents various difficulties.

Since the wealth tax has its origins in the recommendations of Dr Kaldor, it would not be out of place to note here the suggestions made by him in connection with the problem of valuation. Dr Kaldor said that the best method would be to follow ordinary accounting rules, and value each particular item of property at its 'book value' until it is sold. When an account is initially set-up, all items of property are valued at current value which forms the cost at which they are entered in the books of account, and they continue to be valued at that cost less depreciation where allowable, until such time as the property passes out of the account through a sale, gift or bequest. Property therefore will have to be valued only at the time when the tax is introduced, and on all subsequent occasions when it is transferred otherwise than by sale. Dr Kaldor suggested that the responsibility for the initial valuation of property may be allowed to rest with the tax-payer. In case the Revenue disputed a particular item of valuation, it may ask the tax-payer to name a reserve price,

and substitute the same for the market value. If the Revenue felt that the reserve price was very low, Government is to have the right to acquire that item of property at that reserve price. Thus the tax-payer who deliberately under-valued his property would run the risk of losing the property for a low price. Dr Kaldor suggested also the establishment of a Central Valuation Department under the Central Board of Revenue, with regional and sub-regional valuation offices, in order to check the valuation of immovable properties as given by the tax-payers. Dr Kaldor pointed out in this connection that in the United Kingdom, the Central Valuation Office under the Board of Inland Revenue evaluates properties for both estate duty and stamp duty purposes, and has also been entrusted with the listing and valuation of all land and buildings for the purposes of local rates.

Dr Kaldor himself recognised the defect in the method of valuation by book-values. He observed that valuation of properties by book-values instead of by current market values will mean that the value will be eight to ten years behind the current market value. This gap of eight to ten years was estimated as arising in the following manner. If no property were to change hands except through decease, the average book-value of properties at any point of time would be equal to the current value of half a generation earlier. Taking a generation as twenty-five years, this means an average lag of twelve and a half years, which will have to be further reduced on account of transfers inter vivos and the like: and thus he arrived at an average lag of eight to ten years. To get over this defect, Dr Kaldor suggested that in fixing the schedule of rates for the wealth tax this factor be taken into account.

Dr Kaldor's suggestions on the problem of valuation are only of historical interest. They have not been adopted. On the other hand, the Central Board of Revenue have, in their Wealth Tax Circular No. 3 dated 28th September 1957, issued a detailed set of instructions for the guidance of Wealth Tax Officers in regard to the valuation of most of the common types of assets. The instructions deal with the valuation of immovable properties, of the assets of a business as a whole, of company shares, and of miscellaneous assets like jewellery, life-interests etc. The general principles enunciated in these instructions have many merits, though they have also some shortcomings. Obviously it is not possible to

evolve any precise criteria for estimating the market value of all types of assets. However, it would be worthwhile to examine these instructions a little further, and that is what is done in the following paragraphs.

For the valuation of land, buildings and other immovable properties, the Circular above referred to gives the following instructions:—

- The value of lands and buildings should be estimated with due regard to the nature, size and locality of the property, the amenities available, and the price prevailing for similar assets in the same locality or in the neighbourhood of that locality.
- Where the value is not easily ascertainable in the above manner, the Wealth Tax Officer may adopt the capital value of the property, as determined by the municipal authorities for purposes of property tax.
- Where, having regard to the rents received, the municipal valuation is too low, the Wealth Tax Officer may estimate the annual letting value of the property, and treat the capital value as a multiple, say twenty times, of such annual letting value.
- Where the property is located in an area in which there is no municipal valuation, the Wealth Tax Officer will proceed to value the property on the basis of an estimated annual letting value as mentioned above.
- A valuation once fixed, is not to be disturbed for the two succeeding assessments, unless there are special over-riding reasons justifying a substantial revision of the valuation (as for example, substantial additions or improvements to the property), or where the assessee insists on a re-valuation and adduces sound evidence justifying such a revision.

There are two lacunae in the above principles which may be pointed out. The first relates to lease-holds. Suppose an assessee has taken a piece of land on lease for, say, fifty years, and has erected his own superstructure on it. Suppose further, that forty years out of the lease have already expired. In such a case, the assessee cannot be taxed on the land as it does not belong to him: but he has to pay tax on the building which belongs to him, even though, at the end of the term of the lease,

the building will cease to belong to him and he will get nothing by way of compensation for it from the owner of the land. (It may be mentioned that such leases are not uncommon). How should the building be valued in such cases. The Central Board of Revenue's instructions referred to above do not adequately cover the case. In Japan, they had Wealth Tax till 1954, and the Japanese Law contained specific provision for the valuation of lease-holds, as a percentage of the unencumbered value, the percentage being five per cent where the remaining term of the lease did not exceed ten years, ten per cent where the remaining term was between ten and fifteen years, twenty per cent where it was between fifteen and twenty years and so on. It may be useful to incorporate a similar provision in the administrative instructions for the valuation of structures on lease-hold properties in India.

The second lacuna is in regard to the valuation of properties in rural areas. There are several palatial buildings in rural areas: but under the changing structure of our society these buildings have ceased to be of any practical value. The Zameendars are no longer there. The areas where these buildings are located are such that they have very little letting value.

At the same time, if the buildings were put up for sale, they would fetch much less than what they cost. Perhaps they may not even fetch their scrap value. It is desirable that in cases like this it should be permissible to place a nominal value only, on such buildings. The Board's instructions as they stand at present, do not, no doubt, bar the Wealth Tax Officers from doing so: but, as the nominal value may be much less than the scrap value even, it would have been better, if a specific instruction were given to the Officers in this regard.

Turning next to the valuation of the assets of a business as a whole, the Board's instructions are that as a matter of practice, the Wealth Tax Officer should ordinarily apply the global valuation (i.e. evaluating the assets in bulk), in all cases of business, particularly companies, if the accounts have been found to be reliable and there is no reason to suspect any fraud. The net wealth is to be taken as the sum of the paid-up capital, reserves, and the balance to the credit of the Profit and Loss Account, with the proviso that any development rebate should be added back. As safe-guard, it is further stated that the liabilities should be carefully scrutinised, that it should be ensured that the closing stock is not under-valued

and that depreciation funds should be excluded from the assets where the original block is kept unaltered in the books. These are all wholesome provisions. Another wholesome provision is in regard to assesses who have several businesses each of which has a different 'previous year'. As the valuation will be on the last day of the previous year, the question will arise as to which previous year should be taken in such cases. The instructions make it clear that it will be the last date of the latest of such previous years. And that even so, the balance sheet values of the other previous years need not be re-adjusted to the last date of the latest of the assessee's several previous years. The advantage to the assessee here will be: suppose he has two businesses one of which closes annually on 30th June, and the other on 31st December; supposing further, that between 30th June and 31st December there has been a substantial addition to the assets of the business whose accounts have closed on 30th June. The assessee will not have to pay wealth tax that year on these additions. Correspondingly, for the depreciation of the assets between 30th June and 31st December (in the case of the business whose accounts close on 30th June) the assessee does not get a deduction in the computation of his wealth.

We now come to the valuation of shares and debentures. The principles laid down by the Board in this connection are as follows:—

- (a) Shares which are the subject of dealings in a recognised Stock Exchange may be valued on the basis of the closing price quoted on the Stock Exchange on the relevant valuation date.
- (b) The recognised Stock Exchange located within the State in which the assessee is assessed should be considered for this purpose.
- (c) Where there is no recognised Stock Exchange within the assessee's State, the price quoted in a Stock Exchange nearest to the assessee's State should be considered.
- (d) Where there is no quotation for the relevant valuation date, the quotation on a date nearest to the valuation date should be adopted.
- (e) Shares of foreign companies, quoted on a recognised Stock Exchange in a foreign country should be valued on the basis of such quotations. The place where the company is incorporated is the place to be taken into account for this purpose: (e.g. if the shares of a British Company are quoted in America, it is the quotation within British Stock Exchanges that should be taken into account).
- (f) In the case of shares which are not quoted on any recognised Stock Exchange

(this will include all private companies and unquoted public companies) the value of the share will be arrived at by dividing by the equity capital the aggregate of the equity capital, reserves, and balance as per Profit and Loss Account, without deducting therefrom the value of any exempted assets.

- (g) The value of preference shares and debentures will be their paid-up value, unless their market quotations show otherwise.
- (h) Shares in companies registered under Section 25 of the Companies Act will be treated as of no value, they being organisations not formed for profit.

Among the principles mentioned above, the one relating to the valuation of shares of private companies and of unquoted public companies does not appear to be strictly in accordance with the provisions of the Act: for, the Act requires that the value for purposes of the tax shall be the 'market value', whereas, the particular principle mentioned here refers to the 'break-up value'. Suppose there is a private company whose articles stipulate that its share shall not be transferrable except to an existing member or his heir. If that share is put up in the market, nobody will buy it. On the other hand, if the company is liquidated and its assets are sold in the market, they will fetch only something less than what they are really worth. So, the 'break-up value' cannot be treated as the 'market value'. It is necessary that the valuation of any share which is not freely transferrable should be done by a separate set of principles altogether, and these may apply also to all unquoted shares. The average of the prices at which, during the preceding one year, shares of such companies have changed hands would be a better and more equitable index of the values of those shares. In other cases, the saleable value of the tangible assets of the company should be computed and the share values should be worked out accordingly.

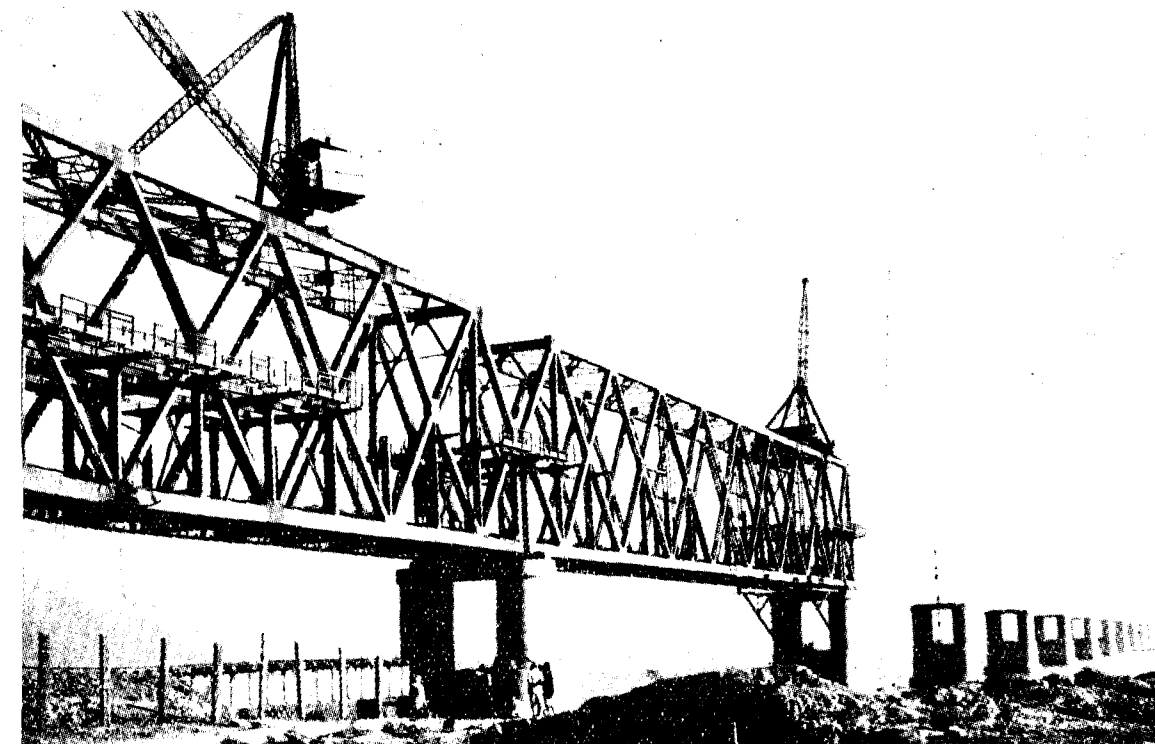
For the valuation of life interests, the benefit is to be assumed to arise at the same rate for the rest of the life, and the present value of the future benefits is to be treated as the value. The benefits are deemed to be available till the assessee attains age sixty-five, or for a period of twenty-five years from the valuation date whichever is shorter.

As regards valuation of jewellery, the principle laid down is that the value of the precious metal and of the precious stones are to be taken into account, and the assessee's statement of the making charges should generally be accepted. This is a good provision, as otherwise, the imposition of the wealth tax would have involved vexatious or irksome probes into family property.

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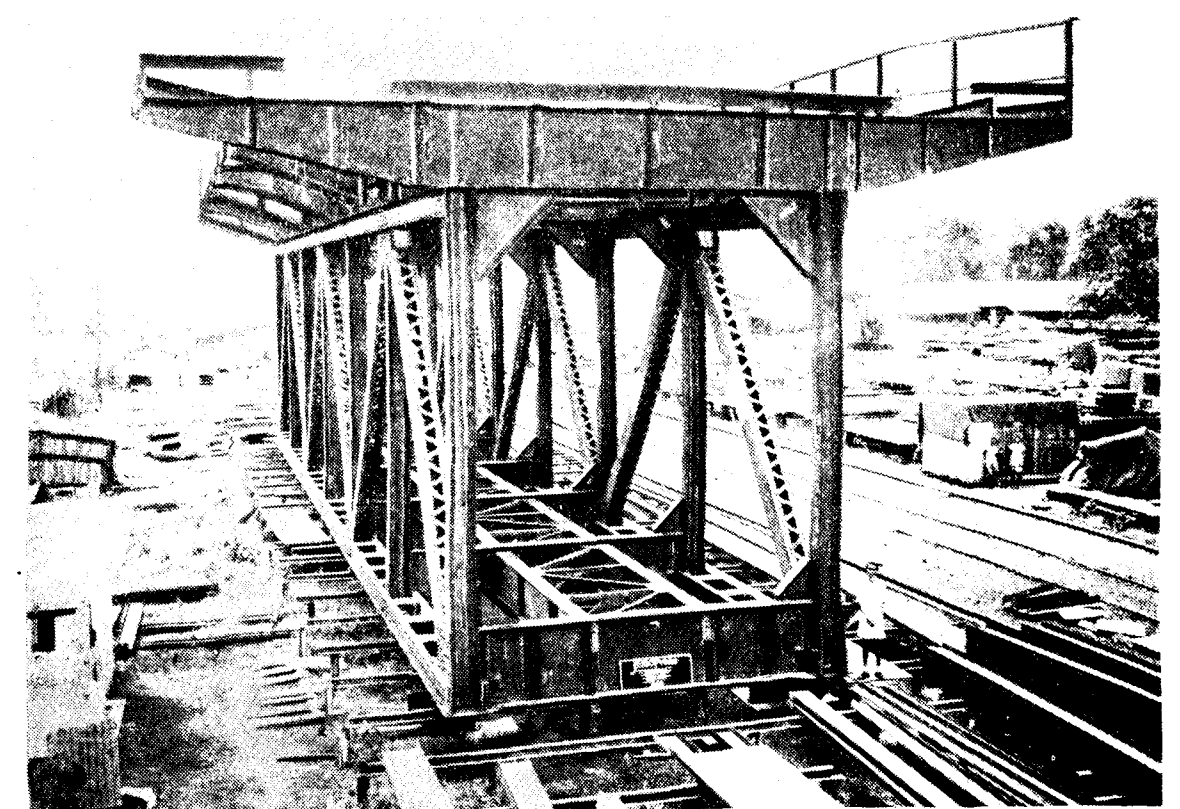


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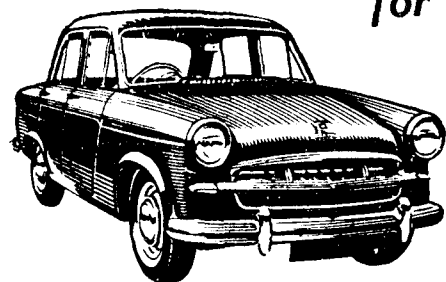
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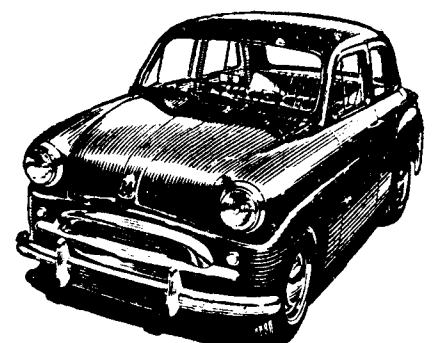
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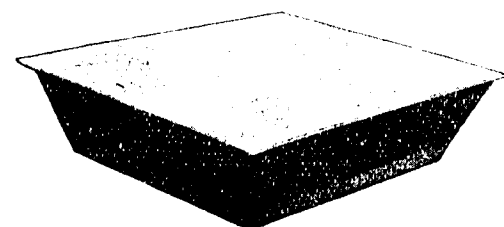
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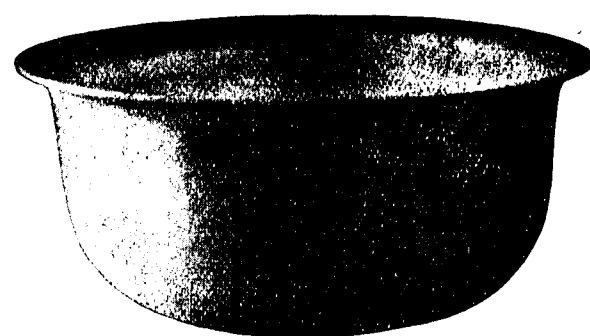
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Self-sufficiency in Raw Jute Attained

PERHAPS the most significant development in the Indian World of Jute during the past year is the fulfilment of the long cherished dream of raw jute self-sufficiency. According to trade estimates jute and mesta production for jute year 1958-59 is placed at about 65 lakh bales. The annual fibre requirements of our jute mills is now around this level. The All-India Final Estimate of jute for the current year just released shows a record production of 51.78 lakh bales. The figures represent an increase of 1,126,000 bales or 27.8 per cent over last year's production. It is significant to note that jute production is now only 3.22 lakh bales short of the production target of 55 lakh bales set for the end of the Second Plan. The area under jute has also gone up to 1,827,000 acres from last year's figure of 1,742,000 acres or an increase of 4.9 per cent.

While it is true that the favourable weather conditions during the sowing season have largely been responsible for this year's bumper crop, it must be noted that the concerted efforts that are being taken by Government to encourage production of jute have been an important contributory factor in bringing about the present favourable turn in the raw jute situation with regard to the size of the harvest. It would be recalled that the Central Supervisory Body for the promotion of jute production had recommended an increase of about 18½ per cent in the acreage under jute for the 1958-59 season. Government have also accelerated the programme of giving facilities to the farmers to increase production through improved methods of cultivation by the supply of fertilizers in adequate quantities, timely supply of improved seeds and expert advice on modern methods of cultivation.

Thanks to the abiding interest evinced by Government, jute production has made rapid strides in the past decade. From 16.58 lakh bales in 1947-48 jute production in India has increased to 51.78 lakh bales in 1958-59. The trend of jute production (including mesta) in the past few years will be seen from the following table.

Production in 000 Bales

Year	..	..	39,46
1954-55	..	..	53,56
1955-56	..	..	56,95
1956-57	..	..	52,95
1957-58	..	..	65,00*
1958-59	..	..	

*Trade estimate

This year's bumper crop, however, has brought in its wake a rather serious problem. For the knowledge that there will be plenty of jute within the country has naturally resulted in an increase in the offerings from culti-

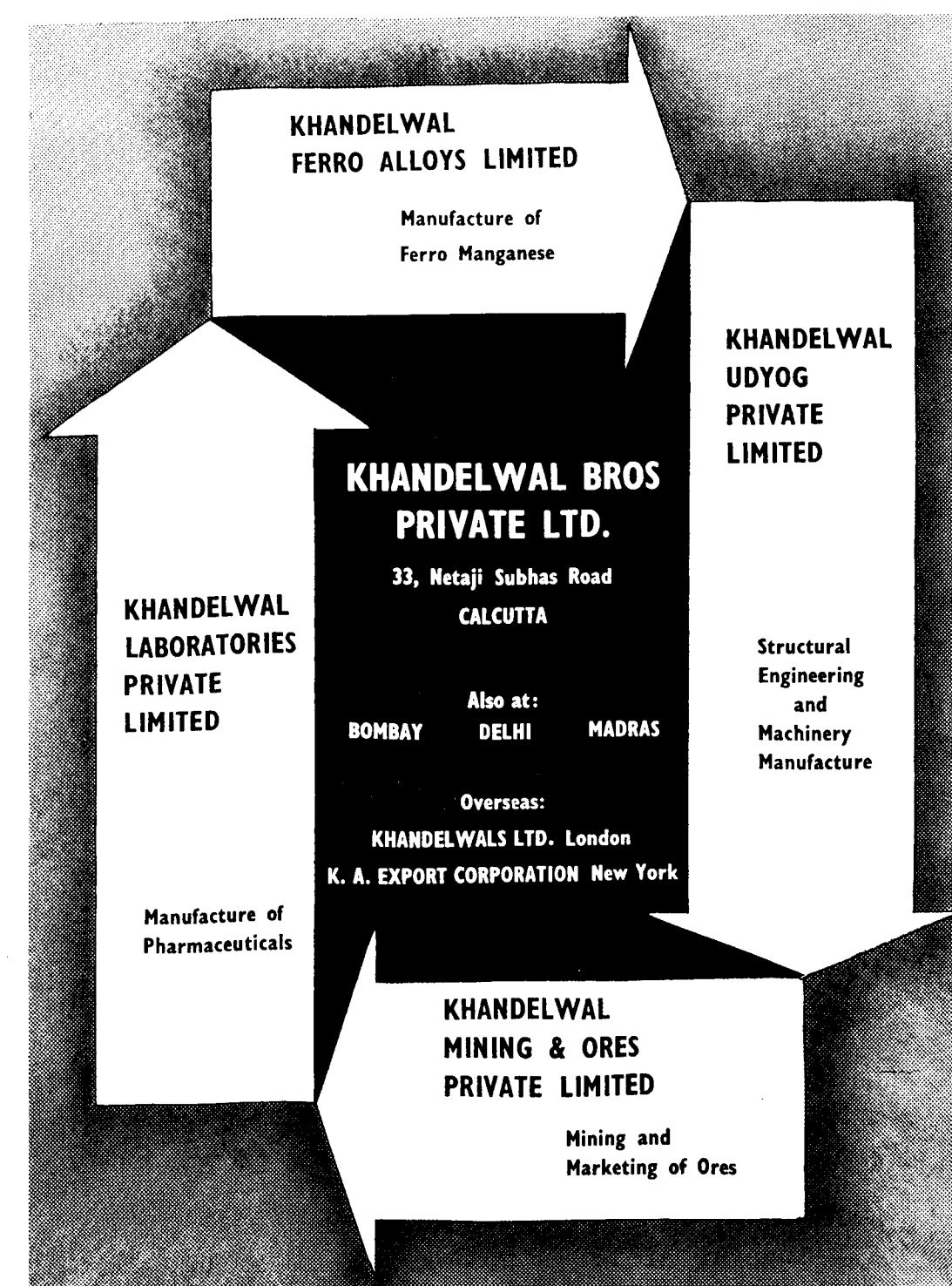
vators while mills for the same reason have not shown any great hurry to buy their requirements. Thus a situation has obtained wherein raw jute prices have tended to decline. During the past one, two months, the down-trend in raw jute prices has become well-pronounced as there is no longer any uncertainty about the big size of this year's crop. From the current level of raw jute prices obtaining in the markets it is clear that jute cultivators are not getting an equitable return for their produce. Representatives of jute producers have pointed out that already many a farmer has been obliged to sell his produce at a loss. It is apprehended that if this situation is not remedied expeditiously by ensuring an equitable

return for the jute cultivator, the entire jute production programme in the country may be seriously dislocated, as the jute cultivator finding that jute production is not remunerative may be turning his attention to other more profitable crops. When once this is allowed to happen, it will be indeed a difficult job to attract the cultivator towards jute cultivation in future.

So the problem of ensuring an equitable return for the jute cultivator is not the concern of the Government alone. It is the concern of all sections of the jute industry and trade. For only if the raw jute production is maintained at a satisfactory level will it be possible to concentrate attention on other problems confront-

ing the industry. This aspect has been well recognised by the industry and trade as will be seen from the steps taken by the Indian Jute Mills Association and the East India Jute and Hessian Exchange. Apart from solidly adhering to the minimum prices fixed for jute goods in February, the IJMA have pointed out to their members the need for giving support to the raw jute market. In order to achieve this objective they have asked the mills to purchase raw jute adequate for three months' consumption. In a subsequent note the mills have been asked to buy raw jute upto four months' requirements.

The urgent need for making jute cultivation remunerative has also been stressed at the annual meet-



ing of the Indian Central Jute Committee. Referring to the raw jute situation Dr M. S. Randhawa Vice President of the Indian Council of Agricultural Research and Additional Secretary of the Ministry of Food and Agriculture has pointed out that the achievement of the main objective of the jute production programme depends on the economic condition of the jute grower. It has been generally recognised that the problem of the supply of adequate quantities of raw jute to our mills at reasonable prices can be solved satisfactorily only if increase in production is the result of an increase in the yield per acre. Thanks to the sustained research we now know the improved technical know-how. These will surely help bringing about a high average yield of jute per acre. But it has been found that without the assurance of a minimum price it is impossible to persuade the growers of jute to make a large outlay in men and

materials as called for by the improved methods. The ICJC has therefore, recommended the fixation of a minimum remunerative price for raw jute and has appointed a nine member expert Committee with equal representation from jute growing interests, industry and Government to work out a suitable formula for fixation of a floor price for raw jute, keeping in view the cost of production of jute, the parity between prices of raw jute and jute goods and also the industry's capacity for disposal of its manufactured goods.

The question of fixation of floor prices for raw jute is no easy matter. For our jute goods industry is primarily an export industry with about 80 per cent of its output depending on foreign markets. As the cost of jute which constitutes a major portion of the cost of production of mills will have a large say in determining the price of goods, the question of

raw jute prices has to be considered with utmost care. The ICJC has not ignored this aspect as it will be evident from the list of points given by it to the expert committee to be considered while determining a floor price.

In the meantime, the developments in the jute situation have also been receiving the close attention of Government. In a statement on December 15 in the Lok Sabha Mr Lal Bahadur Shastri Union Minister for Commerce and Industry has indicated the measures taken by Government to ensure a fair price for the cultivator. Apart from the action by the IJMA and the EIJHE to prevent speculation from taking advantage of the decline in raw jute prices and increase offtake by mills, Government have formulated two other measures. One of these is to curtail drastically imports of jute from Pakistan. Toward the end of last year import licenses have been practically suspended. In the past

four months licenses have been issued for the import of only 4.8 lakh maunds as against 15 lakh maunds licensed during the same period in 1957. The second step is the decision to permit the export of a limited quantity of raw jute. Mr Shastri has disclosed that such exports will be canalised through the State Trading Corporation. While it is true that this is the first time since Independence that the export of raw jute has been considered, it is clear that it is more an indication of Government's determination not to allow raw jute prices to fall to uneconomic levels rather than an indication of a sizeable surplus in jute production. It cannot be denied that jute production is now equal to the level of demand but at the same time it cannot be seriously claimed either that we have reached a position wherein we can allow export of raw jute with the confidence that we will not be obliged to retrace our steps at least for sometime to come. Moreover, it is not as though the varieties of jute that we may be prepared to sell will have a ready market; for, with Pakistan's anxiety to maximise her export of raw jute, which is admittedly of a higher quality, the world raw jute supply position is in favour of the buyer.

Turning to the conditions obtaining in the jute industry and trade during the past year, it will be seen that the general trend has turned to be hopeful. Indications were available quite early in the year that the financial position of jute mills was improving under the favourable impact of the good progress made in modernisation of jute mills. Later in the year when it became clear that the 1958-59 jute crop would be a bumper one, expectations of profitable working of the mills were further strengthened. The revival of investors' confidence in the jute industry is borne out by the sizeable appreciation in jute shares during the year. Other factors besides the easy raw jute supply position and the modernisation of machinery have contributed to the improvement in the conditions pertaining to the jute trade and industry. One of these is the important decision taken as early as February by the IJMA as regards the selling prices of jute goods. Finding the situation in the trade very unsatisfactory with a consequent steep decline in prices for no plausible reason, member mills of IJMA resolved to fix floor prices for jute goods and announced on February 26 that they would not sell goods below Rs 39.50 for 40x10 oz hessian and Rs 100 for B. Twills. Though the announcement did arrest the fall in prices for some time the situation threatened to get out of control a number of times during the year. But the IJMA were steadfast in their resolve and reiterated their February decision in August and in December. While announcing their determination to maintain the price minima in December they had further stated

that minimum prices for those categories which were not included heretofore were also fixed.

The forwards market in jute and jute goods which came into being from March 29 under the aegis of the East India Jute and Hessian Exchange Ltd is another important factor which has gone some way toward curbing unbridled speculation. It is however to be noted that futures trading is yet to reach its full stature partly because transferable specific contracts still remain beyond its purview. That the time for its full expansion is not far off is clear from the fact that Government have made it clear that the exemption granted to specific delivery contracts will not be extended beyond March 1959. Though membership of the exchange has shown a steady growth it cannot be claimed that it has obtained the wide support of the trade.

In this regard it is to be noted that while the usefulness of a futures market has been generally recognised not all the sections of the trade have been equally enthusiastic about its reopening. So when the question of the reestablishment of a future's market came up before the Forward Markets Commission almost the first task was the formation of an association in which all the important jute interests were represented. That a fully representative organisation alone can make the futures market a success is one of the important lessons learnt from past experience of the working of the Forward Market. In other words the futures market can function successfully only if it is broad-based.

The futures market has been functioning for over eight months now and from the trend of its working during this period it would appear that it had been quite helpful to the jute industry and trade. Speaking at the Annual General Meeting of the EIJHE on November 13 Mr Nandalal Kanoria, Chairman, has pointed out that the trend of price has generally been based on the law of supply and demand and other natural factors and has been well related to the

prices in the market. The Board of Directors of the Exchange have been keeping a close watch on the trends of the market and recently they have taken prompt steps to arrest a steep decline in the prices by imposing a system of additional margin in trading in hessian cloth, sacking bag and raw jute contracts based on movement of prices. An indication of the usefulness of the futures market is the fact that its activities have been welcomed by many overseas buyers. The activities of the Exchange cover futures contracts only as transferable specific contracts of jute and jute goods are exempted from regulation under the forward market contracts Act. These contracts were originally granted exemption for six months. But the Government of India have recently extended the period for another six months from 28th September 1958.

Turning to the conditions obtaining in the jute goods industry and trade during the first 11 months of 1958, one finds that though the statistical position has not been unsatisfactory, sacking goods have once again begun to cause considerable anxiety. Ever since the beginning of the year sacking stocks have begun to accumulate from month to month and between March and August stocks have gone up by nearly 35,000 tons to stand at the end of July at 89,600 tons. In the last four months, however, the trend has been reversed with the November end stocks at 75,500 tons. The hessian section on the other hand has fared very well indeed. But for a brief reversal during May and June due to the dock strike and the temporary cancellation of import licences by the Argentine, the trend has been downward. Stocks of this category of goods have touched a new low at the end of September having been placed at 17,000 tons. Since then the trend has turned somewhat irregular with October-end and November-end figures at 17,800 tons and 17,300 tons respectively. The large accumulation of sackings have naturally been reflected in total stocks which after touching a peak of 134,000 tons at the end of June have since tended to decline to be placed at end of November at 105,600 tons.

STOCKS OF GUNNIES (in Tons).

Month	1958.			1957.		
	Hessian	Sacking	Total*	Hessian	Sacking	Total*
January	29,700	53,700	96,600	23,800	67,700	103,200
February	27,200	53,300	94,900	25,200	61,600	97,400
March	24,500	54,800	94,300	29,800	56,500	97,700
April	20,400	60,200	97,500	35,100	58,300	104,200
May	25,000	71,800	112,100	40,400	58,000	109,400
June	31,000	87,900	134,000	42,400	64,800	116,000
July	19,900	89,600	121,900	34,800	51,100	92,500
August	19,000	86,400	117,200	30,300	39,100	77,000
September	17,000	80,200	109,000	29,500	37,500	76,000
October	17,800	77,100	107,100	26,000	35,500	71,300
November	17,300	75,500	105,600	25,200	38,400	75,000
December	...	...	...	...	...	...

*Includes other varieties.

Production of jute goods has been more or less at the same level as in 1957. The 11 month total for 1958 is somewhat higher at 965,300 tons as compared with 937,100 at the corresponding period

of last year. One will however find that the pattern has changed. For most part of the period the emphasis has continued to be placed on the production of heavy goods. But toward close the em-

phasis has shifted to production of hessian as can be seen from the table below:

PRODUCTION OF GUNNIES (in Tons).

Month	1958.			1957.		
	Hessian	Sacking	Total*	Hessian	Sacking	Total*
January	34,400	57,300	98,300	38,800	43,500	88,800
February	30,100	49,300	85,300	35,400	39,600	80,200
March	30,400	49,500	85,300	36,000	43,100	84,700
April	30,900	50,600	88,000	35,600	45,000	87,300
May	34,200	53,700	94,900	35,600	42,300	80,100
June	31,300	45,900	82,400	35,600	45,000	85,900
July	35,300	49,000	89,800	33,900	43,100	81,900
August	35,400	44,300	85,200	33,700	47,300	86,000
September	35,900	45,700	87,300	31,700	47,100	83,500
October	33,300	43,000	81,800	33,400	53,200	91,900
November	35,800	44,900	87,000	32,100	54,700	92,800
December	...	...	...	...	...	...
Total	367,000†	533,200†	965,300†	414,300	548,700	1029,900

*Includes also other varieties.

†For 11 months.

The table pertaining to despatches will reveal that offtake is lower at 929,200 tons as compared with the comparable figure for the previous year of 955,400 tons. A significant development is the rise in internal consumption which for the 11 months of 1958 is placed at 182,000 tons as against 160,200 tons. The fall in total despatches is due to lower exports which for the 11 month ending November 1958 stand at 746,000 tons as against 795,300 tons for the same period in 1957.

GUNNY DESPATCHES (in Tons).

Month	1958			1957		
	Exports	Internal consumption	Total	Exports	Internal consumption	Total
January	55,600	19,900	75,500	64,100	14,700	78,800
February	67,400	18,400	85,800	71,400	14,500	85,800
March	65,500	20,500	86,000	68,800	15,200	84,000
April	65,900	18,000	83,900	60,700	18,300	79,100
May	61,700	17,800	79,500	65,900	16,800	82,700
June	46,000	13,800	59,800	62,900	10,200	73,100
July	88,000	14,100	102,100	80,600	12,100	92,700
August	77,600	11,700	89,300	87,600	10,500	98,100
September	80,600	14,600	95,200	86,200	14,500	100,700
October	67,300	15,600	82,900	70,500	12,900	83,400
November	70,400	18,800	89,200	76,600	20,400	97,000
December	...	...	...	69,000	19,100	88,100
Total	746,000*	182,200*	929,200*	864,300	179,200	1043,500

*For 11 months.

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As noted above sacking goods have been causing and are still causing anxiety to the industry. It would appear that the industry has not been able to assess the demand for the two categories of goods. The expectation that sackings which had begun to move fast during the last quarter of the previous year would continue that trend has been belied quite early in the year but the industry has taken quite a long time to effect any change in the pattern of production. In the meantime, the demand for sacking goods had been declining as, Australia, the principal consumer of heavy goods, did not show much interest due to the smaller wheat crop last season in that country. The fall in the exports to this country is also partly due to the fact that consumers there have found the quality of the goods from India not upto the mark. Effective steps have been taken by the IJMA to rectify the defects. It is, however, expected that the outlook for heavy goods will improve in coming months in view of Australia's ex-

panding primary and secondary production. Mr J. I. Jamieson, Chairman of the IJMA, who led a four-man trade delegation to Australia and the Far East recently is hopeful of an expansion in off-take. He has pointed out that there are indications that Australian buying of jute goods will at least remain at the level of 100,000 tons a year—10 per cent of India's jute goods production. Says Mr Jamieson: "Bulk handling and synthetics have affected India's jute markets; but we feel that the increased production in Australia coupled with the modernisation of India's jute industry, and India's new-won self-sufficiency in raw jute will offset this trend."

In marked contrast to sackings, hessian has been meeting with good demand almost all through the year and its statistical position at present is indeed very good. Stocks of hessian at the end of November this year at only 17,300 tons are equal to half a month's production. The outlook for this category in its principal market, US, is quite bright as will be seen from the following table.

US BURLAP CONSUMPTION AND STOCKS.

Months.	Consumption		Stocks at end of	
	1958	1957	1958	1957
January	71	75	240	267
February	70	62	240	266
March	71	73	242	263
April	69	68	242	257
May	65	73	240	261
June	60	71	232	252
July	68	61	229	246
August	67	68	230	232
September	76	73	222	227
October	79	75	222	219
November	65	63	...	224
December	...	71	...	225
Total	761*	833	...	...

*For eleven months.

Burlap consumption during the first 11 months is on a level with that during the corresponding period of last year. The fact that demand in that country for Indian jute carpet backing is steadily increasing has raised hopes about further improvement in the off-take

of hessian. It is reported that in view of the increasing demand for jute carpet backing dealers are making large purchases of further shipments. There has also been some useful improvement in the off-take from the UK and the Continent.

PRICE TRENDS DURING 1958.

	Opening	Highest	Lowest	Closing
Hessian:	Rs	Rs	Rs	Rs
40" x 10 Ozs Ready	39.50	44.60	37.80	41.75
40" x 8 Ozs	32.50	35.40	35.75	37.37
40" x 7½ Ozs	30.50	33.10	28.62	30.25
Sackings:				
B. Twills	106.50	107.00	92.70	94.25
Hy. Ceas (Green)	105.50	105.75	95.00	96.50
Cornsacks	106.50	108.00	93.50	95.00
Cubans	132.00	132.00	114.50	116.00
A. Twills	129.50	129.50	114.25	115.00
L. Twills	122.25	123.00	106.75	109.00
D. W. Flours	127.50	127.50	110.00	112.50
Sugar Twills	122.00	122.00	107.00	109.00
Raw Jute: Bottoms Basis:				
Assam	27.00	28.00	20.50	20.50
Indian Northern	26.75	28.00	20.00	20.00
Daisee Meta	23.75	26.75	16.25	16.25
Bimli	22.00	24.50	17.50	17.50

Indian Tea Industry

THE Indian Tea industry is one and a quarter century old. Annually, the industry produces about 675 million pounds of which 145 million pounds are from the South. The total value of tea, in terms of current prices, is about Rs 170 crores of which Rs 42 crores are paid to the Governments—Central and States—by way of taxes, duties, cesses and other levies. The average income from the export of tea amounts to about Rs 130 crores and the extent of impost for the earning of this exchange is about 2 per cent. This places tea in a special position since, unlike most other commodities, very little of foreign

exchange is expended to obtain this earning from tea. Again, the importance of tea industry in the nation's economy can be judged by the fact that it provides employment to a large number of persons other than any other organised industry, paying them annually about Rs 58 crores. Thus, among plantation crops, tea is the largest and, from the point of view of employment, value of production and export, it is by far the most important agricultural crop of India. The following table gives the latest crop position as compared with the previous two years (figures in million pounds):—

Countries	Total	1958	1957	1956
North-East India	Upto November	539.3	516.5	538.6
South India	Upto October	135.3	125.6	103.8
Pakistan	Upto November	50.5	43.6	51.7
Ceylon	Upto October	341.3	333.5	301.1
Indonesia	Upto September	73.6	73.5	67.3
B. East Africa	Upto September	46.0	43.1	...
Total	...	1,186.0	1,135.8	1,062.5†

*Not available. †Incomplete.

From the above facts, it is clear that the tea industry is a key one, especially from the point of view of foreign exchange earnings and the employment it provides directly to over a million workers. The problems facing the industry should, therefore, deserve the closest attention of the Government. Despite the many representations made by the planters from time to time, the authorities have not taken sufficient steps to help the industry. For, the industry is now in such a difficult position that its future cannot be viewed without some concern. The position has been rendered worse by the fact that other tea-producing countries, taking advantage of India's weakness, have captured the markets for Indian tea. India's competitors have made vast strides in the export market by virtue of their low selling prices, on account of the low cost of production and low or no export duty. No doubt, India is in a more advantageous position in one respect; that is, its vast internal market which offers scope for increasing consumption. But, the efforts taken, so far, in this direction, are far from commendable.

Of the total production of tea in India, nearly 60 per cent is accounted for by Common tea and much of this goes for export. Consequently, the effect of competition from East Africa, which also produces Common tea, is more keenly felt. The apprehension is, that producers of Common tea in this country cannot compete with producers elsewhere in world markets, because of the rise in the formers' production costs. Current prices for this type of tea give virtually no profit to Indian producers; but East African estates make a profit. As a result, the latter are ploughing back

resources for expanding and improving their output.

During the current season, prices of tea except for the Common grades had, despite production increases, been maintained. However, teas of certain areas fared worse than last year, while prices fetched by Common grades grown in other places were hardly remunerative. It was, in this context, that the Government introduced certain modifications in the excise and export duties. They decided to replace the present uniform excise duty by differential excise duties, to be imposed according to areas of output. For this purpose, producing areas were divided into three zones. Tea produced in the first zone would pay an excise duty of 2 nP per pound. The rate was increased to 4 nP in the second zone and to 10 nP in the third zone. The export duty was levied, for the time being, at a uniform rate of 26 nP per pound; but there would be no refund of the excise duty except in the case of package tea.

But, the changes in excise and export duties do not yet show promise of any material benefits for producers of Common tea. The reason is that, in formulating the complicated new structure of duties, no attention has been given to the basic problem of high production costs, especially of low-grade producers. It looks as if a number of poor quality tea producers in Zone 3 who have to pay a greatly-increased excise duty without any hope of a corresponding improvement in sale prices, will, in fact, be far worse off than before. In the case of internal consumption, there will be the slight benefit of 1.125 nP to the producers in Zone 1, while the position of the producers in Zone 2 will be largely as before.

The producers in Zone 3 will, however, be 6 to 7 nP worse off. The enhanced burden for the Zone 3 producer would seem likely also to prove a further depressing factor for CTC Dusts, which are now in plentiful supply and, unlike some good grainy orthodox types, are largely unsuited for export.

Naturally, the general behaviour of the market was fully reflected in the trend of prices during the year under review. The first sale in the New Year opened on a strong note and the market for all descriptions showed an improvement with prices moving in sellers' favour. In February, the demand for Common tea was surprisingly good and the re-entry of the USSR into the market, after a lapse of some months, caused medium and low medium BOPs to appreciate. Due to the improved standard of manufacture, there was a comparative shortage of Commonest teas on the market and, as a consequence, "teas for price" were always keenly competed for, generally by the bazar buyers. In March and April, the demand continued to be strong and well-sustained and any teas with bright liquors were readily taken up at competitive prices, although there was a slight decline

in the values of Common and low medium teas and the quality of the offerings was typically end-of-season.

The first export auction for year 1958-59 North Indian crop, held in May, got off to a good start, as was expected. There was good support from foreign countries, especially the UK and Russia, thanks to the interruption of supplies from Ceylon due to disturbed labour situation and the political upheaval in Indonesia. However, subsequent developments, namely the declaration of strike in five major Ports of India with effect from the 16th June and persistence of the dock strike in London, somewhat obscured the outlook for the 1958-59 season. It was feared that, if the strike was not called off, the congestion of stocks at the warehouses could prove embarrassing. This apart, the accumulation of stocks might make a great deal of difference to the marketing prospect when normal shipments were again resumed. On the other hand, buyers in London were not much concerned about any temporary interruption of supplies. They were rather inclined to buy cautiously and live on stocks on hand in the expectation that prices were unlike-

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ly to rise when the strike was settled and supplies began to press on the market.

Contrary to expectations, there was no unusual congestion in warehouses due to the slow arrivals of teas. Another encouraging sign was, that keen bidding for quality grades continued to be in evidence, although buyers were not particularly anxious to chase rising prices. However, what was worrying the trade was the possibility of excessive supplies of Common grades. In spite of interruption of supplies due to dock labour troubles, prices of these types of tea did not show much improvement as an adequate supply was expected in the near future. Even the Government announcement with regard to the reduction in export cess from Rs 4 to Rs 2 per 100 pounds and a cut in excise duty on tea in packages exceeding 60 pounds in weight or loose tea from one anna to half anna per pound had no effect on the market. It was felt that the reduction in export cess would contribute very little towards rendering Indian tea competitive in foreign markets. It was nevertheless, announced by the Government that the reliefs were all interim, pending a further study of the problem, and that they are devising a scheme by which a quantum of relief could be given to producers of Common teas as distinct from the superior categories.

In July, the market was unsettled and the undertone was weak. In consequence, there were fairly hea-

vy withdrawals. While the Middle East situation was responsible for the lack of interest from certain outmarkets, finance was dictating the buying policy for the UK and, as a result, she showed interest only in the very best qualities. It was only the USSR, which remained a consistently stronger buyer since the beginning of the season. In fact, without her support, prices for medium Assams and Darjeeling leaf grades would have been on a considerably lower scale.

The month of August did not turn out to be as good a cropping month as generally anticipated. Only a small increase was recorded and this had a beneficial effect on the market, although offerings were heavier and the rate for Common and low medium teas declined to Rs 1.70 from Rs 1.85 quoted at the beginning of the season. However, the market trend for the above grades remained firm during September, with a further recovery recorded in October. With the result, there was little tea on the market below Rs 1.75 per pound as compared to Rs 1.60 in 1957. But, depressed conditions set in from mid-November when the market became progressively weaker with prices recording a steady decline till the end of the year. The main contributory factors were the substantial increase in North Indian crop figures, both for October and November, and the little prospect of any material decline in the final crop position.

The following table shows the trends of prices (per pound):—

	Opening	Highest	Lowest	Closing
Exports Sale:	Rs nP	Rs nP	Rs nP	Rs nP
Clean Black Pekoe	2.30	2.50	1.95	1.98
Plain Broken Pekoe	1.58	1.88	1.38	1.60
Plain Fannings	1.68	2.10	1.52	1.62
Medium B.P.	1.64	2.50	1.52	1.62
Medium Fannings	1.78	2.70	1.70	1.78
Best Assam CTC B.P.	2.60	5.00	2.00	2.20
Best Assam CTC Fannings	2.50	5.50	2.40	2.30
Dust Sale:	Rs nP	Rs nP	Rs nP	Rs nP
Medium Dooars	1.60	1.88	1.48	1.70
Medium Assam Grainy	1.62	1.90	1.52	1.76
Medium Assam CTC	1.90	2.60	1.70	2.10
Best Assam CTC	2.50	3.30	2.40	3.00

The world crop figure up to the end of November shows an increase of 43 millions above the previous season. In addition, the London "stock and afloat" figure is at the highest level since the war. Naturally, everything points to a surplus of tea from the producing countries and immediate prospects are that the tea market may show a further decline in the coming months. India will, therefore, once again, have to rely on her internal market to absorb the large quantity of Common tea that will inevitably be offered during the next few months. However, against this depressing background, there is one bright light on the horizon and this is the increase in exports.

Exports of North-East Indian tea, during the first ten months of the current calendar year, have gone up by 11 million pounds to 276 million pounds. Exports from South India, in the first eight months of 1958, are higher by 16 million pounds, at 65 million lbs as compared to 49 million lbs in the cor-

responding of 1957. Though exports from Ceylon, during the seven months ended July, are lower by 2 million pounds at 226 million pounds, they are no less than 20 million pounds above the level touched by the end of July 1957. Exports from Pakistan, during the nine months ended September 1958, amounted to 31 million lbs, more or less maintaining the average level for the last three years. Thus, it will be seen that India has not fully covered the ground lost in 1957.

Although it is estimated that the volume of exports so far in the current year has risen by 40 million lbs as compared to the corresponding period of last year, the value realised is appreciably less than last year. With an increasing proportion of Common teas to the total output and higher costs of production, it has naturally been emphasised that the impediments in the way of exports should be removed and that the export duty, particularly as it con-

cerned the lower grades, should be reduced further. As it has also been suggested that the weight of Common tea should be lessened in order to avoid a depressing effect on export prices by stimulating internal consumption, it will have to be examined whether there can be a revision in the rate of the excise duty as well.

A source of worry is the rising trend in world production, which is 40 million pounds ahead. Recently, Ceylonese and Indian producers discussed the problem in relation to an international tea agreement. It is obvious that, if Indian tea is to be marketed on competitive terms with output of other countries, steps will have to be taken to reduce costs substantially. Considering that a large proportion of the production costs is statutorily determined, a sub-

stantial reduction in both export and excise duties can be of great help.

It may be added that, as prices are not expected to improve much in the near future, a considerable amount of Indian tea may have to be sold at unremunerative prices, especially when the East African competition is proving to be rather keen and there are reports of Chinese black teas pouring into the London market. In view of the fact that the Indian industry should be enabled to maximise its foreign exchange earnings and at the same time work on a reasonably profitable basis, the burden of taxation, direct and indirect, should be such as can be borne cheerfully.

The following table shows the outturn and the average price realised by a few selected gardens in North India:—

Gardens:	Outturn (in mds)	Ave. Price (per lb) Rs nP	Outturn (in mds)	Ave. Price (per lb) Rs nP
Bateli	9,965	1.87	9,862	2.31
Birpara	13,832	2.04	15,537	2.17
Bagmari	10,153	2.20	10,453	2.41
Bormah Jan	4,319	2.16	6,480	2.43
Bhatkawa	15,648	1.95	15,778	2.14
Basmatia	8,593	2.08	7,104	2.57
Dibrugarh	6,832	2.73	7,223	2.64
Duflaghur	12,251	2.76	12,248	2.92
Dauracherra	3,924	2.15	4,922	2.27
Deioo Valley	4,045	2.42	4,093	2.76
Gohpur	7,618	2.69	7,460	2.71
Gungaram	16,331	1.70	17,091	1.97
Huldibari	21,710	1.59	21,920	1.87
Hattikihira	16,239	1.67	16,910	1.77
Killcott	13,495	1.78	14,691	2.12
Teloijan	10,300	2.25	9,653	2.53
Teliapara	9,753	2.04	13,726	2.06
Tyroon	16,082	2.16	15,118	2.90
Tirrihannah	8,010	1.89	8,084	2.22
Ranicherra	11,606	1.91	11,813	2.32

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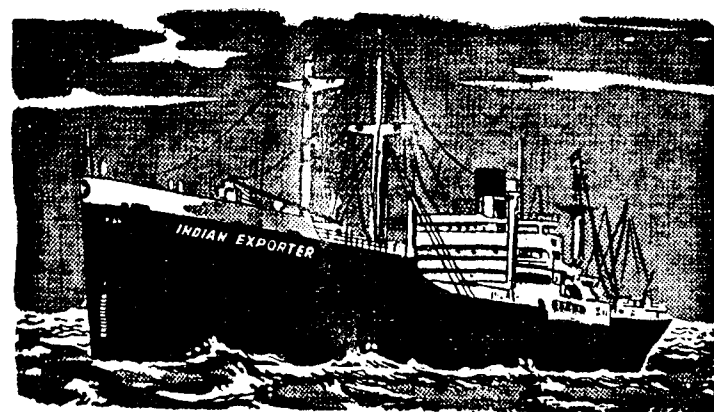
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Cotton: Comfortable Supply Position

THE raw cotton trade has not fared well during the year 1958 as stockists suffered heavy losses. The market has faithfully reflected the deteriorating conditions of the textile industry, with the result that the commodity had very few friends. Higher production along with lower consumption and the apathetic attitude of the mills in buying their requirements due to difficulties of financial accommodation, withholding of export quotas during the crop movement and hence the slow movement of exports and a large carry-over in the new season with prospects of bumper crop this year—all combined to depress sentiment on the cotton market. The drag of large stocks of short-staple cotton acted as a deterrent and hence the stockists passed an uneasy time in the face of the approaching crop movement. The inherent position remained unhealthy as offtake in cloth has not been satisfactory, because of the fact that even, at the end of November 1958, mills carried a large stock of 573,000 bales. It is evident that, so long as the textile position does not improve notably, mills will continue to buy their requirements of the raw material from hand-to-mouth.

Cotton consumption in mills, during the season 1957-58, was lower at 4,998,889 bales as compared to 5,233,049 bales in the previous season. Out of this, Indian cotton consumption accounted for 4,433,239 bales as against 4,665,581 bales in 1956-57. Foreign cotton consumption was lower by only 2,000 bales at 565,650 bales in 1956-57. However, due to limited imports following the foreign exchange position, mills could not get all their requirements for some months; but the import quota has been liberalised recently. Recently, an import quota of 95,000 bales of US cotton under Public Law 480 and 195,000 bales from any currency area have been announced. Half of these quotas have been reserved under Export Promotion scheme.

The carry-over into the new season, as on 1st September 1958, amounted to 22.54 lakh bales as against 20.15 lakh bales on 1st September 1957. Cotton crop in 1957-58 was estimated at 51.5 lakh bales and imports at 4.29 lakh bales. Thus, the total supply came to 75.94 lakh bales in 1957-58. With consumption at 49.98 lakh bales and exports of 2.92 lakh bales, the carry-over, as on 1st September 1958, amounted to 22.54 lakh bales. With crop estimate revised downward to 52.5 lakh bales and possible imports of 4 lakh bales, the total supply for the season 1958-59 will come to approximately 79 lakh bales. Though the export quota has been declared so far to the tune of 5 lakh bales, this target is not likely to be achieved and, as such, it might amount to about 4 lakh

bales. Consumption of indigenous varieties might approximate 45 lakh bales and foreign about 5 lakh bales. Thus, the carry-over next year, as on 1st September 1959, might amount to about 24 lakh bales.

The clamour for abolishing export duty on raw cotton was subsequently met by the Government which earlier reduced the export duty from Rs 100 per bale to Rs 50 per bale. Subsequently, it was further reduced to Rs 25 per bale. The export trade, however, has little cheer about it. In view of the growing competition in world markets and difficulty of getting foreign exchange, Indian cotton cannot expect a better performance.

Exports of raw cotton including Zoda and Yellow Pickings for the season 1957-58 (ending 31st August 1958) from the various parts of India were as follows as compared to the preceding year.

	(In bales of 392 lbs.)	
	1957-58	1956-57
Bombay	235,521	260,741
Bhavnagar	19,685	36,673
Madras	100	...
Cochin	3,905	405
Calcutta	19,772	3,693
Total	278,983	301,512

Out of the total imports of 422,433 bales in 1957-58, American cotton accounted for 148,000 bales, Sudan 30,000 bales, Egyptian 66,000 bales and East African 121,000 bales.

Out of the foreign consumption of 565,650 bales in 1957-58, Egyptians accounted for 66,590 bales as against 93,484 bales in 1956-57, Sudan 91,000 bales against 84,000 bales, East Africans 150,749 bales as against 166,342 bales and American 245,656 bales as against 159,707 bales.

Production target of cotton has been fixed at 57 lakh bales for the current season 1958-59. This, however, is not likely to be achieved despite favourable rainfall throughout the earliest stage in September. The Indian Central Cotton Committee has proposed a tentative target of 8 million bales of cotton for the Third Five-Year Plan taking into consideration the increase in population, improvement in the standard of living and consequent increase in per capita consumption of cloth. The target proposed is considered rather excessive in certain quarters. The area under cotton is about 23 million acres and, in view of the present need for increasing the production of food crops, there is not much scope for increasing the area under cotton. Hence, reliance will have to be placed on intensive cultivation measures including provision of extra irrigational

facilities, increased application of fertilizers, plant protection measures and improved seed to the existing acreage.

X

PRICE MOVEMENTS:

The ceiling and the floor prices for 1958-59 season have been kept unchanged as in the past two seasons.

The cotton market developed easiness as months passed by and at the end of October, a new low was recorded. The market staged a partial rally thereafter as Government was also anxious to see the farmers' interests were not thrown to the winds.

Looking back, the ICC Moglai Jarilla 25/32" March 1958 contract rose to Rs 713.50 per candy on October 31, 1957, but declined to Rs 691.25 on November 15 before rising again to Rs 702.75 on November 30, 1957. The contract slumped to a new low of Rs 652 on December 26, 1957 before closing at Rs 668.50 on December 31, 1958. It declined further to Rs 658 on February 28, 1958, but rebounded to Rs 708 on March 24 before going off the Board at Rs 688 on March 25, 1958. This contract had opened at Rs 690 on June 23, 1957 and rose to a high of Rs 723 on July 3, 1957.

Trading in the May 1958 contract commenced on January 29, 1958 at Rs 635.25. It declined to Rs 658 on February 28, but recovered to Rs 694 by March 22. The market thereafter turned weak on account of the crisis in the textile industry and touched a new low of Rs 635.50 on April 28. It, however, went off the Board at Rs 666 on May 24.

Business in August 1958 contract started on April 3 at Rs 672.50. Prices rose to Rs 690.75 by June 27, to drop down to Rs 648 in the month of August. The contract expired at Rs 649.

Hedge business in the new crop 1959 March delivery started at Rs 671.25 on 14th July 1958. After rising to Rs 687.50 in the third week of July, the trend remained downward due to slack demand in spot, lower consumption, higher carry-over and larger initial crop estimate of 57 lakh bales for the year 1958-59. The rate declined to Rs 593 by 1st November. This was a new low level recorded after a lapse of about 3 years. The market thereafter staged a steady recovery on downward revision of crop ideas, slightly better advices from textile trade, large business having taken pace in cotton piece-goods at the time of "Diwali" for forward delivery and smaller arri-

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vals of the crop in terminal centres. The market staged a rebound to Rs 642.50 in the first week of December, to react to Rs 624.50 in the second week. The market thereafter has continued to move in a seesaw state, rallying to Rs 638.75, to decline to Rs 629, to be placed around Rs 634 on the 19th December 1958. The outlook for raw cotton mainly depends on the recovery of the textile trade.

X

WORLD RAW COTTON SITUATION

World cotton production may exceed world consumption by more than 5 lakh bales. While world production in 1958-59 is expected to increase 21 lakh bales from a year earlier, world consumption

probably will level off or decrease. World production is estimated at 42,300,000 bales and consumption is estimated at 41,700,000 bales. Consequently, stock increases aggregating 5 lakh bales or more, mostly in exporting countries, are expected by the end of the current season.

Last season, stocks declined by 17 lakh bales, mostly in the United States. Most of the stock increase will be in the extra long-staple cotton. Foreign importing countries, as a whole, are likely to reduce stocks this season, because of larger inventories of textiles and weaker consumer demand as well as larger world supplies of cotton in 1958-59. Stocks in most foreign importing countries are

considered adequate to slightly excessive in relation to normal needs.

US cotton production, as on 1st December 1958, has been estimated at 11,581,000 bales (of 500 lbs each) as compared to the last season's final output of 10,964,000 bales. Yield per acre is estimated at 469 lbs. against last season's final yield of 383 lbs. The area harvested is put at 11,858,000 acres.

The US carry-over next August is expected to decline slightly to around 8,500,000 bales despite larger production and a prospective decrease in exports. Consumption in the United States, this season, is expected to be about the same or slightly higher than the 8 million bales used in 1957-58.

Foreign importing countries are likely to register a net decline in consumption this year—about 15,400,000 bales—as compared with 15,900,000 bales in 1957-58 and the recent high of 16,600,000 bales in 1956-57. In view of the slackened domestic and export demand for cotton goods and larger inventories of textiles, cut-backs were, no doubt, enforced in such major consuming countries such as Japan, the United Kingdom, India, France and others. However, the depressed situation, evidenced almost throughout the textile industry, thus far in calendar year 1958, may show improvement in 1959. Despite some unfavourable aspects, consumption in a number of foreign importing countries may remain steady or decline only slightly for the season as a whole.

The export outlook for the US cotton in 1958-59 is not as favourable as during the past two years. It appears that US exports might reach 4 million bales. US exports of 5.7 million bales in 1957-58 were the second largest since 1949-50, although 25 per cent below the 23-year record of 7.6 million bales in 1956-57. Exports this season, for the first four months (from 1st August to 30th November 1958) approximated 1,020,000 bales as against 1,720,000 bales a year ago.

In contrast to US performance, exports from other foreign free world countries are expected to increase from 6.9 million bales in 1957-58 to more than 7.5 million bales this season. The net effect is, that world cotton exports in 1958-59 will total about 13 million bales, down by one million from last season and nearly 3 million bales below the post-war high of 15.8 million bales in 1956-57.

The total US Government controlled stock, as on 30th November 1958, was 5.2 million bales comprising 3,440,605 bales by way of entries with the 1958 loan, leaving a net CCC stock of 3.4 million bales and 1.7 million bales of CCC-owned stock.

Stocks of cotton in the US, as on November 1, 1958, totalled 13.2 million bales as compared with 13.4 million bales on the same date a year ago. "Free" stocks of cotton, excluding stocks at mills, on November 1, totalled nearly 7.8 million bales as compared with 6.5 million on November 2, 1957.

The second Government estimate of the 1958-59 Egyptian crop places it at 9,670,000 cantars as against 9,698,000 cantars in the first estimate and 8,827,000 cantars in the final estimate of 1957-58 with substantial downward price adjustments in cotton offered by Egypt and Sudan. The 1958-59 exports of these countries will probably increase over last year, with a significant portion of Egypt's cotton again going to Communist countries.

China is reported to have a bumper cotton harvest this season and preliminary estimates put it at 3,500,000 tons which actually amounts to twice that of last year. If this estimate is correct, this would greatly exceed the US crop this year, which is expected to be about 2,600,000 tons.

Cotton Textile Industry in 1958

Streamlining Vital to get out of Malaise

THE Indian cotton textile industry has passed through another critical year. The Government of India reduced the incidence of excise duty on cotton piecegoods thrice during the last one year. Hopes were held out on several occasions during the year 1958 following these reductions in excise duty that the situation would improve but to the dismay of one and all, when our oft-taken showed signs of expansion, it proved short lived and the position continued to drift and remained far from satisfactory. As the cotton industry all the world over was in a bad state and as international competition with the entry of China became acute, exports also suffered a sharp fall. The gravity of the situation in view of the growing unemployment was felt even by opposition leaders in Parliament, who also joined pleading for reduction in excise duties. Government rose to the occasion and a Cotton Textile Enquiry Committee was appointed to go through the problems of the industry and suggest measures to meet the situation. Stocks with the industry remained fairly large in view of the restricted off-take both on the domestic and export fronts. Whatever reduction in stocks was brought about during the year end may be mainly attributed to lower output during 1958.

The cotton textile industry's troubles started increasing ever since Government thought of levying additional heavy excise duties as from 1st September 1956 with a view to snap up extra profits. But action was taken merely on presumptions and on the basis of the encouraging position prevailing some months back before the levy was increased. The fact that in a brief period of seven months Government found it necessary to adjust excise duties three times, in December 1957, March 1958 and July 1958 provided an eloquent testimony to the serious plight in which the industry found itself. The industry as a whole incurred heavy losses in the year 1957 and even for the year 1958 the history will be repeated. It is only the most efficient and up-to-date mills which will be reporting somewhat satisfactory results, but most of the mills are marginal ones and hence they have been confronted with heavy losses due to unremunerative prices during the past two years. The difficulty with these mills is the worn out machinery and mostly due to lack of resources and other reasons they are unable to implement any renovation programme. Hence their cost of production remains relatively higher. With enhanced dearness allowance

and other amenities having been provided to the workers, increase in freights, rise in the cost of raw materials, dyes and chemicals, the industry's costs showed a rising tendency and as the Government failed to hold the price line on the food front, the industry was confronted with problems arising out of the depressed conditions. Government was seriously concerned with the plight of the industry and efforts are now being made to improve the position. Rules regarding the installation of automatic looms are being relaxed while the Government seems to have agreed to the principle of installation of such 5000 looms annually. The

issue is being thrashed out. Export promotion measures are being taken by facilitating import of long staple foreign cotton and certain other raw materials such as chemicals and dyes. As the industry employing nearly eight lakh workers constitutes the biggest enterprise in the sector of organised industries, continuous attention will have to be paid for the betterment of conditions as this sector has a wider economic effect in the competitive position of the industry can only be improved by bringing down costs which can be feasible on installation of new plant and machinery. The growing rigidity of the cost structure has

been one of the causes for aggravating the crisis.

During the past three years, there has been a sharp rise in the cost of living caused particularly by high foodgrain prices and stringent import policy adopted for the past two years. Expenditure on food, it is estimated, constitutes at least 60 per cent of the commonman's budget and with a rise of 40 per cent in foodgrain prices, the resulting pressure on the consumer's purse made him to divert his expenditure from non-food items to food items. In the process of readjustment, the first casualty inevitably was cloth as this is an item where the consumer

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finds it easier to postpone his purchase. It is significant to note here that the index of foodgrain prices (1952-53=100) moved from 86.6 in 1955-56 to 102.2 in 1956-57, 106.4 in 1957-58 and after rising to a new high of 122.1 stands around 115. In view of the favourable monsoon, it may be expected that the position would ease and with the State entry into foodgrains, prices may fall in 1959. Thus the consumer will be in a slightly better position to spend on other items according to his choice.

Because of the continuing strain on the consumer's purse, the series of reductions in excise duty have not helped the industry to do better than in the last two years. The adjustments in excise duty on cotton textiles made since Decem-

ber 1957 are expected to bring down Government's annual revenue from Rs 72 crores to Rs 48 crores. The annual revenue of Rs 48 crores expected from the present rates is Rs 20 crores more than the actual revenue of 1955-56 and Rs 3 crores more than the calculated revenue on the March 1956 rates. Since December 14, 1957, additional burden has been placed on the industry in the process of amalgamation of Sales Tax into excise duty (about Rs 4 crores) and imposition by State Governments of sales tax on stores and raw materials, which were so far exempt or subject to concessional rate (additional burden of about Rs 2 crores).

Though the industry is not out of the woods, hopes are rightly

cherished that the year 1959 might witness better conditions. Strenuous efforts will be made to clear the accumulated stocks. The Export Promotion Council for Textiles which recently sponsored a delegation for Africa has made a number of suggestions to promote export in those areas. The Cotton Textile Committee Board in consultation with the Export Promotion Council will have to consider new ways and means to promote export of textiles. The issue of compulsory exports by each mill is still being considered.

The Commerce and Industry Minister, Shri Lal Bahadur Shastri, is hopeful about increase in total demand for cloth in 1959. While awaiting facts and figures, he expressed the view that pro-

duction in yardage has been going up in mills and that there has been greater demand and consumption of cloth by the public. The deliveries of cloth by mills and by handlooms and powerlooms for civil consumption for the past few years which are given below underline the significant growth in the decentralised sectors of handlooms and powerlooms.

Year.	Deliveries by mills.	Production by handlooms and powerlooms.	Total deliveries by mills, handlooms and powerlooms.
	(In Million Yards).		
1951	3,385	1,085	4,470
1952	3,097	1,404	5,101
1953	3,877	1,501	5,378
1954	4,947	1,616	5,663
1955	4,470	1,719	6,189
1956	4,176	1,773	5,949
1957	4,084	1,956	6,041
1958*	4,456	2,075	6,531

*Estimates.

The present production of the mills according to the Commerce and Industry Minister is actually being lifted and it is only the extra accumulated stock which is acting as a drag. He feels that the position in regard to the consumption of cloth for Africa is not really unsatisfactory, and the revised target of 17.5 million yards for Africa per annum seems to be a realistic figure which may likely be the demand by the end of the Second Five Year Plan. The changes in the per capita consumption of cloth which have occurred in recent years are brought out in the following table:

Year	(Per capita availability of Cloth) Yards
1939-40	15.75
1950	9.7
1951	11.7
1952	14.4
1953	15.0
1954	15.0
1955	15.8
1956	16.5
1957	16.8

It will be observed that the per capita availability improved steadily from 9.7 in 1950 to 16.5 yards in 1956. Although these are figures of availability, there was no material difference between the per capita availability and the per capita consumption up to 1956 and in the period stocks with mills and trade fluctuated within reasonable limits. The improvement in consumption was due to steady rise in the national income generated by the implementation of the First Five Year Plan and the generally satisfactory food situation as evidenced by the trend in the prices of foodgrains.

As on 2nd August 1958, 25 mills (16 composite and 9) spinning were entirely closed and 34,111 workers were affected. Total spindles affected in the complete closure were 526,093 and 9,615 looms. The number of mills partially close-

(composite 30 and spinning 5) were 35 on that date affecting 16,054 workers, 429,049 spindles and 10,618 looms. The position since then has slightly improved.

Total stocks of cloth with the mills in India at the end of 1957, which stood at 660,000 bales, have declined to about 579,800 bales at the end of November 1958. This is mainly due to lower output during the year 1958. Yarn stocks (unsold) with the mills, which stood at 108,455 at the end of 1957, have decreased to 73,700 bales. It may be here noted that stocks of cloth with mills at the end of January 1957 stood at 514,188 bales and of yarn 27,445 bales (of 400 lbs. each)..

It is the view of the industry that if further closure of mills or shifts due to depressed conditions and the resulting unemployment and hardship to workers are to be avoided, it is essential that labour cooperate with the industry in bringing down the present production by agreeing to link productivity with wages and by accepting rationalisation and modernisation. If that is not done pretty early, the position of the industry would deteriorate further and the problem of restoring the industry to

sound health will be rendered even more difficult of solution. The Central Wage Board is inquiring into the wages of the cotton textile industry and is likely to submit its report in 1959.

The Working Party for the cotton textile industry which reported in 1951-52 laid the greatest emphasis on the urgent need for rehabilitation, replacement and modernisation of the machinery installed. The Textile Enquiry Committee (1958) rightly observed "A large majority of the machines in existence today were installed more than 40 years back and have outlived their usefulness. If they are not replaced at an early date, its effect would be felt as it has been felt in the case of marginal or sub-marginal units in the form of low production, bad quality of products, engagement of large number of workers and high cost of production. The necessity of rehabilitation, therefore, is appreciated on all hands. This is only one aspect of the problem. Tightness of foreign exchange, the paucity of funds with most of the units, non-availability of certain essential items of machinery from indigenous sources, etc. however put some restriction on the rate at

which rehabilitation could be effectively undertaken".

Monthly production of cotton piecegoods and cotton yarn by mills in India during 1958 and 1957 was as follows:

	1958	1957	1958	1957
	Cotton Cloth	Cotton Yarn	Cotton Cloth	Cotton Yarn
(In million yds.)	(In million yds.)	(In million yds.)	(In million yds.)	(In million yds.)
January	437	484	149	156
February	391	435	123	143
March	406	453	138	150
April	408	464	134	154
May	421	453	139	150
June	568	420	126	137
July	419	459	145	150
August	408	420	140	139
September	411	443	144	153
October	422	415	147	143
November	380*	431	130*	149
December	438	...	153	...

*Provisional.

With the provisional figure of 380 million yards in November, the production of mill made cloth for the eleven months in 1958 comes to 4491 million yards compared with 4867 million yards for the corresponding period of 1957. If we place December production at 410 million yards, the total output for the whole year will approximate 4901 million yards as against 5319 million yards for 1957.

During the past eight years, cotton textile mill output was as follows:

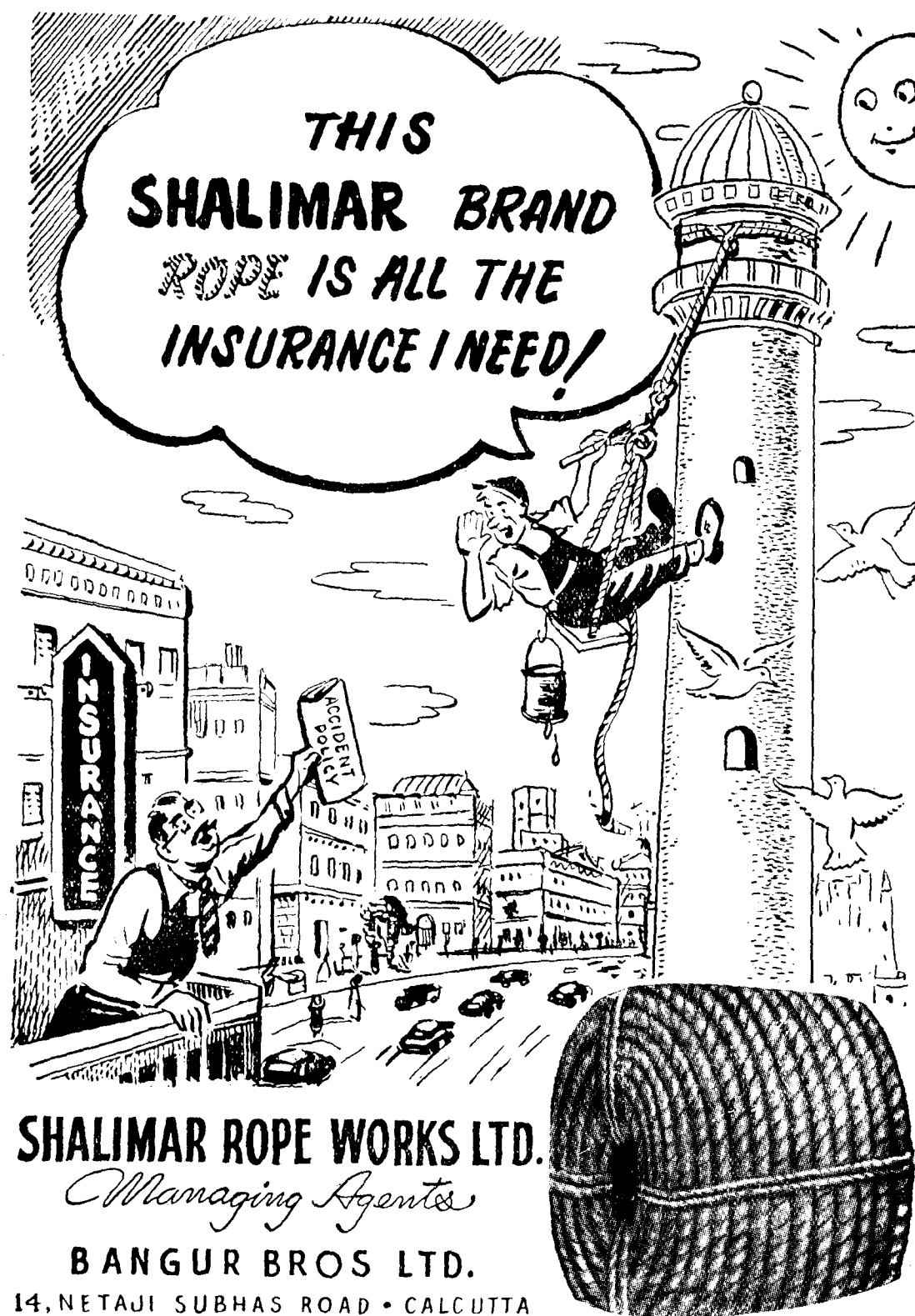
Year	(In million lbs.)	(In million yds.)
	Yarn	Cotton Cloth
1950	1174	3665
1951	1304	4076
1952	1449	4598
1953	1505	4878
1954	1561	4997
1955	1630	5094
1956	1671	5306
1957	1780	5317

(In million yards)

All India exports of cotton piecegoods for the past five years were as follows:

Year	(In million yards)
1954	921
1955	875
1956	788
1957	854
1958	620*

*Rough estimate.



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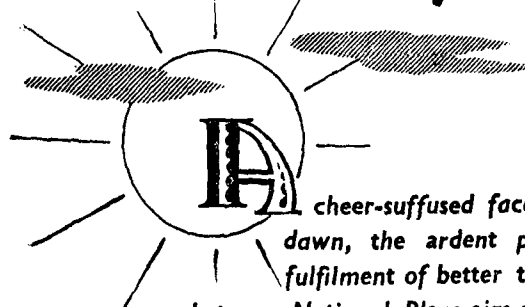
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21

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THE Second Plan for the sugar industry was successfully launched when, against a target of 2.5 million tons at the end of the Plan period, production reached a figure of 2.02 million tons in the very first year itself. This represented the continuation of the trend that had set in since 1953-54 when production of sugar touched the lowest level being only about 1.00 million tons against 1.48 million tons in 1951-52. Production in 1954-55 and 1955-56 was of the order of 1.58 million tons and 1.86 million tons respectively.

The successful culmination of the First Plan was in itself an auspicious start for the industry under the Second Plan. The industry had also other advantageous factors such as increased availability of sugar cane following rise in sugarcane acreage as well as a rise in demand for sugar reflecting the increased purchasing power in the hands of the people at the end of the First Plan. The cane acreage increased from 4.56 million acres in 1955-56 to 5.05 million acres in 1956-57. There was a corresponding rise in the outturn of sugarcane from 59.3 million tons in 1955-56 to 66.9 million tons in 1956-57.

Success in exporting sugar to neighbouring countries even eclipsed the importance of the record home production though it has to be granted that without surplus production exports would have been impracticable. With an export which totalled about 1.5 lakh tons and which fetched about Rs 12 crores in terms of foreign exchange the sugar industry took its place alongside other articles like tea, tobacco jute etc. as an important foreign exchange earner. The internal economic context in which such exports were effected and the terms on which it was transacted are factors which lend further colour to the success of exports in the 1956-57 season. In the upward trend of the world price of sugar, Indian sugar, in spite of its high cost basis, found itself boosted to a price parity with sugar from other countries in the international markets. The Suez crisis and the fall in the production of beet sugar in Europe were factors favourable to India in this.

But, prosperity on a permanent basis was something that had ever remained elusive for the sugar industry. For, when with the reversal of the trend of beet sugar production together with the disappearance of other abnormal factors, world price of sugar found its normal level, prospects for exporting Indian sugar at a profit looked dim. The alternative to displacement, was exports at a loss so that Indian sugar could be put at competitive terms with sugar from other countries. In view of the acute need for foreign exchange, the Government decided to ex-

port even at a loss which in terms of the difference between the Indian price and the International price works out to about 50 np per maund. The loss in exports instead of being passed over to the consumer is, by agreement with the home manufacturers, to be borne by them. With this object in view, the Government had sought to peg the price of sugar in the internal market at levels ruling before the question of exports was decided. Ex-factory price has been fixed for mills in UP and North Bihar, at Rs 36.00 per maund and for factories in Punjab at Rs 36.50 per maund. The Government of India have now decided to release a quantity of 1,00,000 tons of sugar for export during the period ending October 31, 1959.

Sugar Industry

The context in which sanction for exports was given in 1957-58 and the terms on which such exports have been effected raise questions about the need for a firm and definite policy for export of sugar. One thing that is obvious from the exports in the previous two seasons, is that India is eminently well situated for exporting sugar to neighbouring countries in the Middle East and South East. The foreign exchange situation imparted some urgency and indispensability to the need for such exports even in the face of loss to home manufacturers. However diversification of exports is the accepted policy of the Government and sugar industry has, by the timely addition to the foreign exchange reserves, demonstrated the scope for exports of sugar. It is therefore

only proper that sugar, in view of the country's advantageous situation for purposes of export, should have its potentialities recognised. If however, advantage is to be taken of the markets which neighbouring countries offer, there is need for measures intended to raise the competitiveness of Indian sugar. The home industry had volunteered to bear the loss on exports in 1957-58 only in the hope of protecting the markets already captured. The loss would be covered to a certain extent by the profits earned in the previous season from exports which had been pooled and credited to a special fund.

High cost of production, a consequence of the low outturn of sugarcane per acre and its low quality, figures prominently in the high price of Indian sugar. The

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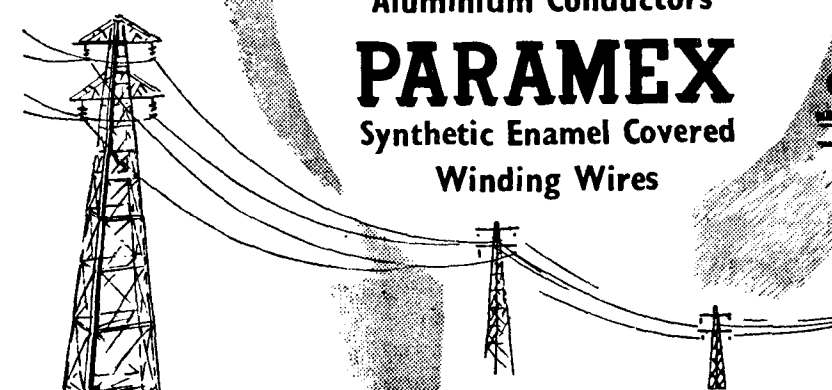
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per acre yield and recovery percentage of Indian sugarcane are out of all comparison with those of other important sugar producing countries, as would be evident from the following table.

Countries	Tons of Cane per acre	Recovery per cent	Tons of sugar recovered per acre
Cuba	17.12	12.25	2.095
Puerto Rico	24.16	12.23	2.956
Hawaii	62.05	10.46	6.489
Egypt	30.40	9.97	3.032
Peru	41.14	12.33	5.076
Mauritius	19.63	12.03	2.370
Java	56.20	11.19	6.440
India	14.70	9.50	1.394

India has a long way to go to reach the levels of efficiency of these countries in sugarcane production.

However, it would be unrealistic to view the problem purely from the side of costs. Government taxation is an element that bulks large in the price of Indian sugar. Sugar has been one of the highly taxed commodities State and Central taxation working to about 38 per cent of the price of Sugar. The consolidated central excise duty is now levied at the rate of about Rs 10.75 nP per maund. State Governments have also found sugar a fruitful source of revenue and have been levying a cess on sugarcane at rates varying from about 3 naye Paise to 19 naye paise in the different States. In view of the short-term rigidity of the cost structure, stimulation of exports has to be supported mainly by means of reductions granted in the Governmental levies. Subsidisation of exports is no new thing in the international sugar trade, and

a good part of the world's export trade in sugar would be effectively precluded if unfair practices in trade were to be disallowed. The extent of such subsidisation would be evident from a comparison of the retail prices of sugar in some important sugar exporting countries of the world.

Country	Retail price per lb in US Cents.
Australia	10.2
Formosa	12.6
Cuba	8.9
Philippines	10.0
India	9.5

The reversal of the fortunes of the sugar industry was however not confined to exports alone. Internally production of sugar in 1957-58 is estimated to have been stagnant and even declined being placed at less than 2 million tons. As in the First Plan, when production of sugar declined in the second year relatively to production in the first year, sugar industry under the Second Plan seems to have flattered only to fail. The fact of reduction in itself should be no cause for alarm considering that sugar production in the past has shown a remarkable resilience even after the gravest setbacks. However the factors that contributed to this decline in production are such as raise questions about the progress of the industry in the rest of the Plan period.

The mushroom growth of the khandisari units in the vicinity of the factory areas was a phenomenon which involved large-scale diversion of sugarcane that normally found its way to the vacuum pan factories. Production of khandisari sugar which generally does not exceed 1 lakh tons is, as a result, estimated to have gone up to about 3 lakh tons. Though not reckoned as a serious source of competition before, khandisari production seems to have found in the tax differential between khandisari and factory sugar, the incentive and opportunity to expand at the expense of factory sugar. Being exempt from the various taxes payable by factory sugar the tax advantage for khandisari works out to about 13/19 nP. Freedom from regulation of labour laws as well as the lack of a statutory minimum of sugarcane price, are other factors that confer comparative advantages on the khandisari units. However in view of the subsequent Government's order prohibiting working of khandisari units within a distance of 10 miles from the factory areas, the competition of khandisari units could be expected to be effectively curbed.

An estimated decline in sugarcane production for 1957-58 though it would not have been as important a factor in the decline in sugar production, as the irritating incursions of khandisari units, should cause more concern at least in view of the factors behind this decline. Attributed mainly to the drop in the per acre yield sugarcane production is estimated to have gone down by about 4.5 per cent to 63.9 million tons in 1957-58 against 66.9 million tons in 1956-57. The drop in per acre yield is

from 13.3 tons in 1956-57 to 12.8 tons in 1957-58. Set in the context of the development schemes that had been initiated for increasing the per acre yield of sugarcane, the fall in tonnage of cane is rather confounding. Though adverse seasonal conditions in UP and Bihar are reported to have been at the root of the decline in per acre yield, there also lurks behind this, the failure to push development schemes for sugarcane. It is rather strange that contrary to trends in the production of sugar which has been upward under the First Plan and the first year of the Second Plan, per acre yield should remain at a stagnant level below 13 tons. It would therefore require great efforts if the Second Plan target of a per acre yield of 18 tons were to be achieved. If the gap is to be filled up in the rest of the Second Plan period, more money must needs be found for extending irrigation facilities and for augmenting supplies of fertilisers. In the absence of sufficient rainfall, sugarcane makes heavy demand on irrigation facilities and the importance of irrigation-fed water to UP and Bihar the main sugar producing States where moisture conditions are adverse to the profitable raising of the crop, is only too obvious. The utility of nitrogenous fertilisers for raising outturn of cane is also commonly emphasised by sugarcane specialists.

The low per capita consumption of sugar is another limiting factor in the progress of the sugar industry. The per capita consumption of sugar in the country is perhaps the lowest in the world and this accord ill with the position the country occupies as a major sugar producer. Against a minimum requirement of about 45 lbs, per capita consumption has been estimated only at less than 30 lbs. Per capita consumption varies widely between the different States depending upon the size of the urban population as well as the progress in industrialisation.

States	Lbs
W. Bengal	12.8
Bihar	4.4
UP	16.9
Bombay	17.2
Madras	5.1
Punjab	17.7
Delhi	25.5
Assam	3.5
Orissa	2.0
Mysore	7.7
Rajasthan	6.0

Consumption in Assam Bihar and Orissa is extremely low and reflects the backward economic conditions of the people. Whether a price reduction would stimulate a substantial increase in consumption remains debatable in view of the fact that sugar is taken not by itself but along with other items such as drinks, beverages, sweets and confectionary. Therefore failing an increase in the purchasing power, rise in consumption of sugar, if it is not to be at the expense of gur, would necessarily entail proportionately higher expenditure on those items which provide the main outlets for sugar consumption.

WIDELY distributed throughout the country and marked by concentration of control the cement industry presents features that are markedly different from those of others. But the one important thing which has distinguished the cement industry from others in recent times, was the progressive pattern of production it has set up from 1948 onwards.

	Million Tons.
1948	1.69
1949	2.23
1950	2.61
1951	3.19
1952	3.54
1953	3.79
1954	4.39
1955	4.49
1956	4.93
1957	5.60

No other industry has a comparable record of production that has expanded continuously and without interruption throughout. As was only to be expected, this achievement was linked with the schemes which the First Plan drew up for the industry. Under the stimulus of the new demand generated by the gigantic developmental schemes of the Government, the rated capacity of the industry, was, in the course of the First Plan, progressively increased from 3.28 million tons in 1950-51 to 4.931 million tons by 1955-56. This involved the expansion of nearly 11 units and the establishments of 6 new ones, bringing the total number of units from 21 in 1950-51 to 27 in 1955-56. However, no idea of the scale of demand for cement, by the end of the Plan, could be had from these figures for production, since distribution of cement was under strict control.

One welcome result of the expansion plan undertaken and implemented in the course of the First Plan, was a general rise in the size of plants as a result of which the proportion of factories of 1 lakh tons or below in size has been reduced.

Though, in the cement industry, possibilities of effecting economies in cost through expansion in size are limited, a unit with a size of 1 lakh tons or below is considered uneconomic. Reduction in the proportion of such units is therefore a sign of growing strength.

The capacity of the industry has further been increased to 6.33 million tons in 1957. Out of this ACC group alone accounted for 3.07 million tons. Production also touched new levels at 5.6 million tons.

With the rising trend in production and under the impact of the expansion programmes envisaged and in the process of implementation under the Second Plan, problems that were not considered serious, have come to the foreground. Exhaustion of limestone, principal raw material, at their present sources, has rendered necessary transport of this from long distances. Inconvenient location of

some factories from sources of power is another factor which tends to inflate the freight element in costs. The problem is thus one of reducing the cost of production, which at present is high mainly because of the heavy freights which the industry has to bear for transport of raw materials and coal.

A more important question for the producers concerns the price paid to them. The issue of a fair price for cement has been time and again raised and sought to be settled without any satisfaction to the producers, who continue to nurse a feeling of being fleeced of even their legitimate profits. The level of prices fixed by the Tariff Commission in 1953 made no impression on the producers, since it was found that prices were fixed at the level of ACC's price and the wide variations in cost of production between factories were not taken into account. This defect inherent in a uniform rate was sought to be rectified by the Tariff Commission which made a fresh inquiry in 1957. The Tariff Commission fixed prices separately for different factories. The average of prices is higher than the prices recommended by the Tariff Commission 1953. But part of the benefits of this higher price was denied to the producers consequent on the Government's decision to give effect to them only from July 1, 1958 against the Tariff Commission's recommendation fixing it at January 1 1958.

The Tariff Commission has further, given room for criticism in fixing the rate of return on capital employed. Though the Commission has allowed higher returns for low cost units, because capital has been taken as the sum of nett block plus five months cost of production by way of working capital, units with higher manufacturing costs would be enabled to reap even larger profits. This lack of incentive for reducing cost of production, would naturally put a premium on inefficiency.

Contrasted with the price paid to the producers, the price paid by consumers seems to be inordinately high. Out of the price of Rs 117.50 per ton which the consumer pays, the producer gets only about half, while excise duty at Rs 24 per ton works to about 20 per cent of the wholesale F.O.R. destination price and 50 per cent of the cost of production. The profits appropriated by the State Trading Corporation, since it began to handle distribution of cement is another inflationary element in the high price of cement. In the price that ruled before July 1958, this share of State Trading Corporation has been calculated at roughly 12.50 per ton. On this account, the S.T.C. has amassed about Rs 7.34 crores. Originally intended to subsidise imports, this sum has now been earmarked for the development of road transport in the country.

The lack of an adequate return to the manufacturers of cement, it is feared, will interfere with the development programmes of the industry under the Second Plan. The Second Plan envisages a rise in production from 4.6 million tons in 1955-56 to 13 million tons in 1960-61 and a corresponding increase in capacity from 4.93 million tons in 1955-56 to 16 million tons in 1960-61. This is to be achieved by expansion of 21 units and establishment of 17 new ones. The capacity of the ACC group alone at the end of the Plan, when the schemes for the expansion of their units and establishment of 6 new ones under their management are implemented, will be increased to 5.288 million tons. Between 21st March and 31st December 1957, the Government had approved schemes for the establishment of 5 new units and the expansion of 8 units in different States. The additional capacity thus approved includes 1,790,500 tons for cement, 60,000 tons for asbestos cement sheets and 28,800 tons for cement pressure pipes. ACC also has made considerable progress with its schemes for expansion and addition. The extension to Kistna Works has been completed, while extensions to

Sindri and Chaibasa works are making good progress. The new factory at Mancherial has almost been completed. Similarly satisfactory progress is also reported in regard to the setting up of the Orissa Cement Company's new Refractories Plant.

Notwithstanding this progress, doubts are entertained whether the target set under the Plan would be achieved. Complaints have been heard from company authorities about lack of adequate funds to finance expansion schemes. Foreign exchange shortage also casts an element of uncertainty. Finally the slowing down of important State and Central Government projects confront the industry with the prospect of a slackening demand. Under these conditions whether the industry would be able to fulfil its commitments under the Second Plan is more than could be anticipated.

The position, the cement industry occupies today as a major industry is one which the industry built up as early as 1935 when it struggled out of cut-throat competition marked by price cutting practices and achieved a stability, which it has since then successfully preserved.

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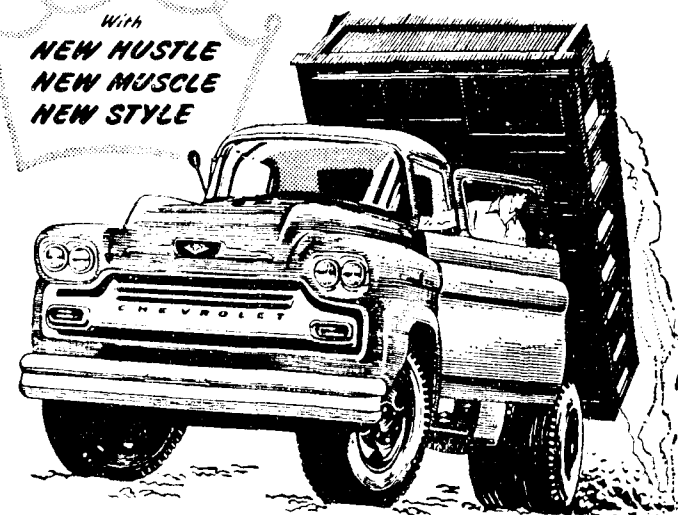
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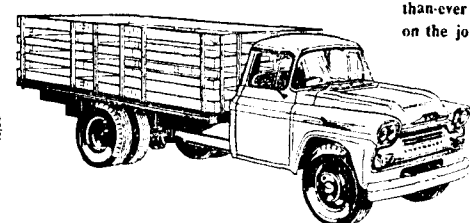
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Growing Demand for Rubber

RUBBER cultivation in India commenced on large plantation scale in the beginning of this century and it has gradually developed into one of the major plantation industries. The industry is concentrated in the south-west coast, mostly in Kerala State. It has an important place in the rural economy of this State, as it must be employing, both directly and indirectly, not less than one lakh people.

Again, India is one of the very few countries having a plantation industry co-existing with modern rubber manufacturing industry. Until the last world war, most of the rubber produced in the country was being exported, while the rubber goods factories, which were then working, consumed only a small proportion of the raw rubber produced in the country. During the war, the existing factories were expanded and new factories started. Practically, all the rubber produced began to be consumed by these factories. After the war, the rubber manufacturing industry has been expanding and consuming more and more rubber. Even though the rubber producing industry has also been expanding, production has not been able to catch up with consumption and there has been deficit year after year and, every year, the deficit is being covered by imports of both natural and synthetic rubber.

It is well-known that rubber plays an important part in the industrial expansion of the country and, considering the progress of industrialisation, there is bound to be large deficit in the country as years go by, unless measures are taken to step up production rapidly. For instance, road transport industry has been undergoing tremendous changes and expansion, particularly long-distance goods transport. The road transport industry being a vital one, the rubber goods manufacturers have undertaken huge expansion plans to meet the essential needs of this industry.

During the past six years, the output of automobile tyres and tubes has gone up from 1.38 million to 1.86 million. The bicycle industry also has been growing rapidly and, to meet the increasing demand, the production of cycle tyres and tubes has been stepped up from 8.35 million in 1952 to 14.16 million. Despite this, the demand has been well in excess of supplies. The output of tractor tyres and tubes has expanded more than nine times from 9,336 to 89,150. This is another field which offers vast scope for expansion in view of the increasing use of tractors and earthmovers in this country. Besides these major items of production, there are various other rubber goods and industrial rubber products, such as rubber footwear, transmission and

conveyor beltings, V-belts, hoses, waterproof fabric, latex foam sponge, rubber components of railway fittings etc., which have made vast strides and hold promise of further expansion.

The main problem is, therefore, one of ensuring adequate raw rubber supplies to manufacturers, who have to rely on larger imports, therefore, clear that larger imports will mean a drain on the foreign exchange which India can ill afford at the present moment.

It may be added here, that India had to step up its imports of rubber last year by 50 per cent, i.e., from 6,463 tons to 9,671 tons, as the domestic output did not go up very much. During the current year also, imports have been stepped up further, as the pace of increase in consumption is higher than that in production. If a contingency arises, India will have to import a much larger quantity of raw rubber and that, too, at a higher price than it

paid during the past few months. For, the price of natural rubber abroad has considerably gone up, consequently on the widespread buying of all grades in the Malayan market by the USA, Russia, the UK, China and the Continental countries.

During the first nine months of the year, Russia's direct purchases from the Dunlop factory in Calcutta is expanding production capacity by 22,800 units per annum. The same company's Madras fac-

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tory, now under construction, will increase production by 134,000 units. The Firestone factory at Bombay has already gone into production for an additional 252,000 units. These three factories will begin to absorb at least another 8,000 tons from the second quarter of 1959 over and above the normal expansion from the other sections of the expanding industry.

Again, consumption of rubber has been steadily moving up from 1956; and the figure for the first eight months of 1958 amounts to 22,871 tons as against 36,865 tons in 1957 and 28,936 tons in 1956, reflecting the progressive expansion of tyre-manufacturing in the country. At the same time, indigenous production has not gone up in line with expanding production. As against 23,447 tons in 1956, the production in 1957 was only 23,797 tons and 13,671 tons for the first eight months of 1958. It is feared that the recent strike in Kerala has further affected the level of production. Again, the process of rehabilitating the estates has also been impeded by procedural delays in regard to the import of high-yield rubber seeds from Malaya.

The gap between production and consumption is expected to widen considerably in the next three years, the estimated consumption requirements for 1961 being placed at 60,000 tons, whereas output may be just 26,000. Such a huge gap has to be filled in by large imports

PRODUCTION AND CONSUMPTION STATISTICS.

Years.	Production (Natural rubber).	(In Tons).			Total.
		Natural	Synthetic.	Reclaimed.	
1955	22,481	27,543	100	3,073	39,716
1956	23,444	31,405	—	—	34,666
1957	23,797	34,797	3,000	817	38,614
1958:					
January	2,639	2,877	260	376	3,513
February	951	2,747	237	316	3,300
March	1,366	2,922	280	380	3,582
April	1,590	2,684	248	345	3,277
May	2,503	2,824	241	335	3,398
June	1,220	3,016	274	389	3,679
July	2,109	3,006	270	370	3,646
August	1,293	2,797	249	315	3,361
September	2,526	3,205	278	319	3,802
October	2,493	2,602	—	—	—
	(2,532,888)	(2,643,632)	(263,144)	(250,052)	(5,690,616)

Figures shown within brackets for October are given in Kilograms.
Not available.

from abroad. But every ton of rubber bought overseas, entails a foreign exchange of about Rs 3,000.

During the first nine months of the year, Russia's direct purchases of rubber in the Malayan market, are said to have aggregated 20,918 tons against 7,426 tons for the corresponding period of 1957; and China bought 64,306 tons as compared with only 4,521 tons. Consequent on this heavy Russian buying, world consumption dropped by only 17,500 tons to 1,257,000 tons, despite a fall in the USA from 364,565 tons to 301,407 tons and in the UK from 115,416 tons to 113,816 tons. The heavy Russian buying is presumably due to the fact that the Iron Curtain countries are far from self-sufficient in rubber supplies despite the setting up of

synthetic rubber plants in Eastern Europe.

There is a marked increase in the consumption of synthetic rubber, the total of which is now running at an annual rate of over 3,000 tons as against a bare 100 tons in 1955. All the synthetic rubber, which India uses, is imported from the USA. While a part of the decline in consumption of natural rubber may be attributed to a lower level of industrial activity, especially in the USA, it seems clear that it has been principally caused by the further substitution of synthetic rubber for the natural product.

According to the estimates made by the USA, world consumption of rubber—natural and synthetic—this year will be 3.1 million long tons,

which is about the same as the quantity consumed in 1957. Total world production capacity is estimated at 3.5 million tons.

The total capacity is expected to rise to 4.4 million tons in 1962, which will show an increase of 30 per cent. But synthetic rubber will account for nearly all this increase despite progress made by some countries, including Malaya, in producing more natural rubber. Production in Indonesia is declining and this is likely to offset any increase recorded by the other natural rubber producing countries.

The decline in prices during 1957 continuing in 1958 brought natural rubber into a stronger competitive position in relation to the synthetic material. It is claimed that, for the manufacture of heavy tyres, natural rubber is superior to synthetic, since it has greater resilience, tensile strength and higher resistance to heat generation. These tyres at present take a high proportion of total rubber consumption. But, many technical advances have been made in synthetic rubber production and, apart from strategic reasons, which demand that a healthy synthetic industry should be kept in existence as certain types have been developed with specific purposes. Unless the price of natural rubber falls to a point which shows a decided financial advantage to the user, there is little likelihood of a reversal of the present trend towards the synthetic product. The prospects of increasing the demand for natural rubber may depend on a general increase in consumption rather than on any marked substitution of natural for synthetic rubber.

Although the outlook for Indian rubber is rosy in the context of the rising demand for rubber in a developing economy, the increasing costs have told upon the profitability of the industry since the price of rubber, fixed by the Government, is only Rs 155.75 per 100 lbs, which has been in force for some years now. There is urgent need, therefore, for revising this price to enable the industry to stand on its own feet. It is felt that, even after the establishment of the proposed synthetic rubber plant in the near future, the production of natural rubber products will still fall short of the country's requirements. Planters are emphatic that a re-examination of the industry's cost structure by the Tariff Commission and an increase in the price of rubber cannot be postponed any further. They feel that, unless an economic price for the produce is assured, rubber-growers may not be interested in stepping up production.

Every effort must, therefore, be made to ensure a progressive rise in the production of natural rubber. Prices should be fixed at a reasonable level so as to give an incentive to producers to augment output to do extensive replanting and to establish new plantations with a view to meeting the vast expanding requirements of the rubber manufacturing industry in the country.

Paint Industry

After more than two years since the Second Plan had been in implementation, the paint industry could be said to have reached a stage, where an optimistic forecast of the state of the industry at the end of the Plan period, should be least liable to error. If it could be assumed that no fresh difficulties would be created for the industry in the rest of the Plan period by additional restrictions on the import of those raw materials for which there are at present no indigenous sources of supply, the industry reaching the target of production set for it under the Plan looks a certain prospect. Already production has reached a figure of 42,276 tons during 1957. Against this, production in 1955, and 1953 was of the order of 41,604 tons and 39,036 tons respectively. This shows a rising trend for recent years which reverses the decline that was first noted in 1952 and which continued in 1953 also. A substantial rise is also indicated for 1958 and production during the first six months of the year has been estimated at more than 25,000 tons. Granting a production of a similar order for the next six months, a total of 50,000 tons may well be reached and this would work out to an excess of more than 10,000 tons over the 1955 figure. An additional increase of another 10,000 tons would be required if the industry were to fulfil its commitments under the Plan in regard to the production of paints.

The problem does not present any difficulties at least from the side of capacity and therefore does not call for additional investments by way of overheads. The industry under the Plan, had been set the simple task of gearing production to its capacity level, which, since the formulation of the First Plan, had remained unchanged at about 70,000 tons. In fact, the Second Plan was for the industry, for all practical purposes the First Plan extended to another period of five years. The target of 60,000 tons of ready mixed paints and varnishes was one which was originally set for the industry under the First Plan and which it failed to achieve mainly for reasons of lack of demand for its products. Against an anticipated demand of 60,000 tons by 1956, the actual demand for finished paints and varnishes in the closing period of the First Plan does not seem to have exceeded 40,000 tons. It was because demand was not expected to exceed 60,000 tons even by 1960-61, that this target has been set again under the Second Plan.

Thus it was with a size rather overgrown in relation to the needs of the country, that the paint industry stepped into the First Plan. However, this became evident only subsequently and in the context of the earlier attempts even antedating the First Plan, to develop the industry, could not be foreseen by the industry when it embarked

on programmes of expansion. In the plan of the Panel on Paints of 1945, which provided the original stimulus for the industry to grow in size the demand for paints and varnishes was estimated at about 100,000 tons. The trend of demand subsequent to the estimates of the Panel has shown the estimate to have been a gross exaggeration.

However, the underutilisation of capacity by the industry has to be explained not only in terms of lack of domestic demand but also in terms of failure on the export front. A rich and prospective export market in the neighbouring countries like Burma, Indonesia, Ceylon, Malaya, Afghanistan etc was one of the prizes dangled before the industry in the post-war period. The Panel itself, had in its target of 1 lakh tons, included a quantity of 25,000 tons for ex-

ports. The fact that this could have been done only by importing raw materials in greater quantities which however, the currency problems then existing and the world-wide scarcity conditions of raw materials effectively precluded, took away the little chance the industry had of taking advantage of the stimulus which the foreign markets offered to the home industry at that time. Exports had since then figured less in the Plans of the Government. Though the First Plan refers to the advantage which an export market would confer on the industry, beyond mentioning the need for developing an export front to the industry, the Plan did not fix any quantitative target for exports. The Second Plan also refers to the great prospects which neighbouring markets offer to the paint

industry and has besides stressed the need for refund of import duty on raw materials used for paints meant for exports. However, the production target under the Second Plan takes account of only the domestic demand. Actual exports have also not shown any encouraging trend and had fluctuated in terms of value between Rs 2.5 million in 1953 and Rs 2.1 million in 1955-56. The Government have already acted on the recommendations regarding grant of rebate on import duty and have published draft rules detailing the procedure for allowing drawback of customs and Central excise duties on raw materials used in the manufacture of paints intended to be exported. However, until the position in regard to raw materials needed by the industry is assured by their proper development within



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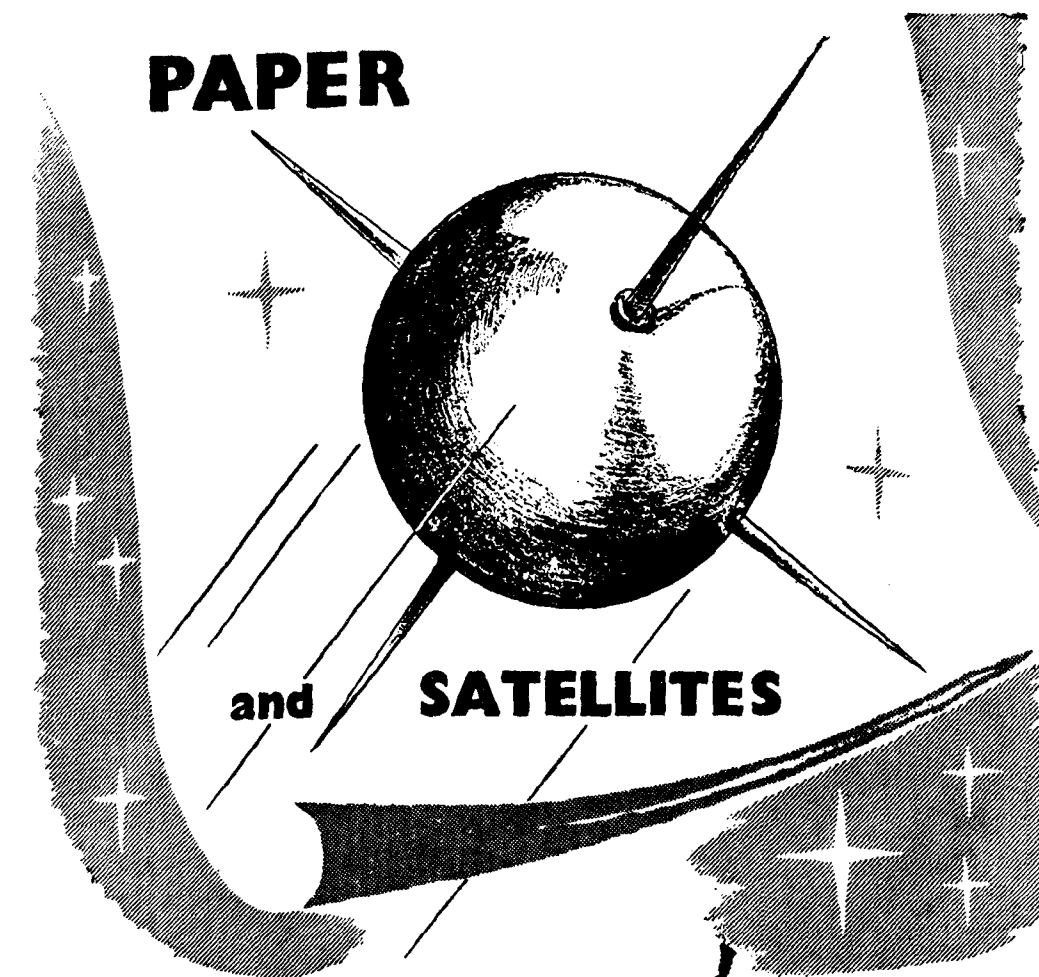
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the country itself, not each store could be set on the markets in the neighbouring countries. The industry is however ideally located with reference to export demand, in and around Calcutta and Bombay which offer the best port facilities. The fact that in the foreign markets the Indian product would have to stand up to the competition from foreign products makes it necessary that the industry should devote more time and attention to the improvement of quality as well as for reducing the cost of production.

The progress of the industry is tied up closely with the development of the indigenous sources for raw materials. These are of a wide range and variety not all of which are available in the country and which therefore have to be obtained from external sources. The raw materials at present imported include numerous synthetic resins,

rutile titanium dioxide, lithopone, antimony oxide, lacquers, solvents, zirconite, pigment dyestuff ultra marine blue etc. Attempts have in recent times been made to start production of the more important of these raw materials with a high degree of success. And commendable progress has been made in the production of some of these, like zinc oxide, white lead, red lead, titanium dioxide, aluminium paste and powder, as would be evident from the following table.

	1955	1956	1957
(In Tons)			
Zinc Oxide	6370	5109	5410
White Lead	730	637	1010
Red Lead	3950	3615	4100
Titanium Dioxide	1810	1700	1671
Aluminium Paste and Powder	260	328	452

It was in the production of nitro-cellulose lacquers that the most

spectacular success was achieved. From about 32,570 gallons at the beginning of the First Plan, production of this had by 1955, almost reached the target of 300,000 gallons fixed under the First Plan. Under the Second Plan the target has been set at a higher level of 500,000 gallons. Production has however received a setback in recent years, being estimated at only 2.4 lakh gallons and 2.7 lakh gallons for 1956 and 1957 respectively. This wing of the industry has to double its present production to attain the Plan target. The only hope that the industry has, of doing this, lies in the fact that as in the case of finished paints and varnishes, the capacity of the industry is well in excess of the target.

With the diversification schemes launched by the industry in the direction of developing raw material sources, imports have become a

declining feature of the industry. Imports would be further reduced when the schemes contemplated and in the process of implementation are completed and the units begin production. These include production of ultra marine blue, low viscosity nitrocellulose, rutile titanium dioxide, yellow oxide of iron, red and yellow pigment dyestuff, synthetic resins, solvents, etc. It may perhaps require one or two more five year plans to achieve complete self-sufficiency in raw materials.

The main benefit of the progress of the industry under the two five year plans had been to place the country in a position of self-sufficiency in the production of paints and varnishes. In the process the industry had attained a measure of stability which could not be had under conditions of fluctuations of demand, loss of Pakistan market, and raw material shortage as they obtained before the commencement of the First Plan. In terms of the future also, the position of the industry is secure and its prospects bright. The industry derives the demand for its products from multitudinous sources most important of which are railways, building operations, automobile bicycle and electrical equipment industries. The fact that the industry originated under the impact of the demand from the shipping industry is itself highly significant. With the increasing emphasis that is being laid on industrialisation of the country, the paint industry would be called upon to play a greater role in the future. The industry will in that event find itself handicapped if it does not pay sufficient attention to put its own house in order by planning production on the basis of efficiency and quality. High cost of production is a deterrent not only to exports but also to home demand. There is already competition from cheap and spurious products which pass for paints more by their labels than their contents. Production has therefore to be rationalised in accordance with the standard specifications laid down by the Indian Standards Institution. The diversification schemes and production programmes are in themselves important steps for reducing cost of production. Elimination of uneconomic units is another desirable line of change required for achieving reduction in cost of production. Out of nearly 150 units existing nearly 100 are of sizes which would not recommend them for survival on purely technological considerations. Even the remaining 50 units considered to be of reasonable sizes, disclose wide differences. Uneconomic size of units is a problem which has to be tackled in the interest of efficient production.

The number of factories employing more than 20 workers and using power, in the industry has been placed at 57 in the report of the eleventh Census of Manufacture 1956. 24 of such factories are situated in and around Calcutta, while, Bombay accounts for 15. The productive capital employed in the industry is estimated at Rs 53.4 million and total number of workers at 6,306.

Coffee's Future

THE cultivation of coffee in India dates back to the seventeenth century. It can be said to have increased to the plantation scale only after 1825. The area planted with coffee in South India is well over 200,000 acres, the principal coffee-growing areas being the states of Mysore and Coorg, the Nilgiri Hills, Wynad, the Shevroy Hills and Palnis and parts of Cochin and Travancore. It is claimed that there are only few hills in the world so well suited to the cultivation of high quality coffee as the hills of Southern India with their sunny slopes and abundant rainfalls.

Unlike tea, the coffee crop fluctuates from year to year, depending mostly upon climatic conditions. The most striking fact is, that a doubling of output in five years has been achieved. From 15,300 tons in 1946-47, the output last year was 42,000 tons—a rate of increase not paralleled by another agricultural crop in India. The acreage increase, during the same period, was from 216,916 to 260,406 acres or just 20 per cent. Last year, one of the estates belonging to India's largest planting company harvested a crop of 2,000 pounds per acre as against the national average of less than 350 pounds. Several other estates, too, are producing heavy crops and the overall picture is very encouraging, as will be clear from the following figures (in tons):

Year	Production
1957-58	37,000
1956-57	42,200
1955-56	34,052
1954-55	25,100
1953-54	29,555
1952-53	23,565

Two things happened in cultivation to lift production to such a high level. One was the adoption of progressive practices and manuring. The other was the progressive selection of highyielding strains. Planters, who were considered reckless in their spending on spraying and cultivation and manuring, have become production heroes in the coffee world and some of the estates have chalked up average yields of very nearly one ton per acre. The planters hold the view that, for the next few years, the crop will continue to show similar spectacular increases, as the new plantings of high-yielding strains are getting matured. It will, therefore, be no wonder if the Indian production of coffee reaches the 60,000 ton-mark within the next five years. As a matter of fact, the 1958-59 crop is expected to exceed 50,000 tons.

In considering the prospects for coffee, India, like any other producing country, has inevitably to take a look at the affairs in the Coffee World. For, the coffee world is increasingly becoming "One World" and any development anywhere has its repercussions and effects in all other producing countries. The rising production the world over and the alarming fall in

prices are the two most significant and disturbing features that must be worrying all producers and producing countries these one or two years. While some Latin American countries are making tremendous efforts to keep the load of growing output off the world markets, with a view to avoiding a depression in prices, through "support" schemes, a few other countries, especially those in Africa, are increasing their acreage and have even drawn up programmes for further large-scale expansion. This expansion cannot but add to the imbalance between production and consumption in the years to come, unless the rate of world consumption is increased at a rate commensurate with the rise in output.

Though Indian coffee is not so big as to influence the world market, many overseas consumers prefer Indian coffee which, at one time, had a stabilised market abroad. From 1948 to 1952, the Government of India was eager to export and even insisted on exports. But in 1953, there was a reversal of the policy. After five years of concentration on an effort to feed the domestic market, the industry is now asked to export all it can. But, the world market has now gone against India. World output in 1958-59 is estimated at 51 million bags, which is 13 million bags in excess of the estimated world demand. In addition, there are known to be about 15 million bags in stocks in Latin American countries.

No doubt, India possesses a large internal market; but the exportable surplus is at the same time, growing. The coffee-growers have, therefore, to depend on the external markets, which fetch a high price than the internal market. They have been demanding a re-orientation of the coffee Board's marketing policy in view of the steady increase in production, as the present policy was adopted at a time when crops were low and hardly sufficient for the internal market and when various expedients had to be resorted to in an effort to control prices in the internal market. The present requirement is to export the maximum possible to earn the much-needed foreign exchange.

An emergent point, arising from the fall in world coffee prices, is of considerable importance to growers and consumers alike. For the past ten years, it was generally possible to hold down internal prices well below the world level. It was made possible by the extra earnings from the exports of our surplus. Now, we have ever-increasing surplus with the margin vanishing as a result of the steep fall in world prices. Thus, with an ever-increasing surplus, the chances of Indian coffee establishing a foothold in the export market depends on quality, regularity and supply, competitive prices and good trade connections.

Japan is becoming a big coffee-consuming country, with imports steadily growing year after year and the bulk of its imports comes from South America, mainly Brazil, Colombia and Venezuela. Although coffee imports have thus been steadily growing, Indian coffee is almost unheard of in Japan. In 1952, a small quantity of Indian coffee—about 11,000 pounds—was imported; but, since then, India is nowhere in the picture. Efforts are, however, being made by the Indian Government's Trade Representative at Tokyo to enter the Japanese consumer market with high class Indian coffee. So far, however, little success has been achieved, mainly because of the price, although consumer reaction is good.

According to trade officials of the Indian Embassy at Tokyo as well as importers, Indian coffee has a definite prospect of entering the Japanese market if something is done about the price. It is stated that, Japan being a potential market, efforts should be made to start with a low price so as to build up the market there, not to speak of the need to carry out sustained initial propaganda. Moreover, in view of the changed circumstances in the world markets, there is urgent need for changing the method of marketing and for improving the qua-

lity of coffee exported abroad. A matter, that requires emphasis is the role of the curers. It has to be recognised that it is only with their active participation, quality coffees can be placed on the export market.

As export earnings play an important part in the determination of the Pool price, it is felt that it will be more helpful to the industry if a stable export policy is pursued, keeping in view the internal requirements. By exporting coffee which commands a high premium in world markets, the country will also considerably augment its foreign exchange resources. Again, a stable export policy will also help the industry to find more easily an export outlet whenever the exportable surplus becomes larger.

Meanwhile, the estimate of the current coffee crop at 44,810 tons is expected to be maintained despite the adverse weather conditions. Pool receipts of the 1957-58 crop up to the end of November, totalled 44,046 tons and total internal releases, for the same period, amounted to 24,902 tons. Out of the 1957-58 crop, 14,126 tons had been sold for export up to the end of November. The export allotment has been exceeded by 1,470 tons and this figure is expected to go up by another 500 tons before the end of the year.

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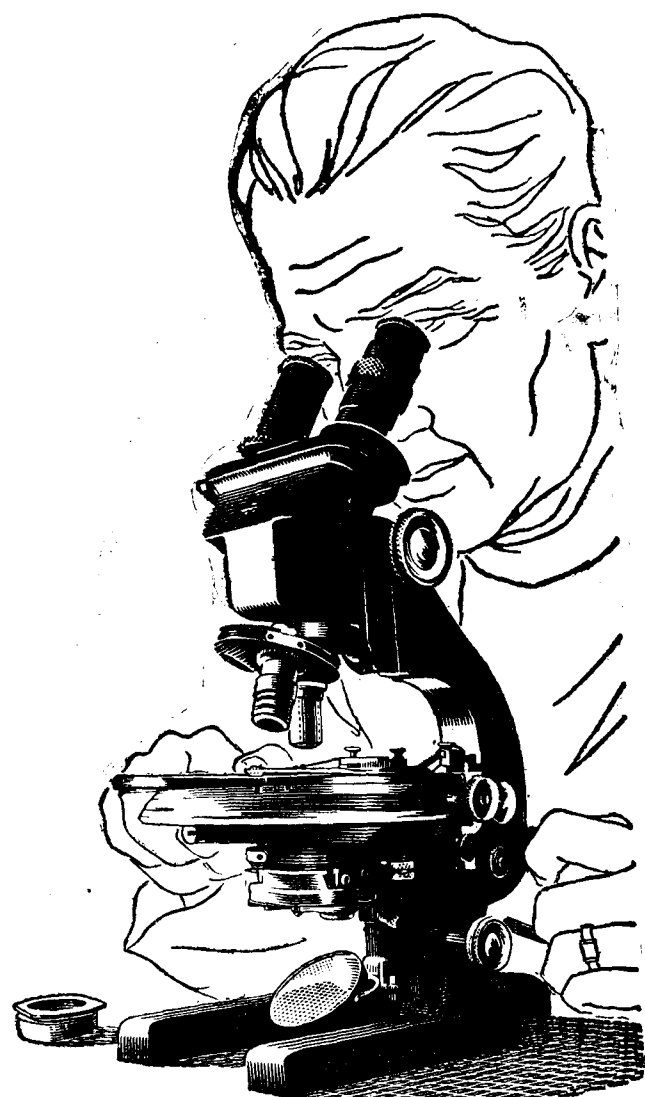
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The Steel Industry

ALTHOUGH the past year has run out without witnessing some of the important landmarks in the history of steel production in the country which, it was confidently forecast earlier, it would have the privilege of seeing, it is unlikely to go unnoticed in the chronicle of our steel industry. For it is said that the past year will be the last year of steel shortage. Production schedules have no doubt been delayed somewhat but it is expected that in 1959 output will sizably increase.

1958 had witnessed energetic steps being taken toward attaining the Second Plan steel production target of 6 million tons. Progress in the three new plants in the public sector and elsewhere has been on a satisfactory level though the target dates for particular stages have not been attained.

It may be recalled that the target of 6 million tons has been allotted in equal proportion to the two sectors. The Tata Iron and Steel Company has planned for increasing its output to 2 million tons while the Indian Iron and Steel Company's target is 1 million tons. The three new factories in the public sector, Rourkela, Bhilai and Durgapur have been allotted a production target of one million tons each.

The Tata Iron and Steel Company's expansion programme which is known as the Two-million-ton plan as the name itself shows is designed to double capacity to two million tons of steel ingots to give 1.5 million tons of finished steel. The expansion programme is estimated to cost Rs 120 crores. This project which commenced in 1955 is being implemented by the company with the help of Kaiser Engineers, a reputed American firm of consulting Engineers. The Government of India have given a special advance of Rs 10 crores toward the modernisation and expansion programmes and they have also guaranteed two World Bank Loans for \$75 million and \$32.5 million respectively. These loans are expected to cover a major portion of the company's foreign exchange requirements for their two million tons programme. The new programme is the continuation of an earlier programme which aimed at raising capacity to 931,000 tons to an output of 750,000 tons of finished steel. The two million tons programme was expected to be completed by the middle of 1958 but due to unavoidable reasons the year has run out before the final stage can be reached. Referring to the delay Mr J. R. D. Tata, Chairman of the company told the shareholders at the year's Annual Meeting that hopes of completing the programme substantially by the 31st May had not been fulfilled. However, considerable progress has been made during the year and it is confidently expected that the programme would be completed early in 1959.

The past year has brought into sharp focus the urgent need for concerted attention on the question of industrial relations in the present context of rapid industrialisation of the country. Strikes by labour in both the steel works have slowed down production. It is estimated that 45,000 tons of steel valued at Rs 2½ crores has been lost to the country by the serious labour disturbances at Jamshedpur. There has been a set-back to production at the IISCO works and the loss there also is estimated to be considerable.

The Indian Iron & Steel Company's expansion programme aims at producing 800,000 tons of steel per annum and 400,000 tons of pig iron for sale. The programme is expected to be completed by the end of 1959. The first stage of what is known as the 1953 expansion programme has been virtually completed and the melting shop capacity is now approximately 62,500 tons of ingots per month. Owing to the strike of contractor labour for nearly a month early in the year it is said that there will be a delay in the completion date of the expansion programme. In order to enable the company carry out its expansion programme, Government have rendered substantial financial assistance. A special repayable advance of Rs 10 crores and an interest bearing loan of Rs 79 lakhs have been made available. Government have also guaranteed two World Bank loans totalling about \$50 million secured by the company to meet the foreign exchange cost of its expansion programme.

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Work in the three public sector steel plants at Rourkela, Bhilai and Durgapur has made considerable progress during the year. It was earlier expected that the schedule of completion of the various stages in the three plants would be as follows:—Rourkela: the first blast furnace by the end of 1958, the Second by August 1959 and the other plants by 1960. Bhilai: the first blast furnace by the end of December 1958, the second and third in the second and third quarter of 1959 and the entire plant by the end of 1959. Durgapur: the first blast furnace in October 1959, the second by April 1960 and the rest of the plant by July 1961. Latest indications, however, show that the first blast furnace in Rourkela and Bhilai will not be ready before the end of January 1959. Provision has

also been made in the Second Plan for the expansion of steel production by the Mysore Iron and Steel works to 100,000 tons by 1960-61.

When completed the Rourkela plant will produce one million tons of ingot steel which will be rolled into plates 3/16" and above 200,000 tons, sheets and strips (hot rolled) 300,000 tons, sheets and strips (cold rolled) 170,000 tons and tin plates 50,000 tons. Bhilai will produce rails 110,000 tons, railway sleeper bars 90,000 tons, heavy structural sections 284,000 tons, rounds 121,000 tons, flats 15,000 tons, billets for re-rolling 150,000 tons, and pig iron 300,000 tons. Production at Durgapur will comprise heavy forging blooms 10,000 tons, merchants sections 240,000 tons, forging billet 60,000 tons, sleeper bars 60,000 tons, light sections 200,000 tons, forging blooms 30,000 tons, wheels and tyres 28,000 tons, axles 12,000 tons, billets for sale 150,000 tons and pig iron 350,000 tons.

But the fact remains that delays have occurred in the entire steel industry for one reason or another. It is, however, expected that the Second Plan target of 6 million tons of steel ingots to yield 4.5 million tons of saleable steel will be achieved before the end of the plan period. As a consequence attention is now turning toward the question of steel target in the Third Plan. Government spokesmen have indicated that the target may be fixed at 15 million tons.

The wisdom of planning for another great leap forward in steel production is, however, questioned in knowledgeable circles. The main points of the criticism are that in the first place steel consumption is extremely unlikely to increase to such an extent in the Third Five Year Plan period as to absorb all the production. There will be a sizable excess left and to plan on the assumption that this excess can be exported at a profit is to shut one's eyes to the realities of the present steel situation. For one thing India is fast becoming a high cost producer thanks to the continuous upward revision of the emoluments to labour without any relationship between productivity and wages. Secondly, there is a large availability of steel in world markets and hence it is not certain that our export steel will fetch a profitable price.

The acute shortage of foreign exchange and the consequent heavy load of debt on the nation also necessitate a cautious approach to the Third Plan and especially to future projects which will involve a large foreign exchange outlay. There is a feeling in the country that the governing principle in the next five year plan should be that targets are commensurate with the resources that we will be able to command especially in regard to foreign exchange. Putting up big

steel plants to achieve a target of 15 million tons will necessarily involve huge expenditure of foreign exchange. The outlay will still be considerable even supposing that a large part of the additional production will come from further expansion of existing plants.

In the above view, therefore, it would appear that there is need for going slow in increasing steel-making capacity and concentrating attention on accelerating the growth of steel fabricating industries so as to absorb production in full. This will mean fixing the target under the next plan at a realistic level. An additional 6 million tons or the doubling of capacity as at the end of the current plan period would seem to be the appropriate target. Much of this additional production can be obtained from existing plants as the new factories in the public sector are designed to take up substantial expansion programmes. The capacity of the Rourkela plant can easily be stepped up to 2 million tons of ingot steel. In Bhilai provision has been made for ultimate expansion to 2.5 million tons of ingots per annum while Durgapur is so designed as to increase production to 1.25 million tons of ingots.

While it is true that the steel production programme deserves to be given high priority in the planned development of the country, it is unlikely that Government will be able to ignore the great handicap that will beset the nation if they go on taking foreign assistance in the shape of loans. There are already indications of the sobering influence of the foreign exchange crisis in official thinking. Speaking at the annual meeting of the Central Board of Irrigation the Prime Minister had advocated the establishment of small projects spread all over the country. He also pointed out that it was wrong to think that progress could be achieved only by building big projects. He described the present outlook in our country as a "disease of gigantism". Mr Nehru's words seem to be particularly relevant to steel production.

With the continuing scarcity of foreign exchange it is evident that the country cannot afford to plan for big steel plants. At the same time it is equally evident that steel production must increase, though only at a moderate rate. It is said that the objective can be achieved by putting up small steel plants at a number of convenient places all over the country. That Government may not be averse to the idea of small steel plants is borne out by the fact that they are contemplating to send a delegation to China which, it is reported, has made great strides in steel production through small plants worked more or less on a small scale industry basis.

Automobile Industry

IN the development of the automobile industry, the progress that has been achieved in recent years is, by any standard, striking. Protection granted to the industry, by the Government has enabled it to increase the proportion of indigenous contents of the vehicles manufactured. As a result, it has now become possible to speak of an automobile industry in the country, which had only an apologetic existence at the commencement of the First Plan, when it functioned predominantly on the basis of assembling imported components. In fact, the industry, at that time, was not equipped for manufacturing components in any substantial degree. It was the Tariff Commission 1953, which, by recommending protection as well as concentration of production in a few firms, prepared the industry for undertaking manufacturing programme.

The six firms that were subsequently licensed by the Government to enter manufacturing line, had stepped up production considerably and the target for the number of vehicles to be manufactured at the end of the First Plan had been more than exceeded.

		Number of Automobiles.
1950	...	14,604
1951	...	22,272
1952	...	15,288
1953	...	13,920
1954	...	14,460
1955	...	23,088
1956	...	32,136
1957	...	31,932

The six firms are now in varying stages in the proportion of indigenous components manufactured by them. The Hindustan Motors Ltd, is in the forefront with a proportion which approaches nearly 65 per cent, Ashok Leyland which has an indigenous content of 36 per cent in the value of chassis used in the Company's vehicles has programmes for raising this propor-

tion to 55 by the end 1958. Mahindra and Mahindra also has plans for raising the proportion of indigenous components as well as for increasing production of jeeps.

However, the progress of the industry has come to be overshadowed by certain developments which have adverse implications for its progress under the Second Plan. The foreign exchange shortage has greatly upset the schedule of manufacturing programmes of all the firms in the industry. Against an estimated requirement of about Rs 12 crores by way of foreign exchange for importing capital equipments needed for raising the proportion of indigenous components to about 80 per cent as fixed under the Plan, the availability is now placed at about Rs 3 crores only. With this position regarding foreign exchange, it is not considered likely that the proportion of indigenous components which the industry could manufacture would be any the better than the present level. Though the foreign exchange shortage in its general aspect had an inevitability which the Government could not mitigate by any means at its command, it would have been but fair if, in view of the importance of the automobile industry for improving transportation facilities, and considering the fact that by virtue of the remarkable progress the industry had made possible substantial savings in foreign exchange, the Government could have found it possible to provide more foreign exchange to the industry. Though the foreign exchange shortage is past its worst phase, and some improvement had since been registered, the claim of the automobile industry for additional allocations does not seem to have made any impression on the Government. The difficulties experienced by the various firms have already begun to tell on production, which in the first seven months of 1958, has been running at a level far below the monthly average for the last two years.

			Jeeps and Station		Passenger	
			Cars Land Rovers	wagons	Buses	Total
January	1958	...	640	358	43	2636
February	"	...	461	213	31	2230
March	"	...	697	195	12	2748
April	"	...	471	126	21	1401
May	"	...	482	122	26	1570
June	"	...	594	281	15	1710
July	"	...	440	587	32	1763

While production has declined in respect of all these items, in view of the fact that relatively less has been provided for the production of cars than for others, progress in car production, will be even more strictly rationed. In fact, the foreign exchange that is now available for the import of capital equipments is considered to fall short of even the requirements of the heavy vehicles side of the industry. And, in terms of the new policy towards the indus-

try, which the foreign exchange difficulty has rendered necessary, personal transport is to have less consideration than general means of transport for purposes of foreign exchange allocation.

In respect of foreign exchange needed for the import of components not manufactured in the country also, the needs of car manufacturers have been passed over in favour of the heavy vehicles. The US Development Loan fund from which a sum of nearly

25 million dollars is available for the import of components, is intended mainly for meeting the needs of trucks, jeeps, and buses. Thus, under-utilisation of capacity, which has already affected production costs of cars, would, if components were not to be imported in needed quantities, be greatly aggravated with all its adverse effects on cost of production and consequently demand.

The project of the Defence Ministry for setting up an armaments vehicles industry of its own has been another source of concern to the private manufacturers. The Ministry has already entered into agreements with Messrs MAN of Germany and Messrs Komatsu of Japan for the manufacture of automobile trucks and crawler tractors respectively. In view of the fact that the private sector has, so far, been undertaking manufacture of trucks and also that in terms of the original policy of the Government no additional unit was to have been admitted into the automobile industry, the decision of the Defence Ministry, has caused a lot of misgivings to the private manufacturers. For one thing, this has upset the original calculations of demand on the basis of which manufacturing programmes had been planned and pursued in the private sector. The issue of private Vs public sector sought to be raised in some circles has perhaps little relevance in this connection and the desire of the Defence Ministry to be self-sufficient in regard to its requirements of trucks is understandable. However, in the present conditions of the industry, when it has to operate under the basic weakness of an extremely limited demand for automobiles, an armaments vehicles industry represents but a problematic benefit.

				1956		1957	
	Units of measurement.	No. of Units.	Capacity.	Production.	No. of Units.	Capacity.	Production.
Brake Assemblies	Nos	...	...	...	1	180,000	100
Brake Linings	Nos	2	3,744,00 Ft	257,450 Ft	2	3,744,000 Ft	451,387
Clutch Assemblies	Nos	...	...	...	1	180,000	200
Clutch Fancings	Nos	1	108,000	9,926	1	180,000	43,910
Cylinder Liners	Nos	1	120,000	67,103	1	120,000	75,775
Gudgeon Pins	Nos	1	300,000	142,187	1	300,000	159,312
Pistons	Nos	1	300,000	160,238	1	300,000	192,216
Piston Rings	Nos	1	2,040,000	2,080,528	1	2,040,000	2,162,484
Radiators	Nos	2	56,000	11,238	1	56,000	14,293
Snock Absorbers	Nos	2	34,000	1,855	2	34,000	8,185
Sparking Plugs	Nos	2	600,000	250,031	2	600,000	369,401

There are at present more than 10 units in the ancillary industry most of which have been in existence even at the commencement of the First Plan. Lack of production of certain special type and quality of steel in the country explains for the continuing depend-

The basic problem before the industry is that of achieving a volume of production which would bring down cost of production to a level at which it would stimulate further demand for vehicles. While the foreign exchange shortage has nullified the possibility of any large increase in production, the Defence Ministry's project has affected the demand factor. The prospect is thus an impasse in which production and price stand in mutually hostile postures. A price induced increase in demand is something that has to be discounted for the rest of the Plan period.

For stimulus of a sizable sale, the automobile industry has to look towards a vigorous road transport policy. In comparison with railways and shipping, road transport has suffered an under-emphasis of its importance under the Second Plan. Apart from insufficient allocation of funds for road development, the policies of the State Governments have been restrictionist in their effect on motor transport. While none of the old levies which incidentally add up to a heavy burden on motor transport, has been given up by the State Governments, limitations on the laden weight of vehicles, have also been continued. The need for reorientation of policy towards road transport development cannot be too strongly stressed.

Having made some headway in the development of an ancillary wing to it, the automobile industry now operates under a broader basis. The industry was fortunate in having, at the commencement of the First Plan, the nucleus of an ancillary industry. Since then a number of units have been approved and licensed. Progress made in the production of components has also been commendable.

ence on imports for some of the components. However with the development of the iron and steel plants as contemplated under the Second Plan, there should be no difficulty for the industry for obtaining its requirements of these from within the country itself.

Food—A Problem?

THE Food problem continues to hold the stage. Prices of foodgrains rose faster than "all commodities" last year, which showed how the farmer were out of the step with the general trend of prices. What made the rise in prices particularly disturbing was, that it occurred despite the fact that arrangements for large imports of foodgrains had been successfully completed and the Government of India took several measures to check the upward trend in prices, including imposition of restrictions on movement of foodgrains, credit squeeze by banks on advances against foodgrains and stocks, opening of fair price shops and, above all, imposition of ban on forward trading in coarse grains and pulses. Though these steps helped curb speculative activity and hoarding, prices continued to rise. More than anything else, the rise in prices, following smaller crop of rice and wheat in 1957-58, proved to be a most disquieting feature and a cause of much worry to the Government.

Although agriculture is the mainstay of the Indian economy, employing as it does 70 per cent of the total population, it is a pity that the country should continue to depend on imports for its requirements of food. Productivity of land, as is well-known, is still deplorably low. For instance, the yield per acre of rice in India is 700 lbs as against, 3,750 lbs in Japan; 2,337 lbs in China and 3,000 lbs in the USA. The average yield of wheat is estimated to be 600 lbs in India, whereas it is as much as 1,800 lbs in Japan. Thus, the overall production is less than we need. Again, the position has not materially changed even after the country has gone half way through the second Plan.

Since only 20 per cent of the cultivated land is under irrigation, India's food supply is largely determined by the caprices of the monsoon. During the six-year period ended 1957-58, the production (in million tons) of foodgrains, with cereal production in brackets, was:—1952-53—58.27 (49.22); 1953-54 68.72 (58.27); 1954-55 66.96 (56.18); 1955-56 65.79 (54.92); 1956-57 68.75 (57.24); 1957-58 62.03 (52.81)

Because of the variations in production, the Government of India have been compelled to augment the supply through imports which, in the last ten years ended 1957, amounted to 25.7 million tons. During this period, the trend of imports (in million tons) was as follows:—1948 2.84; 1949 3.71; 1950 2.13; 1951 4.73; 1952 3.86; 1953 2.00; 1954 0.81; 1955 0.70 1956 1.42 and 1957 3.58. For 1958, the Government had already imported 1.86 million tons, consisting of 1.52 million tons of wheat and 337,000 tons of rice. An additional quantity of about one million tons of foodgrains is expected against the existing programme and a fresh

agreement with the USA under P.L. 480 is expected to be finalised soon.

Production figures (in thousand tons) of individual crops for 1957-58 as compared with the revised estimate for 1956-57 are as follows: Rice 24,221 (28,282); Jowar 8,056 (7,429); Bajra 3,535 (2,885); Maize 3,064 (3,009) and Ragi 1,716 (1,715). The rice crop accounts for a decrease of 3.5 million tons and is almost equal to the average for the first Five-Year Plan period; but the shortfall has been made up partially by the increase in production of other "kharif" cereals, especially of the two major millets, jowar and bajra. These two millets account for an increase of 1.5 million tons.

It has been computed by the experts of the Union Food Ministry that India's food requirements may go up by a million tons per annum, because of an increase of about 5 million per year in its population. As against this, production of foodgrains in 1957-58 at 62.03 million tons is 663 million tons less than in 1953-54. Actually, it ought to have been more by 4 million tons, that is, at 72.70 million tons, to cover the increase of 20 million in population since then. The Union Food Minister has also proposed to intensify internal procurement to supplement imports, so that he may be in a better position to ensure equitable distribution of available supplies among all the States and to thwart the attempts of speculators and hoarders.

A modest rise in food prices is not necessarily a matter for alarm. But the increase, that has now taken place, is certainly not modest. The Index Number of Wholesale Prices of Food Articles (Base: 1952-53=100) was 115.1 for the week ended 29th November 1958 as against 106.7 a year ago, the corresponding index numbers for cereals and pulses being 107.1 and 112.1 against 101.0 and 82.4 respectively. Thus, over a period of one year, the cost of food has gone up by 10 per cent. The situation, therefore, deserves to be watched in order that it may not deteriorate further. At this stage, the recent trends in Rice and Wheat markets in North India make an interesting study.

With the new marketing season in full swing, the customary fall in foodgrains prices was reported from all over the country till the end of April when there was a tendency on the part of growers to dispose of their stocks as early as possible. However, the market developed a firmer tendency from May when the wheat crop all over Uttar Pradesh was admitted to be low than the previous year. Producers, therefore, retained their stocks in anticipation of getting better prices later. Moreover, the advance in wheat prices was helped

by higher advices from Rajasthan and Madhya Pradesh which, it was hoped, would shortly relax its ban on exports. This belief was so strong that the market registered a substantial setback; but the growing disappointment on the issue resulted in a rally to the earlier levels. The rise in prices was also aided by the sharp decline in arrivals. Another contributory factor was the increased holding power of farmers, who showed no hurry to dispose of their stocks.

Conditions in the market, however, turned quiet from the middle of June following the Food Minister's warning to traders that the Government would seize grain stocks under the Essential Commodities Act, the opening of more fair-price shops and the stopping of bulk purchases by flour mills. Another factor, that had a stabilising effect on prices, was the satisfactory progress of the "kharif" crop. The third factor was that the Government took steps to supply foodgrains to counteract shortage in various parts of the country by rushing supplies to deficit regions. Above all, with their intervention in the form of a ban on forward contracts on coarse grains and pulses, the market sentiment turned easy.

The effect of the prompt measures taken by the Government to check undue rise in the prices of commodities was fully reflected in foodgrains prices in August. The immediate result of the ban on forward trading in coarse grains and pulses was a break in the prices of these cereals. The fact, that the Government had banned the purchase of wheat by flour mills in Uttar Pradesh, Madhya Pradesh, Rajasthan and Bombay, was responsible for bringing about a steady decline in prices, as millers were by far the biggest purchasers of wheat in the open market. Again, the decision of the Reserve Bank to direct all scheduled banks to limit their advances against wheat and other foodgrains to 66 2/3 and 80 per cent respectively of the average credit arrested the upward trend in prices. Erecept for a slightly steadier tendency in prices in October due to dwindling stocks and poor supply position, prices generally displayed a downward tendency during the rest of the year.

Commodity-wise no single commodity is of greater importance than Rice, which is the staple diet of teeming millions and is the fulcrum around which the simple economy of the Asian rural home revolves. Although production has considera-

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bly expanded in several areas, the increase in population has prevented any significant improvement in per capita consumption. Perhaps, the picture will change when the efforts, that are now being made for increasing the area under rice and improving the methods of cultivation, bear fruit. Much will, however, depend upon the trends in population. Meanwhile, a feeling has been growing in market circles that the all-India production of rice, during the 1958-59 season, will be substantially higher. The crop is estimated at 29 million tons and the reports from all parts of the country tell of markedly higher production than the previous year, when the figure was 24.8 million tons. The previous record was 28.2 million tons in 1956-57. Other "kharif" crops also, besides rice, are expected to show improved production figures, including jowar, maize and ragi.

An analysis of production trends in the leading exporting and importing countries shows some interesting trends. In ten leading exporting countries—Burma, Cambodia, Taiwan, Thailand, Viet Nam, British Guiana, the USA, the UAR, Italy and Spain—the output of rice, in terms of paddy, in 1957-58, aggregated only 22.4 million tons as against 26.93 million tons in 1956-57. The fall in production of these exporting countries was also accompanied by a similar fall in production in the nine chief importing countries—India, Indonesia, Japan, Malaya, Pakistan, the Philippines, South Korea, Cuba and

West Africa. In these countries, rice production, in terms of paddy, was 83.69 million tons as against 89.33 million tons in 1956-57. The largest decline, relatively and in absolute terms, was in India. The total Indian harvest was only 37 million tons as against 43.1 million tons in the previous year. World consumption of milled rice aggregated 140 million tons in 1956-57, or 30 per cent above the pre-war level of 107 million tons. Asia alone accounted for 130.5 million tons as compared with 101.21 million tons in 1934-38. In general, the world rice condition has kept pace with the increase in population.

Discussing the prospects for 1958-59, the latest report issued by the UN Food and Agricultural Organisation, points out that it is still too early to judge whether or not world production will recover from last season's decline. The US

crop is likely to be somewhat larger than last year. Crop conditions in Asian importing countries also seem to be brighter. If the 1958-59 harvests turn out to be larger in importing countries, it will not necessarily mean a reduction in imports of rice. This is because total demand should continue to rise, reflecting increasing populations.

With the population jumping up at the rate of five million per annum—by 1957 India is expected to have 500 million people—larger imports, increased internal procurement, more State Trading and better distribution methods, will one day be found totally inadequate. Whatever increase there has been in production during the last few years has been due largely to an expansion in the land brought under the plough. It is, therefore, worthwhile to find out as to why the yield per acre has not gone up.

Again, with the rapid growth in population and the weather proving eccentric, the country still finds difficult to obtain self-sufficiency in food production. Unless that is achieved, the country will continue to face economic difficulties. Despite recent widespread floods in the Punjab, Uttar Pradesh and Andhra, it is expected that the foodgrains production, during the current year, will be higher than last year.

Meanwhile, the reported move on behalf of the National Development Council for State Trading in foodgrains is to be welcomed in so much as it may be expected to lead to stabilisation of prices. On long-term range, the various irrigation projects will certainly help to raise food production.

The following table shows the trends of foodgrains prices prevailing at the end of each month during the year 1958 (prices per maund):—

		TRENDS OF FOODGRAINS PRICES.													
Commodity	On Jan. 1st Rs nP	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	27th Dec. Rs nP		
		Rs nP	Rs nP	Rs sP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP		
Wheat:															
Average quality	15.97	15.37	15.87	15.37	14.62	15.87	17.50	19.75	22.75	22.50	24.50	24.00	24.75		
Farm quality ...	17.36	17.00	17.25	17.00	15.50	17.00	18.75	21.00	24.00	23.75	25.50	25.07	26.00		
	27.00	28.00													
Rice (Basmati)	to	to	31.00	31.00	35.00	36.50	42.50	42.50	44.00	33.00	33.00	28.00	28.50		
	29.50	30.25													
Gram ...	11.19	10.62	11.12	11.25	11.12	12.00	13.06	14.37	16.75	17.12	19.25	19.87	19.75		
Barley ...	9.75	9.00	9.50	9.25	10.25	11.06	13.00	14.00	16.12	15.87	17.62	17.25	16.50		
Peas (Green) ...	9.75	8.12	8.69	10.19	9.87	10.15	11.62	12.50	14.50	14.62	17.62	17.37	19.00		
Jowar ...	9.50	10.75	11.00	11.25	13.00	14.00	15.00	14.25	15.25	14.25	14.50	13.50	14.50		
Guwar ...	12.00	11.12	11.50	14.75	15.25	15.50	17.00	16.00	15.50	14.50	14.50	15.00	15.50		
Malze ...	11.62	10.50	11.31	11.25	...	...	...	...	16.00	15.50	15.50	14.87	15.00		
Urud ...	16.75	18.00	18.50	18.00	18.50	19.00	20.00	20.00	19.50	18.50	19.50	19.00	18.75		
Moong ...	15.00	16.00	17.00	20.00	23.00	23.00	25.00	25.00	25.00	25.00	25.00	22.50	20.00		
Arhar ...	10.12	8.75	10.37	11.75	11.75	13.25	14.75	16.50	18.37	18.25	21.75	22.12	21.50		
Masoor ...	15.00	15.00	15.00	16.00	16.50	15.00	15.75	16.37	16.25	16.50	18.00	17.75	17.50		

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Bullion—New High Levels After Seven Years

THE year 1958 has proved eventful for the bullion trade. After a lapse of seven years, both Gold and Silver have recorded new peak levels with price swings remaining sizable and two-sided. On balance over the year, gold has gained Rs 5 per tola and silver Rs 6 per 100 tolas. The price range in spot gold was confined to Rs 11—the highest being Rs 115.00 and lowest being Rs 104.19, while in spot silver it was Rs 23—the highest being Rs 201.94 and lowest Rs 178.44. The suspension of Kolarfields gold sales for the past six months and smaller unauthorised arrivals in view of the political developments in Pakistan imparted a firm tone to the yellow metal during the year-end. There were recurrent talks of raising a gold loan in the country, to meet the foreign exchange crisis, but the move did not materialise due to inherent practical difficulties.

The Silver section continued to be dominated by the market's varying anticipations regarding import of Tibetan coins and the resultant actual quantum of imports. The market, however, gained strength in the first week of December on revelation that the Chinese Government has prohibited exports of Tibetan coins. This, no doubt, induced a better feeling on ideas that there would be greater demand for the actual in view of the busy season ahead.

It is estimated that, since the policy of free licensing of silver coins from Tibet was announced on May 3, 1956, total imports equivalent to about 50,000 bars have taken place. This shows India's traditional fancy for bullion in the form of ornaments and jewellery. Though no reliable and up-to-date estimates of stocks of gold and silver in the country are available, however, according to the study made by the Reserve Bank, the total private stocks of gold (excluding about 7 million ounces comprising the Reserve Bank's currency reserve) is about 105 million ounces which, at the price of Rs 108 or Rs 289 per ounce, comes to Rs 3,035 crores and, at the present international price of gold, to Rs 1,750 crores.

The total stocks of silver are estimated around 4,235 million ounces. With the return of lend lease silver, the official stocks of silver (including silver coins) have been reduced to small proportions, so that, by far, the entire amount may be said to be in private hands. At the price of Rs 184 per 100 tolas or Rs 4.9 per ounce, the value amounts to about Rs 2,075 crores.

According to the latest available statistics, the world output of gold recorded a rise during the year 1957, while that of silver remained virtually unchanged. The year also saw the largest value of gold sales by the USSR in any year since the War. There was a marked decrease in the demand for gold hoarding. In silver, the arrangements for the return of

the lend-lease to the USA were completed in 1957 by all countries except Saudi Arabia and Ethiopia; of the 410.8 million ounces, 382.1 million ounces had been repaid by the end of December 1957. India also met her full obligations to the tune of 172.5 million ounces (an ounce is equal to 2½ tolas) by the end of 1957.

World production of gold (excluding the USSR) in 1957 has been estimated at 29.3 million fine ounces, an increase of nearly 4 per cent over 1956. South Africa reported a record production of 17 million ounces and, as such, her share of the world output rose to 58 per cent.

During 1957, total world silver production (outside the USSR) amounted to 222.7 million ounces as against 222.4 million ounces in 1956. World consumption of silver in 1957 is estimated at 289 million ounces, an increase of about 6 per cent over 1956.

During January and the first half of February, gold was in the lead, the sharp rise in the metal being attributable to strong bull activity based on excellent spot offtake against scarcity of floating stocks

expectations of reduced arrivals of Tibetan coins. The rate for forward silver, which stood at Rs 186.81 on December 31, 1957, shot up to Rs 195.50 by March 13, 1958. As a protest against bull manipulations, jobbers and bear operators refrained from transacting business for forward delivery from March 15 to March 18. On the 19th, however, apprehensions of possible stringent action by the Board of Directors led to a decline in prices, which presumably prompted bears to stage a return to the market, and forward trading was resumed. At this stage, the Board decided to impose, subject to the approval of the Bombay Government, special margins under Bye-law 33A(3). On Government's approval, a margin of Rs 500 per bar became operative from March 25 in respect of all outstanding purchases exceeding 40 bars in either of the contracts. After a temporary decline, the market again firmed up to Rs 195.75 by the end of March on the continued prevalence of backwardation charges.

Prices of both silver and gold ruled firm during the month of April, but subsequently, during May and June,

1958, to Rs 201.94 on April 16, 1959 as against the all-time peak of Rs 207.25 reached in June 1951. The bear phase started in May and the spot rate dropped down to Rs 181.56 by the end of June. The trend in gold was broadly similar to that in silver. The spot rate advanced from Rs 111.31 as on 31st March, 1958 to Rs 114.75 on May 10 with highest level touched since June 1951. By the end of June, prices in spot section declined to Rs 107.28.

The Bombay Government approved, on June 9, with some modifications, the proposed amendment to certain bye-laws of the Bombay Bullion Association. A major amendment related to bye-law 33D and under the amendment to this bye-law as proposed by the Association, stricter margins, which became payable on specified charges in backwardation (Undha Budia) charges irrespective of changes in contract prices, would have applied only to bulls; but under the amendment, as finally approved by the Government, those margins apply to bears also. Thus, under the amended Bye-law, a margin of Rs 1,000 per bar (approximately 2,800 tolas) in silver is payable whenever either the backwardation charge or the cantango charge ranges from Re 1 to Rs 2; the margin will be higher at Rs 2,500 per bar, whenever such charges exceed Rs 2. Similarly in gold, a margin of Rs 10 per tola is payable whenever either backwardation charge or cantango charge varies from 50 nP to Re 1; the margin is higher at Rs 25, when such charges exceed Re 1.

The market during the third quarter showed an irregular tendency, reflecting the growing impact of the slack season. The market ruled easier in July with spot gold dropping to the lowest level of the year at Rs 104.19 and silver at Rs 178.44. But, due to West Asian crisis, prices turned higher. In August, the market turned firm, sentiment being favourably influenced by the political developments in Tibet and Formosa which were expected to affect the inflow of Tibetan coins. In September, again, the market tended to ease off a little in the context of increased inflow of 'katcha' silver and reduced offtake. Gold was adversely affected by the Planning Minister's statement, on September 22, ruling out mobilisation of gold hoards in the country through the issue of gold bonds. In the third and fourth quarters, cantango charges were in favour of bears and automatic margins came into operation on several occasions.

The market, however, during the last quarter of the year, presented firm tone following the very low band gold as well as prohibition of arrivals of gold by way of contra-exports of Tibetan coins by the Chinese Government. Gold spot rate rose to Rs 114.12 and silver spot to Rs 193.12.

MONTHLY PRICE RANGE IN 1958.

		GOLD		SILVER	
		Price in Rs per tola		Net price in Rs per 100 tolas	
		High	Low	High	Low
January	...	112.19	107.94	189.37	186.37
February	...	114.37	111.12	193.12	187.44
March	...	113.19	110.75	196.06	190.94
April	...	114.72	110.41	201.94	194.56
May	...	114.75	107.06	197.62	182.44
June	...	110.84	107.12	186.00	181.25
July	...	108.87	104.19	183.50	178.44
August	...	109.06	105.78	186.31	182.06
September	...	108.69	106.37	187.62	184.94
October	...	111.59	106.87	189.69	186.25
November	...	115.06	110.37	190.69	186.56
December*	...	114.12	112.25	193.12	189.00

*Upto 17th December.

and expectations of reduced smuggling activity. In the second half of February, gold prices reacted somewhat on profit-taking at the higher levels, induced by a slackening in spot demand in view of the approach of the 'Holi' festival. A small recovery materialised thereafter, but this proved short-lived and a downward trend was noticed, partly as a sequel to the Prime Minister's statement in the Rajya Sabha on March 11, indicating possible Government action to check hoarding of bullion. Another contributing factor was the fall in offtake against larger arrival of contraband gold. Spot gold, after rising from Rs 107.94, as on December 31, 1957, to Rs 114.37 on February 13, declined to Rs 111.31 on 31st March, 1958.

Silver prices, after pursuing an irregular trend in the first half of January, steadied up in the second half mainly in sympathy with gold. Subsequently, however, the bulls dominated the scene on hopes of broadening demand in spot and ex-

the market reacted sharply, due partly to the measures taken by the authorities to curb the momentary bull pressure and partly to the advent of the slack season. An additional factor influencing sentiment in gold was the Bombay High Court's decision on May 19, declaring the provisions contained in Section 178A of the Sea Customs Act in so far as they related to gold ultra vires the Constitution. The general belief, that this decision would give an impetus to smuggling activity, gave momentum to the downward trend. The resultant decline in prices more than wiped out the rise recorded since December 1957 and brought into operation the automatic margin system against bears and also special clearings in both metals. Fears were also entertained of possible Government action following the publication by the Reserve Bank of figures of estimated gold and silver stocks in the country.

The spot rate of silver, which rose from Rs 195.75 as on 31st March,

Oilseeds in 1958

Imperative Need to Step up Production

PRICE movements on the Oilseeds exchange remained irregular, depending mainly on the export performance of the individual commodity. Government was determined in not allowing exports of groundnut oil or even HPS groundnuts during the first six months of the year, bearing in mind the interests of domestic consumers. When the quotas were announced and export duties were removed, foreign buyers were not willing to oblige our produce in view of the relatively higher levels. Thus, the all-out export offensive in vegetable oils and oilseeds by the Government came too late in the day during the year, as overseas buyers adopted an apathetic attitude. However, export of groundnut cake remained fairly large and set an all-time record. In castor-seeds, US continued to be reserved buyers, while the Indian shippers continued to meet with Brazilian competition even after the entire abolition of export duty on castor oil.

In view of the lower world export of linseed, export of linseed oil received some fillip on the whole.

Cottonseed oil exports suffered a setback during the latter part of the year. This year's experience has provided a lesson that, if India wants to maintain her traditional export markets, the export policy has to be somewhat consistent as well as based on long-range. The overseas buyers cannot wait till we are anxious to sell.

In this respect, what is really wanted is the need to produce more and more oilseeds. Per capita consumption of edible oilseeds remains very low in India, while the population growth is by leaps and bounds. The present output is inadequate to meet the needs of the local population as well as for catering to export needs. The Indian Control Oilseeds Committee has been making Herculean efforts in this direction, but the results so far have not proved encouraging. The recent deliberations of the Committee of Chandigarh have, once again, focussed attention on the need for stepping up production.

At the end of the First Plan, oilseeds production in India was 56.43 lakh tons and this figure rose to 61.76

lakh tons in the first year of the Second Plan, but fell to 59.07 lakh tons in the second year, i.e. 1957-58 owing to shrinkage in area conserved on unfavourable weather conditions. The target set out for the Second Plan period is 75.5 lakh tons. It will be thus seen that a wide gap still exists between the achievements so far and the target set.

The total oil requirements are estimated at 31.21, 43.05 and 57.72 lakh tons towards the end of the third, fourth and fifth Plans respectively. Out of the total, oil requirements estimated at 32.21 lakh tons toward the end of the Third Plan, 22.67 lakh tons are for internal edible purposes, 6.61 lakh tons for domestic non-edible use and only 2.93 lakh tons for export. In terms of seed, these figures correspond to 103, 143 and 192 lakh tons. On the basis of these figures, the country will have to produce 126 lakh tons of oilseeds by the end of the Third Plan as against the target of 75.5 lakh tons to be reached by the end of the Second Plan. This represents an increase of 67 per cent. These figures underline the great magnitude of the problem the country will have to face.

The adoption of various scientific practices for stepping up the yield per acre of groundnut by intensive cultivation is of primary importance for increasing production. According to knowledgeable circles, there is great scope for introducing cultivation of castor in various States. In addition to increasing production of five major oilseeds, it is also necessary to exploit the potential resources of non-edible oil-bearing trees, growing in plains, such as 'neem', 'mahua' and 'karanj'.

While the demand for oils for edible purposes is steadily increasing, it is distressing to note that some edible oils are still being used for non-edible industrial purposes, such as the manufacture of soaps, toilets, varnishes, etc. If these potential resources of non-edible oilseeds are exploited through an economic collection and utilisation, these oils could be better utilised for non-edible industrial purposes, thereby releasing more oil for edible purposes. The cultivation of the oil palm can also be explored profitably, while the development of oilseed-crushing industry can also ease the supply position to some extent.

The acreage as well as production of five major oilseeds in the past two seasons was as follows:

	Area in '000 Acres.		Production in '000 tons.	
	1957-58	1956-57	1957-58	1956-57
Groundnuts*	14,457	13,450	4,271	4,200
Sesamum	5,268	5,446	363	442
Rape and Mustard	6,050	6,331	905	1,026
Linseed	3,318	4,156	271	384
Castorseed	1,325	1,415	97	124

*Crop estimate in shells.

Exports of oilseeds, oils and oilcakes from Bombay this year for foreign countries from 1st January to 12th December, 1958 as compared to those of the whole previous year as follows:—

	(In tons)	
Oils:	1958	1957
Groundnut	337	10
Linseed	13,774	7,548
Cotton	18,077	38,408
Sesame	238	Nil
Rape & Mustard	20	30
Kardi	1,652	373
Niger	54	629
Cottonseed	2,388	6,623
Moura	10	Nil
Oilcakes:		
Groundnut cake	41,234	19,628
Groundnut meal	48,610	6,634
Linseed cake	4,971	550
Cottonseed cake	2,277	6,737
Niger oil cake	...	2,964
Moura cake	...	485
Moura oil mill	...	2,121

There were negligible exports of oilseeds both in 1958 and 1957. Despite export quota of HPS groundnuts in the latter part of 1958, only 325 lakh tons were exported.

The market generally ruled easy during the month of January, as hopes for export quota of HPS groundnuts and reduction in export duty on castor oil did not materialise. Price swings in groundnuts February delivery were irregular and confined between Rs 162.25 to Rs 153.68 by 31st January, 1958. As demand for castor oil from US also slackened, the May delivery slumped to Rs 134.75 on January 11 from the high level of Rs 153.25 recorded earlier. Linseed, however, ruled quietly steady between Rs 32.69 to Rs 31.77 on reports of a shortfall of about 14 per cent in world output.

The market, however, showed a mixed trend during February. Groundnuts remained subdued during the initial stages on a ministerial statement on February 9 to the effect that the ban on the export of groundnut and its oil would continue. After February 11, however, following the announcement of an export quota for groundnut oilcake and revival of demand from crushers and Vanaspathi producers, groundnuts May delivery recovered to Rs 158.78 by 20th February from the low level of Rs 152.75, while Linseed, on the other hand, dropped to Rs 28.27 per cwt. Castor-seeds were also inclined to be easier at Rs 136.87 owing mainly to non-materialisation of the pre-Budget

hopes for a reduction in the export duty on castor oil.

During the month of March, castor-seeds and linseed ruled firm, the former on hopes of reduction in export duty which materialised on April 9. Castor May rallied to Rs 149.62 on March 22, while linseed came up to Rs 31.37 on March 26 from the low level of Rs 28.87, recorded on February 28. Groundnuts rallied to Rs 162.75 from Rs 157.62.

Groundnuts ruled firm during the month of April helped by lower crop estimate of 20 lakh tons of kernels. The price for May delivery advanced up to Rs 173.75. Castor-seeds were not much affected on the announcement of reduction of export duty on oil from Rs 175 to Rs 100 per ton as from April 9. The rate, later on, improved to Rs 155.50 by April 15; but reacted to Rs 148.50 by the month-end. Linseed, after early steadiness, dropped to Rs 29.81 by the month-end.

During the month of May, castor-seeds rose to Rs 152.37 from Rs 148 on hopes of better export prospects of castor oil to the US in view of higher Brazilian prices. Linseed ruled steadier to firm, but groundnuts dropped to Rs 164.25.

Groundnut and linseed prices recorded substantial rise during the month of June, while castor-seeds were easier. The firmness in groundnut prices was attributed to the grant of export quota of 20,000 tons of groundnut oil and 10,000 tons of HPS groundnuts on June 3 and of 30,000 tons of groundnut oilcake (expeller variety) on June 12. Hopes of an early abolition of the export duties on groundnut oil and HPS groundnuts also influenced the market bullishly. Toward the end of the month, the export duty of Rs 150 per ton on groundnut oil was completely abolished. Groundnut August rose to Rs 173 from Rs 165.25. Linseed hardened on export demand in oil and announcement of an export quota of 5,000 tons of linseed oilcake on June 17. Linseed September rose to Rs 32.87. Castor, however, remained easy.

Groundnut prices ruled firm at the outset in July following the abolition of export duty of Rs 150 per ton on groundnut oil, on 30th June, while the export duty of Rs 300 per ton on HPS groundnuts was abolished from July 9.

Business in new crops for 1959 delivery commenced on July 12, 1958. In the groundnuts 1959 February contract, margin at the flat rate of Rs 15 per candy was introduced instead of the price differential margin, which was Rs 15 above the price of Rs 145 and Rs 25 per candy beyond Rs 175 instead of at a flat rate of Rs 25 per candy on all outstanding purchases of groundnuts above the price of Rs 165.

The market gathered strength in the third week of July following the tension in West Asia. But, as soon as the situation showed signs of easing, the market started to decline. Groundnuts August rose to Rs 195 on 23rd July from Rs 171, to finish the month at Rs 189.15. Linseed also firmed up on removal of export duty on July 9. The announcement of an

export quota of 10,000 tons of linseed oilcake on July 25 also helped to strengthen the market. Linseed September rose up to Rs 35.81 on July 21, to reach to Rs 34.12 during the month-end. Castor-seeds September also rose to Rs 169.75 on July 29 from Rs 153.37 on West Asian crisis and the official decision to grant full rebate of excise duty of Rs 112 per ton on exports of castor oil, but stood at Rs 159.75 by the month-end.

The upward trend in groundnut prices was accelerated during the month of August. Following extension of export quotas for the end of December, 1958, active overseas demand for groundnut oilcake and lack of rains in some of the producing areas, the maturing August contract rose to a peak of Rs 204 at the month-end, while the spot 1959 rate touched the highest level of the year at Rs 39 per cwt.

While old crops ruled relatively steadier during the month of September, the new crop prices turned distinctly easier to better prospects. Groundnuts February contract dropped down to Rs 160 from Rs 167.75. The maturing September contract advanced to Rs 34.25 from Rs 32.75 per cwt, while the new crop 1959 May delivery dropped by a rupee. Castor, after early firmness on lower Brazilian crop report, receded to Rs 152.50 for September delivery and to Rs 150 for May 1959 delivery.

During the month of October, the market's tendency generally remained easier on discouraging overseas advices and better crop prospects. Groundnut crop, in kernels, was being estimated at 24 to 25 lakh tons as against an estimated output of 21 lakh tons kernels last year. The announcement of an export quota of 10,000 tons of groundnut oilcakes on October 10 induced a recovery by mid-month which was not sustained. Prices declined again owing to pressure of increased arrivals of new crops. Groundnuts February contract, after rising from Rs 160 per candy on September 30 to Rs 167 on October 10, declined to Rs 161-12 by October 31. Castor-seeds May delivery declined from Rs 150 as on 30th September to Rs 141.87 by October 31 on higher crop ideas and absence of export inquiries from the US. Linseed ruled quietly steady and finished the month at Rs 30.44 per cwt.

During the first fortnight of November, the market ruled easier after early steadiness. Castor-seeds, after a small improvement to Rs 143.37, dropped down to Rs 138.12, to recover to Rs 145 in December; but later on eased off to Rs 141.50 by 20th December. Groundnuts February, after declining to Rs 158.52 in November, recovered up to Rs 165. But, as margin was being enforced on the bulk of this rate and as arrivals were increasing, the market suffered a setback to Rs 161 in the third week of December. Linseed prices were relatively steadier on very tight supply position in the spot. The ready quotation moved up to Rs 38 per cwt, while the 1959 May delivery, after moving up to Rs 32, came down to Rs 31.37. Castor-seed, February contract, which had gone up to Rs 120, have reacted to Rs 115.50.

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Calcutta Stock Exchange

Overall Performance Encouraging

THE overall performance of the Calcutta Stock Exchange, during the past year, was encouraging. The only exception to the general trend were Textile scrips, which did not fare well as compared to other counters. The upward trend in prices became pronounced from June and, except for temporary setbacks on technical considerations, the bullish tone was well maintained. The market finished the year with minor losses on balance.

In general, a psychological change for the better took place, thanks to a somewhat realistic approach of the government towards the economic problems of the country, better prospects of foreign aid and expectations of bonus issues by some of the leading companies. Thus, frustration, which had taken deep roots during the preceding year, gave place to an air of confidence, resulting in a broadening of activity and a consequent improvement in prices.

But, the investment psychology, which had thus been created during the greater part of the year, gave way to gloomy forebodings about the shape of things to come. The extent of the damage to confidence could be gauged from the course of the market leader, Indian Irons, which, from Rs 27.70 touched in the first week of November, slumped down to Rs 24.75 on December 15. That was the day when the market heard of the Congress Working Committee's proposal for a restriction of profits. This was the culminating point in a succession of developments, which were interpreted as a worsening of the investment climate. But for a general feeling that the Government might not give consideration to the proposal to control profits and the sizable buying by the LIC, the market would have finished the year on a subdued note.

The market started the year's trading at more or less at the same levels as it wound up the year 1957. The main issue that confronted the capital market, was how to revive investment enquiry. The Government's fiscal and monetary policies and the uncertain policy of the LIC following the muddle in the commitments of the Mundhra group of shares, scared away the investors who met with heavy depreciation in their portfolios. Apart from the anxiety to await the outcome of the findings of the Chagla Commission, Budget fears dominated operations, resulting in prices recording a decline on a broad front. In this respect, the Prime Minister's statement, at the Jubilee meeting of the Indian Merchants' Chamber, gave rise to a feeling that there would not be material change in the tax structure and that, in view of the need for raising the internal resources, the Budget might not prove to be such as to give cause for enthusiasm. It was also feared that the State Governments might be compelled to levy additional taxation in order to

meet their targets of expenditure in the third year of the Plan.

However, in the absence of any fresh taxation proposals and, after a closer study of the minor alterations proposed in the rates of excise duties, increase in the Development Rebate allowed to shipping companies and the fixation of two slabs instead of the existing three for calculation of

the super-tax on dividends to be declared by Section 23A companies, operators preferred to lend gradual support to the market. Thus, second thoughts about the Budget came into play and there were distinct signs of improvement in sentiment, almost from the beginning of March. But, the main fillip to the market came from the reduction in the excise duty

on cloth effective from March 19 and the suspension of the compulsory deposit scheme. These measures were interpreted by operators as indicative of a welcome change in the Government attitude towards the private sector. It will be more precise to say that the general downward trend in prices, that began in September 1956, was halted and reversed.

The upward movement in prices gathered further momentum in April. The import policy for the April-September period was favourably received on the hope that drastic import cuts might give a fillip to the development of domestic industries. Again the major concessions granted to the coal industry in respect of royalty rates and mines leases and the relaxation of proposals regarding the grant of development rebate were interpreted as examples of the new spirit of sympathy towards the private sector. The recovery movement was, however, impeded during May owing to the labour strikes at the TISCO Works, the threat of strike in West Bengal and Bihar Coalfields, the threatened all-India strike by the Port and Dock workers from the 16th June and fears of additional taxation of Rs 100 crores as recommended by the Planning Commission for the rest of the Second Plan period. Above all, it was felt that there would be a diminution in funds, available for investment in equities, following the subscription to the three new Central Government loans. Thus, the market appeared to have reached a stage of almost inactivity in June. But there were no signs of any nervousness on the part of operators, who were inclined to judge things in their proper perspective. Later in the month, however, the bulls again asserted themselves and, at the close of the half-year, the keynote was one of strong confidence and a spirit of hope such as had not been seen on the Stock Exchange for many a long year.

As a matter of fact, conditions akin to a boom were witnessed from the beginning of July to the end of November despite profit-taking at bulges, thanks to the flow of encouraging news which flowed one after another. The long-awaited reduction in the rates of excise duties on coarse and medium cloth varieties was announced on July 3. It was felt that this would help mills to improve their sales. The announcement of the increased prices for cement was also welcomed. The removal of the export duty on castor and groundnut oils led to a feeling that the Government might take further measures to promote exports by reducing and/or subsidising exports of other commodities in the light of the serious foreign exchange position. After a mild setback, the market forged ahead in August as a result of the maintenance of the dividend on the enhanced capital by the Indian Iron

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and Steel Company. Sentiment was also assisted by the hope that the company was likely to announce a free bonus issue and its earnings would be further strengthened by a favourable revision in the steel retention price.

There were also other factors which enabled the bulls to lend sustained support. First, the Select Committee's recommendations to reduce the Estate Duty were favourably interpreted. Secondly, it was felt that the proposal by the USA to make a substantial contribution would solve India's balance of payments position. Thirdly, there were reports that the Controller of Capital Issues would not be as insistent as before in regard to premia on equity issues of established companies. Fourthly, it was felt that banks, having the plethora of resources, would generally be more kindly disposed to advance against shares. Fifthly, there was a growing feeling that the move of the Reserve Bank to establish a Credit Information Bureau was a boon in disguise as it would be effective in putting down over-speculation in the shape of cornering or other operations. Sixthly, the prospects of liberal foreign exchange being available in the coming months and the suggestion that the foreign exchange gap for the remainder of the Second Plan period would not henceforth provide any serious headache, were considered extremely favourable from the point of view of further developments, both in the public and private sectors. Finally, the proposal made by the Indian Iron and Steel Company to issue bonus shares in the ratio of 1:5 enthused operators to be more active in their dealings. Thus, the general tendency of the market remained firm throughout September although support was mainly selective in character.

However, with the sustained rise in values from June there was a downward revision of yield in almost all the counters, resulting in the technical position of the market becoming somewhat vulnerable in mid-October. The main contributory factor for the sudden turn in market sentiment was the continuous weakness in commodity markets following a favourable crop outlook. Moreover, the flow of funds was expected to decline with the commencement of the busy season and that the increased demand for funds might push up interest rates. Even the long-awaited reduction in duties on tea was ignored, as it was felt that the relief was not substantial. The export performance was also not as encouraging as was expected to be. It was also feared that the working results of various engineering and fabricating units might be affected in view of the shortage of raw materials, especially of steel. The setback in prices, however, proved to be short-lived, as the market was still basically in a mood for an orderly advance to higher levels. The prospect of the country being able to resolve its foreign exchange difficulties with large-scale aid from abroad, endeavours on the part of Government to expand exports, the announcement of a further increase of Rs 14 per ton in the retention

price of steel and the continued easy money conditions—all these factors greatly influenced the bullish fervour in equities at the end of October.

Reopening after the Puja holidays, the market displayed a cheerful mood, being aided by easy money conditions, abundance of investible funds, talks of increasing foreign aid and the flow of excellent corporate news. An encouraging sign was, that a number of investors were in search of first-class equities as they had the feeling that, with the chances of securing assistance from the world monetary institutions, the implementation of the Second Plan was assured. Moreover, the remarks made by the IISCO Chairman, that a reasonable relationship should be maintained between share capital and reserves, gave rise to a feeling that there might be a possibility of issuing bonus shares if tax conditions would permit. Also, there were reports that the Plan outlay might be whittled down due to the shortage of foreign exchange. It was felt that, in such an event, there would be no prospects of fresh taxation proposals in the next Budget. Thus, all profit-taking operations were easily absorbed, as operators seemed determined to usher in a new business on the "Diwali" day with a note of optimism and hope. As a matter of fact, they succeeded in pushing up the rates of most of the scrips to the highest levels for the year in the first week of November.

However, a number of factors combined brought about a restriction of business, a gradual recession of prices and a state of uncertainty in the market from the middle of November. While the main damper was provided by the Finance Minister's statement that no relief in taxation was possible in the next Budget, the decision by the National Development Council to maintain the financial outlay of the Plan at Rs 4,500 crores gave rise to a fear that there might be a possible addition to the existing tax burden. Amongst other factors contributing to the sagging tendency in prices was the general view that the demand for funds would gradually broaden and as such, the money market was not likely to give fillip to the stock market. Uncertainties hanging round the political situation in Pakistan also induced an element of caution in the outlook. Above all, the unloading of a block of Indian Irons by the Dalhousie Holding Company, fears of further sales by the same company and the reports of difficulties experienced by a few prominent parties in the matter of payments on the settlement due-dates, added to the feeling of shakiness in the market. Thus, at the end of November, a certain amount of technical heaviness became evident in the market.

During the closing month of the year, the market was in a demonstated state. When the Finance Minister's speech, at the ASSOCHAM meeting, revealed that there would be neither relief in taxation nor the removal of wealth tax and the expenditure tax, bears dominated the market and depressed prices to fresh lower levels. Although the news of

the Indian Iron and Steel Company having obtained the Government sanction for the issue of bonus shares brought forth a slight recovery in prices in the middle of the month, the Congress Working Committee's recommendations to raise additional resources, particularly the proposal to control profits in the private sector, had a disastrous effect on sentiment. But for a general feeling that the Government might not give serious consideration to the above proposal in view of the difficulties and the reports of purchases made by the LIC, the market would have finished the year on a subdued note.

Sectionwise, Engineering shares maintained their popularity throughout the year, although price movements were mostly influenced by the speculative activity in Indian Irons. That, this scrip rose from Rs 18.70 at the end of December to Rs 27.70 in the first week of November is striking enough for those who are aware of the excitement caused by even a Re 1 change in the price of this bell-weather of the market. The atmosphere of buoyancy in the scrip, despite intermittent profit-taking was well maintained during the major part of the year, being influenced by the news of a higher retention price, the maintenance of the dividend on the increased capital, the Government sanction for the bonus issue and the prospect of increased earnings in the coming years.

After a dull start, Jute shares gave an excellent performance despite the demand for gunnies being at a low ebb. There was a growing confidence that, with the progressive modernisation and rationalisation carried out from 1957, the concentration of production in efficient mills by shutting down inefficient units and the consequent hope of a reduction in manufacturing costs, the improved statistical position of the industry following a steady decline in stocks and the prospect of getting adequate supply of raw material at reasonable prices, the worst phase was over and there was a possibility of handsome dividends being paid for 1958.

Coal shares fared better, thanks to an increase in the selling price of the commodity, the expectation of the Plan targets set for the private sector being likely to be fulfilled according to schedule and the Government decision to permit the export of metallurgical coal to the extent of 5 lakh tons in 1959. Apart from professional operators, investors also showed sustained interest on the belief that increased coal production was essential for the success of the Second Plan if the target for industrialisation was to be achieved.

Except for a temporary improvement in prices noticed during the third quarter of the year following the announcement of reductions in excise and export duties, turnover in the Tea section was generally disappointing during the remaining part of the year. Sentiment was disturbed at a number of times by the announcements of lower dividends by most of the companies. Also there was a feeling that the changes in duties would not benefit the industry

to any worthwhile extent, as the outlook for Common teas continued to be depressed. Above all, doubts were expressed whether the producers of inferior grade teas could sell tea at a profit in spite of the cut in the excise duty.

Sugar shares ruled generally quiet till June as there was a general disposition to await the Government decision with regard to exports. But, they presented a firm front from July when the announcement of the sugar policy was made. Sugar prices internally showed a rising tendency and hopes of increased profitability were entertained. Above all, there was a feeling that the industry would be able to convince easily the Tariff Commission to which the question of a fair price for the commodity had been referred to by the Government.

Textile scrips struck a bad patch amidst better conditions prevailing in most other sections. This was mainly due to the obscure outlook for the industry and prices, after touching very low levels, showed a small recovery towards the close of the year, thanks to better conditions obtained in the cloth market.

The Miscellaneous section maintained its popularity and scrips of those companies having expansion schemes came in for sustained investment demand at every setback in prices.

Thanks to continued easy conditions in the money market, activity in the Giltedged section remained better. There was an expansion in the volume of business, although trading was, at times, curtailed by the paucity of offerings.

In sympathy, Bank shares showed a good recovery, although prices showed a slightly easier tendency towards the close of the year on fears of lower profits for 1958.

The general outlook for stock markets in the New Year is considered to be one of cautious optimism. The reactionary tendency on share prices from the middle of December has set investors wondering whether the bull phase is over and a down swing is on the way. No doubt, apprehensions about a reversal of the change in the Government's attitude towards the private sector have created defeatist attitude in their minds. It is the risk of capital loss which frightens the investor when sentiment changes. It remains to be seen as to how confidence can be revived especially when confidence is a sensitive plant which can grow and flourish only in congenial soil.

But the only encouraging factor is that the LIC in its newly-defined role of market stabiliser may be relied upon to bring in its massive support to bear, should any pronounced weakness appear in the markets. Hopes can, however, be entertained that there will not be any serious setback in prices, especially when there are indications that the current level of industrial development will be maintained. It is also hoped that the Nagpur Congress will not recommend any disastrous policy to the Government, as the present tax system already acts as a drastic restriction on profits.

The following table shows the price trends of a few selected scrips:—

		3% 1986 Conversion		United Coml. Bank		Egin Mills		Bengal Coal		Burrakur Coal	
		High	Low	High	Low	High	Low	High	Low	High	Low
		Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP
1955	...	81.50	89.19	58.25	42.50	28.81	16.62	615.00	493.00	17.12	11.25
1956	...	80.81	72.62	61.25	45.00	29.75	25.69	605.00	440.00	22.94	12.81
1957	...	75.25	70.50	60.00	51.50	28.87	14.75	242.00	210.00	22.75	20.75
1958	...	74.50	70.70	69.50	58.50	13.75	11.62	298.00	201.00	23.31	16.12
Jan.	...	71.50	70.80	62.25	58.75	13.19	12.87	251.00	226.00	22.32	22.00
Feb.	...	71.50	70.80	59.75	58.50	13.25	13.00	237.00	201.00	22.75	21.87
March	...	71.50	70.70	60.00	59.50	N.T.	N.T.	216.00	206.00	23.25	22.52
April	...	72.00	70.90	62.50	59.50	13.56	12.87	226.00	212.00	23.31	22.00
May	...	71.75	70.85	60.00	58.50	13.12	12.19	242.00	229.00	22.00	21.12
June	...	71.50	70.80	60.25	59.00	12.37	11.62	248.00	242.00	22.00	21.12
July	...	71.50	70.85	63.00	60.00	13.75	11.75	239.00	230.00	21.62	20.25
Aug.	...	72.50	70.95	63.00	60.50	13.62	13.12	270.00	236.00	21.40	20.97
Sept.	...	74.50	72.85	69.00	62.25	13.62	13.25	294.00	264.00	21.00	19.37
Oct.	...	74.20	72.80	69.50	68.00	13.25	13.00	298.00	261.00	20.37	18.12
Nov.	...	73.50	72.80	69.00	66.50	13.00	12.31	281.00	268.00	18.87	16.37
Decr.	...	74.00	73.45	68.00	67.00	12.06	11.44	268.00	260.00	17.12	16.12

		Anglo-India Jute		Howrah Jute		National Jute		Cawnpore Sugar		Brooke Bond Tea	
		High	Low	High	Low	High	Low	High	Low	High	Low
		Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP
1955	...	258.00	208.00	34.62	27.25	...	...	24.25	18.06	...	...
1956	...	216.00	135.00	27.62	18.56	...	...	25.87	15.87	...	...
1957	...	160.00	130.00	20.50	13.25	21.90	17.25	20.56	14.06	21.37	14.50
1958	...	232.00	127.00	22.65	12.75	26.65	21.00	12.25	9.19	20.00	14.00
Jan.	...	137.00	130.00	13.94	12.75	26.65	22.05	12.12	12.00	17.62	14.00
Feb.	...	131.00	127.00	14.25	12.94	24.00	22.65	11.50	11.50	N.T.	N.T.
March	...	137.00	132.00	13.81	12.81	23.00	21.00	12.00	11.62	17.50	16.25
April	...	151.00	143.00	15.37	13.87	24.35	21.65	10.81	10.37	17.37	15.87
May	...	154.00	141.50	16.56	14.94	23.75	22.12	N.T.	N.T.	17.50	16.06
June	...	165.00	150.00	16.12	15.12	22.75	21.00	10.62	9.99	17.94	17.37
July	...	181.00	158.00	18.50	16.37	24.56	22.50	12.00	11.00	19.50	17.81
Aug.	...	184.00	174.00	19.37	18.00	24.44	23.00	12.25	11.44	19.31	18.44
Sept.	...	200.00	177.00	21.62	18.25	24.00	22.25	12.12	11.81	20.00	19.19
Oct.	...	230.00	200.00	22.65	20.81	23.25	21.87	12.06	11.87	17.81	17.69
Nov.	...	232.00	204.00	22.12	19.87	24.87	22.25	12.06	12.00	18.37	17.50
Dec.	...	216.00	200.00	20.50	17.69	26.00	23.00	N.T.	N.T.	N.T.	N.T.

		Indian Iron		TEXMACO		Orient Paper		Titaghar Paper		India Steamship	
		High	Low	High	Low	High	Low	High	Low	High	Low
		Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP
1955	...	43.12	32.12	27.50	14.44	35.94	24.19	50.75	40.25	8.87	7.12
1956	...	39.12	28.37	25.75	19.00	41.12	31.31	48.25	38.00	10.75	8.00
1957	...	30.12	16.63	21.31	14.65	34.50	20.95	39.37	31.00	12.00	9.19
1958	...	27.70	18.47	23.35	15.42	36.10	22.75	44.31	31.62	14.94	10.75
Jan.	...	20.62	18.47	18.05	15.42	25.50	22.75	33.75	31.62	12.06	10.75
Feb.	...	20.37	19.20	17.65	16.80	25.25	23.90	34.00	33.19	12.50	11.56
March	...	21.59	19.45	18.75	17.20	28.45	24.60	34.87	33.87	11.06	10.81
April	...	22.14	21.15	18.60	17.90	30.05	27.80	36.00	35.19	11.19	10.75
May	...	21.97	20.94	18.35	17.50	32.40	29.15	38.75	36.12	11.28	10.87
June	...	22.83	21.36	19.30	18.05	32.25	31.20	39.00	38.25	11.69	10.81
July	...	24.37	22.75	21.20	19.10	35.15	31.50	40.75	39.12	12.37	11.56
Aug.	...	25.56	24.43	23.20	20.15	36.10	34.60	43.00	39.69	14.37	12.19
Sept.	...	27.26	24.35	23.25	22.30	35.25	33.75	42.75	41.87	14.25	13.75
Oct.	...	27.24	25.90	22.85	22.25	35.65	34.15	44.12	42.00	13.94	13.62
Nov.	...	27.70	25.62	22.35	20.90	34.80	30.60	44.31	43.00	14.68	13.81
Dec.	...	26.40	24.71	21.37	19.75	31.70	29.10	42.87	40.25	14.94	13.62

		Rohas		National Carbon		NICCO		Indian Aluminium		Indian Copper	
		High	Low	High	Low	High	Low	High	Low	High	Low
		Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP	Rs nP
1957	...	20.25	15.50	27.12	23.12	26.87	19.19	15.12	22.22	3.81	2.70
1958	...	25.40	15.25*	28.87	23.75	35.00	22.62	16.87	12.31	4.04	2.74
Jan.	...	17.00	15.25	24.75	23.87	24.00	22.62	13.12	12.50	2.94	2.74
Feb.	...	16.25	15.87	25.12	23.85	24.19	23.75	12.87	12.31	2.91	2.80
March	...	17.06	15.81	25.25	23.75	24.25	23.87	13.03	12.62	3.36	2.83
April	...	17.37	16.75	25.37	23.87	24.75	23.56	13.67	12.75	3.32	3.08
May	...	19.00	16.62	25.56	24.31	27.37	24.69	15.12	13.00	3.15	3.05
June	...	20.87	18.75	25.87	25.25	27.56	27.00	15.75	14.31	3.47	3.07
July	...	23.12	20.50	25.75	25.25	29.00	27.50	15.90	14.31	3.83	3.52
Aug.	...	25.40	22.87	26.89	25.62	33.00	28.37	16.87	14.94	4.03	3.78
Sept.	...	24.69	23.00	27.75	26.00	32.50	31.37	16.50	15.50	3.94	3.75
Oct.	...	24.69	23.19	27.87	26.50	34.37	31.62	16.25	15.50	4.04	3.76
Nov.	...	20.87	19.94	28.87	26.75	35.00	33.25	15.87	14.94	3.90	3.74
Dec.	...	20.87	20.19	29.12	27.37	33.87	32.06	16.37	15.00	3.82	3.41

Bombay Stock Exchange :

Better Year, But Rise Partially Wiped off at Close

1958 was a memorable year for the Bombay Stock market in several respects. Sustained buoyancy on a wide scale prevailed for some months throughout the year, indicating new strength in the market. The marked revival in investor's confidence, rudely shaken since September 1956, perhaps reached its climax in the latter part of October. But since then, the tendency of the market, during the last two months of the year, remained generally downward. This acceleration of the lower tendency gathered momentum following the Finance Minister's observations on taxation at the annual general meeting of the Associated Chambers of Commerce and Industry on the 5th December. Talks of land reforms envisaging ceiling on land holdings and putting ceiling on urban incomes as a cor-

rollary to the above policy and, more than anything else, the Congress Working Committee's resolution for controlling the profits in the private sector broke the backbone of the market.

The investment psychology, which had been created during the greater part of the year in view of the favourable Government policies, gave way to gloomy forebodings about the shape of things to come. Prices have retreated to levels prevailing six months back. The investor has, once again, been upset by loose talks and it is to be seen as to how confidence can be revived.

The deteriorating Indo-Pakistan relations, in the wake of the military administration in that country since the second week of October, have no doubt, disturbed the equipoise of

the market. More than anything else, apprehensions about Government's change in the economic policies leaning on the leftist tendencies have created defeatist attitude in the minds of the investors. It is the risk of capital loss which frightens the investor when sentiment changes. Unless sentiment changes to the contrary, it will be difficult to look for healthy and buoyant market once again.

Looking Ahead :

The Congress Working Committee's resolution on planning implies that resources are inadequate to meet the needs of the Plan and that there is not enough of capital formation for new investments. But, the Congress Committee has not thought wise to think seriously as to what are

the reasons which have created a situation of this type. It takes time to generate forces for the sustained investment activity to develop. And, as there is no consistency in the prices, the machine gets out of gear and through a process of trial and error, the country has to begin afresh. This has what has happened once again after having pursued policies for creating favourable investment climate.

Time and again when the equilibrium is disturbed, the investor gets fed up and becomes a cynic more or less. What can any one expect when such tendencies get deep-rooted. Congress ought to realise that an expanding economy creates its own resources for meeting the required developmental expenditure as is amply evident from the industrial progress of advanced countries such as USA, UK, West Germany, etc. It is too often forgotten that major part of the Indian economy is still constituted by private enterprise. Equal emphasis on its growth and expansion alongside development of the public sector will yield greater and quicker results. It should be well realised that ultimately it is from the increasing volume of savings available from this sector that greater expansion can be possible even in the State sector. Let the public sector grow, but let not the private sector's progress be thwarted. From the stock market angle, these are all dominating developments and the type of treatment, which will be meted out to the private sector will make or mar the prospects of the investment market.

In Retrospect :

The year, which has come to a close, has, on the whole, proved profitable for the investor. It cannot be said that all industries have done uniformly well. On the contrary, cost of production has gone up almost in all industries due to higher raw material costs as well as productivity of labour remaining relatively low despite higher emoluments and other amenities provided. The main drive for the bullish trend in the market was provided by the most comfortable conditions in the money market and, as a result of very tight import control, funds were directed to some extent to the Stock Exchange. Practically, all the groups participated in the rise though Cotton Textiles remained somewhat laggards in the upward trend in view of the difficult conditions for the marginal units, though the Government reduced the incidence of excise duties thrice during the last thirteen months. Even then, domestic offtake in cloth remained generally low in view of high cost of living and especially dearer prices of foodgrains, while exports also received material setback in view of the growing international competition. However, in sympathy with other sections, mill shares did rise

to some extent. But later on, reports of heavy accumulation of stocks acted as a drag on the market. Later on, the gains were mostly erased as the general feeling was that the performance of the textile industry would not be better in any way for the year 1958 as compared to the preceding year, though hopes are held that 1959 may hold out better prospects for the trade and the industry.

During the start of the year, the market staged a moderate rally on the feeling that the worst was over. The Pedestrian Budget, presented by the Prime Minister, dispelled fears of additional taxation as the incidence of direct taxation was already too high. Hopes for any relief in the corporate taxation structure could not materialise. It may be that the change of the Finance portfolio, following the probe into the investments of the Life Insurance Corporation into Mundhra concerns, did not provide sufficient time for the new Finance Minister to go through the question of dividend tax as well as the bonus share tax which have, no doubt, proved somewhat irksome. Mr T. T. Krishnamachari resigned early in February and for a few weeks the Prime Minister took over the portfolio. The appointment of Morarji Desai as Finance Minister in the last week of March was hailed by the business community and it was taken for granted that the approach to the various economic problems of the country would henceforth be more realistic and practical. These hopes have been more than fulfilled and, despite the fact that there has been no reduction in the incidence of direct taxation so far, a psychological change for the better imperceptibly took place. An air of confidence was evident though the country's goal of socialistic pattern of society remained unchanged.

Tempo of economic activity during the year slowed down to some extent on account of the crisis on the foreign exchange front and the resultant limitations on imports of capital equipment. Outlook during the month of September changed for the better in view of the promises made by USA, UK, West Germany, Russia and Japan to grant loans to meet the foreign exchange gap for the remaining period of the Second Five-Year Plan. The Finance Minister's visit abroad and the holding of the annual sessions of the International Monetary Fund, World Bank and the International Finance Corporation in India created tremendous good-will among foreign countries to help India to fulfill her Plan programme. It is, however, difficult to realise as to how the various countries, which have promised aids, will react to the new economic policies which are being initiated by the Government. These policies have already started inducing misgivings in the country itself.

As indicated earlier, the main impetus for the market during the latter half of the year was furnished by the very comfortable conditions in the money market and the change in the idea of yield pattern. There was a veritable surfeit of funds with

the banks as a result of the tight control on imports and the augmentation of deposits under US Public Law 480. Banks found it difficult to employ the funds profitably as a trend though the rates have steadied up lately, because of the advance of the busy season. The Bank Rate in UK has been reduced to 4 per cent as against 7 per cent in September, 1957. Our Bank Rate remains unchanged at 4 per cent and there is no possibility of our Bank Rate going down despite bumper crop as inflation prices are still raising their head due to severe import cuts.

The Giltedged market, after ruling quiet for the first half of the year, staged a sharp rebound during the months of July and August, reflecting plethora of funds in the money market. The institutional investors remained active buyers. The Union and the State Governments were able to raise loans of the aggregate value of over Rs 200 crores. Invest-

ments in Government securities of the Scheduled Banks over the year show a rise of Rs 220 crores at Rs 650 crores. These include the Treasury Bills, which have been restarted four months back. The 3 per cent Conversion Loan 1986 Loan, which climbed to Rs 74.30 from Rs 71, reacted to Rs 73.20 and has been hovering around this level for the past two months, while prices of long-dated maturities have been marked up with the successive raising of the prices by the Reserve Bank.

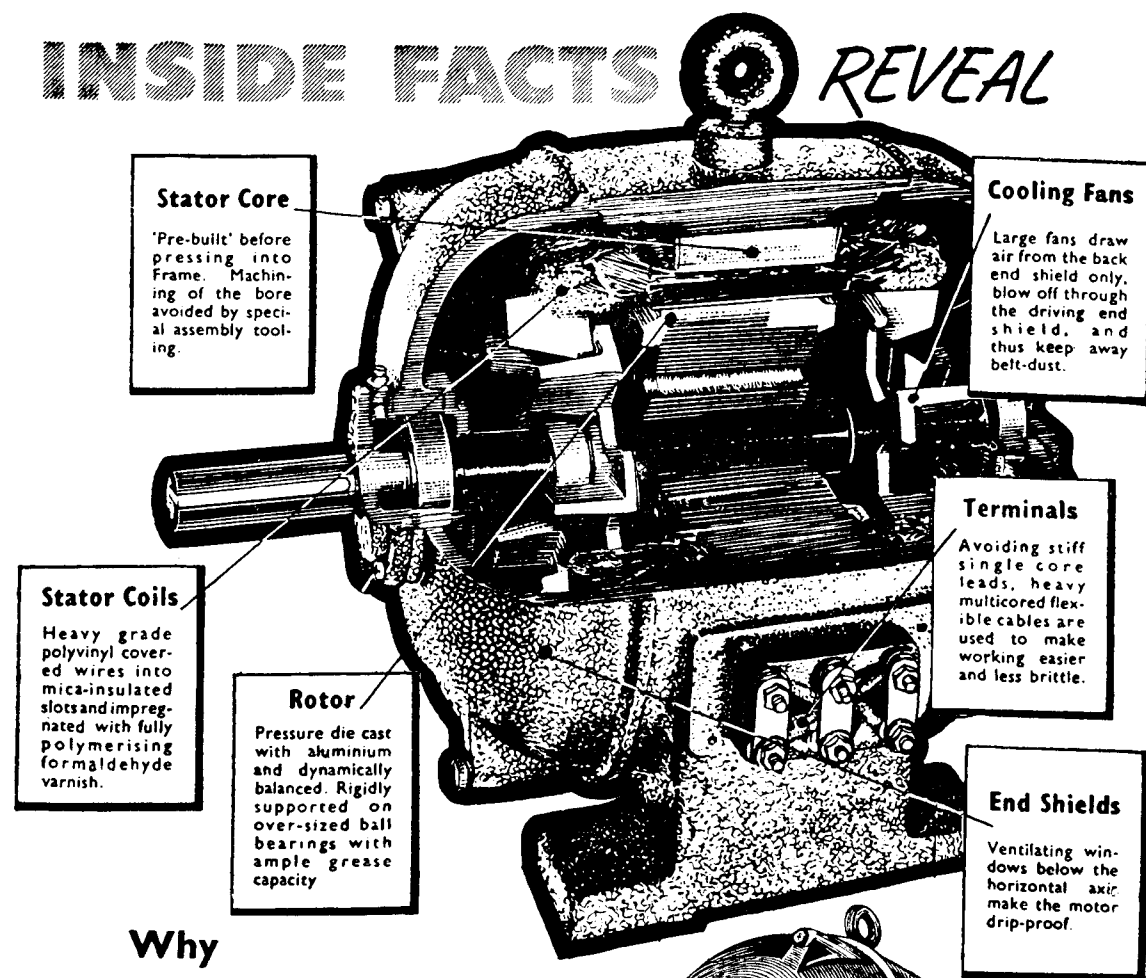
Bank shares were dull during the initial stages, but subsequently made steady headway. Appreciation in the value of the investment portfolio of Government securities had a healthy effect and most of the shares touched new high levels. It may, however, be pointed out that profits of the banks in general for the year 1958 will be smaller than those of the preceding year.

Insurance shares were also better off. New India issued one fully paid up share for every three shares.

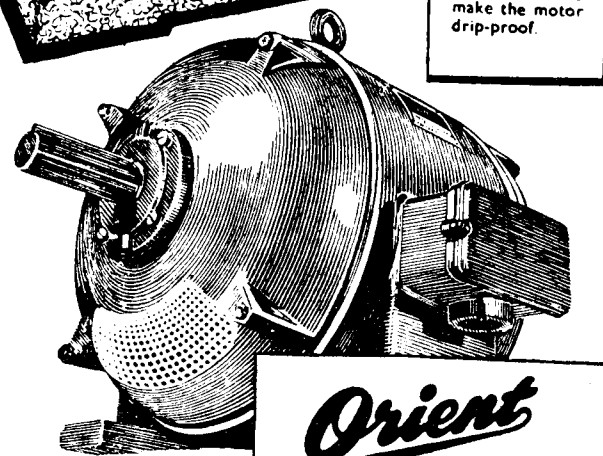
Electric shares met with investment demand in view of the higher permissible return of 6 per cent i.e. 2 per cent over the bank rate. L.I.C.'s support in this group induced a somewhat better feeling. Hopes are entertained that it might be possible for this group to declare higher dividends next year.

In the Transport section, Shipping shares remained in lime-light on encouraging corporate news. Scindia distributed one bonus share for every five shares and India Steam one share for ten shares by capitalising the Premium Accounts. Both these companies maintained their dividend at Re 1.25 and Re 1 respectively, while Great Eastern has raised the dividend to Re 1.80 from Re 1.50. Looking to the decline in freight rates, the working of the shipping

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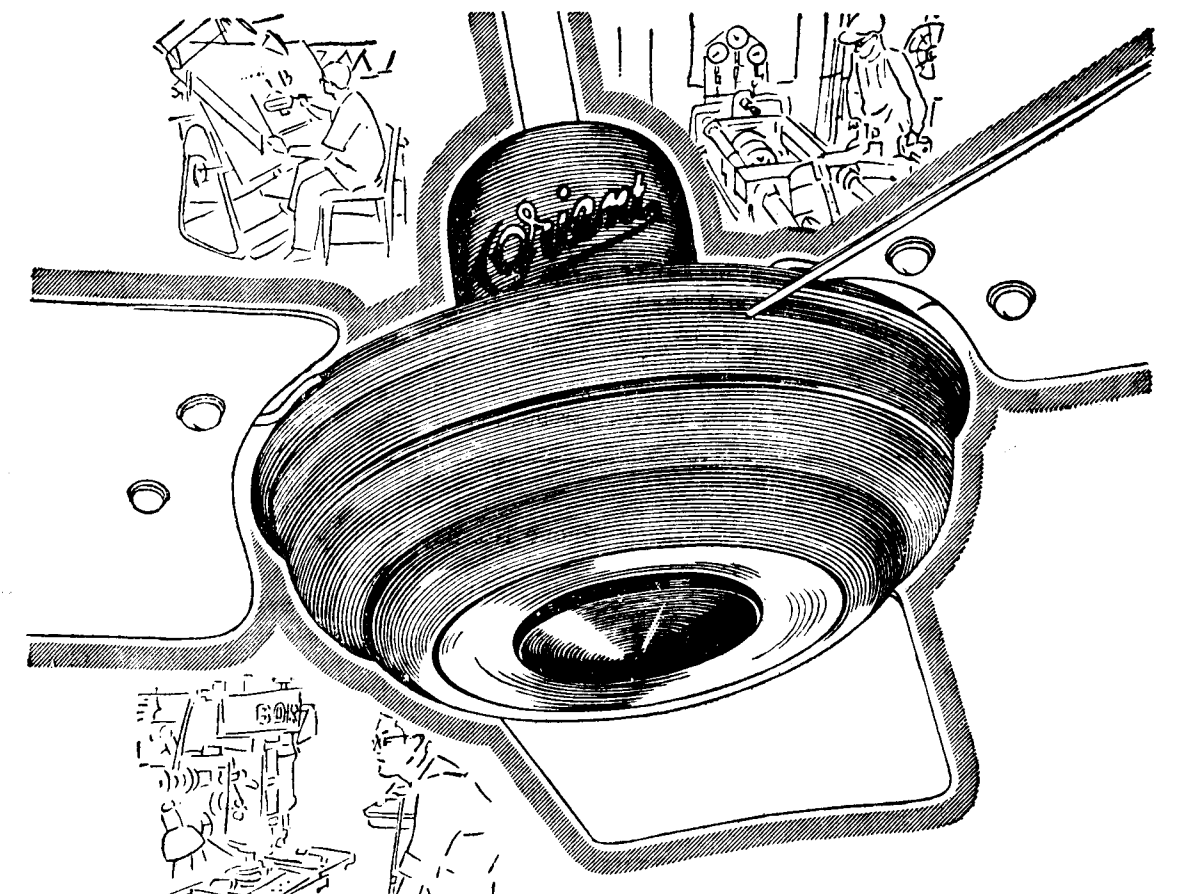


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companies for the year 1958-59 is likely to be somewhat unsatisfactory.

Chemical shares fared generally well. Tata Chemicals were boosted up on hopes of better results, but as the performance for the year 1957-58 fell below general expectations, the shares met with selling pressure. Alembic Chemicals were in good form. Dhrangdhara Chemicals failed to attract attention due to comparatively poor results for the past year. Amar-Dye and Indian Dye Stuffs are boosted up on cut in imports and hopes for better results. But, as these hopes were belied, the shares turned easy. Poly-Chem were better off, as it is expected that the company would be able to declare a maiden dividend next year.

Paper shares were in good demand. West Coast attracted buyers as operations have recently started. Sirpur Paper was better off. WIMCO also met with support as its paper plant at the Calcutta factory has started production.

Rayon shares, after early subdued tone, were in good demand. Subsequently they reacted on the Tariff Commission's recommendations for additional excise to mop up the extra profits. National Rayon gained about Rs 75 considering the right issue of one share at par for every two shares. Gwalior Rayon gained about Rs 4 on balance over the year. Among Vegetable Oils and products, Hindustan Lever gained strength as holders were not in a mood to liquidate their investment despite higher profit. Tata Oils were, on the whole, sluggish to look up early in the month

of December; but reacted in sympathy with the market.

Interest in sugar shares broadened due to hopes of higher earnings and better dividends. But, as the profit of most of the concerns in the Deccan area showed decline, the market met with selling pressure.

Steel shares remained favourites with the professionals as well as the investors in view of the inducements offered on account of expansion programme which, in the case of Tata Steel, has almost been completed. The pig iron production programme has been completed in the case of Indian Iron, but that of steel is likely to be fulfilled in 1959. Tata Steel has distributed one share as bonus for every five shares. Indian Iron, besides disbursing the dividend of Re 1 on the increased capital, has also gone in for issue of bonus shares in the proportion of one share for every five shares. The permission has been obtained and as the extraordinary general meeting of the shareholders has been convened for approval of the scheme on the 22nd February, the shares will be listed ex-right in Bombay thereafter. The announcement of higher retention steel prices in the second week of October with retrospective effect, no doubt, had a better effect. But, a large parcel of 189,000 shares of Indian Iron was released by the Dalhousie Company, and this had a very unsettling effect. During the year-end, both the shares receded further on the Congress move for cutting profits.

Cement shares were generally in doldrums on over-production as off-

take was slow. Speculative activity was also at a low ebb. ACC has cut its dividend to Rs 8.50 from Rs 9. The price-increase in the prices, granted to various units in the industry as from 1st July, failed to cheer up the market.

Engineering and Automobile shares were in good form. But, during the closing months of 1958, they reacted sharply. Tata Locomotive met with very good demand on higher dividend of Rs 9 and right issue of three shares for every five shares at par. Premier Automobiles were adversely affected on account of the prolonged strike. The shares looked up to react. Hindustan Motors after a steady rise receded. Contracts entered into by the Defence Ministry with a German concern for the manufacture of trucks and tractors also adversely affected sentiment. Guest Keen and Mahindra & Mahindra were in limelight. Joyti Ltd were introduced in the market and proved popular with the investors. Alcocks turned sharply lower during the year and Larsen & Toubro were better off with the right issue of one share for five shares. Premier Construction gained about Rs 70. Hind Cycles were adversely hit due to cut in the dividend to 7 per cent from 10 per cent.

Cotton Textiles gained some ground in sympathy with the buoyant condi-

tions elsewhere, but there was little inclination to follow the rise on account of the depressed conditions prevailing in the cloth market and accumulation of stocks. However, during the last two months of the year, most of the gains were erased on renewed selling pressure as a result of bearish sentiment. Century Mills increased the equity capital during the year by issue of one share at par to every eight shares and issued Preference shares capital of Rs 125 lakhs. Standard Mills issued one share as bonus for every four shares.

Bombay Burmah also moved up on bonus issue. But, after having been listed ex-right, the shares turned diffident due to expectation of sharp drop in profit for the year 1957-58. BB Petrol improved to react. Indian Copper were better on higher metal prices. Shivrajpur, which turned firm on issue of new capital in the ratio of one share at par for every two shares, turned lower.

The general tendency of the market during the year-end has remained diffident with about 50 per cent of the gains having been wiped off. As pointed out earlier, the outlook, on the whole, depends on the new economic policies which are being moulded and the investment climate.

We give below the price range of representative shares on the Bombay Stock Exchange for the year 1958:—

	Opening 2nd Jan. '58	High	Low	Close 20th Dec. '58
Textiles:				
Bombay Dyeing	50.10	63.60	49.60	55.50
Central India	74.00	111.00	74.00	87.00
Century	382.00	480.00*	379.50	416.25
Finlay	253.00	300.00	251.00	258.00
Indu Ord.	9.20	10.48	8.36	8.48
Kohinoor	260.50	294.00	230.00	233.00
Standard	390.00	480.00*	388.00	404.00
Svadeshi	166.50	210.00	164.75	204.25
Steels:				
India Iron	18.52	27.80	18.32	25.55*
Tata Steel Old	161.75	189.50*	159.75	172.50
Banks and Insurance:				
Baroda	106.00	126.00	105.00	124.00
Central	52.00	59.30	51.50	58.20
India	132.00	141.00	132.00	137.00
New India Insurance	48.25	55.25†	40.00†	52.30‡
Electrics:				
Ahmedabad	94.20	100.00	94.10	94.50‡
Tata Power	1155.00	1287.50	1125.00	1222.50
Shipping:				
Great Eastern	19.36	28.35	19.36	25.10‡
Scindia	17.12	22.96†	16.72	21.12‡
Automobiles:				
Hindustan	5.80	8.32	5.88	6.54
Premier	87.00	96.50	79.00	80.00
Tata Loco	138.00	208.00*	133.50	157.00†
Sugar:				
Belapur	252.50	324.00	231.25	296.00‡
Phaltan	148.50	186.50	139.00‡	159.00‡
W'nagar	287.50	296.25	266.25	270.00
Cement:				
ACC	150.50	167.00	140.00	149.75‡
Digvijoy	133.25	162.25	127.00	128.00
Miscellaneous:				
Alcock	222.50	295.00	212.50	242.50
Bombay Burmah	521.00	628.00*	473.00†	476.50†
N. Rayon	211.50	260.00†	211.25*	230.25†
Pr. Construction	154.75	260.75	154.00	232.50
Shivrajpur	83.00	121.00*	83.00*	86.00
Tata Chemical	12.76	18.25†	12.20	14.40
Tata Oil	35.25	44.00	34.50	42.25
WIMCO	161.25	203.50	161.25	183.50

*=cr. †=xr. ‡=xd. †=cd.

Statistical Supplement

Economic Indicators

				Year.	Jan.	Feb.	March.	April.	May.	June.	July.	August.	Sept.	October.	Nov.	Dec.
Employment Exchanges																
Registrations (Nos. 000)				1956	142	128	121	134	141	171	171	145	143	121	124	130
				1957	135	111	111	145	148	141	180	160	161	139	174	169
				1958	168	135	148	159	179	195	...	...	...	...	...	...
Placings (Nos. 000)				1956	15	15	16	17	18	19	16	15	15	14	17	14
				1957	15	13	13	16	17	17	19	18	17	14	18	16
				1958	17	17	17	20	21	19	...	...	...	...	...	...
Production Consumption Stocks, Etc.:																
Index of Industrial Production 1951=100				1956	123	134	129	135	151	...	153	133	146	132	142	136
				1957	140	143	138	148	156	168	162	140	145	135	150	142
				1958	145	145	138	138	...	...	...	...	...	...	...	...
Coal:																
Raisings '000 Tons				1956	3207	3358	3363	3224	3316	3195	3165	3307	3123	3164	3325	3738
				1957	3688	3577	3715	3786	3853	3353	3349	3430	3470	3610	3993	4107
				1958	4,010	3,771	3,758	3859	3940	...	...	...	...	...	...	...
Despatches '000 Tons				1956	2794	2697	2839	2866	2870	2878	3017	3172	2820	2931	3028	3084
				1957	3187	2896	3300	3235	3238	2962	3094	3291	3277	3380	3213	3221
				1958	3,379	3,112	3,405	3488	3426	...	...	...	...	...	...	...
Stocks at Pithead '000 Tons				1956	3586	3814	3811	3814	3833	3712	3379	3023	2881	2664	2566	2808
				1957	2844	3083	3052	3136	3303	3306	3124	2824	2801	2577	2904	3329
				1958	3,473	3,704	3,579	3477	3575	...	...	...	...	...	...	...
Stocks with Industry '000 Tons				1956	1796	1700	1675	1720	1589	1668	1708	1708	1862	1901	1850	1731
				1957	1664	1593	1671	1663	1680	1844	1902	2016	2223	2355	2444	2424
				1958	2,496	2,454	2,573	2583	2396	...	...	...	...	...	...	...
Electricity:																
Units Generated, million K.W.H.				1956	757	750	800	781	826	797	798	794	813	824	810	881
				1957	869	811	875	901	932	898	928	923	925	918	930	959
				1958	974	920	969	1004	1046	1014	...	...	...	...	...	...
Units sold million K.W.H.				1956	622	622	651	694	669	658	656	650	666	670	668	715
				1957	712	678	717	735	757	726	744	731	739	731	741	780
				1958	788	752	792	811	840	811	...	...	...	...	...	...
Units sold to Industry million K.W.H.				1956	406.9	415.4	433.9	428.4	435.3	430.1	439.5	438.3	448.9	451.1	452.5	479.5
				1957	480.4	451.5	478.5	492.5	499.5	475.5	499.4	486.6	496.4	486.4	499.2	519.0
				1958	530.4	500.4	528.6	542.0	560.3	529.4	...	...	...	...	...	...
Finished Steel:																
Production '000 Tons				1956	106	107	110	101	100	95	110	111	105	105	190.8	107.0
				1957	113.07	97.5	111.3	106.0	107.0	98.8	107.2	110.2	110.2	107.0	112.5	111.5
				1958	111.0	102.7	103.6	105.3	82.7	92.5	...	...	...	...	...	...
Consumption '000 Tons				1956	106	119	116	111	102	109	114	114	107	117	110	116
				1957	114	110	119	116	112	99	106	112	118	118	81	129
				1958	126	112	119	...	...	...	...	...	...	...	...	...
Stocks '000 Tons				1956	107	107	107	102	113	107	111	109	108	108	118	115
				1957	118	114	115	115	122	128	135	132	116	106	111	100
				1958	90	95	104	111	98	...	...	...	...	...	...	...
Pig Iron:																
Production '000 Tons				1956	163.3	152.5	158.8	146.7	142.4	133.7	149.5	147.0	147.5	156.6	149.5	161.0
				1957	159.4	145.4	158.2	145.7	145.1	133.7	142.0	144.7	146.9	154.5	153.4	160.2
				1958	162.6	159.8	160.8	168.4	128.7	154.9	...	...	...	...	...	...
Consumption '000 Tons				1956	168	156	166	150	148	137	156	157	153	154	148	158
				1957	161	144	159	149	149	132	133	140	145	157	151	159
				1958	162	153	161	...	...	...	...	...	...	...	...	...
Stocks '000 Tons				1956	61	60	51	50	47	45	40	30	26	31	35	40
				1957	40	44	44	40	38	40	41	42	45	44	45	48
				1958	51	60	63	67	72	70	...	...	...	...	...	...
Cement:																
Production '000 Tons				1956	401.1	394.3	430.5	395.0	418.0	414.8	395.5	397.6	399.5	410.8	408.6	459.2
				1957	459.0	427.7	491.6	456.4	448.4	393.1	425.1	449.6	...	...	...	...
				1958	594.8	495.3	578.5	539.5	533.0	499.1	...	...	...	...	...	...
Despatches '000 Tons				1956	398	404	443	396	421	401	386	395	417	429	405	463
				1957	460	441	495	464	453	382	440	458	447	518	536	593
				1958	613	488	597.0	550	549	472	...	...	...	...	...	...
Stocks with Producers '000 Tons				1956	108	104	98	98	101	104	117	115	104	93	107	110
				1957	116	109	114	113	115	132	124	123	125	126	108	111
				1958	103	118	108	107	100	132	...	...	...	...	...	...
Jute Manufactures ('000 Tons)				1956	89	93	99	94	102	99	94	90	85	80	84	85
				1957	88.8	80.2	84.7	86.8	87.3	80.1	85.9	81.9	86.0	63.5	91.9	92.8
				1958	88.3	85.3	85.3	88.0	94.9	82.4	89.8	...	...	...	...	...
Exports—Bags (In million)				1956	30	32	38	38	43	28	37	48	28	44	46	...
				1957	34	27	33	23	31	24	33	36	51	36	43	29
				1958	...	...	...	...	...	...	...	...	...	...	...	...
Export—Cloth (Yds. million)				1956	80	101	101	110	93	122	123	150	115	123	167	...
				1957	133	110	126	88	87	123	143	114	155	79	120	117
				1958	...	...	...	...	...	...	...	...	...	...	...	...
Stocks—Hessian and Sacking cloth and bags (mils) (In '000 tons)				1956	72	82	86	101	115	123	133	118	119	109	93	86
				1957	93	88	88	95	100	109	104	88	70	69	63	65
				1958	85	81	81	81	98	120	...	...	...	...	...	...

Economic Indicators—Contd.

	Year.	Jan.	Feb.	March.	April.	May.	June.	July.	August.	Sept.	October.	Nov.	Dec.
Cotton Yarn:													
Production (Million lbs.)	1956	133	134	133	133	129	132	143	137	143	145	133	151
	1957	156.4	143.0	150.0	154.0	150.0	137.0	150.0	144.0	150.9	142.4	149.1	153.0
	1958	148.7	132.9	138.5	134.0	139.0	126.0	...	...	...	...	...	...
Consumption by composite Mills (Million lbs.)	1956	93	95	93	93	99	100	106	100	105	101	97	109
	1957	110	99	103	106	103	96	105	99	103	97	100	102
	1958	100	89	92	92	96	89	...	...	...	...	...	...
Stocks (mills) (million lbs.)	1956	8	9	13	12	7	9	7	4	7	9	10	11
	1957	11	16	18	19	21	21	25	27	30	34	38	43
	1958	36	38	45	44	45	42	...	...	...	...	...	...
Industrial Disputes:													
Man Days Lost (000)	1956	350	779	678	566	554	476	536	498	984	823	432	423
	1957	395	262	288	406	447	713	724	557	842	534	349	519
	1958	371	448	819	530	560	1525	...	...	...	...	...	...
Civil Aviation:													
Passengers—Miles (10000)	1956	320	320	344	328	339	325	326	330	355	393	403	435
	1957	412	383	404	413	407	387	397	362	408	403	423	456
	1958	440	416	431	438	460	...	...	...	...	...	...	...
Freight—Miles (1000)	1956	1466	1496	1616	1325	1500	1378	1620	1474	1616	1492	1560	1610
	1957	1473	1436	1563	1466	1428	1348	1387	1488	1582	1430	1547	1553
	1958	1642	1460	1621	1355	1574	...	...	...	...	...	...	...
Railways Class I:													
Wagons loaded (in '000)	1956	729	710	756	703	674	635	636	664	626	656	691	764
	1957	785	728	812	774	738	680	686	686	683	712	731	788
	1958	812	743	821	766	739	680	...	...	...	...	...	...
Passenger Miles (millions)	1956	2891	3065	3733	3545	3984	3654	3353	3109	2920	3330	3205	3171
	1957	3379	3392	3702	3047	4111	3753	3477	3342	3302	3557	3387	3215
	1958	3322	3226	...	...	...	...	...	...	...	...	...	...
Freight Ton Miles	1956	2964	3094	3402	2730	2765	2935	3182	3127	2921	3054	3182	3267
	1957	3455	3300	3992	3416	3366	3519	3250	3496	3457	3667	3431	3681
	1958	3730	3447	...	...	...	...	...	...	...	...	...	...
Gross earnings (Rs. lakhs)	1956	2551	2803	3343	2753	2954	2854	2762	2662	2611	2777	2841	2901
	1957	2948	3141	3487	2804	3254	3130	2958	3152	2981	3128	3047	3202
	1958	3355	3051	3590	3017	3287	...	...	...	...	...	...	...
Foreign Trade:													
Total Merchandise Trade by Sea, Air and Land Imports (Rs. Lakhs)	1956	5894	6848	7652	6958	6773	6424	5939	6655	7695	7095	6997	6938
	1957	7800	7080	7941	8940	8538	8623	8113	8098	8329	7309	7818	6658
	1958	6605	6621	7056	5998	6329	6393	...	...	...	...	...	...
Exports including Re-exports (Rs. Lakhs)	1956	4692	5210	5972	4005	4538	4681	4220	4991	4962	5315	5592	5626
	1957	5527	5444	5396	4784	5283	4834	5579	6025	6165	5364	5902	5459
	1958	5477	4193	4673	4173	4470	2812	...	...	...	...	...	...
Balance	1956	-1202	-1638	-1671	-1953	-2235	-1743	-1719	-1664	-2733	-1780	-1405	-1304
	1957	-2273	-1636	-2645	-4156	-3255	-2645	-2534	-2073	-2174	-1943	-1916	-1199
	1958	-1128	-2428	-2383	-1825	-1859	-3881	...	...	...	...	...	...
Unit Value Index of Trade by Sea and Air:													
Imports 48-49=100	1956	85	86	89	88	89	90	87	89	89	89	92	93
	1957	93	93	96	97	101	103	95	100	100	104	98	92
	1958	91	91	96	91	...	...	...	...	...	...	...	...
Exports	1956	95	93	90	88	88	91	90	93	97	102	97	102
	1957	94	98	90	93	92	92	96	99	95	100	101	93
	1958	88	89	89	91	...	...	...	...	...	...	...	...
Quantum Index 48-49=100:													
Imports	1956	124	142	150	121	139	128	122	134	154	143	136	134
	1957	150	136	148	165	151	150	153	145	149	126	143	130
	1958	130	130	132	118	...	...	...	...	...	...	...	...
Exports	1956	102	114	132	93	106	105	96	112	108	108	120	114
	1957	123	116	125	107	120	110	121	127	135	110	122	122
	1958	127	97	109	95	...	...	...	...	...	...	...	...
MERCHANT SHIPPING:													
Foreign Trade:													
Tonnage entered (000 Tons)	1956	807	942	875	768	773	801	870	718	874	825	850	849
	1957	849	761	985	1038	931	975	924	1090	970	988	838	1010
	1958	1033	891	1048	...	...	...	...	...	...	...	...	...
Tonnage cleared (000 Tons)	1956	687	974	903	732	745	690	700	604	725	696	662	726
	1957	565	639	721	660	644	721	608	708	681	856	781	833
	1958	659	782	908	...	...	...	...	...	...	...	...	...
BANKING:													
Reserve Bank:													
Foreign Balances (Rs. Crores)	1956	734	735	746	726	712	682	659	632	615	582	537	530
	1957	511	519	527	505	455	453	420	379	353	327	309	298
	1958	283	280	267	268	242	218	197	...	...	...	...	...
Rupee Balances (Rs. Crores)	1956	72	83	129	86	66	70	83	68	90	82	66	65
	1957	65	65	97	59	60	60	56	53	59	64	62	67
	1958	85	72	103	69	79	73	99	...	...	...	...	...
Scheduled Banks:													
Demand Liabilities in India (Rs. Crores)	1956	648	631	636	646	645	637	639	654	637	646	650	653
	1957	663	686	703	720	719	712	723	697	690	738	700	702
	1958	719	714	731	758	729	731	737	...	...	...	...	...
Time Liabilities in India	1956	410	418	415	427	435	453	457	461	457	458	459	460
	1957	459	465	472	500	519	548	564	591	620	625	666	666
	1958	685	709	721	754	777	771	799	...	...	...	...	...
Advance and bills including inland and foreign bills purchased and discounted in India	1956	677	697	761	757	769	757	740	735	754	760	766	789
	1957	836	858	890	909	933	918	886	853	839	867	840	857
	1958	908	931	963	956	923	903	886	...	...	...	...	...
Cheque clearance (Rs. Crores)	1956	608	752	765	741	711	680	670	646	711	700	725	764
	1957	841	733	834	794	770	680	749	660	650	590	819	775
	1958	832	765	873	791	790	661	826	...	...	...	...	...

Economic Indicators—Contd.

			Year.	Jan.	Feb.	March.	April.	May.	June.	July.	August.	Sept.	October.	Nov.	Dec.
Currency:															
Notes in Circulation (Rs. Crores)	...	...	1956	1379	1403	1467	1505	1506	1475	1444	1425	1409	1419	1439	1466
			1957	1486	1506	1526	1562	1570	1542	1499	1471	1471	1466	1478	1506
			1958	1531	1545	1579	1619	1568	1577	1542	...	...	...	...	...
Joint Stock Companies Incorporated and Registered:															
Number of Companies	..	..	1956	97	123	235	42	61	64	70	84	84	96	66	70
			1957	76	68	67	100	76	77	66	73	65	78	65	98
			1958	81	70	112	91	...	...	...	...	...	...	...	...
Paid-up Capital (Rs. Lakhs)	...	...	1956	1.5	2.1	...	0.1	1.3	1.0	1.7	1.8	5.7	11.9	3.7	34.8
			1957	1.2	2.7	2.7	0.9	2.1	1.3	252.5	0.4	2.3	4.2	1.6	2.2
			1958	6.1	1.7	1.5	...	...	...	...	...	...	...	...	...
Ceased to work number of Companies No.	...	...	1956	83	80	157	43	53	77	94	118	12	54	51	95
			1957	171	68	102	295	98	99	124	104	210	141	260	165
			1958	159	90	90	142	...	...	...	...	...	...	...	...
Paid-up Capital	..	..	1956	73.8	104.1	242.0	54.5	46.7	41.7	104.2	25.9	9.4	36.5	54.5	122.7
			1957	89.6	39.1	57.6	93.4	13.2	53.0	110.7	167.8	50.8	72.3	143.8	106.4
			1958	60	30.8	23.1	82.4	...	...	...	...	...	...	...	...
FINANCE:															
Central Government:															
Receipts (Lakhs of Rs.)	...	..	1956	4532	3890	6746	2801	3365	4711	3326	6067	6077	1300	3506	7058
			1957	5426	3918	8349	3874	4242	5326	4671	4224	6486	4949	8264	6800
			1958	5072	5698	8312	4284	4599	...	...	...	...	...	...	...
Expenditure (Lakhs of Rs.)	..	...	1956	4266	4682	8422	3204	2657	3326	3037	5396	2752	4147	3176	5551
			1957	7132	6379	12314	5243	4030	5529	5825	5494	5720	5772	6875	4888
			1958	10967	6971	16430	4274	3899	...	...	...	...	...	...	...
Public Debt:															
Debt Incurred	...	...	1956	15300	27723	16999	20421	27788	16137	20574	24239	13581	48363	26676	12644
			1957	31412	39852	226396	27925	41296	24957	36682	33638	24752	42162	38994	26830
			1958	77216	14864	39942	5090	36339	...	...	...	...	...	...	...
Debt Discharged (Lakhs of Rs.)	..	...	1956	11857	26962	7834	15461	28154	15940	24429	26297	13683	20597	25253	13007
			1957	27427	26741	13002	26380	35017	22283	33528	39760	22682	37045	33410	24987
			1958	68237	12387	25405	52799	42417	...	...	...	...	...	...	...
Yield from Customs and Central Excise Duties:															
Customs (Lakhs of Rs.)	..	...	1956	1507	1423	1740	1167	1352	1322	1179	1342	1512	1404	1453	1641
			1957	1672	1413	1749	1525	1470	1364	1593	1658	1517	1695	1688	1353
			1958	1304	1325	1456	1104	1133	...	...	...	...	...	...	...
Central Excise (Lakhs of Rs.)	...	..	1956	1231	1374	1287	1180	1347	1521	1371	1435	1523	1550	1321	1941
			1957	2019	1387	2128	1655	2050	2000	2071	2195	2198	2149	2162	2294
			1958	2967	2245	3261	2428	2684	...	...	...	...	...	...	...
SMALL SAVINGS:															
National Savings Certificates: Receipts (Lakhs of Rs.)	...	...	1956	216	249	315	243	270	298	321	282	282	254	243	268
			1957	297	252	436	242	225	48	—27	—9	—2	...	—2	...
			1958	...	...	2	...	...	...	...	...	...	...	...	...
Outstandings (Rs. crore)	...	...	1956	150	151	154	155	157	158	161	162	164	165	166	167
			1957	169	170	173	174	174	173	170	169	166	164	161	159
			1958	156	153	150	148	146	144	...	...	...	...	...	...
Savings Bank Deposits: Receipts (Rs. Crores)	...	...	1956	12.2	12.9	23.6	14.5	14.8	15.2	14.6	14.1	13.2	13.0	12.7	14.7
			1957	13.4	12.9	23.5	14.7	14.6	14.6	15.0	12.6	14.0	12.5	13.3	13.0
			1958	13.9	14.2	27.4	15.3	15.2	14.5	...	...	...	...	...	...
Outstandings (Rs. crores)	...	..	1956	154	156	168	171	173	176	180	183	185	186	187	186
			1957	188	189	197	199	198	198	201	202	203	203	203	203
			1958	203	203	214	213	215	213	...	...	...	...	...	...
Postal Traffic:															
Postal Orders sold (No. in '000)	...	...	1956	270	251	234	209	230	292	350	205	255	294	236	304
			1957	221	218	275	215	189	217	195	260	191	236	146	244
			1958	161	171	191	172	202	242	...	...	...	...	...	...
Value (Rs. lakhs)	...	...	1956	16	14	13	12	12	16	19	14	19	17	12	18
			1957	12	13	16	13	10	14	11	12	10	16	8	15
			1958	9	10	10	10	10	12	...	...	...	...	...	...
SPOT PRICES OF GOLD AND SILVER:															
Gold—Bombay (Per tola Rs.)	..	...	1956	95- 9- 0	97-13- 4	103- 8- 1	105-7-4	104-3-4	102-8-6	101-3-1	103-11-6	103-2-8	103-11-6	105-3-10	104-15-0
			1957	106.39	108.14	105.53	105.56	108.37	106.26	106.64	107.97	107.61	107.22	108.52	108.47
			1958	110.04	112.86	112.10	113.05	111.82	108.75	106.18	...	...	...	...	...
Silver—Bombay (Per 100 tolas Rs.)	...	...	1956	176- 1- 9	174-10- 9	178-10- 9	180-6-9	177-3-11	170-8-1	174-1-11	172-0-7	172-2-6	172-8-6	173-12-2	173-11-9
			1957	180.53	184.48	177.72	180.45	185.37	182.39	180.47	181.97	183.42	182.49	182.90	184.58
			1958	187.67	190.38	194.00	198.40	190.88	183.57	180.81	...	...	...	...	...
SECURITY INDEX:															
49-50=100:															
Govt and Semi-Govt.	...	..	1956	91.1	91.3	90.9	90.9	91.1	91.2	91.2	90.9	90.7	90.4	90.1	89.7
			1957	89.7	89.8	90.0	90.0	89.9	89.5	89.2	89.0	89.0	89.0	89.1	89.1
			1958	98.4	98.4	98.6	98.8	98.9	99.1	99.1	...	...	...	...	...
Preference Shares	..	...	1956	87.3	86.7	85.8	85.6	85.1	85.2	85.3	85.2	83.8	81.7	81.9	80.7
			1957	80.4	79.8	79.8	78.6	78.4	77.6	76.7	75.6	74.0	73.6	73.3	72.6
			1958	...	...	...	...	...	...	...	...	...	...	...	...
Variable Industrial	..	...	1956	125.7	121.0	122.4	123.1	123.8	125.1	125.1	127.4	126.9	124.9	122.9	117.4
			1957	113.7	113.6	111.1	106.9	104.5	102.6	105.5	103.1	99.3	97.4	98.7	97.2
			1958	...	...	...	...	...	...	...	...	...	...	...	...
PRICES COMMODITY WHOLESALE:															
Food Articles 52-53=100	...	...	1956	89	89	93	96	97	99	101	108	104	104	107	105
			1957	108	104	102	104	107	109	111	112	109	107	108	104
			1958	103	101	102	105	107	113	118	118	118	118	118	118

(Amount in lakhs of Rupees)

		ISSUE DEPARTMENT.				DEPOSITS.										BANKING DEPARTMENT.										(Amount in lakhs of Rupees)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
		Notes held in Banking		Total notes issued		Gold coin & Bullion		Foreign		Rupee		Coin		Rupee		Securities		Average of Fridays.		Central Governments.		Other Governments.		Hanks.		Others.		Total.		Other Liabilities.		Total Liabilities.		Notes and coin.		Balances held abroad		Loans and Advances to Govt.		Other Loans and Advances.		Bills purchased and discounted.		Investments.		Other Assets.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
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22	1223	1224	1225	1226	1227	1228	1229	1230	1231	1232	1233	1234	1235	1236	1237	1238	1239	1240	1241	1242	1243	1244	1245	1246	1247	1248	1249	1250	1251	1252	1253	1254	1255	1256	1257	1258	1259	1260	1261	1262	1263	1264	1265	1266	1267	1268	1269	1270	1271	1272	1273	1274	1275	1276	1277	1278	1279	1280	1281	1282	1283	1284	1285	1286	1287	1288	1289	1290	1291	1292	1293	1294	1295	1296	1297	1298	1299	1300	1301	1302	1303	1304	1305	1306	1307	1308	1309	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319	1320	1321	1322	1323	1324	1325	1326	1327	1328	1329	1330	1331	1332	1333	1334	1335	1336	1337	1338	1339	1340	1341	1342	1343	1344	1345	1346	1347	1348	1349	1350	1351	1352	1353	1354	1355	1356	1357	1358	1359	1360	1361	1362	1363	1364	1365	1366	1367	1368	1369	1370	1371	1372	1373	1374	1375	1376	1377	1378	1379	1380	1381	1382	1383	1384	1385	1386	1387	1388	1389	1390	1391	1392	1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403	1404	1405	1406	1407	1408	1409	1410	1411	1412	1413	1414	1415	1416	1417	1418	1419	1420	1421	1422	1423	1424	1425	1426	1427	1428	1429	1430	1431	1432	1433	1434	1435	1436	1437	1438	1439	1440	1441	1442	1443	1444	1445	1446	1447	1448	1449	1450	1451	1452	1453	1454	1455	1456	1457	1458	1459	1460	1461	1462	14

Scheduled Banks—Business in India

Average of Fridays.		Number of Reporting Banks		LIABILITIES.										(Amount in Lakhs of Rupees).		ASSETS.									
		Demand.		Total.		Time.		Others.		Net Liabilities (4+7)		Borrowings from Reserve Bank of India.		Balances 12-13		Money at Call and Short Notice.		Investments in Govt. Securities.		Bills purchased and Discounted.		19-20-21-22.			
		Total.		Total.		Inter. Bank-1		Total.		Total.		Total.		with as per. with other Reserve Bank.		Current Account.		Percent- age of 17 as in Govt. Securities.		Inland.		Foreign.			
		Total.		Total.		Inter. Bank-1		Total.		Total.		Total.		with as per. with other Reserve Bank.		Current Account.		Percent- age of 17 as in Govt. Securities.		Inland.		Foreign.			
1954-55	..	85	55962	988	54974	32186	216	34968	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
1955-56	..	85	60864	920	59944	40795	386	45120	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
1956-57	..	89	68385	966	64389	43392	270	45120	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
1957-58	..	91	72317	1531	70785	61916	1033	60983	13668	10654	10654	10654	10654	10654	10654	10654	10654	10654	10654	10654	10654	10654	10654		
1957	..	89	65971	611	65360	45906	236	45670	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
January	..	89	68387	682	67619	46495	219	46376	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
February	..	89	68037	911	69606	46596	192	46304	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
March	..	89	72328	852	71976	49175	230	48945	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
April	..	89	72370	1148	71223	51638	313	51325	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
May	..	89	71522	1061	70461	54721	373	54129	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
June	..	89	72487	1586	70901	56281	429	55852	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
July	..	89	71259	1532	69587	50259	537	50722	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
August	..	89	71473	1948	69526	61540	840	60700	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
September	..	90	73102	2394	70914	62909	1184	62125	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
October	..	90	73122	1785	71397	66253	1527	64725	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
November	..	91	71694	1793	69901	68219	2075	66143	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
December	..	91	71904	1692	70273	69496	1752	67694	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
January	..	92	72087	1328	70759	72718	1558	70727	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
February	..	92	73873	1325	72549	72758	1553	72102	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
March	..	92	73873	1325	72549	72758	1553	72102	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21		
April	..	92	74237	1730	75506	75890	1614	74389	149895	2494	1958	864	4989	8406	834	1332	3304	44243	3952	80234	11849	4101	403		
May	..	92	74676	1781	72895	79033	1614	77419	150313	2173	1931	636	3393	8362	818	1303	3338	45483	32493	78210	11081	4101	403		
June	..	92	74839	2466	72433	80117	3004	77114	149547	1510	1415	467	4021	8437	833	1276	3966	41413	32493	78210	11081	4101	403		
July	..	92	75822	3013	72509	81946	3634	78311	150821	1251	1089	456	3850	9274	877	1243	3966	41413	32493	78210	11081	4101	403		
August	..	91	74943	3110	71833	85249	3808	81442	150275	318	382	370	3820	9747	886	1248	3966	41413	32493	78210	11081	4101	403		
September	..	91	75348	2618	72740	84712	3683	81090	155765	387	269	403	3918	9248	856	1264	3966	41413	32493	78210	11081	4101	403		

1. Including borrowing from State Bank upto April 10, 1952

2. At book value including Treasury Bills and Treasury Deposits

'INDIAN FINANCE' Annual & Year-Book 1958

Index Number of Security Price—All India

Govt. and Semi-Govt.							1949-50=100.			Preference Shares.		Preference Shares.		Plantation
Average of Weeks.	Total.	Govt. of India.	Indian States.	Municipal Port Trust etc.	Total.	Electricity.	Cotton.	Jute.	Coal.	Iron.	Sugar.	Paper.		
1955-56	...	90.9	90.8	96.4	83.4	87.3	95.8	79.5	86.2	91.8	89.6	84.8	97.4	81.1
1956-57	...	90.5	90.2	96.7	90.6	82.9	90.0	82.0	78.0	84.2	85.5	82.9	91.0	81.1
1957-58	...	89.4	89.1	96.6	90.0	70.4	84.7	67.7	58.5	72.2	78.3	69.5	74.2	81.1
Nov. "	...	90.1	89.8	96.7	91.0	81.9	88.6	82.8	75.6	82.1	84.2	82.7	80.7	100.0
Dec. "	...	89.7	89.5	96.7	90.9	80.7	87.4	80.9	75.7	83.0	83.1	82.3	79.7	100.0
Jany. 1957	...	89.7	89.4	96.6	90.8	80.4	87.5	80.1	75.5	83.0	83.9	81.6	79.7	99.9
Feb. "	...	89.8	89.6	96.6	90.7	79.8	88.4	80.5	74.7	82.6	81.7	81.3	79.7	99.9
March "	...	90.0	89.7	96.5	90.5	79.8	88.0	79.4	73.8	82.1	82.6	80.2	79.6	99.9
April "	...	90.0	89.7	96.4	90.4	78.6	87.0	78.3	71.7	81.8	80.9	79.1	78.9	99.9
May "	...	89.9	89.6	96.4	90.4	78.4	86.6	78.3	70.8	81.8	82.3	77.8	78.3	99.9
June "	...	89.5	89.2	96.4	90.4	77.6	86.7	77.8	70.1	81.3	83.0	77.1	78.6	99.9
July "	...	89.2	88.9	96.3	90.3	76.7	87.0	76.8	68.6	81.0	82.3	76.3	77.9	99.9
August "	...	89.0	88.7	96.3	90.3	75.6	85.8	75.3	65.8	81.0	81.3	75.6	77.9	99.9
Sept. "	...	89.0	88.7	96.4	90.3	74.0	84.0	72.2	64.2	77.2	79.2	72.5	80.6	99.9
October "	...	89.0	88.7	96.4	90.3	73.6	83.7	71.4	63.9	76.0	78.4	71.9	80.4	99.9
Nov. "	...	89.1	88.8	96.3	90.1	72.7	83.6	70.1	63.1	74.9	76.8	71.0	80.0	81.1
Dec. "	...	89.1	88.8	96.4	90.1	72.0	83.8	68.5	62.2	75.5	76.6	70.1	80.0	81.1
Jany. 1958	...	89.4	89.1	100.1	98.9	85.9	84.7	83.7	72.2	74.8	87.2	90.1	84.6	100.0
Feb. "	...	89.2	88.2	100.2	98.9	86.1	85.6	83.8	71.2	75.1	88.0	90.9	84.1	100.0
March "	...	89.4	89.4	100.3	99.9	85.4	85.0	80.0	68.4	74.5	89.3	90.4	83.7	99.9
April "	...	89.6	89.6	100.5	99.5	85.5	85.8	80.2	68.0	74.6	89.6	90.5	83.8	99.9
May "	...	89.7	89.7	100.6	99.8	85.4	86.6	78.4	68.1	73.8	88.4	90.1	84.5	99.9
June "	...	89.9	89.9	100.6	99.8	85.6	86.7	79.4	70.1	75.5	88.9	89.8	84.7	99.9
July "	...	90.3	99.1	100.6	99.8	86.4	87.4	80.2	72.7	74.9	90.5	88.2	83.8	99.9
Aug. "	...	100.0	99.9	101.2	99.8	87.3	88.1	80.0	72.6	75.6	91.8	89.7	83.7	99.9

From January 1958 Base shifted to 1952-53=100.

Variable Dividend Industrial Securities

Average of Weeks.		1934-35																	
		1 Total.	2 Banks.	3 Insurance.	4 Investment Trusts.	5 Electricity Tramways.	6 Shipping and other Transport.	7 Railways.	8 Plantations.	9 Cotton, Woollen and Silk Mills.	10 Jute Mills.	11 Coal.	12 Mining and Oil.	13 Iron and Steel.	14 General Engineering.	15 Sugar and Breweries.	16 Chemicals.	17 Paper.	18 Cement.
1954-55	...	89.3	86.5	107.6	90.3	123.4	107.6	38.2	155.7	107.3	93.4	81.9	105.5	139.6	156.0	100.8	131.7	211.4	140.8
1955-56	...	90.3	88.2	103.1	93.4	122.5	106.4	39.2	184.6	117.6	95.3	81.3	235.0	154.1	188.9	104.7	144.1	256.7	164.4
1957-58	...	97.8	100.7	90.8	65.3	101.4	120.5	68.4	120.2	96.0	49.0	65.3	156.3	129.1	150.9	99.2	130.7	190.8	137.1
Nov. 57	...	94.4	95.3	88.3	95.2	111.8	119.2	81.1	166.0	136.4	71.4	79.3	232.2	150.4	192.0	108.0	148.0	260.1	181.3
Dec. "	...	93.0	94.1	87.3	90.1	111.0	115.8	81.6	162.4	131.7	64.4	76.8	208.3	137.2	180.3	105.0	139.1	252.1	172.5
Jany. 1957	...	93.1	94.9	85.5	83.2	109.4	114.2	81.3	156.2	127.7	59.2	74.4	198.9	129.5	175.5	100.7	137.3	248.4	169.4
Feb. "	...	94.2	96.4	84.7	81.2	110.0	116.6	79.8	155.5	126.1	61.7	74.9	196.4	130.2	173.0	99.9	137.4	252.6	159.9
March "	...	92.7	94.9	82.9	79.1	109.3	120.5	78.1	157.0	123.6	59.5	72.4	185.3	123.4	166.6	99.7	134.1	239.9	154.8
April "	...	90.2	92.2	82.4	76.0	107.0	116.1	76.9	150.7	118.6	55.2	69.8	179.6	120.6	161.7	96.3	133.5	230.4	147.7
May "	...	89.8	91.7	83.2	75.2	106.6	112.0	76.6	139.7	115.3	54.7	69.5	177.0	117.2	150.9	93.4	134.8	227.2	145.0
June "	...	90.9	92.7	84.5	74.3	105.5	112.8	72.5	134.8	110.3	52.8	69.7	173.9	117.4	155.5	92.3	136.7	224.5	144.0
July "	...	92.6	94.8	84.8	74.8	105.1	121.3	69.9	140.0	112.7	53.7	69.6	178.9	126.3	160.3	96.1	140.4	227.6	149.3
August "	...	93.2	95.3	86.4	74.1	102.5	116.4	69.8	137.1	111.2	51.9	66.2	172.9	119.0	156.1	95.0	134.7	224.5	146.3
Sept. "	...	92.9	94.9	86.1	73.8	101.5	114.6	68.6	128.0	106.0	52.8	65.5	157.9	113.8	148.9	92.8	138.8	198.3	139.7
October "	...	93.2	94.6	82.8	73.8	101.0	113.3	67.9	124.0	102.1	51.9	65.2	153.7	111.8	146.9	92.1	128.0	199.8	137.7
Nov. "	...	93.3	95.9	83.5	73.7	101.8	119.4	67.3	126.2	99.0	54.7	68.4	152.3	118.5	147.7	97.5	126.5	208.7	137.1
Dec. "	...	95.0	98.0	83.4	73.6	101.1	119.1	65.6	119.5	95.5	50.6	65.2	144.7	113.9	141.3	97.0	126.3	209.0	135.2
Jany. 1958	...	160.3	182.9	108.2	82.1	87.4	122.9	...	138.0	114.9	59.8	88.0	117.1	116.7	...	154.5	103.5	152.3	122.5
Feb. "	...	158.6	179.2	113.6	82.5	88.4	122.2	...	135.5	112.2	59.4	91.8	117.1	116.7	...	157.9	104.7	157.8	124.1
March "	...	163.4	183.5	122.7	81.4	88.4	122.9	...	142.6	116.2	60.0	92.6	122.8	126.4	...	156.5	108.4	159.8	124.7
April "	...	163.6	183.8	123.6	79.7	90.5	122.7	...	142.9	114.3	62.9	97.7	127.0	129.0	...	154.9	107.5	157.5	122.5
May "	...	163.3	182.8	127.4	76.5	90.0	121.6	...	142.1	111.0	66.9	98.3	124.8	126.3	...	161.9	120.0	181.5	133.1
June "	...	170.7	193.1	127.4	75.5	90.6	129.4	...	146.4	115.9	68.8	100.7	132.9	132.4	...	164.1	125.8	182.8	139.4
July "	...	171.1	193.2	128.0	78.1	91.6	133.8	...	154.9	119.7	76.4	102.8	142.9	139.2	...	170.1	127.1	200.4	145.1
Aug. "	...	178.1	200.8	129.3	92.4	95.1	144.2	...	156.6	120.0	77.6	113.0	147.4	150.7	...				

Index Number of Wholesale Price (Certain Important Items)

		1952-53 = 100.																		
		CEREALS.					FOOD ARTICLES					INDUSTRIAL RAW MATERIALS.					MANUFACTURES.			
												Fibres		Oilseeds		Coal.	Jute.	Cotton.	Iron and Steel.	Agricultural Commodities.
		Rice.	Wheat.	Jowar.	Bajra.	Gram.	Tea.	Coffee.	Sugar.	Gur.	Cotton Raw.	Jute Raw.	Ground-nuts.	Linseed.						
January	1957	...	93	94	119	132	78	198	189	94	97	111	142	111	174	121	102	117	132	
February	"	...	98	97	119	132	79	178	188	95	97	113	135	109	157	121	98	116	132	
March	"	...	97	95	119	130	80	160	165	95	93	113	133	112	152	121	94	115	132	
April	"	...	101	93	124	134	75	165	162	95	96	111	132	113	155	121	95	116	132	
May	"	...	106	90	126	137	71	153	168	100	103	112	142	116	166	121	98	116	137	
June	"	...	107	89	128	138	71	172	166	112	109	112	146	116	169	121	100	116	143	
July	"	...	108	89	128	142	72	194	177	112	109	111	140	117	175	128	99	117	143	
August	"	...	111	89	122	138	71	174	179	112	109	112	134	112	175	130	97	117	143	
September	"	...	108	87	112	125	68	156	177	112	111	110	133	105	170	130	99	117	143	
October	"	...	107	88	113	121	67	156	174	110	112	97	132	105	172	130	100	117	143	
November	"	...	107	87	115	121	67	167	173	109	111	101	132	104	172	130	97	115	143	
December	"	...	102	86	109	117	65	157	163	109	110	105	129	102	157	130	93	115	143	
January	1958	...	101	86	103	114	64	162	145	117	106	105	130	101	134	130	90	116	143	
February	"	...	99	84	92	109	61	156	136	117	104	104	123	102	126	130	88	116	143	
March	"	...	100	84	94	110	63	152	144	118	108	103	120	103	139	130	86	116	145	
April	"	...	103	85	94	111	65	158	153	118	111	102	126	107	148	130	88	114	145	
May	"	...	106	86	92	111	64	158	146	120	115	100	125	110	144	132	88	114	145	
June	"	...	111	93	100	123	74	171	150	125	128	100	123	114	154	135	86	113	145	
July	"	...	115	97	106	127	83	192	155	125	138	100	124	120	161	135	88	110	145	
August	"	...	118	101	109	128	90	176	157	127	145	99	125	125	161	135	90	111	145	
September	"	...	118	105	108	131	95	177	157	121	144	99	118	132	161	135	87	112	145	

Clearing House Returns

	Bombay		Calcutta.		Delhi†	Kanpur.		Madras.		Bangalore.		Ahmeda- bad.		Amritsar.		Colm- batore.		Hydera- bad.	Kozh- kode.	Lucknow.	(Number in Thousands, Amount in Lakhs of Rupees.)		New Delhi.*	Poona.	Rajkot.	Total.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													
	1	2	3	4		5	6	7	8	9	10	11	12	13	14	15	16				17	18					19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991

*From February, 1957, this column, includes figures for Nagpur also.
†From April 1956 figures in column 8 refer to New Delhi, and figures in column 16 relate to Delhi.

Spotlight on Orient General Industries

Mass Production Technique

AN Engineering Industry which is not a processing industry like a Textile Mill or an Oil Mill, is a complicated structure involving a serious problem of engineering economics. It is to be accurately assessed where the economy lies; whether it is in the purchase, the prices or quantities of raw materials or whether it is in the standard machinery or whether it lies in the technical skill and scientific development. In fact, it lies a little bit in all these factors but it varies with each product and with each industry. Since a fan, which happens to be a "necessity" commodity for a very large number of people, is essentially an item for mass production, a very large portion of economy lies in the fundamental design and the process of its manufacture.

Under the circumstances, in the year 1956, Orient's skilled Engineers started working on some very ingenious designs of fan which satisfy the following four basic requirements of a modern product:

- Attractive appearance.
- Standard quality.

(c) Low cost.

(d) Suitability for mass production technique.

After having the final design on the drawing board and after thoroughly investigating the raw material economics, these Engineers set forth to design and lay out an entirely modern plant for producing it. Continuous, flow-line, conveyerised units have been designed and fabricated in Orient's Factory within an extremely short period to keep pace with the growing demands of the country. Starting from the first machining operation right up to packing the finished product and carrying it to the finished goods store, it is all one continuous conveyerised flow based on "A fan a minute" slogan. Modern methods of production like pressure die casting, centreless grinding, fine boring and stove enamelling, etc., adopted. A large number of special purpose machines have been designed and fabricated in their well equipped tool room in order to get a high output. Every operation has been time studied and well balanced to

maintain a continuous and a steady flow of production.

This Institution has made a remarkable progress within a surprisingly short period. (See charts).

The above table would indicate that while country's production has just more than doubled in the last four years, Orient's share of country's total production has gone up five times reaching a third of country's production today.

The above table clearly indicates how production technique has brought about four times higher output per unit of labour.

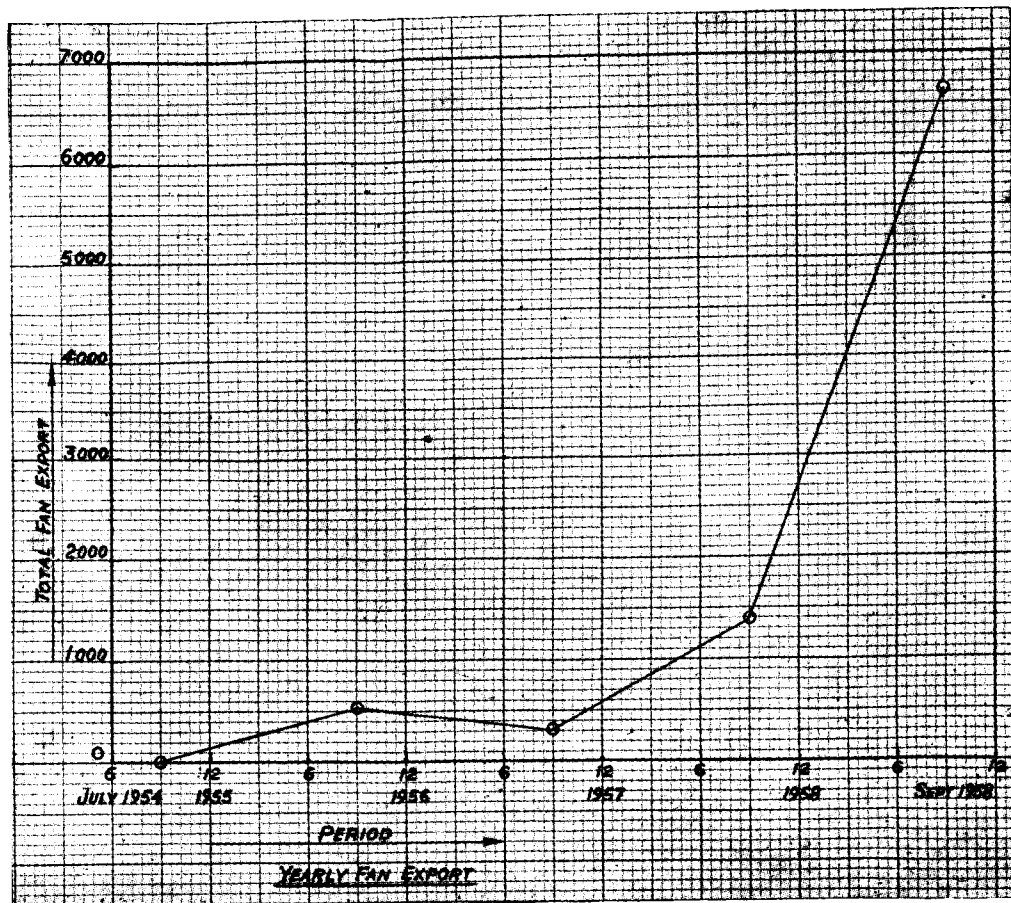
While technical advancement was being achieved on one side, commercial planning was being organised simultaneously to market the product effectively and to enhance its goodwill with the consumers. A very elaborate set up was made and excellent results have been achieved. (See graphs).

Today, our country needs Foreign Exchange both by way of

saving and by way of earning. While on one side Orient's Engineers have designed their product utilising a very large percentage of indigenously manufactured material, their commercial departments on the other side have been feverishly busy with organising export promotion to earn foreign exchange. The following data will indicate the progress made in the last four years:—

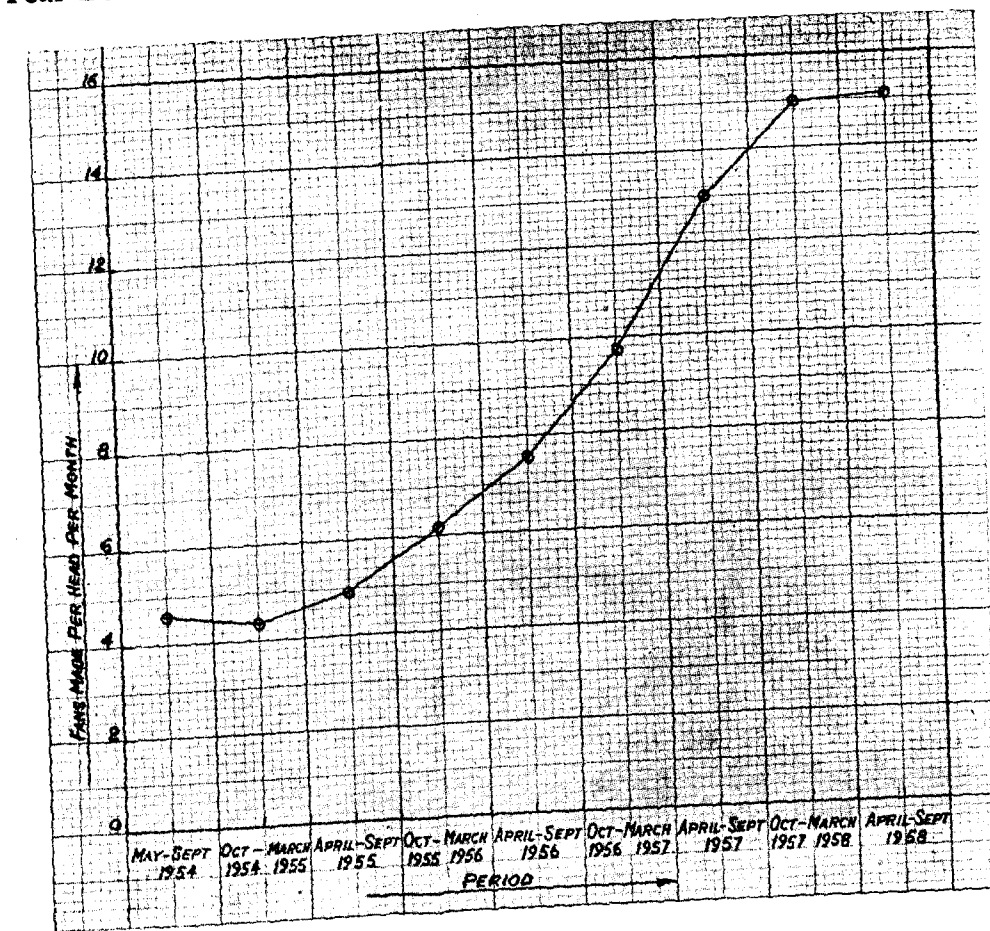
	Turnover:
1954-55 ..	2,940,809
1955-56 ..	2,181,261
1956-57 ..	6,611,537
1957-58 ..	1,694,751
1958-59 ..	22,500,000 (estimated)

A visit to Orient's Factory is a thrilling and stimulating experience. An experience that is enriched by that wonderful spectacle of Men, Machine and Materials moving forward at an incredibly fast but planned and steady pace, all guided by one supreme urge.

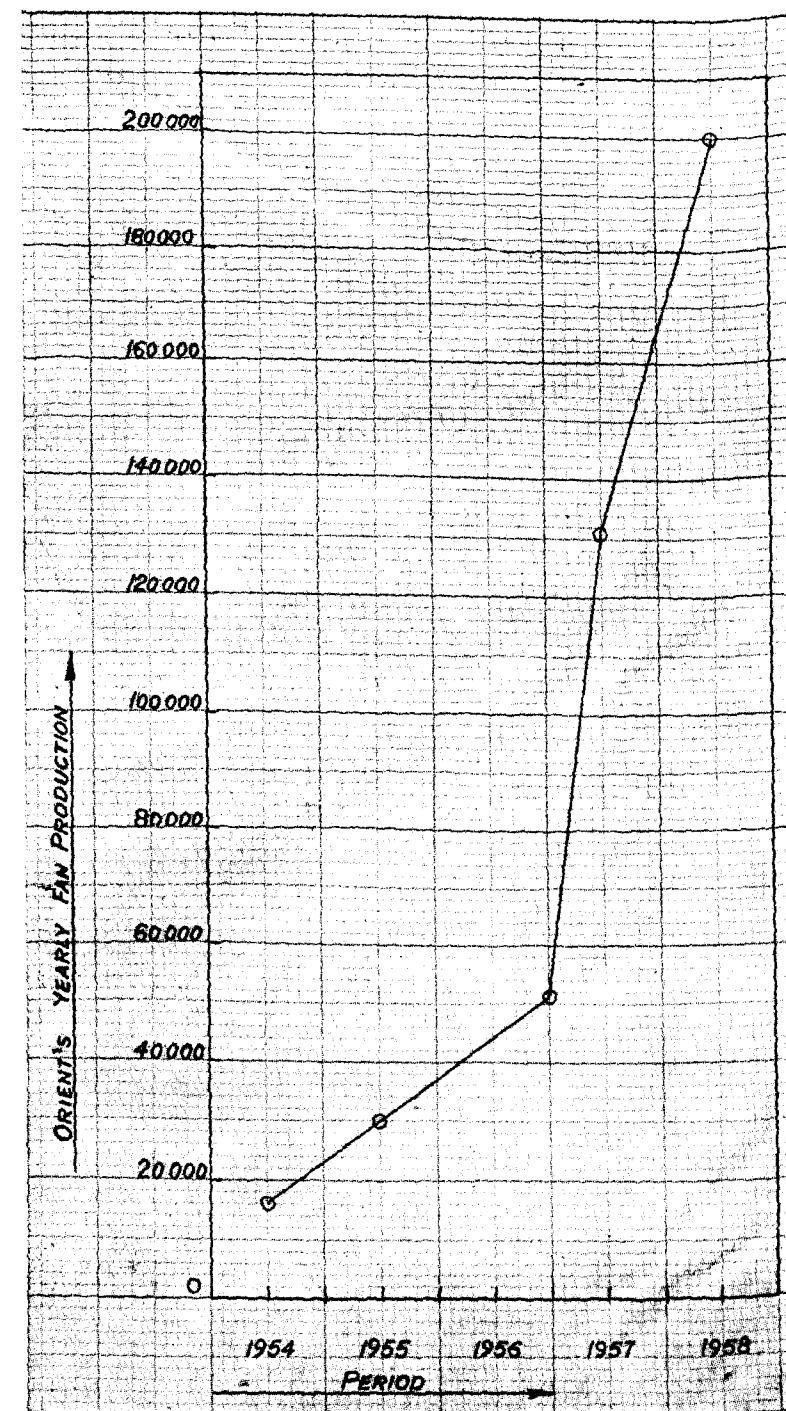
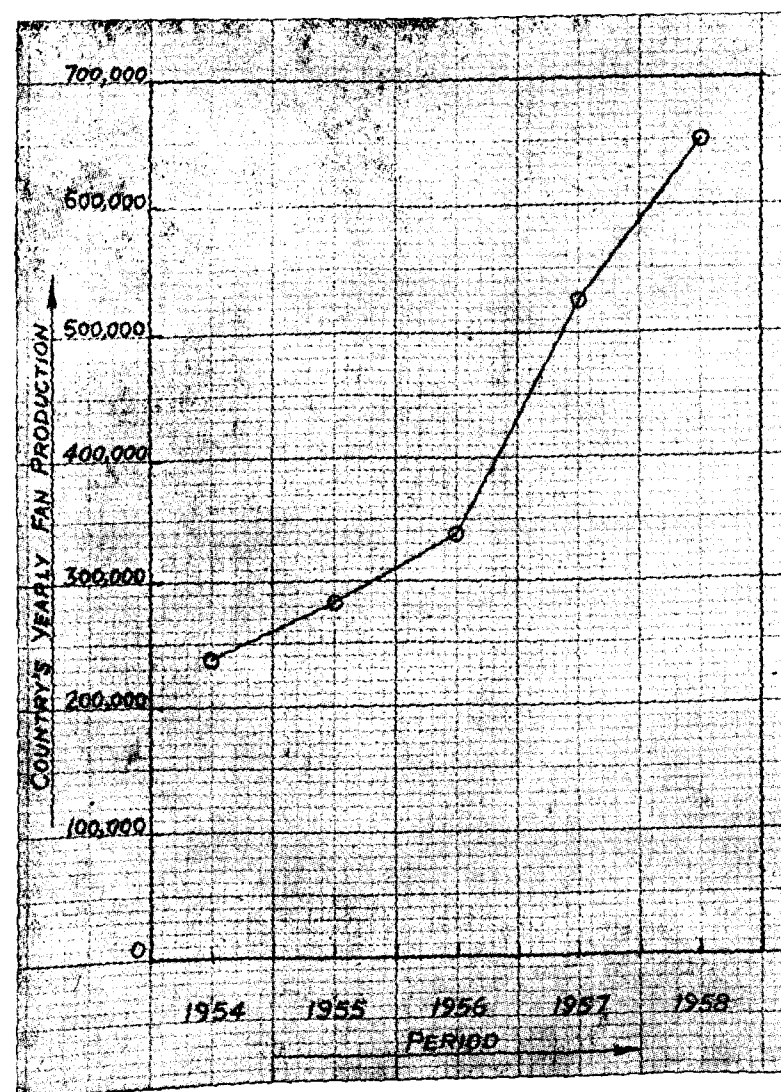
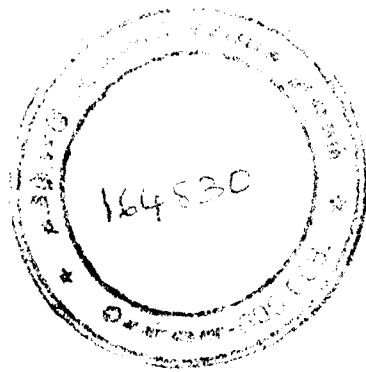




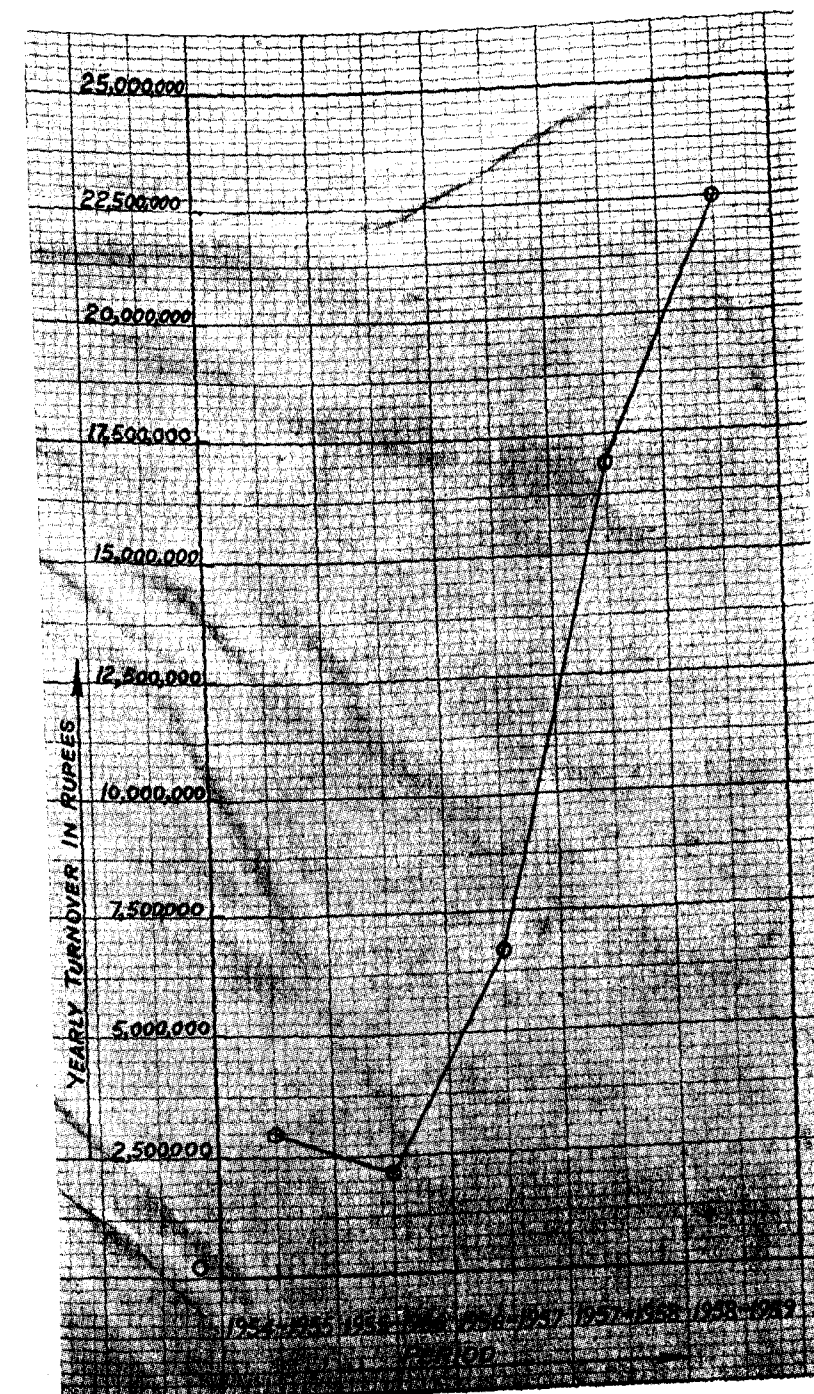
Pressure Die-Casting—a mass Production operation.



Orient's. Production Progress Per HEAD



Orient Industries



Centreless Grinding an operation of Precision.

— FLOW LINE —

Conveyorised Production

