(SY)
3366

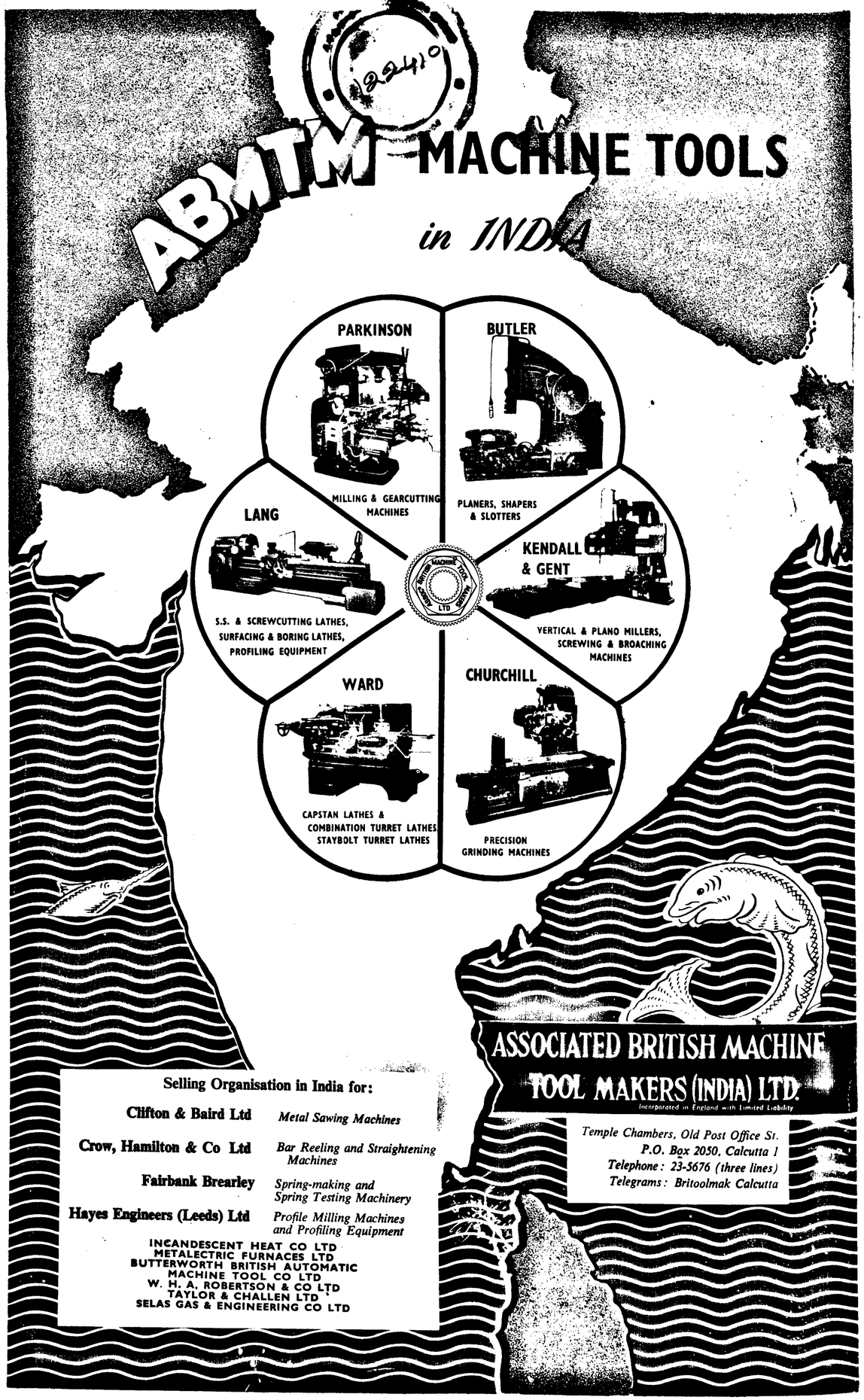
1959 ANNUAL NUMBER

COMMERCE

(Established 1910)

VOL. XCIX. No. 2544 BOMBAY, DECEMBER 1959 PRICE RUPEES 10.00

Indian Trade and General
Insurance Company Limited



TREND OF MARKETS IN 1959

ANOTHER GAINFUL YEAR FOR EQUITIES

11 JAN 1960

From Our Own Correspondents

BOMBAY, 20*th December*

INVESTORS in equities have every reason to feel gratified at the sizable appreciation in the market value of their holdings at the end of 1959. Notwithstanding the somewhat drooping trend witnessed in the closing weeks of the year, the gains over the year, coming as they do on top of the rise in the previous year, have helped the investors to more than make good the heavy losses sustained by them in 1956 and 1957. Though the bullish trend is attributable, to a large extent, to speculative forces, there is no doubt that there was a large measure of investment support. This is evident from the heavy oversubscriptions to the spate of capital issues by quite a few new ventures and from the unprecedented rise in cash scrips, some of which do not hold promise of a return for even three or four years to come.

The favourable psychology created by the readjustment of corporate taxation by Mr. Morarji Desai, in his maiden budget, that is for 1959-60, the official assurances given during the year that the private sector had a definite role to play and would be provided every opportunity so long as it did not attempt to throttle the public sector, the Prime Minister's statement ruling out the fixation of a ceiling on urban income, the substantial growth in investible funds thanks to the pumping in of created money, the larger quantum of foreign aid, the measures taken to boost exports, the encouraging corporate results, the rising trend of industrial production, the marked dwindling of stocks of cloth with mills, and the boom in bullion and commodity markets were all factors which sustained the bullish enthusiasm almost throughout the year.

Rise in Index Number

The boom conditions which prevailed during the year are fully reflected in the rise in the Reserve Bank of India index number of variable dividend securities for all-India (Base: 1952-53=100) from 136.5 for the week ended 27th December 1958 to a peak of 158 in the week ended 14th November 1959. Subsequently, it shaded off to 156.8 in the week ended 12th December. The net rise over the year so far is 20.3 points or 14.9 per cent. This is on top of an appreciation of 16 3 points or 13.6 per cent. in 1958, as against a fall of 18.6 points in 1957 and of 14.4 points in 1956. The regional index for Bombay shows a rise of 21.3 points, that is from 138.1 for the last week of December 1958 to 159.4 in the week ended 12th December 1959. This follows a similar rise of 19 points in 1958. The loss during 1957 was 14.9 points and in 1956 12.9 points.

The bullish trend in share markets was not confined to equities only. There was a further rise in preference shares, particularly tax-free cumulative preference shares, and debentures, too, for various reasons. These were: (1) decline in short-term deposit rates, (2) low yields on equities, (3) the loss to equity holders on account of the abolition of the grossing of dividends and the consequent attraction of tax-free preference shares, and (4) the support from institutions and trusts which were more keen on fixed returns than on capital gains. The Reserve Bank of India index number of prices of debentures of joint-stock companies for all-India (Base: 1952-53=100) moved up from 101.1 for the week ended 27th December 1958 to 101.7 for the week ended 12th December 1959. The rise was, however, less marked than that in 1958, when it gained 2.3 points. In the case of preference shares, the all-India index recorded a rise of 3.8 points, from 87.9 to 91.7, as against 1.4 points in 1958.

The Bombay Stock Exchange opened the year on a fairly optimistic note and equities forged ahead on reports of substantial purchases by the Life Insurance Corporation and the Prime Minister's statement ruling out the imposition of a ceiling on urban income. Barring a subdued tone in the pre-Budget weeks due to the usual budgetary fears, equities maintained an upward trend almost up to the middle of May, when the Reserve Bank of India index of variable dividend securities for Bombay touched 155.6, as against the previous year's closing of 138.1. The abolition of excess dividend tax and wealth tax on companies, optimistic estimates of company dividends as a result of these reliefs and the reduction in corporate tax from 51¼ per cent. to 45 per cent., the Finance Minister's assurance that he would provide relief whenever it could possibly be given and reports of T.I.S.Co. coming out with a rights issue at par, were the main stimulating factors.

Thereafter, there was a mild setback, mainly as a technical correction to the sustained rise in the earlier months of the year. The reaction was also aided by reports about the possibility of additional taxation to the tune of Rs. 2,000 crores during the third Plan period, and by fears that T.I.S.Co. might not be permitted to issue additional capital at par. The recession, which set in as a result, persisted till the first week of June, when the Reserve Bank's index fell to 151.

Bullish Trend Resumed

The bullish trend, however, reasserted itself soon, thanks to the encouraging corporate results and revival of hopes (since materialised) that the T.I.S.Co. new issue at par would be sanctioned, lifting the R.B. index to 160.0 in the week ended 11th July. There was again a setback which persisted till the end of the month, the R.B. index moving down to 154.6 in the week ended 1st August. The main bearish factors for this downward trend were: (1) rumours that the L.I.C. would liquidate a substantial portion of its holdings at the current high levels, (2) rumours of a breakdown in the new steel plant at Jamshedpur, (3) heavy deliveries in the clearings of 18th and 31st July and (4) the disappointing dividend of T.I.S.Co. Barring a dip in the closing weeks of August, due to border intrusions by the Chinese and reports of sales of some scrips by the L.I.C., the upward trend was sustained till about the middle of October, when the year's peak was touched, the R.B. index moving up to 162.7. The sanction accorded by the Controller of Capital Issues to T.I.S.Co. to issue rights shares at par, the reported assurance by the Company's Chairman that the Directors would try to maintain the dividend for the current year at the present level, free of tax, encouraging offtake of cloth, the Prime Minister's alleviation of the fears about the future of the private sector, the interpretation of the slab system of managing agency commission announced by the Government as being favourable to the shareholders, and expectations of higher retention prices for steel (since materialised) were the chief factors which sustained the bullish enthusiasm.

In the subsequent period of the year, the trend was subdued following the Chinese incursions in East Ladakh, which led to a political tension. Prospect of heavy defence expenditure and the Government's decision on the Pay Commission report gave rise to fears of an interim Budget being presented in November. Though these fears did not materialise, the loss was not recovered, as fresh apprehensions about the next Budget checked the bullish sentiment, as indicated by the decline in R.B. index to 159.4 in the week ended 12th December.

Textiles

Sectionwise, textile shares gave the lead for the market during the year under review and gains were more marked than in the previous year. The way for the recovery in this group had already been paved last year by the reduction in excise duty on cloth. This was further smoothened by the measures announced in May this year to improve exports of textile goods. That these steps have had the desired effect is indicated by the substantial reduction in stocks of cloth with mills, which at the end of November represented a little more than a month's output, as against nearly two months' production a year ago. In fact, the fast dwindling stocks with mills have been causing concern among the mills and traders, as they apprehend the possibility of a cloth shortage in the next two or three months when the seasonal demand gets into stride. The rise in prices would have been even more spectacular but for two restraining factors, namely, high prices of raw cotton following a marked shortfall in the output of Indian cotton and increase in the wage bill on account of higher dearness allowance. Centurys were in the limelight with a spurt from Rs. 416.50 to Rs. 586 in July on favourable reports about the expansion programme of the Company's rayon plant. After a setback to Rs. 535 in August, the shares rallied to a peak of Rs. 658 this month, following the sanction given by the Government to the Company's right issue at a premium of Rs. 20 in the ratio of 1 : 5 to be issued early in 1960 and the approval of the Company's scheme for manufacture of tyre yarn. The Company also proposes to set up a nylon plant and to manufacture caustic soda and cellophane paper. The shares closed at Rs. 458 *ex*-right, equivalent to a *cum*-right value of Rs. 573. Bombay Dyeings picked up strength from Rs. 55.40 to Rs. 67.60 and, after a dip to Rs. 62, advanced to Rs. 70.30. The closing was, however, a shade lower at Rs. 69.80. Kohinoors were active, in refreshing contrast to the subdued tone in 1958, and shot up from Rs. 233.50 to Rs. 334, before finishing at Rs. 329. Standards proved to be a bright feature, especially towards the close of the year, with a jump from Rs. 405 to Rs. 896 on hopes of a rights issue. On profit-taking at the close, they reacted to Rs. 838. Svadeshi scored a gain of Rs. 64 over the year to Rs. 268. Other notable gains in this section were: Shree Niwas Cottons Rs. 98 (to Rs. 233); Khataus Rs. 108.75 (to Rs. 263.75); Central Indias Rs. 20 (to Rs. 108); Finlays Rs. 41.50 (to Rs. 296.40), and New City Mills Rs. 57 (to Rs. 150). Simplex provided an exception, with a drop from Rs. 170 to Rs. 161 and New Great Easterns from Rs. 218 to Rs. 165.50. Messrs. W. H. Brady & Co., Ltd., ceased to be the managing agents of the latter Company since September 1959.

In the steel section, the outstanding event of the year was the official sanction to the rights issue to the tune of Rs. 8.32 crores at par by the Tata Iron and Steel Company, Ltd., given in August, after a great deal of hesitation on the part of the Government to permit the issue to be made at par. At one time it looked as though the Company would not come to the capital market on the terms insisted earlier by the Government, that is, at a premium. In fact, the Company announced in June that the proposal had been deferred. These fears brought down Tata Ordinaries from Rs. 196 in May (to which level they had climbed up from Rs. 173 at the close of 1958) to Rs. 186.25. Nevertheless, there was renewed optimism in market circles that the Government would ultimately agree to the Company's terms. These hopes lifted the shares to a peak of Rs. 202.50. The shock caused by the disappointing dividend (of Rs. 6.80 per share on the old shares, as against Rs. 8.25 paid for 1957-58) announced on 24th July, was, however, more than the market could absorb. Even the worst pessimists were confounded and the entire gains of the previous months were wiped out at one stroke when the shares slumped to Rs. 172.50 in July. Fortunately, the Government's approval of the rights issue at par restored confidence and the shares moved up to Rs. 182.25 in August. In the subsequent months, the trend was irregularly lower and the shares finished at Rs. 156 *ex*-right. Indian Irons moved up from Rs. 25.30 to Rs. 28.20 before being placed *ex*-right at Rs. 22.16 in March. Thereafter, they recovered to Rs. 25.65 in July, but the subsequent trend was subdued to finish at Rs. 23.36.

Banks Subdued

Bank shares provided a weak counter, with an all-round fall in values, following apprehensions about profits and dividends for the current year. These fears proved correct when banks reported lower profits for the half-year ended 30th June 1959 and had to reduce their distribution to shareholders. Barodas (old) fell from Rs. 129.50 to Rs. 97.80, Bank of Indias (old) from Rs. 137 to Rs. 109.25 and Centrals dipped from Rs. 58.50 to Rs. 48.25. United Commercials, however, hardened from Rs. 66.20 to Rs. 70 before retreating to close at Rs. 65.50.

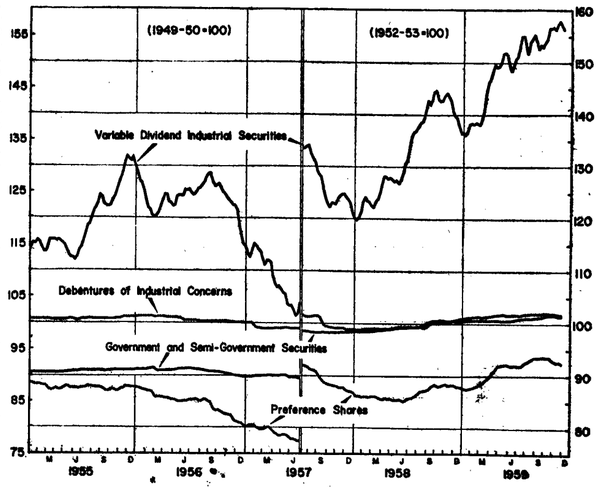
Electricity shares provided another exception to the general trend. Ahmedabad Electrics dropped from Rs. 94 90 to Rs. 87.20 before closing at Rs. 91. Tata Hydros drifted down from Rs. 122.50 to Rs. 107 and closed at Rs. 108.50. Tata Powers finished at Rs. 1,102.50 after reacting from Rs. 1,220 to Rs. 1,062.50. Andhra Valleys shed over the year Rs. 125 to Rs. 1,072.50.

In the miscellaneous section, sugar shares fared well, notwithstanding the Government's taking over control of mills' output from May this year. Belapurs advanced from Rs. 295 to Rs. 344.50 before closing at Rs. 331. Phaltans gained over the year Rs. 15.75 to Rs. 174.75. Walchandnagars rallied from Rs. 270 to Rs. 340 before retreating to Rs. 317.50. In the cement group, Associated Cements were conspicuously dull, with fluctuations confined to a narrow range between Rs. 159.50 and Rs. 141. The closing was done at Rs. 149.25, as against Rs. 150.25 a year ago. Digvijays, however, scored a gain of Rs. 16.25 at Rs. 144.25. Shipping shares were quiet, following the decline in freight rates and the disappointing financial results of shipping companies. Scindias were marked down from Rs. 21.04 to Rs. 17.56 and Great Easterns from Rs. 25.25 to Rs. 20.28.

Spurt in Rayons

Rayon shares were conspicuous by recording handsome gains on encouraging outlook for the industry and announcement of expansion plans by companies. National Rayons spurted from Rs. 233.25 to Rs. 373 in July and, after a dip to Rs. 337.50 in September, gained ground again to Rs. 378.25 at the close. Gwalior Rayons shot up from Rs. 13.48 to a peak of Rs. 30, before closing at Rs. 28.50. The encouraging view taken about the outlook for the automobile industry pushed up Premier Automobiles from Rs. 80 20 to Rs. 163 before they closed at Rs. 158.50. Likewise, Hindustan Motors boomed from Rs. 6.60 to Rs. 17.64. The closing was, however, lower at Rs. 16.76. In the engineering group, Alcock Ashdowns hardened from Rs. 242.50 to Rs. 276 and Tata Locomotives from Rs. 157 to Rs. 212.50 (the highest level touched by this scrip was Rs. 233.50). Premier Constructions were lifted up from

INDEX NUMBERS OF SECURITY PRICES—ALL-INDIA



Rs. 230.75 to Rs. 361 before they gave way to Rs. 361.

The most noteworthy feature of trading during the year was provided by some of the cloth scrips, particularly dyes and chemicals shares, as will be seen from the following table:

Scrips	1958	1959	Gain over the year
	Rs.	Rs.	Rs.
Alembic Chemical ..	152.00	202.75	50.75
Amar Dyes	106.00	277.00x.r.	171.00†
Ceat Tyres	62.00	183.00	121.00
Colour Chem (New) ..	181.00*	325.00	144.00
Dharamsi Chemical ..	80.00	160.00x.r.	80.00†
Dhrangadhra Chemicals ..	99.00	164.00	65.00
Indian Dyestuff ..	150.00	480.00x.r.	330.00†
Polychem	66.80	171.50	104.70
West Coast Paper ..	111.50	163.75	52.25

* As on 19th September when the shares were listed.
† Without taking into account the value of rights.

Among the other scrips which have scored handsome gains, mention may be made of Voltas which have gone up from Rs. 132 to Rs. 182, Wimcos from Rs. 186.50 to Rs. 264 and Tata Oils from Rs. 43 to Rs. 65.

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MADRAS STOCK EXCHANGE

(By Messrs. Maconochie and Co.)

MADRAS, 14*th December*

The adventitious combination of certain favourable factors—political and economic—has imparted great gusto to market activity during the year that has just ended. To mention only a few: the recent change in stewardship in the Finance Ministry the emergence of a rival political party which, it is believed, has succeeded in applying the brakes on the freewheeling of the ruling party, the end of Communist rule in Kerala, crossing of the foreign exchange hump of the second Plan thanks largely to foreign assistance, the improved outlook for the major industries like textiles, rayons, paper, chemicals and engineering, the support extended by the Life Insurance Corporation to approved shares and securities, and last but not least, the ceaseless influx of "created" money. The market was in fine fettle throughout the year and prices rose almost without break, barring three short-lived setbacks. The first, late in May, brought about by apprehensions of heavy taxation during the third Plan period, in order to realise the gigantic target of Rs. 10.000 crores, the second due to the disappointment over the Tata dividend of Rs. 6.80 per share taxable, and the third which occurred about the end of the year, when the activities of the Chinese across our border and the violence used by them leading to armed conflict with our border police, naturally induced fear, if not consternation, in the minds of market operators.

The outstanding feature of the year may be said to be the revival of the capital market. Elsewhere in this review is given an account of the demand on it by way of "right" issues by existing companies as well as by the new ones that were sponsored during the year, from which it will be clear that, despite the uncertainties, it had responded commendably to such demands. Inasmuch as the health of the capital market is of paramount importance to the private sector, it would be profitable to probe into the factors that wrought this welcome change. Besides others, three of them require special mention. First, the change in the stewardship of the Finance Ministry, second, the diversion of interest to equities from fixed interest securities, due, on the one hand, to the belief that "equities are the best hedge against inflation" and, on the other, to the allurements of quick capital profit which some of the new issues so generously conferred and, third, the underwriting of large equity, preference and debenture issues by the I.F.C., the I.C.I.C. and certain banking institutions which not only ensured the capital required by these issues but what is more, imparted the much needed confidence in the minds of investors.

Opening the year in a rather uncertain mood and concerned over the outcome of the Nagpur deliberations of the ruling party, share markets just managed to keep an even keel until the Central Budget. There were no surprises in the Railway Budget by way of additions to fares and freights and the prospective fall in earnings caused no jolt to sentiment. After initial hesitation, markets interpreted favourably the Central Budget presented on 28th February 1959 which, in retrospect, it may be observed, provided the starting point of the steady and sustained rise in share values that occurred over the year. Psychologically, the Morarji Budget acted like a tonic to stock markets. Obviously, operators were impressed more by the small reduction in the overall tax paid by companies, the abolition of the wealth tax on companies and of the excess dividends tax than by any other thing. It was not until late in the year that the treacle covering the proposal abolishing the age-long benefit of grossing up of the income-tax paid by companies, had started wearing off. The Tata dividend of Rs. 6.80 per share taxable, raised, for the first time, doubts as to whether investors were really benefited by this reform. Fortunately, however, such doubts were offset by the spate of 'right' issues during the year, the attractions of growth prospects as also by the common belief that dividends would be stepped up in future years because of the vast expansion activities of many companies. Hence stock markets never really lost their equipoise.

Banks

The trend in share values fully reflected the anxiety of investors about the future of bank profits, because of the rising working costs and the competition for deposits which happily ended when all the banks announced the lowering of the rates from the beginning of September. The stage is now set for integration of the State-associated banks with the State Bank of India. Bank of Mysore gained Rs. 28 over the year, closing at Rs. 328, while Travancore Banks which opened at Rs. 26.35 fell almost 3 points and again spurted to Rs. 28.75 when the Bill was passed. Indian Bank issued bonus shares in the ratio of one for five shares. Indian Overseas opened at Rs. 165, rose to Rs. 180 and closed at Rs. 171. Punjab Nationals were split up into shares of Rs. 10 each and encountered considerable activity.

Sugars

1959 was favourable to sugar companies and hence there was sustained support for sugar shares right up to the time when Government clamped down the distribution control on the industry. Prominent amongst local sugars were Cauvery Sugars which opening at Rs. 107 improved on reports of good working to Rs. 138 to fall back to Rs. 122. Deccans, after opening at Rs. 10.82 *cum-div.*, closed at Rs. 13.95 *cum-div.* E.I.D. registered the maximum rise, namely, from Rs. 29.80 to Rs. 48 but the closing was a little lower at Rs. 46.50. Deccans have reported excellent working, earning as high as 32.3 per cent. net and have maintained last year's 18 per cent. tax-free dividend by paying 25½ per cent. taxable. E.I.Ds rose on expectations of a 'right' issue for financing its fertiliser venture in Andhra. India Sugars remained dull as also Travancores which disappointed with a 10 per cent. taxable dividend against 10 per cent. tax-free last year.

Coffees

The 1958-59 crop of 46,116 metric tons was about 2,000 tons higher than the previous crop. Current year's crop is estimated at 48,000 tons. As internal prices have continued to rise, coffee shares have been fairly well supported. The declaration of 25 per cent. taxable dividend by Consolidateds and Coffee Lands and the excellent balance-sheets put out by them have raised the price of these shares to Rs. 26 *cum-div.* and Rs. 26.25 *cum-div.*, respectively, noting a gain of almost Rs. 2 over the year. Cowcoodies dropped the dividend to 25 per cent. taxable, against 65 per cent. last year. Kumergodes dropped the dividend by 5 per cent. and the shares closed fractionally lower at Rs. 6.25. Two new scrips, namely, Ossoors and Wartyhullys were included. These companies paid 15 per cent. for the year ended March 1959. Sangameshwars maintained the 9 per cent. dividend and the shares closed higher at Rs. 2.82. Sheverorys had a poor crop and the shares fell below par.

Teas-cum-Coffees

Balanoors lowered the dividend to 15 per cent. Blue Mountains paid 12½ per cent. taxable and the shares remained stagnant. Kil Kotagiris issued a bonus in the ratio of one for one and the shares closed at Rs. 4.75 *ex-right* against the opening of Rs. 6.65 *cum-right*. Neelamalais fell from par to Rs. 4.20 and closed at Rs. 4.80. Ouchterlonys were active but fluctuated narrowly, closing fractionally higher at Rs. 5.65. Waterfalls paid 12½ per cent. taxable for the year ended June 1959. Opening at Rs. 3.47, the shares rose to Rs. 4.20 to close at Rs. 3.80 *cum-div.*

Teas

Drought conditions in the growing districts have affected the outturn, but for which 1959 would have been one of the best years for the industry because of the improvement in prices. The overall rise for all varieties of tea was 8 nP, while a comparison of the latest Cochin auction prices with those last year reveals that the rise was as much as 56 nP per lb. It was not until the close of the year that tea scrips attracted attention though particular ones like Parksides, Nonsuch, U.N. Teas and Devasholas were always in good demand. Chembras were supported and the price rose from Rs. 3.35 to Rs. 4.05. The Company has stepped up the dividend by 5 per cent. Devasholas noted the steepest rise, namely, from Rs. 24.25 to Rs. 31.50, the Company having stepped up the dividend from 17½ to 25 per cent. Haileyburias and Twyfords issued right shares in the ratio of one for three and two for five, respectively. Highlands doubled the dividend from 7½ to 15 per cent. and the shares spurted to Rs. 14.75 against the opening of Rs. 11.37. Nonsuch disappointed with a 20 per cent. taxable dividend against 35 per cent. last year. The shares opened at Rs. 23.25, climbed to Rs. 29.25 and fell back to Rs. 25.60 *ex-div.* Parksides rose steadily from Rs. 19.50 *ex-div.* to Rs. 25.70 *cum-div.* This Company has paid a total dividend of 27½ per cent. taxable against 25 per cent. last year. Peermades opened at Rs. 19.62, fell to Rs. 17.40 and closed at Rs. 19.50. This Company has lowered the dividend for 1958 to 16½ per cent. against 25 per cent. for 1957. Periakaramalais declared 12½ per cent. against 10 per cent. The shares showed a loss of about 20 nP at the closing quotation of Rs. 3.63. T.R. Teas raised the dividend by one per cent. and the shares gained a rupee, closing at Rs. 7.80. U.N. Teas increased the dividend to 19½ per cent. as against 16 per cent. last year and the shares gained Rs. 4 at Rs. 21.25.

Rubbers

The controlled price of rubber remains unchanged and the industry's claim for higher prices has not yet been considered by the Tariff Commission. Rubber shares attracted only selective attention, prominent amongst them being Cochin Malabar, Kailas, Midlands and Rajagiris. Cochin Malabars raised the dividend by 5 per cent. in paying 15 per cent. and the shares gained about Re. 1.75 over the year. Kailas lowered the dividend by 5 per cent. but the shares remained steady. Malankaras lowered the dividend by one per cent. but the scrip remained steady, closing at Rs. 17.87. Mercaras rose from Rs. 8 to Rs. 9.50. Midlands maintained the 10 per cent. dividend and closed higher at Rs. 11.90 *ex-div.* Pullangodes raised the dividend by 1 per cent. Teekoys paid 6 per cent and Thirumbadis 10 per cent., against 5 per cent for the previous year. The shares were 30 nP higher at the closing price of Re. 1.95. Vaikundams gained over four points, closing at Rs. 27.75.

Textiles

1959 has been a good year for textiles, though it was really in the latter half that the improvement really set in. *Moorat* sales were brisk and the prices realised 10 per cent. higher than last year. Stocks in the mills have declined steadily. The one disconcerting element, however, is the difficulty in obtaining cotton and the rising price of this commodity. The immediate outlook is viewed favourably and textile shares have attracted considerable attention of late.

Bangalore Woollens and Buckinghams have maintained the 10 per cent. dividend for 1958 and declared an interim dividend of 4 per cent. tax-free for the current year. The former rose from Rs. 156 to Rs. 206 and the latter from Rs. 174 to Rs. 208 to close about 11 points lower. Due to the change in management, Cambodias spurted to Rs. 15.75 but fell back sharply to near par which was about Rs. 2 higher than the opening. Pioneers gained 50 points to Rs. 322. Spinnings passed over the dividend for the second year in succession. Dhanalakshmis rose from Rs. 167 to Rs. 230, closing at Rs. 223. Kotharis changed the financial year to December and passed over the dividend for 1958. Opening at Rs. 9.90 the shares rose to Rs. 12.45 and closed at Rs. 11.30. Lakshmis maintained the dividend at 12 per cent. The old shares opening at Rs. 93.50 rose to Rs. 155 on rumours of a jubilee bonus next year and closed at Rs. 149. Maduras incurred a loss of Rs. 56 lakhs for 1958 and passed over the dividend. Opening at Rs. 28.55 the shares fell to Rs. 25, spurted to Rs. 31 on the settlement of a prolonged strike to react to Rs. 29.90. Mettur Industries increased the dividend from 20 to 25 per cent. and the shares gained Rs. 78 over the year, closing at Rs. 409. Travancore Rayons were by far the most active scrip in this section. The Company earned a record net profit of Rs. 46.20 lakhs for 1958 and stepped up the dividend to 12½ per cent. The shares gained over Rs. 10 during the year, closing at Rs. 26.50.

Miscellaneous

The most active scrips were Aluminium Industries, Ashok Leylands, F.A.C.Ts, India Cements, Mettur Chemicals and Mysore Papers. Aluminium Industries maintained the dividend of 12½ per cent. and the shares gained five rupees at the closing price of Rs. 22.60. Ashok Leylands were brought on the forward list. The Company issued right shares in the ratio of five for eight. Opening at Rs. 5.80, the shares went up to Rs. 8.10 *cum-right* and closed at Rs. 7.35 *ex-right*. Binnys lost Rs. 14 over the year. Dalmia Cements closed at Rs. 10.60, showing a small rise, though the Company paid only 10 per cent. against 12 per cent. for 1957. F.A.C.Ts declared a maiden dividend of 4 per cent. and were well supported during the latter part of the year. Opening at Rs. 7.35, the shares crossed par at the close. India Cements were brought on the forward list. Opening at Rs. 4.90 the shares rose to Rs. 6.90 and closed at Rs. 6.25. The dividend was raised to 9 per cent. Mettur Chemicals issued 195,000 equity shares of Rs. 10 each to holders of ordinary and preference shares. The shares opened at Rs. 11.10 and closed at Rs. 12.70 *ex-right*. Mysore Papers stepped up the dividend to 12½ per cent. and the shares gained a little over six rupees over the year. Mysore Tobaccos lowered the dividend from 15 to 12½ per cent. and the shares closed fractionally higher. Rallis were active, the shares rising from Rs. 39.75 to Rs. 87 and closing at Rs. 83. Spencers have declared a taxable interim dividend of 6 per cent., against the usual tax-free dividend of 5 per cent. Textools were active, the shares closing at Rs. 195 *cum-div. cum-right*. Western India Plywoods issued right shares in the ratio of one for six and the shares rose from Rs. 138 *cum-right* to Rs. 235 *ex-right*.

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CALCUTTA STOCK EXCHANGE

CALCUTTA, 14*th December*

For the Calcutta Stock Exchange 1959 was a memorable year. In accord with the rapid strides which industry made in the year, equities added smart gains, and before the year came to a close the feeling was that the rise in prices had also discounted growth prospects. That this was so was proved by the fall that followed the high levels. Closing levels for the year would have been higher had it not been for fears of an increase in taxes in order to meet the increased expenditure on defence and the increased wage bill of civil administration. On the whole, trading was more broadbased than in 1958, and there were unmistakable signs that the middle-class investing fraternity increased in number and was more active than before. Throughout the year, small parcels of industrial shares passed into the hands of genuine investors, who locked them up in their safes. The result was acute scarcity of the more popular industrial counters. The L.I.C.'s purchases were mostly of a permanent type; the Corporation, unlike other institutional investors, did not exhibit any pronounced tendency to book profits when prices were high. This also added to the feeling of scarcity of scrips. Generally, investors showed preference to go in for shares of companies which were in the habit of declaring dividends tax-free. This preference was due to the changes in taxation. Funds were easily forthcoming for new flotations under sound auspices, and the fact of oversubscription in several cases showed that funds were always available for new ventures starting on an assured foundation.

Firm Opening

January was a month of firm conditions. There was apparent satisfaction when rumours to the effect that the Congress would recommend to Government the limitation or control of dividends did not materialise. Another point of satisfaction was the absence of any increase in railway fares and freights in the Railway Budget for 1959-60. Trading in February showed that the usual pre-budget caution was often ignored. This was because of the feeling that the Budget would not increase taxation. Further, prospects of increased foreign collaboration in the private sector, and the improvement in external resources aided operators to take a more hopeful view of the future. The absence of any increase in direct taxation in the Budget proposals considerably strengthened the hands of bulls in the first week of March, but soon a bear phase set in when it was realised that changes in company taxation meant that shareholders' return would stand reduced. However, soon steady conditions returned following the official promise to examine the proposed changes in company taxation with a view to removing anomalies, if any. Further, reports of increased industrial output and the uptrend in commodity (jute goods and tea) markets fanned bullish enthusiasm.

The better part of April witnessed a corrective phase, and the troubles in Indo-Pakistan border provided rhyme to caution. Another factor for caution was the Prime Minister's belief that the public sector was more economical than the private and that as such the former required more attention from the country. From the end of April up to mid-May, conditions were buoyant. Cloth, coal, tea and jute goods exports were increasing, and this trend provided incentive to genuine investors to pay more and more attention to the good-return bearing equities. Speculators got incentive from the report that the L.I.C. would soon enter the market in a big way. Not long thereafter, however, came the realisation that values had crossed the levels justified by prospects; consequently, from the last week of May to mid-June, reaction was a feature. At this stage, operators paid more attention to jutes, which recorded handsome gains. Soon, the gains spread to other sections also, and yield considerations and the official hint of better regard for the private sector provided the excuse. This was followed by expectations of official permission to T.I.S.Co. to issue rights shares at par, and speculative enthusiasm thus received further pep and zest. However, a shake-up towards the end of July followed the news of lower dividend for Tata Ordinaries. From a scrutiny of the recent dividend declarations, operators got the impression that shareholders' return would be affected as a result of the abolition of the grossing of dividends for taxation.

The announcement of maintenance of 10 per cent. dividend for I.I.S.Co. was a factor for enthusiasm in August, since apprehensions in this regard had been entertained earlier, in view of the lower dividend by the T.I.S.Co. But in September and October, there were more moments of dullness than of firmness and cheer. A disturbed city on account of riots, nature's ire and consequent floods and cash needs for the *poojas* were the main factors leading to dullness. In November, the tendency was irregular, and the recessionary phase continued. Growing anxiety about India-China border in the North and the possibility of increased taxation were some of the factors that were paid more attention than the steadier jute goods market, the growing industrial output, an expanding overseas market for India's engineering goods, and the increased demand for tea both on export and internal consumption account. In the second week of December, however, a smart recovery was recorded, as the lower levels were considered attractive. Also, following President Eisenhower's visit to New Delhi, it was anticipated that there would be greater American interest and aid in India's industrial development. Although the Finance Minister, Mr. *Morarji Desai's* speech at the Associated Chambers meeting here was vague, on reflection market circles were prone to take a better view.

A notable development in the year under review was the enlargement of the list of forward scrips, indicating the growth of investor-optimism.

Jutes and Coals

Sectionwise although in the early months of the year jutes occupied a secondary place, the section gathered more and more attention as the months rolled on and mills began increasing the output of goods on keener export demand. Dividends announced in the year gave ground for optimism with regard to the increase in profit-margin. The uptrend was checked in November by firm estimates of lower jute crop and the consequent hardening fibre market. Early in January, Kinnisons were quoting at Rs. 190, but, by November, the rate was as high as Rs. 214; later, they declined to touch Rs. 190 early in December. The unusual interest displayed by Red China in sacking goods completely eclipsed the fall in hessian exports to the United States in the months when the steel strike kept down burlap consumption in that country.

Coals followed an irregular pattern. For a pretty long period, the Government remained silent on the recommendations of the Coal Price Revision Committee. And, when its decisions on the report were announced, the increase accorded for the commodity fell much below that required to enable the industry to meet the increased cost of production. The official statement that nationalisation of coal mines was opposed to Government's present policy failed to draw enthusiasm in the absence of incentives to increase production and also measures to lower output cost. Burrakurs closed the year at Rs. 17.31, as against Rs. 16.56 early in the year, after being higher at Rs. 19.19 in April.

Engineerings

Interest in speculative Indian Irons was only fair. For there were clear indications that Government would not allow benefit of increased production from expansion being extended to shareholders also. Further, as the Company Chairman declared at the annual meeting, there was apprehension whether India could find a market for all the steel produced by it, unless effective steps were taken to expand steel consumption. Early in January, Indian Irons were changing hands at Rs. 25.92 and soon reached a high of Rs. 26.38. Thereafter, the rate hovered between Rs. 23 and Rs. 25 only to sag to Rs. 23.36 towards November-end. In December, a slow recovery set in, but the rate was no better than Rs. 23.82. On good export demand for their products, not only in South-East Asian markets but certain Western countries also, Jay Engineerings often attracted investor-attention. There was a steady improvement in the working and progress of Jessops, pushing the shares of the Company to the forefront for the first time since the Mundhra episode. Jessops' decision on rights issue at a premium of Rs. 2 was hailed with enthusiasm.

Paper Mills

The striking increase in the demand for writing paper, coupled with import restrictions, lifted up the shares of paper mills. Orients closed on 12th December at Rs. 36.70, that is Rs. 7.50 higher than a year before. Towards the end of November and in early December, a reaction set, following the announcement by Government of reduced selling prices for writing paper. Investors realised that their enthusiasm had been much overdone.

Sugar Mills

Sugar mills shares also received the keen attention of operators following improved working results and good prospects.

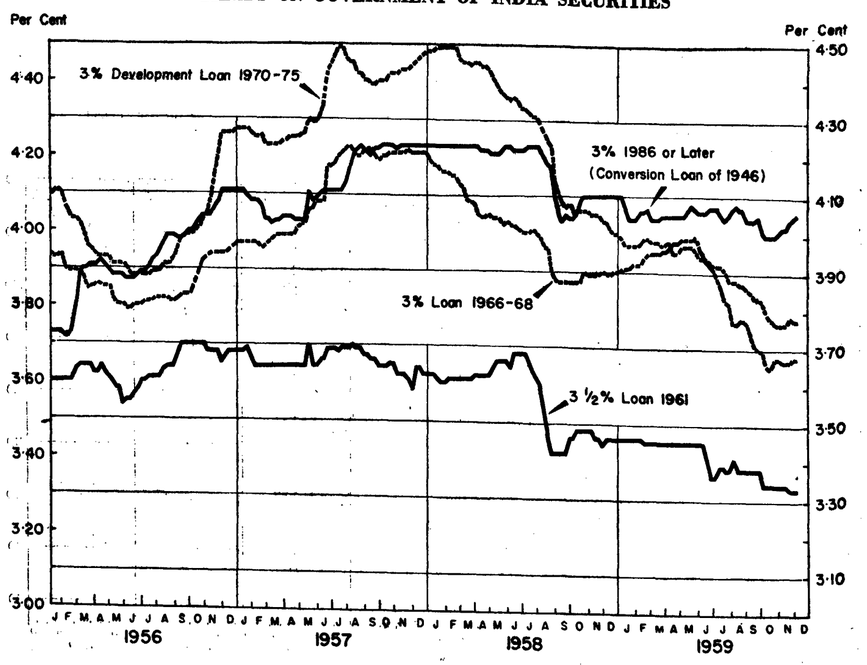
Teas

Trading in tea shares even in the early months of the year showed that genuine investors were paying more than usual attention to this section. With the rise in living standards, internal consumption of tea was increasing. In the export market also, there was keener buying and better prices were realised. These factors gave strong ground for the belief that working results of tea companies for the current accounting period would show an improvement. That accounted for the keen interest in teas shown by genuine investors. Towards the end of November, Banarhats were quoting Rs. 319, against Rs. 280 early in the year, and Patrakolas Rs. 175, against Rs. 134. The buying spree began from March when the export duty on tea was lowered. Shares of Assam and Dooars gardens were a favourite with buyers, thanks to increased plucking of good quality teas.

Miscellaneous

Miscellaneous industrials were often the cynosure of all eyes. The increasing output, liberalisation of import quota for industrial raw materials and spares, and the import ban on several industrial goods, the indigenous output of which had reached the self-sufficiency point, were the factors which provided investors with the incentive to accumulate their holdings. Hindustan Motors, which was one of the new entrants to the forward list, recorded a high of Rs. 16.62, as against Rs. 6.72 early in the year. At Rs. 35.75, Dunlop Rubbers recorded a net gain of Rs. 5.88. Other favoured counters included National Pipes, National Cables, National Carbons, Angelo Bros., Indian Aluminium, Martin Burn, Rohtas, Rallis, Titaghur Papers, and Indian Cables.

YIELDS ON GOVERNMENT OF INDIA SECURITIES



Variable Dividend Industrial Securities—All-India

(All-India base : 1952-53=100)

Group	Week ended 29-11-58	Lowest touched during		Highest touched during		Week ended 28-11-59	Nett rise (+) or loss (—)
		No.	Week ended	No.	Week ended		
Tea plantations ..	146.3	139.3	17-1-59	165.6	21-11-59	164.6	+18.3
Coal	110.9	106.8	3-1-59	121.0	18-4-59	107.9	— 3.0
Sugar	169.7	156.4	14-2-59	189.0	7-11-59	184.7	+15.0
Jute textiles	90.8	86.1	3-1-59	101.0	14-11-59	97.6	+ 6.8
Iron and steel	151.9	146.3	3-1-59	173.7	11-7-59	157.4	+ 5.5
Cement	121.1	118.1	27-12-58	141.3	18-7-59	134.0	+12.9
Paper	191.2	180.2	10-1-59	227.0	14-11-59	218.5	+27.3
Electricity generation and supply	95.4	88.5	21-11-59	94.8	6-12-58	88.2	— 7.2
Shipping and other transport	141.1	122.4	31-10-59	140.4	6-12-58	122.6	—18.5
Calcutta regional ..	137.3	134.0	3-1-59	150.2	14-11-59	148.7	+11.4

(Source : Reserve Bank's Weekly Index).

Price Movements on the Calcutta Stock Exchange

Scrip	1958 closing about 30th December	Lowest touched		Highest touched		Closing as on 12th December 1959	Gain or loss
		Rate	Date	Rate	Date		
	Rs.	Rs.		Rs.		Rs.	Rs.
Kesoram	12.00	11.25	28-1-59	20.31	6-11-59	19.12	+ 7.12
Burrakur	16.25	15.94	18-9-59	19.50	8-4-59	17.25	+ 1.00
Howrah	18.44	18.44	5-5-59	25.56	6-11-59	23.82	+ 5.18
Gourepore ..	356.00	285.00	27-1-59	452.00	6-11-59	432.00	+76.00
Indian Copper ..	3.42	3.40	3-1-59	4.39	9-4-59	3.89	+ 0.47
Indian Irons ..	24.72	21.84	27-2-59	26.38	16-1-59	23.46	— 1.26
Shree Gopal ..	15.25	15.00	28-1-59	24.81	5-11-59	22.00	+ 6.75
Orient Paper ..	29.20	29.00	3-1-59	38.90	15-9-59	36.70	+ 7.50
Carew & Co. ..	8.37	8.06	3-3-59	13.37	13-7-59	11.87	+ 3.50
Alkali	17.62	17.73	27-1-59	25.87	9-11-59	23.12	+ 5.50
Banarhat	280.00	270.00	19-1-59	320.00	1-12-59	316.00*	+36.00
Bishnath	18.25	17.12	14-9-59	22.31	14-5-59	20.25	+ 2.00
I. B. Petrol ..	25.50	24.37	17-2-59	28.44	1-10-59	25.37†	— 0.13
India Steam ..	13.69	11.75	7-12-59	14.94	13-4-59	11.94	— 1.75
Hind Motor ..	6.25	6.44	2-1-59	16.62	12-12-59	16.62	+10.37
Dunlop Rubber ..	29.87	29.12	18-2-59	38.00	6-11-59	35.75	+ 5.88

*11th December 1959 †10th December 1959.

Gold and Silver Touch All-time Peak Levels

Still Higher Levels Expected In New Year

BOMBAY, 19*th December*

NEVER in the history of the bullion market had prices touched such peaks as they did in 1959: Rs. 125-11 per tola of gold (on 3rd May and 23rd November) and Rs. 212-8 per 100 tolas of silver (on 9th November), both for ready, as against the highest levels of Rs. 114-15 and Rs. 202-8 reached last year (1958). Even the lowest levels were well above those for any of the previous years. In fact, the lowest price of Rs. 115-3 for ready gold (on 9th February) was higher than the peaks touched in previous years. The lowest price of Rs. 191-14 for ready silver, however, was only Rs. 10-10 lower than the previous year's peak of Rs. 202-8; the corresponding lowest quotation for 1958 was Rs. 178-7. The rise in prices reflects the shrinkage in the supply of metals, for reasons that will be explained presently. Taking full advantage of scarcity of floating stocks relative to demand for precious metals, the bulls were trying their best to hold tight to their position. Consequently, both gold and silver forged ahead and the forward quotations were higher than those for spot. Thus, the peak levels touched by the first settlements in gold and silver were higher than the corresponding rates for ready positions, the exact levels being Rs. 126 and Rs. 213-1, respectively. As compared with the rates prevailing at the end of 1958, ready gold now stands higher by Rs. 10-7 at Rs. 125-3-6 and silver by Rs. 16-1 at Rs. 209-2. The net gains during 1958 were just Rs. 5-4 and Rs. 5-8, respectively. The gains recorded in 1959 would have been more marked but for profit-taking at the higher levels mentioned above, following the stringent margins imposed by the Bullion Exchange authorities.

The buoyancy of the bullion market was engendered by the decline in arrivals and the growing pressure of demand stemming partly from larger agricultural crops and partly from considerations of keeping a part of one's savings in the form of bullion as a hedge against inflation. The surfeit of funds available in the money market and the declining yields on Gilt-edged securities also enlivened the interest of operators. The distinctly firm trend of commodity prices, too, imparted much strength. As against a high level of offtake, offerings were greatly restricted for the reasons indicated below:

Gold: Sales of Mysore gold continued to remain suspended throughout the year—the suspension came into effect on 14th July 1958—as the Central Government acquired the entire production. Contraband arrivals from the Persian Gulf ports (particularly those coming via Pakistan) had been almost stopped, following the introduction of special rupee notes for circulation in Persian Gulf areas, imposition of martial law in Pakistan (on 8th October 1958) which dealt severely with smugglers, increased vigilance on the part of customs authorities in India and restrictions on the quantum of rupee notes that can be brought into India. Mention must also be made here of the frustration of efforts of a big gang involved in bringing gold into India from Hong Kong, thanks to the co-operation extended by the B.O.A.C. management which cashiered as many as 51 of its staff suspected to be helping the smugglers.

Silver: There was a virtual cessation of silver coins from Tibet, which, for a long time, was the principal source of supply to India. This was due to the several impediments in the way of Indian and Nepali merchants functioning in Tibet placed by the Chinese authorities, replacement of Tibetan currency in circulation with Chinese currency and declaration of Indian currency as illegal tender in Tibet. The revolt in Tibet which was quelled by the iron hand of the Chinese, the Dalai Lama's flight to India and the Chinese aggression all along the Himalayan borders of India, from N.E.F.A. to Ladakh, all removed what little chances there were of getting Tibetan coins. Not only that, these events by themselves imparted a bullish fervour to both silver and gold. It may be noted here that, although the Government of India had banned imports of silver from abroad for several years, it had given an exemption to the import of Tibetan silver coins as a special case, that is, to enable the Tibetans to buy their requirements of goods from India. The Communist Chinese have thus been responsible for the virtual cessation of silver from Tibet.

The outstanding event of the year in the bullion market was the imposition of stiffer margins in both gold and silver with effect from 10th November. The imposition followed the Bombay Government's approval of the decision taken by the Board of the Bullion Association at an emergency meeting held on 7th November. The margins fixed were: Gold—Rs. 10 per tola in November settlement and Rs. 7 in December settlement on all outstanding purchases exceeding 2,500 tolas; silver—Rs. 1,000 per bar in November settlement and Rs. 500 in December settlement on all outstanding purchases exceeding 50 bars. The decision was a sequel to the requisitions by certain members of the Board and a memorandum submitted by about 23 members. The requisitionists pointed out that "unhealthy conditions" had persisted in the market, owing to consistent bull squeeze, and urged the Board to take steps against unwieldy speculation. In other words, the plea emanated from the aggrieved bears and it was listened to by the Board of Directors, because the alternative was the closing out of the hedge trading in bullion.

Simultaneously with the announcement of the new margin regulations, the President of the Bullion Association warned against any undue speculative tendency and made it clear that the Board would take stricter measures with the help of the Government, if the regulations failed to restore normal conditions in the market.

Imports of silver coins from Tibet during the year 1959 were negligible. Trade estimates place the total of these imports at no more than 1.5 million coins, equivalent to about 1,000 bars, as against 9.0 million coins (approximately 6,000 bars) in 1958 and 22.5 million coins (15,000 bars) in 1957. The floating stocks of silver in Bombay City are currently put at 1,600 bars. The daily average offtake and arrivals was about 10 bars and 15 bars, respectively. The floating stocks of gold are reported to be around 35,000 tolas. The daily average offtake and arrivals are both equal, at roughly 2,500 tolas each.

Gold

Gold began the year on a distinctly firm note and remained so till practically the first week of May, barring some intermittent setbacks on account of profit-taking at higher levels. The firmness was due to speculative buying induced by inflation psychology and deteriorating Indo-Pakistan relations. There was also nervous short-covering on fears of acute scarcity of metal in the coming months, following rumours of official measures to check smuggling from the West Asian region. Even the Union Finance Minister's announcement to extend the coverage of expenditure tax to include the amount spent on bullion, jewellery and precious stones which were hitherto enjoying exemption had no effect. Similarly, the frequent imposition of margins at the rate of Rs. 10 per tola in the forward section—the margin was higher at Rs. 25 at times—did not have any sustained restraining effect. Ready gold spurted from Rs. 114-8-6 on 31st December 1958 to Rs. 125-11 on 3rd May 1959 and forward from Rs. 114-1-6 (January settlement) to Rs. 124-15 (May settlement). The official Bill to check smuggling was introduced in Parliament on 28th April. But this did not in any way result in decline in price for two reasons. One, the price of gold had gone up earlier in expectation of this development. Two, it was announced in Parliament that the Central Government would continue to acquire the entire production of Mysore gold at the official rate of Rs. 62.50 per tola.

The second week of May witnessed a landslide in gold prices, following (i) sizable liquidation of stocks of smuggled gold stored in the country in view of the proximity of the date (six weeks) for getting rupee rates in circulation abroad exchanged for special notes issued by the Reserve Bank; (2) large-scale selling by a Kasganj operator who was believed to have incurred heavy loss in commodity markets; and (3) report in a section of the Press that the Centre was considering the question of bringing futures trading in gold (and silver) under its control. Consequently, ready gold fell to Rs. 116-8 on 15th May and forward (May settlement) to Rs. 106-4. The downward trend abated after 16th May and the yellow metal soon moved up, ready touching Rs. 123-12 and forward Rs. 120 on 27th May. The premium commanded by the ready over the forward thus was as much as Rs. 3-12, as against just As. 4 twelve days before. The marked recovery followed persistent bear-covering which found offerings scarce. It was then that about 1,500 tolas of contraband gold were seized from the shop of a leading bullion merchant in the city. Indicative of the strong hold of bulls in May settlement was the widening of the backwardation rate (*budli* in favour of bulls) from Re. 1-9 on 13th May to as high as Rs. 2-10 during the week ended 20th May. This necessitated the bulls having to pay a higher margin of Rs. 25 per tola throughout the week.

Subsequent to 27th May and practically up to 6th August, gold moved narrowly, the general tendency being downward, as a result of unconfirmed reports regarding large arrivals of contraband metal from China through Ceylon, Calcutta and other Eastern points. Ready eased to Rs. 118-2 and forward (June settlement) to Rs. 117-2 on 8th June. Gold started rising again on 7th August and the firm trend persisted till 1st September when ready stood at Rs. 123-8 and forward (September settlement) at Rs. 123-12. The chief bullish factors were reports of large seizure of contraband metal, bull manipulations, nervous bear-covering and good demand for spot houses.

During the next seventeen days, that is, from 2nd to 18th September, gold ruled easy, due to rumours of resumption of sale of Kolar gold; ready retreated to Rs. 120-6 and forward (September settlement) to Rs. 120-12. Fluctuations in prices were narrow in the following three weeks. The metal, however, picked up strength on 8th October and recovered markedly thereafter, ready touching Rs. 125-7 and forward (October settlement) Rs. 123-10 on 22nd October. The recovery was induced by expectations of better offtake in the forthcoming busy season, virtual absence of contraband arrivals and hardening tendency of commodity prices. There were reports that some leading bull operators had taken delivery of about 65,000 tolas in October settlement, resulting in a depletion of floating stocks.

Trading in gold during the last nine days of October (including the *moorat* session on 31st of that month) was a colourless affair, with a sagging tendency in prices, owing to weak advices from share and commodity markets, decline in demand and increased arrivals of distress gold. Ready gold closed at Rs. 124-2 and forward (November settlement) at Rs. 124-6 on 31st October. Thereafter, a notable recovery was in evidence in the first ten days of November, ready improving to Rs. 125-4 and forward to Rs. 125-5. It was at this stage that heavier margins (referred to earlier) were imposed. The margins, together with reports that a sizable quantity (estimated at 25,000 tolas) of unauthorised gold stocks had arrived in Bombay City and that some Calcutta interests had sold forward 25,000 tolas on fears of large arrivals from Nepal, led to selling, ready declined to Rs. 123-7 on 12th December and forward (December settlement) to Rs. 124-2 on the 9th inst. Since then, prices have recovered markedly, today's closing for ready and forward being Rs. 125-3-6 and Rs. 125-8-6, respectively. The improvement has been due to good buying by spot houses. It will be noted that the closing rates at the time of writing are only a few annas below the all-time peak levels touched about a month earlier. *The basic trend is upward and it would be surprising if 1960 failed to establish new high levels in both gold and silver, provided the authorities do not take any punitive measures against hoarding.*

Silver

Silver moved less erratically during 1959 than in the previous year, the difference between the highest and the lowest levels being Rs. 20-10, as against Rs. 24. The net gain over the year was, as already mentioned, over Rs. 16, as compared with Rs. 5-8 in 1958. Under the impetus of sustained buying support induced by tight supply position, thanks to continued good offtake in the wake of negligible arrivals of Tibetan coins, the white metal made a strident advance in the first four months of the year. Ready silver, which was quoted at a discount of Re. 1-2 under the nearest forward position towards the close of last year and early in 1959, was commanding a premium of Rs. 2-12 on 3rd May, the actual rate being Rs. 203-11. This rate represented a rise of as much as Rs. 11 as compared with that prevailing on 31st December 1958. In April and May settlements, the bulls had to pay a margin of Rs. 1,000 per bar on 21st April, since the backwardation rate was higher than a rupee. The margin was in force on the following day also but only in respect of April settlement, as the backwardation rate for May settlement had fallen to As. 15-6. On 23rd April, the backwardation rate for April settlement widened from Re. 1-13 to Rs. 2-6. Automatically, the operation of Bylaw 33(d)(i) came into force under which the bulls in this settlement had to deposit a higher margin of Rs. 2,500 per bar. On the following day, the bulls squeezed the bears by enacting a markedly enhanced backwardation rate of Rs. 5 per bar for transferring business to May settlement. The rate for May settlement exceeded a rupee during the week 22nd to 29th April and stood at Re. 1-14-6, so that the bulls were required to deposit a margin of Rs. 1,000 per bar. Undeterred by the margin, the May settlement rallied to Rs. 203-11 on 3rd May.

There was a sharp setback in silver prices during the twelve days ended 15th May, ready dropping Rs. 11-13 to Rs. 191-14 and forward (May settlement) Rs. 11-12 to Rs. 191-12. The setback followed rumours of official control over futures trading and forced sale of 2,000 bars by a Kasganj operator who was said to have incurred a heavy loss in the oilseeds market. The heavy *budlis* which the bulls were extracting considerably narrowed down. In fact, in June settlement, the drop in price was so appreciable that the bears had to pay a margin (of Rs. 500 per bar), instead of the bulls as in previous weeks.

Silver, however, spurted again after 16th May, following persistent bear-covering which found offerings scarce and keen buying by spot houses. Even the imposition of heavy margin (Rs. 2,500 per bar in May settlement and Rs. 1,000 in June settlement) was of no avail. At one time on 20th May, ready stood at Rs. 197-15 and forward (May) at Rs. 194-3, the premium commanded by the former over the latter thus being as much as Rs. 3-12.

Early in June, silver staged a retreat on rumours that imports of silver coins from Tibet would be resumed. There was also nervous liquidation by some bulls who had gone long on expectations that transactions in existing nearby settlement (23rd June) might be squared up at the closing rate for ready delivery as on 30th May. Ready and forward quotations on 8th June stood at Rs. 192 and Rs. 191, respectively.

Silver picked up strength on 9th June which persisted practically till 20th July. Bull operators from Calcutta were said to be consistent buyers. The local spot houses also lent good support. On 13th June, the backwardation rate for June settlement increased from As. 15 to Re. 1-3, so that the bulls in this settlement were required to pay a margin of Rs. 1,000 per bar. In the subsequent three sessions, the rate slided back and stood at As. 15. Induced by short-covering and fresh bull buying on reports that arrivals of Tibetan coins had almost spotted on account of heavy rains on tracks leading from Tibet to India, ready silver advanced to Rs. 198-8 on 20th July and the July settlement to Rs. 198-3 (18th July).

The twenty days that followed 20th July were rather dull for silver, though the general undertone was bullish. The bullish fervour gathered much momentum during the three weeks 7th to 28th August, ready silver and August settlement both climbing up to Rs. 206-3. The chief inspiring factor was cessation of silver coin imports from Tibet as a result of the declaration of Indian currency as illegal tender in Tibet by the Chinese authorities. The upward trend in silver was halted after 29th August and prices continued to sag till 18th September, due to easy advices from upcountry centres and large arrivals of *kutcha* metal. Both ready and September settlement declined to Rs. 201-11. After moving narrowly for about twelve days, silver started rising again on 1st October and the trend continued almost till 9th November when ready stood at the all-time peak of Rs. 212-8, with November position commanding a premium of As. 9. The firmness was aided principally by aggressive buying by a group of bull operators in Bombay and Calcutta, accompanied by hectic short-covering by sellers who had to pay heavy margins, scarcity of floating stocks, and reports of entry of Chinese troops into N.E.F.A. area.

In view of the soaring prices and with a view to checking a further sharp rise, the Board of the Bullion Association imposed stiff margins with effect from 10th November—at the rate of Rs. 1,000 per bar in November settlement and Rs. 500 in December settlement on all outstanding purchases exceeding 50 bars. The heavy margins led to selling which, together with bearish advices from Calcutta, brought the quotations for ready and December position to Rs. 206-10 and Rs. 207-1, respectively, on the 9th of this month. Since then, silver has been moving up, owing to replacement buying by Calcutta interests and bear-covering. Today, ready silver was quoted at Rs. 209-2 and forward (due to expire on 15th January 1960) at Rs. 210-5. The trend is still bullish and the new year is expected to witness white silver climbing up to new peaks, unless, of course, the Government takes drastic steps to compel people to disgorge their hoarded wealth.

GOLD SMUGGLING

Shrimati Tarkeshwari Sinha, Deputy Minister for Finance, replied in the affirmative to a question in the Lok Sabha on 22nd December 1959 whether the objects and aims contemplated in introducing special rupee Reserve Bank currency notes for circulation in West Asia had been achieved in inhibiting the flow of smuggled gold from traditional sources. She added that smuggling of gold into India was also financed by other means than the export of Indian notes to the areas in which special Indian currency had been issued. Such smuggling was, however, very difficult and there was no reason to believe that it had increased recently to any significant extent. Answering supplementaries, the Minister said:

"The decrease in the smuggling of gold in the country, it is believed, is one of the factors responsible for the rise in internal price of gold since October 1958. There is no set pattern of smuggling activities across the country's land borders. The smugglers change their *modus operandi* and the nature of smuggled articles according to circumstances."

GILT-EDGED FIRM

BOMBAY, 20*th December*

The Gilt-edged market continued to rule firm during 1959 also, as it did in 1958, thanks to the generally comfortable conditions in the money market, following the continued growth in deposits of banks. Nevertheless, the gains over the year were less marked than in the previous year. This was because purchases by banks were less than in 1958, on account of greater demand for bank credit. Thus, between the end of 1958 and 11th December 1959, the addition to Scheduled banks' investment portfolio was of the order of Rs. 165.8 crores, as against Rs. 214.3 crores in the corresponding period of 1958, and Rs. 68.5 crores for the whole of 1957. The slower pace of rise was also partly due to the diversion of some funds to industrial securities, particularly to the fixed-yield securities issued by joint-stock companies. The firm trend in securities is fully reflected in the rise in the Reserve Bank of India index number of prices of Government securities for all-India (Base: 1952-53 =100) from 100.4 at the end of December 1958 to 101.4 for the week ended 12th December 1959. This increase of 1 point is on top of a rise of 2.3 points in 1958. The index number for State Government securities advanced to 102.8 from 102.0, to which level it had gone up last year from 100.1 at the close of 1957. Following this appreciation, the yields on Government securities declined for the second year in succession, as will be clearly seen from the chart on page A239 of this Number.

Notwithstanding the larger demand for bank credit and the spate of attractive issues by joint-stock companies, the response to the Central Government and State Governments loans issued during the year was quite encouraging. On 1st July, the Government of India issued two new cash-*cum*-conversion loans for an aggregate sum of Rs. 175 crores. The loans and the terms thereof were: (1) 3½ per cent. 1969 Bonds issued at Rs. 98.85 per cent. and (2) 4 per cent. 1979 Loan at par. The Government offered to accept, in lieu of cash, securities of 3 per cent. 1959-61 Loan at par and 2½ per cent. Hyderabad State 1954-59 Loan at Rs. 85.50 for every Rs. 85.71 or O.S. Rs. 100. The total subscriptions amounted to Rs. 183.84 crores, of which Rs. 102.91 crores were for 3½ per cent. 1969 and Rs. 80.93 crores for 4 per cent. 1979. Cash subscriptions aggregated Rs. 94.46 crores. Later in the year—in October to be precise—the Government created further issues of 3½ per cent. 1969 for Rs. 25 crores at Rs. 99.40 per cent. and of 3½ per cent. 1974 for Rs. 20 crores at Rs. 99.65 per cent., in view of the keen demand and shortage of offerings in the market. As in the previous year, they were offered, in the first instance, to the Reserve Bank of India.

The following table shows the extent of Central Government borrowing in 1959, as compared with the three previous years:

(In crores of rupees)

	Total amount	Conversion	Net borrowing
1959	183.84	89.38	94.46
1958	201.81	9.36	192.45
1957	136.17	45.08	91.09
1956	157.73	80.52	77.21

Borrowings by the State Governments were also much heavier than in 1958. As against 11 States in the field for Rs. 49.50 crores last year, as many as 13 States came to borrow this year an aggregate sum of Rs. 61.50 crores. All loans carried interest at 4 per cent. and were for 12 years. Excepting the Bombay loan which was issued at par, all others were offered at a discount ranging from 50 nP to Re. 1. The only State to offer conversion facilities was Madras, which accepted in lieu of cash 3 per cent. 1959 loan at par. The total amount subscribed was Rs. 100.23 crores.

The market opened the year on a steady note, but turnover was small on account of the growing stringency in the money market. Nevertheless, long-dated issue displayed a hardening tendency on good demand from institutional investors. However, as the season progressed, the demand petered out a little. The month of May witnessed a revival of buying enquiries, with the advent of easy money conditions. As the terms of the Central loans announced in June proved to be in line with the market expectations, securities displayed strength. There was keen demand for short- and medium-dated loans, which gathered momentum with the progress of the slack season. The Reserve Bank of India index number for Central Government loans which had gone up from 100.4 to 100.5 early in the year, stayed at that level till the end of May. Thereafter, it progressively rose to the year's peak of 101.6 in the week ended 10th October. This level was maintained up to the first week of November. Subsequently, there was a slackening of demand, which was reflected in the dip in the Reserve Bank of India index number to 101.4 in the week ended 12th December.

As in the previous year, State loans too were in good form, thanks to the support from the L.I.C. and the keen enquiries for 4¼ per cent. 1970 and 4 per cent. 1967 and 1968 loans from other institutional investors.

The following table gives the borrowings of the State Governments during the last four years:

(In crores of rupees)

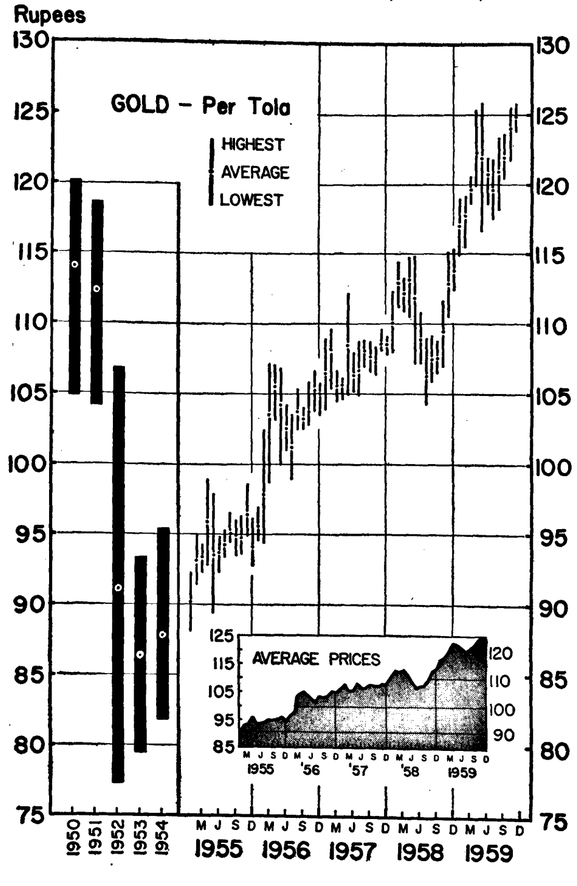
	Total amount	Conversion	Net borrowing
1959	67.65	0.87	67.08
1958	54.42	5.24	49.18
1957	9.91	1.33	8.58
1956	68.71	2.18	66.53

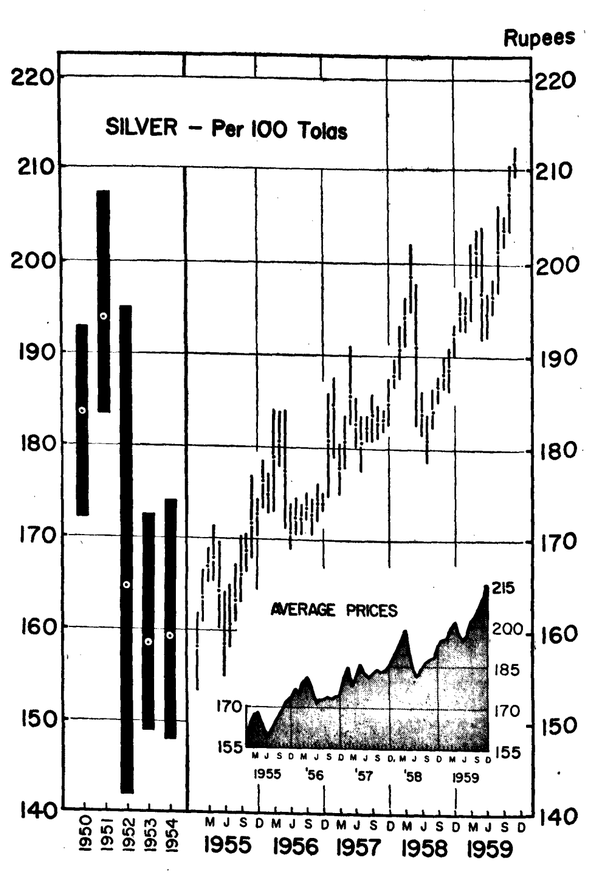
The variations in prices of some of the representative loans over the year are given in the following comparative table:

	19th December 1959		30th December 1958		30th December 1957		30th December 1956	
	Price	Yield	Price	Yield	Price	Yield	Price	Yield
Central Govt. Loans—	Rs.	%	Rs.	%	Rs.	%	Rs.	%
3½% 1961	100.20	3.35	100.10	3.46	99.60	3.62	99.25	3.66
3½% 1963	99.85	3.51	99.20	3.49	97.80	3.78	97.88	3.68
3½% 1967	99.85	3.52	99.15	3.52	97.60	3.80	98.37	3.69
3 % 1970-75	93.20	3.77 (3.57)	90.65	4.00 (3.76)	85.75	4.48 (4.14)	86.88	3.99
3½% 1974	99.65	3.76	98.40	3.90	98.25	3.90	98.50	3.87
3 % Con. Loan 1986 or later* ..	73.34	4.10	73.25	4.10	71.00	4.23	73.00	4.11
State Loans								
4 % 1967 Bombay	100.90	3.86	100.50	3.93	98.25	4.23	99.69	4.04
4½% 1970	102.45	3.96	101.15	4.11	..	..	..	..
4 % 1967 Madras	100.40	3.94	100.00	4.00	97.00	4.38	98.06	4.38
4½% 1970	102.10	4.00	100.90	4.14	..	..	..	..
4 % 1967 W. Bengal ..	100.35	3.95	99.75	4.03	98.25	4.23	99.10	4.06
4½% 1970 „ ..	102.05	4.01	100.75	4.16	..	..	..	..

Note: Figures in brackets represent yields to later maturity. * Flat yield.

TRENDS (WEEKLY) IN BULLION PRICES (SPOT) IN BOMBAY





Sharp Spurt In Indian Cotton Prices

U.S. Bid To Regain Its Former Position In World Market

BOMBAY, 19th *December*

REFLECTING the recovery in textile activity and the rise in mill consumption of raw cotton, on the one hand, and fall in cotton production, on the other, the cotton market during the year under review, showed sustained firmness. It is true that the built-in bearishness of the hedge contract made it a less accurate and sensitive barometer of the supply and demand situation than would otherwise have been the case. This, coupled with the possibility of intervention by the Forward Markets Commission in the market, forced futures prices out of parity with ready rates by a wide margin. Nonetheless, the broad trend was for the futures to follow generally the price pattern of spot cotton. While the farmers, no doubt, stood to gain by this sharp rise in price, for the industry, it meant higher raw material cost and, for the consumer, higher cloth prices.

Trading in cotton at the beginning of the year commenced on a firm note. The strength of the market witnessed towards the end of November 1958 persisted throughout December and continued in January. Adverse crop news from the growing regions, the progressive reduction in crop estimate and rising mill consumption imparted strength to futures. Spot prices too were firm. New crop arrivals found ready buyers at advancing rates. Export business was, however, negligible owing to continued slow demand from abroad and shortage of stocks caused by the poor Bengal *Deshi* crop.

The market was in a hesitant mood in February in anticipation of the budget and the fixation of tendering differences for the maturing Jarilla March 1959 contract both of which events did have little effect on the market. Trading in Jarilla May 1959 contract started on 5th February.

In sharp contrast to the position obtaining at the beginning of the season, when it was thought that, with sizable end-season stocks and the prospect of a crop of 5.4 million bales, supply of cotton would be adequate, the outlook underwent a radical change. The sharp deduction in crop estimate and the rising mill consumption indicated that the statistical position of cotton was very tight and that end-season stocks would be much less than at the beginning of the season. This was responsible for the remarkable firmness of the Jarilla March 1959 contract prior to its expiry on 24th March at Rs. 695, after having touched a high of Rs. 671 on 23rd March. The contract was quoted at as low as Rs. 641.25 at the beginning of the year. Tenders aggregated only 3,650 bales, comprising 1,650 bales of Buri-American, 1,600 bales of Laxmi A, 300 bales of Khandesh Jarilla, 50 bales of 216F and 50 bales of Madhya Bharat Jarilla. The May 1959 contract too was firm, though not as firm as the March contract. Trading in Jarilla August 1959 contract started on 26th March. It was initially quoted at Rs. 683; but later moved up to Rs. 688.25 towards the close of the first quarter. Towards the close of March, Bengal *Deshi* was quoted at Rs. 690, Berar Jarilla at Rs. 770 and Vijay at Rs. 970, as against Rs. 650, Rs. 710 and Rs. 910 at the beginning of the year.

Ready Prices Harden

Despite the fact that the crop movement was swift and the bulk of the crop from Broach-Surat and Kathiawar areas had arrived, prices of ready cotton hardened. Practically no unsold stocks were available. Prices of some varieties even pierced the ceiling rates. Export demand, however, was subdued. Barring some interest in Bengal *Deshi* from Japan, other exportable varieties were neglected. Consequently, unused balances of the order of 155,190 bales of the quota of 250,000 bales released in October 1958, lapsed on 31st March 1959. The quotas released in November 1958 and still valid for shipment till the end of August aggregated 250,000 bales of which sales registered till the end of March aggregated 10.000 bales. Shipments of cotton from 1st September 1958 till end of March amounted to 235,000 bales, as against 154,000 bales during the same period of the previous season.

Dull conditions were witnessed in the market during April. Both the Jarilla May and August contracts fluctuated in a narrow range. The tendering differences fixed on 25th April, which were bullishly interpreted, imparted strength to the market. Consequently, both the contracts firmed up towards the close. The spot section continued to be active, with all-round milll buying of popular varieties, especially Kalyan, Jayadhar and Vijay at advancing prices. But towards the close of the month activity subsided, thanks to the high price of cotton.

Futures steadily advanced in May. The May contract went off the board on the 25th at Rs. 702, after having touched a high of Rs. 706. Tenders aggregated 4,750 bales. With prices of most varieties at or near the ceiling and limited stocks, mills made only hand-to-mouth purchases. Export demand for Bengal *Deshi* was very keen during the month.

The futures market was subdued during June and July. The Jarilla August 1959 contract see-sawed in a narrow range. The quotation for the contract dropped to Rs. 697 by the close of July, as compared with Rs. 709 at the beginning of June. Although the volume of business had dwindled considerably, the spot market continued to rule firm with prices showing no tendency to ease.

Changes in Hedge Contract

New crop futures trading started on 22nd June. The basis of the hedge contract, I.C.C. March 1960, continued to be Fine Jarilla 25/32" staple. But some significant changes were made in the hedge schedule, the most important of them being the raising of the basic staple of Buri/American by 1/16" from 27/32" to 29/32". In the case of Madhya Pradesh Jarilla, Bombay State Jarilla, Khandesh Virnar 197/3 and Westerns also the basic staple was increased by 1/32" from 25/32" to 13/16". The basic staple of Dhollerah, however, was reduced from 25/32" to 3/4", but the tolerance of 1/32" off in staple for this description was abolished. These changes were generally welcomed as capable of bringing the basic staple more in line with the intrinsic value of the basic descriptions. Another innovation was that the actual stations from which cotton could be tendered against the hedge contract were enumerated instead of mention of mere areas as hitherto. The standard and tenderable descriptions were also specified separately. Some modifications were also introduced in the by-laws governing the delivery contracts by virtue of which these contracts could be entered into for any description of Indian cotton included in the hedge schedule.

Conditions remained almost unchanged in August. The August contract expired on the 25th at Rs. 705. Most of the 'longs' had by then got out of their commitments to avoid acceptance of tenders which amounted to 8,950 bales, comprising mostly Laxmi A (8,250 bales) and 700 bales of other varieties. Spot prices continued to be very firm. Export demand was fairly good. Total shipments during the season ended 31st August 1959 was tentatively estimated at 394,575 bales, as against 292,480 bales in the previous season. A substantial quantity of unutilised export quota (about 82,000 bales in the case of Bengal *Deshi* and 199,000 bales in case of 3/4"staple cotton) lapsed on 31st August 1959.

Supply Position

The statistical position of cotton was getting tighter. Unfavourable weather in most parts of the cotton tract made new crop prospects gloomy. The small carryover of 1.8 million bales at the end of August and an estimated crop of 4.5 million to 4.8 million bales, indicated that scarcity conditions, far from being relieved, would only be aggravated. Reflecting this, the new crop contract Jarilla March 1960 smartly rallied from Rs. 691 at the end of August to Rs. 719 at the end of September, after touching a peak of Rs. 730 on 14th September.

The advance in spot prices was even more remarkable. Practically all cottons available for delivery upto end of December were sold at or very near the ceiling prices. For instance, the price of old crop Laxmi 7/8" staple at the end of September was Rs. 1,010, only Rs. 35 below the ceiling, as against Rs. 960 a month ago. Wagad 3/4" staple was priced at Rs. 780, the ceiling rate. The rise in price of new crop was even more marked. Punjab American H-14 7/8" sharply advanced from Rs. 915 at the end of August to Rs. 990 at the end of September. Khandesh 197/3 13/16" staple was traded at the ceiling price of Rs. 840, as compared with Rs. 802 a month ago. In spite of the high prices, mills bought substantial quantities of old and new crop. In fact, availability of cotton, rather than high price, was the limiting factor.

Despite the fact that weather continued to be unfavourable in October, futures market reacted towards the end of the month, thanks to signs of improvement in weather, and speculation about the possibility of imports being allowed on a more liberal scale in the new season, that is, 1959-60. From a high point of Rs. 735.75 on 10th October, the March 1960 contract declined to Rs. 713.50 at the close of the month.

But prices of spot cotton ruled remarkably firm, thanks to sustained mill demand for all types of cotton except Bengal *Deshi*. This was perhaps the only variety in which there was a sizable surplus over internal demand. Since overseas demand too was slack Bengal *Deshi* prices receded. Export sales registered by the end of the month against the quota of 75,000 bales issued towards the close of August 1959, aggregated 48,000 bales.

The futures market resumed its upward climb in November. The drastic reduction in crop estimate to 4.5 million bales, the slow pace of new crop arrival and enlarged mill consumption of cotton, coupled with the fact that there remained very little unsold stocks, induced a sharp rise in prices. Ever the announcement of an import quota of 280,000 bales of cotton of staple length ranging from 1.1/16" to 1.3/16" and above on 25th November failed to have any adverse effect on the market which continued its strident advance. The Jarilla March contract rallied to Rs. 749.50 on 30th November. Fearing that if this trend were allowed to continue the contract might advance even further, the Board of the E.I.C.A., under a directive from the Forward Markets Commission, raised the rate of margin payable when the contract price reached Rs. 770 from Rs. 25 to Rs. 75. The rate of margin on the first slab which became payable when the contract touched Rs. 750 was, however, kept unchanged at Rs. 15 per bale.

The futures market, however, only partly reflected the actual cotton situation, thanks to the bearish slant of the hedge contract and strict control of the futures market. In the spot market, hardly any variety of cotton was available below Rs. 800 and very little below Rs. 900. The ready rate for Moglai Jarilla 25/32" staple, the basis of the hedge contract, was Rs. 140 above the hedge contract quotation of Rs. 750 while the unofficial quotation was as much as Rs. 200 "on."

Fresh Controls and Quota System

With a view to curbing the rise in spot prices and regulating supplies, the Textile Commissioner imposed fresh controls on cotton early this month. Mills were prohibited from buying cotton in excess of their three months' requirements and ginning of *kapas* were ordered to be completed by specified dates.

These fears and the apprehension that if they prove ineffective the Government might impose complete control on distribution of cotton induced a lull in activity in both the futures and spot sections. The Jarilla March 1960 contract, which had climbed to a peak of Rs. 764 on 1st December, receded to Rs. 750 and is now fluctuating between Rs. 750 and Rs. 760. As compared with this, the prevailing rate for I.C.C. Jarilla March 1959 at this time last year was only Rs. 630.

The inevitable at last happened. The Textile Commissioner announced on the 19th inst. that the Government had decided to issue quota allocations for Indian cotton to mills. The quota will, in the first instance, be to the extent of 50 per cent. of last year's consumption which will be progressively increased as and when new crop cotton arrives in the market and the crop picture becomes more clear. As a necessary corollary to these measures, quality survey was also proposed to be introduced.

Karachi

1959 was a critical year for Pakistan cotton. The trade was considerably dislocated due to the closure of the futures market for about three months because of the inability of the Karachi Cotton Association to devise a hedge contract acceptable to the members and the Government. The deadlock was finally solved and futures trading was resumed on 10th August 1959. The Association enacted, with the support and approval of the Government, some new by-laws aimed at evolving a more balanced hedge contract. The Karachi cotton futures market, after having remained listless from January till mid-February, reacted towards the close of February on large-scale long liquidation based on tender considerations. The N.T.R.G. March contract, which was ruling round Rs. 64-8 at the beginning of the year, declined to Rs. 54-8 by the end of February.

Demand for spot cotton was, however, well maintained. Mills showed keen interest in spot lots because the yarn and cloth prices fixed by the Government left sufficient profit margin for the mills. *Deshi* prices advanced on good overseas interest. Export demand too was fairly good. Following the visit to Karachi of a delegation of the U.K. Cotton Board, it was expected that Britain would buy more Pakistan cotton. These favourable factors, coupled with the rumour that a barter deal with some East European countries was in the offing, induced a recovery in futures market early in March. Towards the close of the month, the market again eased, thanks to the pressure on March contract prior to its expiry. Tenders against the contract amounted to 9,650 bales.

Change in By-laws

The futures market was dominated by technical factors in April. The rejection by the general body meeting of the Karachi Cotton Association of the resolutions passed by Board to have saw-ginned cotton tenderable upto ½ grade off only, as against 1 grade off as then prevailing, and the approval of some changes in by-laws governing fixation of tendering differences had a bullish effect on the market. But the Government's refusal to ratify the changed by-laws adversely affected the market which consequently turned bearish. Futures values slumped. The fall would have been more marked but for the strength of the spot market, renewed export inquiries and the tight statistical position of cotton.

The futures market was closed for the better part of May. The two arbitrators appointed by the general body of the Karachi Cotton Association to fix the settlement rates for squaring up all open hedge contracts in May and July futures, agreed on Rs. 56 (12.31d.) per maund and Rs. 57 (12.53d.) per maund respectively as the rates. All open positions were squared up at these rates. The Board of Directors of the Association decided, with the hibit fresh trading in July futures and to postpone commencement of trading in new crop January 1960 futures. Meanwhile, the hedge contract and the by-laws governing the working and administration of futures contracts were being re-examined.

The futures market reopened on 10th August. The January 1960 contract commenced at Rs. 73-12, a level about 50 per cent. above that at which the May contract closed on 21st April. This artifically high level, coupled with slow export demand and lack of domestic mill interest, induced heavy selling with the result that the January contract declined to Rs. 63 at the close of the month, after having touched a low of Rs. 59-12 on 21st August.

The Government announced on 24th July a reduction in export duty on American seed cotton from the prevailing rate of Rs. 115 per bale to Rs. 75 per bale and on *Deshi* from Rs. 50 per bale to Rs. 40 per bale. The statistical position of cotton at the end of August indicated tight supplies. Out of a total estimated supply of 1.65 million bales during the 1958-59 season, made up of a crop of 1.47 million bales and a carryover of 180,000 bales, local mills absorbed 1.1 million bales. exports accounted for 480,000 bales leaving only a small quantity as end-season stocks.

Quietly steady conditions were witnessed on the Cotton Exchange in September and October. The market firmed up in November. The rumour, which later came true, that India would allow import of a substantial quantity of Pakistan cotton, had a bullish effect on the market. This, together with unfavourable weather in Sind and the Punjab and delay in the movement of new crop, led to speculative buying and brisk mill demand. The N.T.R.G. January contract, which hovered in the neighbourhood of Rs. 63-8 at the beginning of September, rallied to Rs. 68-9 at the end of November. The March contract too spurted from Rs. 63-11 to Rs. 68-4 during the same period. The firm trend gathered momentum in December, following the announcement by the Government of India that import of about 20,000 bales of Pakistan cotton would be permitted. The January contract advanced further to Rs. 72-9 and the March contract to Rs. 71-2 on the 19th inst.

Alexandria

After a period of uneventful trading lasting throughout January and February, Alexandria cotton futures market suffered a sharp setback in March caused by the reduction in official price support. Heavy hedge selling, which followed the announcement, depressed prices. Karnak March 1959 contract declined from 72.45 tallaris on 31st December to 71 tallaris prior to expiry. The May contract, which was quoted at 72.82 tallaris on 31st December, receded to 71 tallaris at the end of March. The Ashmouni June contract eased from 63.60 tallaris to 61. Export demand during this period was, however, fairly good. Sizable business was concluded with India, Japan, and France. This induced a recovery in futures in April. The firm trend of the spot market was another helpful factor.

The Ministry of Agriculture, in its fourth and final estimate for the 1958-59 season estimated the crop (less Scarto) at 9,693,000 cantars (1 cantar=99.05 lbs.), as against the previous season's 8,827,000 cantars.

Trading was featureless during the most part of second quarter. Prices maintained a steady trend. Business in new crop (1959-60) started on 22nd May. The cotton marketing policy for the 1959-60 season beginning on 1st September 1959 was also announced during May. The Government undertook to buy all new crop at the minimum price of 69 tallaris for cantar for Karnak, 64 tallaris for Menufi, 59 tallaris for Giza 30, 57 tallaris for Dandera and 55 tallaris for Ashmouni.

New Cotton Policy

Futures prices declined in August on speculative selling based on new crop prospects and lack of export demand. Exports during the 1958-59 season exceeded one million bales, of 720 lbs. as compared with 782,808 bales during the previous season. At the close of the month the Government announced its cotton policy for the 1959-60 season. The salient features of the new policy are:

(1) The Egyptian Cotton Commission will buy, upto 31st August 1960, any quantity of the 1959-60 crop at the prices mentioned above.

(2) The export duty on all varieties of cotton was abolished. The duty of 4.01 tallaris per cantar was, however, maintained in the case of Ashmouni cotton to ensure regular supplies to the domestic industry.

(3) The Government will aim at bringing Egyptian prices to parity with world cotton prices. In furtherance of this objectve, barter transactions were abolished. The official discount for payments in transferable currencies was made subject to weekly changes.

After fluctuating narrowly in September and October, with the undertone remaining steady, the market smartly rallied in November. The improvement in the textile situatic in Western Europe and the U.S.A., which are important outlets for Egyptian cotton, the liquidation of stocks in Sudan, a keen competitor of Egypt, and the comparative cheapness of Egyptian cotton, induced all-round buying. The Karnak January contract, which was quoting round 71.75 tallaris at the end of October, improved to 74.58 tallaris by the close of November. The March contract rose from 74.25 tallaris to 74.90 tallaris in the same period. The medium-staple Ashmouni February climbed up from 60.85 tallaris at the close of October to 64.00 tallaris by the end of November. The April contract too moved up from 60.90 tallaris to 63.80 tallaris.

The Ministry of Agriculture, in its first estimate for 1959-60, published in October, placed the crop during the season at 10.05 million cantars, as compared with the final estimate of 9.84 million cantars in the 1958-59 season. The estimate showed a marked increase in the producton of cotton of 1.1/4" staple and above as well as of Menoufi, although that of Karnak has shown a decline.

The firmness of the market noted in November continues to persist. In fact, the Ashmouni contracts picked up additional strength in December. Karnak January contract was quoted at 74.35 tallaris on 17th December and the March contract at 75.30 tallaris. Ashmouni December contract was quoted at 70.15 tallaris and the February contract at 68.15 tallaris.

New York

Barring a few months, trading on the New York Cotton Exchange was a tame affair throughout the year. The volume of business was meagre and price movements narrow. This inactivity, which was particularly evident in the new season (1959-60) which commenced on 1st August, is attributed to the fact that the Government presently is by far the largest single buyer of cotton. The stabilisation of the domestic price level by centralised C.C.C. marketing has largely eliminated the normal use of the futures contracts as a hedging medium. The situation has developed to such an extent that three top ranking leaders of the American cotton trade and industry recently urged before a joint hearing by a Senate and House Cotton Sub-committee that, unless something was done, the cotton exchanges were doomed to oblivion and would not be available for the trade when they were again needed. They, therefore, suggested five changes in the U.S. cotton policy which, in their view, were essential for the survival of the exchanges. These are: (1) A simpler and more efficient method for handling and marketing choice cotton through normal trade channels; (2) the fixing of the C.C.C. carrying charges at commercial costs; (3) removal of C.C.C. stocks from competition with the farmers' current crop by requiring the C.C.C. to charge higher prices; (4) an easier way for purchasers of C.C.C. stocks to have their cotton reclassified; and (5) facilitating the export of American cotton by stabilising the price of payment-in-kind certificates.

In the New York cotton futures market, firm conditions prevailed during the first quarter of 1959. The heavy movement of cotton into the loan programme, the tightening of free supplies and the chances of mill consumption rising to 8.5 million bales during 1958-59, as compared with 8 million bales in the previous season, imparted strength to the market. The May 1959 contract advanced from 34.25 cents at the end of December to 35.80 cents by the end of March, while the July 1959 contract rose from 33.53 cents to 34.72 cents during the same period. Total Government-controlled stocks on 31st March 1959 amounted to 7.80 million bales, made up of 6.48 million bales of 1958 loan cotton and 1.32 million bales of C.C.C.-owned stocks.

In a bid to recapture the U.S. former share in world exports of cotton, the Department of Agriculture announced, early in February, the cotton export programme for the 1959-60 season. The main features of the programmes are: (1) An export subsidy in kind would be paid on cotton shipped after 1st August 1959 at the rate of eight cents per lb., subject to change without prior notice. (This compared with 6.5 cents per lb. paid during the 1958-59 season.) (2) The exporter would receive the subsidy in the form of dollar credit which could be used only for buying cotton from C.C.C. stocks. (3) The sales for export programme, which was in effect from 1956, would be discontinued after 31st July 1959.

Dull trading with narrow price movements characterised business in the New York Cotton Exchange during the second quarter of the year. Limited free supplies continued to restrict business. With prices virtually stabilised at parity with C.C.C. minimum reselling levels, hedging and speculative interests were lacking. The October 1959 contract receded from 32.79 cents at the end of March to 32.31 cents by the end of June. The December 1959 contract declined from 32.53 cents to 32.34 cents during the same period.

In its final report, the Department of Agriculture estimated the 1958-59 crop at 11.51 million bales (of 500 lbs. each), as against 13.59 million bales in the previous season.

Conditions in the third quarter of the year remained more or less unchanged from the previous quarter. Trading was slow and prices fluctuated indecisively.

The 1958-59 season ended on 31st July, leaving carryover stocks of the order of 8.9 million bales. Consumption during the season aggregated 8.7 million bales, 700,000 bales higher than in the previous season. Exports, however, were lower at 2.8 million bales, as against 5.7 million bales in 1957-58.

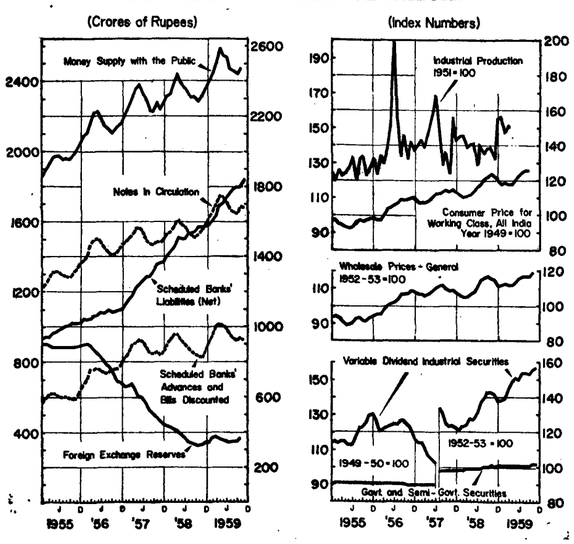
The first production estimate for the 1959-60 crop, published on 10th August, placed the crop at 14.81 million bales, 3.30 million bales more than last season's final estimate. The yield per acre was estimated at 474 lbs., as against last season's 466 lbs. Prospects for domestic mill consumption and exports of cotton continued to be encouraging. Consumption was expected to aggregate 9 million bales and export under the subsidy in kind programme was expected to exceed 5 million bales.

Exports Rise

The market ruled quietly steady in October. A national marketing quota of 13.13 million bales and a national acreage allotment of 16 million acres for the 1960 crop of Upland (short-staple) cotton, the same as for the 1959 crop, were announced on 15th October. The futures market presented a better appearance in November which lasted through most part of December. This reflected the steady pace of export sales and the brisk demand from domestic mills. The December 1959 contract rose from 34.11 cents at the beginning of October to 32.72 cents and went off the board at that rate on 14th December. The March 1960 contract firmed up from 32.56 cents to 33.23 cents during the same period.

Registration for export under the payment in kind programme continued to progress. Registration during November alone amounted to one million bales, raising the total since the commencement of the programme on 7th May, to 3.82 million bales. If this trend were to continue the five-million-bale goal is quite likely to be reached by the beginning of January and the Department of Agriculture may consider revision of the subsidy rate.

INDIA'S MAIN ECONOMIC INDICATORS



COTTON & IRRIGATION

IT is universally recognised that, by irrigating a crop which is usually rainfed, the yields can be increased to a large extent. Irrigation has thus been considered as a great necessity to boost crop yields in arid regions. India has been particularly fortunate in having a large number of rivers, some with perennial source of water and others with a seasonal flow. Since independence, a great many projects have been undertaken with a view to storing water by the construction of dams and thus bringing vast stretches of the country under canal irrigation. One of the biggest in this series of river valley projects is the Bhakra-Nangal in the Punjab. Other equally important ones are the Damodar Valley in the West Bengal-Assam, Hirakur in Bihar-Orissa, Tungabhadra in Mysore-Andhra Pradesh and several other big and small projects in the different States.

This supply of water can be a great boon in increasing crop production, provided the water is used judiciously by the cultivators. A great deal depends on the knowledge as to when to irrigate and how much water to apply for maximum efficiency. The response of the soils that are brought under irrigation in the different projects will have to be studied in great detail to plan out an efficient cropping programme. Recently, however, there have been repeated cotton crop failures in the Punjab which baffled the scientists and the growers alike. There is no doubt that, with 90 per cent. of the cotton growing area in this country dependent upon the vagaries of the monsoon, the fortunes of the growers are always in the balance. Nature alone has the key to the success or the failure of the cotton crop in India. It is increasingly felt that, with a network of these irrigation projects, it would be possible to minimise the dangers of crop failures to a large extent. The water requirements vary greatly according to soil types, size of the plant, temperature, wind and humidity. Besides, soils vary in their capacity to hold water. Careful planning is, therefore, required in each case and a little effort by the irrigator in checking the uniformity and depth of water penetration would go a long way towards providing a good and efficient irrigation system.

The cotton crop failures in the Punjab in recent years have been attributed to the receipt of late rains in September-October when the crop is fully grown with well developed bolls about to mature and burst. The Indian Central Cotton Committee and the Indian Council of Agricultural Research had considered this problem at great length and appointed an Expert Sub-Committee to study the causes for the failures. This Sub-Committee toured the affected areas in the Punjab, visited a larger number of fields and held conferences with the cotton growers to obtain their views, and also discussed the problem with the Director of the Irrigation Research Institute, Amritsar. The findings of the Sub-Committee revealed that, in the districts of Gurudaspur, Amritsar, Ferozepur, parts of Ludhiana, Sangrur, Patiala, Karnal, Hissar, etc., the water-table had been steadily rising, with the result that the crop suffered in yield and quality on account of poor aeration of soil. The loss was accentuated by the incidence of severe jassid attack. With such water-logged conditions and the receipt of the late rains, there have been indications of an increasing tendency on the part of the cotton growers to shift from growing American cotton to indigenous *deshi* varieties. The consensus of opinion of the Sub-Committee, which was endorsed subsequently by the Indian Central Cotton Committee, was that the Punjab Department of Agriculture should demarcate such areas which are water-logged and discourage the cultivators to grow cotton in these areas. It also recommended that the Punjab Government be requested for the expeditious implementation of the drainage project, as, otherwise, there was a great danger of losing not only cotton but other crops as well, owing to aggravation of water-logged conditions. Such water-logged conditions were also conducive to spread of human diseases.

With a plentiful supply of water, the tendency on the part of the cultivators is to over-irrigate the crops in the hope of reaping bumper harvests. This is a fallacious idea as it has been proved that such excessive irrigation leads to water-logging and the deterioration of the soil resulting in failure of the crop, as has to some extent been observed in the Punjab. The emphasis is, therefore, on judicious irrigation.

Water, which is a boon, could become a bane, if not utilised properly.

OILSEEDS FORGE AHEAD

Good Overseas Demand For Oils

BOMBAY, 15th *December*

THE year 1959 was an eventful one for the oilseeds market in that prices of nearly all varieties of oilseeds showed a persistent upward trend. The tight supply position, rapidly growing domestic demand and enlarged exports of seeds, oils and cakes, following some liberalisation of export policy, accounted for this pronounced strength in the oilseeds market. The index number of wholesale prices of oilseeds (Base 1952-53=100), which stood at 121 in December 1958, jumped to 128 in January 1959, and, again, to 136 in May, an all-time peak level. It declined by a point to 135 in June and July and to 132 in August, but recouped to 136 in September. In November, the latest month for which the index number is available, it fell sharply to around 130. The index for December must once again be substantially higher than in November on account of the current higher prices, following better export prospects for seeds and oils. Private crop estimates show that the production in 1959-60 will at best be maintained at the previous year's level. Another important development of the current year is the decision taken by the Bombay Oilseeds and Oil Exchange to permit forward trading in groundnut oil from 24th December, for the first time in Bombay. Hedge trading in groundnut oil has already been in operation in Delhi, Adoni, Madras, Hyderabad and Saurashtra.

Output

The production of oilseeds made steady progress in 1958-59, in distinct contrast to the previous year. In 1958-59, the output of five major oilseeds made a strident recovery to set a new record at 6.9 million tons, an increase of over 13 per cent. over the previous year. The following table shows the final estimates of area and production in 1958-59, as compared with the previous year:

	Area ('000 acres)		Production ('000 tons)	
	1957-58	1958-59	1957-58	1958-59
Groundnut ..	14,876	14,481	4,436	4,816
Castorseed ..	1,184	1,193	89	111
Sesamum ..	5,171	5,332	354	493
Rape and mustard ..	5,979	6,288	923	1,069
Linseed ..	3,129	3,708	249	430
Total ..	30,339	31,002	6,051	6,919

The performance on the export front was not altogether discouraging. The total exports of vegetable oils from Bombay rose to 35,340 tons during the eleven months ended November 1959, as against over 33,000 tons during the corresponding period in 1958. Oilseeds exports improved from about 600 tons to 7,443 tons, thanks mainly to increase in H.P.S. groundnuts. The rise in exports of oilcakes was more spectacular, accounting as it did for 201,721 tons, as against 80,600 tons. The quantity and value of aggregate exports of oils from India during the whole year 1958 and the first eight months of the current year are shown in the following table:

	1958		1959 (Jan to Aug.)	
	Quantity	Value	Quantity	Value
	(Cwts.	(Rs. lakhs)	(Cwts.	(Rs. lakhs.)
Castor oil ..	404,680	305.35	431,592	200.54
Groundnut oil	17,760	14.20	845,780	558.17
Linseed oil ..	434,545	303.03	113,200	77.14
Cotton seed oil	47,718	35.79	..	..
Total ..	904,703	658.37	890,581	635.85

Groundnut

Distinctly firm conditions were witnessed in the groundnut section throughout the year. The year, however, opened on a subdued note, thanks to heavy arrivals of new *kharif* crops and lack of any fresh support from shippers and local consumers. Traders were also disappointed at the protracted delay in releasing the export quota for expeller cake. The reports of some improvement in the statistical position of groundnuts in the crop year 1958-59 aided the sentiment. Tables were turned within a fortnight and the market staged a smart recovery, following the announcement of a series of export promotion measures. Among these measures, mention may be made of the grant of additional (bonus) quotas of H.P.S. groundnuts and groundnut oil for export upto the end of June 1959. A quota of two tons of H.P.S. groundnuts was allowed to exporters for every ton of H.P.S. exported by them before the end of September 1958. Besides, for every ton of groundnut oil exported upto September 1958, exporters were allowed a quota of three tons of oil. Established shippers were also permitted to export groundnut cake equal in quantity to the oil they exported during the two months, January and February, against their current quotas. A quota of 20,000 tons of groundnut oilcake (expeller variety) was also released for export. On top of this came the news of freight rate reduction in respect of H.P.S. on the India-Atlantic Ocean ports. There were encouraging inquiries for groundnut H.P.S., oils and oilcakes, particularly from Hongkong and Canada.

The bullish fervour became pronounced by the end of January so much so that the authorities had to contrive measures to restrict unbridled speculation. At the end of January, the quantum of margin deposits on open long positions was raised to Rs. 45 per candy when the closing rate of futures contract exceeded Rs. 185.50 per candy, instead of the then prevailing rate of Rs. 15 per candy when the closing rate rose above Rs. 175 per candy. Apparently, this measure failed to make any marked impact on the market. In the first week of February, the Forward Markets Commission (F.M.C.) intervened again to impose a special margin of outstanding long positions in transferable specific delivery contracts in groundnuts. The market, however, remained unaffected. Consequently, the F.M.C. issued a strict warning to traders, reminding them that it had wide powers to deal with any situation that might arise, including powers to alter the margin deposits on current contracts with retrospective effect and to close existing contracts at such rates as it might consider appropriate, irrespective of the actual rates ruling in the market. As if to supplement these moves by the F.M.C., the Reserve Bank issued a directive restricting advances of bank credit against groundnuts; all scheduled banks were directed to maintain a margin of not less than 45 per cent. of the value of stocks in respect of advances against the security of groundnuts.

These measures to control speculation had, if anything, only a temporary effect. A buying spree set in once again by the middle of March. This was induced by the tight supply position, as a result of restricted arrivals from terminal centres and also by the sustained support extended by crushers and *vanaspati* manufacturers at relatively lower levels. Export prospects were presumed to be excellent, particularly in view of the Government's anxiety to boost exports. The first quarter closed, however, on a slightly subdued note because operators grew apprehensive over the possibility of permission for the new August contract being withheld by the F.M.C.

Rise in Prices

In these conditions, groundnut February 1959 contract, which had stood at Rs. 162.25 on 2nd January 1959, gradually advanced to Rs. 181 by the end of January. It came down subsequently to go off the board at the end of February at Rs. 173.50, after fluctuating within a narrow range. May contract, which had commenced on 5th January at Rs. 165.87, rallied by Rs. 20 to Rs. 185.37 by the end of the month. Thereafter the contract, following a brief spell of easiness, forged ahead to Rs. 190.25 on 18th March but later on drifted slightly lower to close the first quarter at Rs. 187.12. Bold ready ruled persistently firm. Nizam bold rose from Rs. 32.19 to wind up the quarter at Rs. 37.75, after touching Rs. 38.50 on 19th March. Oil ex-mill improved from Rs. 17.06 to Rs. 19.75 by the end of the first quarter, after fluctuating between Rs. 17.12 (touched by the middle of January) and Rs. 20.37 (by the middle of March).

The firmness in the groundnuts section flared up into a virtual boom in the second quarter of the year, despite further tightening up of margins. This was due to the restricted offerings and feverish activity on the export front. The news of heavy damage to the crop in Argentina on account of heavy floods and the closing of the ports in that country gave rise to hopes that foreign buyers, such as the U.K., would turn to India for supplies of groundnut oil, especially because British West Africa ceased to be seller of oil. A number of export promotion measures, announced by the Government, aided sentiment. On the eve of the commencement of the second quarter came the announcement of the Government to permit export of 3½ tons of groundnut oilcake (expeller variety) by established shippers for every ton of groundnut oil exported by them against contracts concluded between March and May 1959. An export quota for four tons of groundnut oil cake (expeller variety) was also granted for every ton of salad oil exported. Repeat allotments of groundnut oil equal to 15 per cent. of basic year exports and of H.P.S. groundnuts equal to 25 per cent. of basic year exports were also granted upto June 1959. Besides, as a new device for promoting exports, the F.M.C. exempted from the operation of margin, open long positions in groundnuts held as a hedge against commitments in respect of groundnut oil exports. No wonder then that exports of H.P.S. groundnut, oil and oilcake continued in full swing. Domestic demand was also at a higher level. Groundnut May contract spurted from Rs. 185 in the beginning of April to Rs. 204.75 by the 15th of May. It went off the board at the end of month at Rs. 203.50. August contract climbed up from Rs. 188 in the beginning of the quarter to Rs. 207.25 on 15th May. But it moved both ways in a limited range thereafter to close at the end of June at Rs. 198.75. Nizam bold rose gradually from Rs. 37.25 to Rs. 43 by the middle of June. But it came down later on to wind up the quarter at Rs. 41.50. Oil ex-mill was quoted at Rs. 21.87 at the close of June, as against Rs. 19.87 at the beginning of April and the highest for the quarter reached at Rs. 22.37 at the end of May.

Ground Lost

In distinct contrast to the two previous quarters, the groundnut section lost considerable ground on heavy bull liquidation during the third quarter ended September, barring occasional bouts of buying activity. Reports of the commencement of monsoon by the end of June in producing centres induced a wave of selling pressure. The pressure of Nigerian offerings of groundnut oil in European markets dampened the enthusiasm of traders. The decision of the U.S. to release substantial quantities of coconut oil also adversely affected the market sentiment. The Government, however, extended the export incentive scheme for groundnut oil, oilcakes and H.P.S. groundnuts. Only, the disparity in Indian and foreign prices for oils and seeds, prevented marked improvement in exports, though oilcake, was keenly sought after. Crushers and *vanaspati* manufacturers became cautious buyers in a declining market. Groundnut August contract, which had commenced the third quarter at Rs. 201, gradually drifted to lower levels to touch Rs. 186.50 by the first week of August. It, however, recovered to expire at Rs. 195 at the end of the month. February 1960 contract, which had opened at Rs. 170.50 on 7th July, eased to Rs. 163.75 by the beginning of September, but later picked up strength to touch Rs. 177.75 before closing the quarter at Rs. 174.50. Bold ready closed lower by Re. 1.75 at Rs. 41 at the close of the third quarter, after fluctuating between Rs. 42.50 and Rs. 36.75. Oil ex-mill declined from Rs. 22 to Rs. 21, after moving both ways between Rs. 22.12 (in the beginning of July) and Rs. 19.50 (in the end of August). At the end of September, a special margin was imposed on groundnut oil December 1959 delivery in transferrable specific delivery contracts.

The groundnut section continued to be listless until about the end of November. This was due mainly to large arrivals of new crop and a lull on the export front. Further extension of the export incentive scheme for groundnut oil and oilcake failed to enthuse the market. The sentiment recouped appreciably from the beginning of the current month, following the release of a fresh export quota of 20,000 tons of H.P.S. kernel for the period January-March 1960. Crushers and *vanaspati* manufacturers extended enlarged support. There was brisk activity in the export section also. Arrivals were limited. In order to check the soaring prices, the Reserve Bank of India directed all scheduled banks to take adequate measures to restrict the advances against groundnut and other oilseeds; a new limit of advances was also imposed, February 1960 contract, which had stood at Rs. 175.25 in the beginning of October, receded to Rs. 173.50 by the end of the month; it, however, recovered subsequently to forge ahead to 191.75 on 15th December. Bold ready improved from Rs. 39.75 to Rs. 40.50 on 7th October but relapsed later on to touch Rs. 35.50 in the beginning of November. It, however, recovered to Rs. 38.37. Oil ex-mill rose from Rs. 21.50 to Rs. 21.75 by the middle of October, but eased to Rs. 19.25 by November. It hardened once again to close at Rs. 20.87 on the 15th inst.

Castorseed

The castorseed section, too, witnessed buoyant conditions. Although castorseeds were dull in the beginning of the year, owing to large arrivals, particularly from Hyderabad, the position improved in sympathy with groundnuts. The subsequent strength in castorseeds was also induced by reports of damage to Brazilian crops as a result of adverse weather conditions. Traders were optimistic about the export prospects for castor oil, particularly to the U.K., the U.S., some Far Eastern countries, and also countries of the communist bloc. By the middle of March a sliding system of margins was imposed on open long position in castorseed. This seemed to have restricted further rally in prices. Castorseed May 1959 contract, which had opened the year at Rs. 138.62, gradually picked up strength to Rs. 160.62 by the middle of March. It lost some ground at the end of March when it closed at Rs. 155.37. Ready Madras, similarly, hardened from Rs. 27.75 to Rs. 31.12, but closed the first quarter slightly lower at Rs. 30.31. Oil commercial improved from Rs. 14 to Rs. 16.06 by the first week of February. It, however, drifted lower to Rs. 15 at the end of the first quarter.

Further rally in prices characterised the trading in castorseeds and oils in the second quarter, thanks mainly to revival of the U.S. interest in Indian castor oil, after a lapse of well over a year. At the same time, arrivals from Gujerat and Hyderabad were limited and the spot section ruled distinctly firm. There was sustained inquiry by the U.S. which pushed up the prices. In order to step up exports of castor oil, the F.M.C. announced exemptions from margin requirements in respect of open long positions held as hedge against commitments in respect of castor oil exports. The rapid rise in prices of Indian castor oil, however, discouraged U.S. buyers, who seemed to adopt a "wait and watch" attitude. This led to a landslide in values. Castorseed May 1959 contract advanced from Rs. 154.12 to Rs. 173.37 by the middle of May, but lost ground later to expire at Rs. 163.25 at the end of the month. September contract spurted from Rs. 159.25 on 3rd April to Rs. 176.62 on 12th May, but gave way to Rs. 161.87 at the end of June. Ready Madras closed the quarter higher at Rs. 31.56, as against Rs. 30.25 at the beginning of April, after fluctuating between Rs. 34.25 and Rs. 30 over the quarter.

The castorseed section was featureless during the major part of the third quarter. Larger arrivals and somewhat uncertain nature of export prospects for castor oil, accounted for the dull conditions. By the end of September, however, good business was reported in oil with the U.S. and some countries of the communist block. September contract eased from Rs. 162.62 in the beginning of July to Rs. 147.75 by 3rd September, but recovered subsequently to go off the board at Rs. 159. May 1960 contract declined from Rs. 156.25 in the first week of August to Rs. 151.87 by the beginning of September. It closed, however, on a firm note at Rs. 163.50 at the end of September. Ready Madras improved over the quarter by 12 nP to Rs. 31.62. Oil commercial improved to Rs. 16.50 at the close of September, as compared with Rs. 15.12 at the beginning of the month and Rs. 16.31 at the commencement of the third quarter.

The tapering off of Brazil's offer of castor oil in the U.S. led to further hopes of export business for Indian oil in the American market. By the middle of November, there was good support for castor oil, following encouraging export enquiries for castor oil from the U.S., the U.K., and France. May 1960 contract rose from Rs. 163.50 to Rs. 174.12, after fluctuating between Rs. 158.75 (on 28th October) and Rs. 173.00 (on 7th December). Ready Madras improved from Rs. 31.62 to Rs. 33.37. Oil commercial hardened from Rs. 16.37 to Rs. 17.87, after moving both ways in a narrow groove.

Linseed

In sympathy with other seeds and oils, the linseed section also made considerable headway. For the major part of the first quarter, it remained, however, quiet, particularly in the absence of any export demand for linseed oil. Larger arrivals also acted as a damper. The export quota for 5,000 tons of linseed oilcake released in mid-February aided an upward trend in prices. At the end of March, there were reports of sizable business in linseed oil having been done with Australia. The resultant speculative rise in prices led to the imposition of a special margin by the F.M.C. on linseed hedge contract May 1959. Hopes of sizable Australian tenders maintained the upward trend in prices in the second quarter also. Local crushers also extended good support. Prices in the third quarter would have gone up further but for larger arrivals. The larger crop estimates for 1958-59 held out the hope that prices of linseed oil would become competitive with overseas prices. There were also indications that foreign linseed oil was drifting upwards, thanks to lower crop estimates in the U.S. and the reduction of Canadian sowings. Good business was also transacted in oilcake. In the fourth quarter, too, the linseed section improved perceptibly on account of some improvement in the export business in oil. Linseed May contract improved from Rs. 30.94 on 2nd January to Rs. 33.62 at the end of the month. After a slight setback, it recouped to Rs. 34.81 by the middle of May, and went off the board at Rs. 34.44. September contract, which had opened at Rs. 32.69 on 4th April, rose to Rs. 35.50 by the middle of May. It came down subsequently to Rs. 31.62 by the beginning of September and improved slightly to expire at Rs. 33.37. May 1960 contract, which, at the beginning of the third quarter, was quoted at Rs. 32.25, rose to Rs. 35.62 by the end of November. It hardened gradually to close at Rs. 35. Bold ready, which commenced the year at Rs. 35, improved to Rs. 35.75 by the middle of January; but it gave way later to Rs. 31.75 at the beginning of July. After moving thereafter within a narrow range, it advanced to Rs. 34.25 at the middle of December. Linseed oil rose from Rs. 17.75 to Rs. 18 by the middle of January but receded to Rs. 15.59 by the end of March. It moved both ways in a narrow range and later rose to touch Rs. 17.84 by the middle of October. It further declined to close today at Rs. 17.

Cottonseed

The cottonseed section was also distinctly cheerful during the year under review. The strength in the other major oilseeds and also raw cotton gave the impetus for the increase in prices. Akola and Ahmedabad operators mainly dictated the pace of trading in this section. The bullish crop estimates for 1959-60 also imparted considerable strength at the close of the year. Cottonseed February contract, which had opened at Rs. 115.50 at the beginning of the year, improved to Rs. 133.50 by the first week of February. It went off the board at Rs. 130.50. May contract rose from Rs. 115 at the beginning of January to Rs. 138.50 at the end of May, after fluctuating between Rs. 126.25 and Rs. 132.50. September contract advanced from Rs. 129.75 on 3rd April to Rs. 150 at the end of September. February 1960 contract commenced on 7th July at Rs. 116. Thereafter, trading became brisk, as good support was forthcoming. Towards the close of September, it stood at Rs. 127.50. In the last quarter of the year, the firm trend continued. It gradually climbed upwards to Rs. 148.

The following table indicates the trend of oilseeds and oil prices during the year:

	15-12-59	Highest	Lowest	15-12-58
	Rs.	Rs.	Rs.	Rs.
Groundnut;				
Feb. Contract ..	191.75	191.75	160.25	168.62
Bold ready ..	38.37	43.00	31.75	32.87
Oil Ex-mill ..	20.87	22.37	17.00	17.75
Castorseed;				
May Contract ..	174.12	174.12	138.25	142.75
Ready Madras ..	33.37	34.25	27.62	28.56
Oil B.S.S. ..	19.00	19.00	14.00	16.37
Linseed;				
May Contract ..	34.81	35.00	30.81	31.69
Bold ready ..	34.50	35.62	31.75	27.00
Oil ready ..	16.81	18.00	15.44	18.37
Cottonseed;				
Feb. Contract ..	148.00	150.00	115.00	117.50
Niger seed ..	32.00	33.00	26.25	28.37
Kardi seed ..	24.00	25.00	19.50	21.25

N.B.—All quotations for futures contract are in terms of candy, except linseed, which is in cwt. A candy is equal to 560 lbs. except in the case of cotton seed, for which it is 784 lbs. Spot quotations of seeds are per cwt. and those for oil per quarter.

TAXATION OF MOTOR FUELS

High Rates Will Slow Down Economic Expansion

THE great expansion in the role of government in the economies of most countries during the past 20 years has created a virtually insatiable thirst for revenues and, as a consequence, taxes on motor fuels have risen persistently and sharply in all parts of the world. Some other petroleum products have also attracted taxation, though to a much lesser extent. And now the surplus of coal in Western Europe and Japan has already threatened higher taxes on fuel oil so as to diminish its competitiveness.

Motor fuels are admittedly easy victims for the tax gatherer. From the taxation authorities' point of view, taxes on motor fuels (and on vehicles) are very easily and cheaply collected and can seldom be avoided. And, so far, higher fuel taxes have not choked off the continuing growth of road transport, though how much it may have slowed it down none can tell. New higher taxes in this direction, moreover, can, in many countries, be imposed without provoking much public protest, as it may be popularly believed that gasoline taxes are mainly levies on the more prosperous section of the community. That a high proportion of all motor fuels is used for essential transport of all kinds is not generally appreciated. In the case of taxes on fuel oil, the arguments for protecting local coal industries are familiar, and superficially attractive, in the short term at least. But it may reasonably be asked whether, in today's context, sufficient attention is being given in the separate countries to the basic economic issues that are raised by high fuel taxes. It is most unlikely that the hotchpotch of *ad hoc* taxes now affecting road transport generally is to the real economic advantage of any country, least of all of the underdeveloped countries.

Apart from yielding revenue, there are many other objectives towards which taxes may be directed. For example, the redistribution of income and wealth is widely sought by modern tax systems, and changes in taxes are now widely used also in attempts to regulate the level of economic activity, to promote new activity, and to help correct balance of payments deficits, etc. But a basic criterion which seems to be considered only intermittently is that taxes should be designed to have minimum adverse effects on economic efficiency, and to promote a prosperous and expanding economy. In particular, the taxing of motor fuels has persisted in highly developed countries, and the example has been followed in some less developed countries, with little re-examination or fresh thought as to its full economic effects.

Energy

On the criterion of efficiency and promotion of economic expansion, petroleum products should surely be the last and not, as is so often the case, the first to bear additional taxes. Energy is basic to economic expansion, to mechanisation, and to high productivity. And today, to an increasing extent, not only in transport but in industry of all kinds, energy means oil. Generally speaking, through its various uses, oil should be regarded as a powerful and advantageous agent of economic development. Its use should not be hindered by high taxation but rather encouraged because of its inherent cheapness and high efficiency in use, thus strengthening a country's economic base upon which its revenue-raising ability ultimately rests. In general terms, it is widely accepted that basic or essential goods should not be heavily taxed. This view underlies, for example, the practice in some countries of exempting from taxation petroleum used by agriculture. But the application of this principle to petroleum products generally is often ignored in the constant pressure for higher revenues. When such basic necessities are taxed, they do, of course, yield good and reliable revenues. But the effect of any tax is to distort economic forces. And the effects of taxes on products which are widely and necessarily used may create serious distortions. A tax on one form of energy deflects demand to other possibly less efficient or more costly forms, while a tax on all forms of energy makes all mechanisation less attractive. Any tax on energy may also act as an inflationary force, exerting a very widespread and pervasive upward pressure on industrial costs. If imposed in any one country, by raising costs, it makes that country's industry less competitive internationally.

One type of tax which is particularly difficult to justify is that imposed to gobble up the advantage of lower prices and to prevent the benefit of such lower prices reaching the consumer. This has been done, for instance, in India in respect of all major petroleum products, and proposed in Sweden in respect of fuel oil. In the case of gasoline—and private cars—another less obvious but important argument against high taxes is that they may put car ownership out of reach of just the class of man whose services are much needed, and thus remove one of the strongest incentives to effort and higher productivity. The United States is a striking example where the possibility of car ownership, and hitherto relatively lightly taxed gasoline, have played a quite revolutionary role in promoting rapid economic expansion.

Taxation is, of course, a highly complex subject and it is not easy to get political agreement upon the principles on which taxes should be based. Even when special studies have been made to determine principles for petroleum taxation the conclusions have rarely been followed. This was, for example, the case in recent years in both Sweden and Denmark. The Governments of each of these countries set up Commissions on petroleum taxation, which made numerous recommendations concerning taxes on road fuels and vehicles. But subsequent policy continued in both countries to follow much the old pattern, and to be directed primarily to revenue-raising.

Oil Industry

Not only the oil consumer, but the oil industry too is affected by the oil taxes levied on the user. High taxes on gasoline in Western Europe and elsewhere have undoubtedly been an important factor restraining the growth of demand for the industry's highest priced major product. Also, a significant problem has been created in recent years by the practice of differential taxation on gasoline and automotive gas oil respectively. The very fact of high taxes on road fuels, of course, emphasises the advantages of using the more economical diesel engine, even when both fuels are equally taxed as, for example, in the U.K. and soon possibly in Western Germany. When in addition the tax on gasoline is much higher per gallon, as it still is in many West European countries, the demand for each of the two fuels is distorted, and the demand for middle distillates, which is already strong for other uses, is artificially stimulated. It may thus give rise to problems of adjusting refinery output to market demand, which may be costly and possibly involve imports of products which might otherwise be avoided. This is one more good reason for considering a general lowering of taxes on gasoline.

Unfortunately, however, it is one of the characteristics of all taxes, that once imposed they are difficult to get rid of. And it is certainly true of oil taxes in most countries that though introduced, or increased for some specific reason at a particular time, they continue to be levied long after the particular circumstances have altered or disappeared. This inertia is supported by the fact that the harm done by a tax becomes less obvious, though nonetheless real, when it has already been in effect for a long period. And any radical reshaping of taxes is liable to have some disturbing effects on established consumption habits or patterns of industry, while changes may be politically difficult or inconvenient. Yet, in an era when in most economically advanced countries, taxes of all kinds account for one-quarter or more of the national income, it is of great importance that they should be well chosen with full awareness not only of their immediate effects but also of their broader economic implications. In the lesser developed countries, it is even more important that economic realism be brought to bear upon revenue-raising problems. Indeed, in most countries at whatever stage of economic growth, the competing claims of revenue-raising and overall economic advantage and efficiency should be much more closely studied, and their marriage more delicately arranged than has hitherto been done.—*By Special Arrangement with Petroleum Press Service.*

CROP INSURANCE IN U.S.

HOW IT HELPS FARMER

TO see how crop insurance by Federal Crop Insurance Corporation helps the American Farmer, let us assume that a farmer lives in a county where wheat crop insurance is available. A sales agent for crop insurance may call on him or the farmer may hear of the insurance and ask about it at his county office. If he decides to take the insurance he must make an appication for it in writing on a special form. This application for insurance must be submitted before a "closing date" which is normally just before planting of the crop generally begins in the county. After the first year that he takes wheat crop insurance, he will not have to apply for it again because his insurance contract will continue in force from year to year unless either he or the Corporation decides to cancel it.

In deciding whether or not he wants to take the insurance, the farmer will want to know how much protection it will give him and how much it will cost. This information on a per-acre basis is available from the salesman and the official record is available in the county office. His application for insurance covers all of the insurable wheat in the county in which he has a share in the crop at the time of planting. He cannot obtain insurance on one farm, for example, and not have it also on his other farms. His application will also contain a promissory note for the premium each year. At the time he makes his application, it is not usually possible to know the exact amount of the premium because he may not know the location nor the exact amount of acreage that he will plant. His request for insurance is reviewed and if he is satisfactory, the application is accepted and he then has an insurance contract. He receives an insurance policy setting forth the terms of the insurance contract.

After he has completed planting of his crop he reports the location and amount of acreage that he has planted as well as his share in the crop. This is most frequently done by a visit to the county office although sometimes it is done by mail and sometimes the information is given to a representative who visits the farm. These data provide the basis for determining the amount of premium that he is obligated to pay. He may pay this premium immediately or delay payment until after harvest. The farmer is expected to plant his crop and take care of it in a good workmanlike manner as his contract does not cover losses resulting from negligence and poor farming practices.

If his crop is damaged so that it is probable that there will be a loss and it is too late to replant it, he must give notice of that fact promptly to his county office. Upon receipt of this notice, his crop is inspected. He cannot without penalty destroy his insured crop and plant his substitute crop before the inspection has been made and approval given. Most reports of loss are submitted after harvest. The insured farmer is required to keep an accurate record of his production or to keep his production on the farm so that the loss may be determined.

An insurance adjuster will visit the farm, measure the wheat that may be stored on the farm, obtain information with respect to the amount that has been sold or otherwise disposed of and verify it to his satisfaction. He will inspect the fields where the crop was grown and also determine the acreage. The insured farmer will normally submit a claim for indemnity based on these findings and if the claim is approved, he will receive a cheque for the amount of his indemnity. Thus, if a farmer is insured he does not have any difficult process to follow under his contract. He has to farm, of course, in a workmanlike manner, to report his acreage, to pay his premium, to give notice of damage or loss promptly, and to retain evidence of his production.

COMMON TEA COMES UP IN PRICE

North Indian Shipments To U.K. Decline

CALCUTTA, 7th December

THE 1959 season to-date has been most encouraging for the producer of common tea and, inspite of the disappointing earlier sales, prices have, in subsequent months, appreciated to levels only once exceeded since 1954.

The Darjeeling and Assam districts have not, however, had the same good fortune and the present average prices ruling on the Calcutta market for these districts are below the 1958 figures up to the same period. These low price averages, together with the likely shortfall in crop, will affect the Darjeeling producers adversely by increasing the cost of production. In the case of Assam, however, 'rains' manufacture teas have been realising more satisfactory prices than last year, and, if the market trend continues, the Assam estates should close the season with their average prices at about the same level as 1958.

The movement of teas from the estates to the Port of Calcutta has been swift and there have been no delays in shipments. Although shipments during the period January-November are 30.8 million lbs. behind last year, exports of the 1959 season's crop to-date are ahead of the previous year's figure.

Sales

An improvement in market conditions for the 1958 season's crop was seen in January and February, owing to demand from the U.K. and other out-market buyers for the brighter liquoring and autumnal teas and substantial buying orders for fannings and dust grades from Egypt.

Operators buying for the Sudan advanced the price of plain B.P. from Rs. 1.64 nP at the end of January to Rs. 1.70 nP by the end of February and, at the same time, plain fannings appreciated from 1.76 nP to 1.82 nP.

Throughout the remaining sales of the old season, buyers were extremely discriminative in their purchases and only those teas, both of C.T.C. and orthodox manufacture, with bright liquors and clean leaf appearance were well supported. Black fannings continued to meet with good demand from Egypt. Turkey continued to support the stylish leaf grades. Other out-markets were quiet and support came mostly from internal operators.

Given below are the Calcutta sale averages for the 1958-59 season, which closed at slightly higher price levels than the previous year:

	1958-59	1957-58
Export	2.15	2.10
Internal	1.55	1.42
Dust	1.97	1.86
	2.09	2.02

The new season opened in May, with two supplementary sales for Darjeeling teas, but prices were disappointing and withdrawals numerous. This was due to the size of these sales, which were more than double the quantity of the corresponding sales in 1958, and to the very limited support from the U.S.S.R. and Turkey which had been previously very active in these sales. The quality of the offerings was also inferior to those of the previous year.

The first sale of the season for teas from all districts was held on 8th June, the offerings consisting of the ordinary first flush manufacture teas. This, however, could not account for the fact that 60 per cent. of the teas were withdrawn, and many without bids. Most sections of the trade were inactive, and particularly the internal buyers, who had in the past, strongly supported the early sales. This inactivity was surprising, in view of the keen interest shown by buyers for the limited number of teas available for private sales in the weeks preceding the opening of the auctions, and can only be attributed to heavy ex-garden purchases of common teas by the internal operators. Demand improved slightly in the subsequent sales of this month and withdrawals were progressively less numerous.

With the improvement in quality, more out-market operators began to take a belated interest in the sales in July, but, although demand improved, prices were not comparable to those paid for similar teas in 1958. A welcome enquiry from Poland and the Sudan contributed considerably to the steady improvement in the prices recorded for the commoner Dooars and low medium brokens, while the U.S.S.R. lent steady support to medium and bright liquoring whole leaf grades and brokens.

The August sales experienced a good general demand for commons and low medium teas, but the more expensive Assam B.O.Ps, Darjeelings and C.T.C. manufacture teas continued to be discounted each week and prices for quality teas were considerably lower than in 1958. There was, in fact, a reversal in the market trend of recent years, when quality teas enjoyed strong competition.

A steady improvement in prices was noticeable, however, from the month of July and, in September, common teas steadily appreciated, as a result of sustained buying for Egypt and the Sudan, the latter country being the most dominant of the out-market operators during this month.

The offerings of C.T.C. manufacture teas met with some revival of interest and the general trend of the market was in contrast with earlier months and the decline which usually sets in on the Calcutta market at this time of the year, due to the increase of offerings and the "fall off" in quality.

Russian buyers were often the only supporters of the top grades of orthodox manufacture and, except for the occasional bright liquoring tea, these descriptions continued to be discounted.

After the *Puja*

After the two weeks' *Puja* holidays, the market opened strongly and, except for the medium B.O.Ps and tippy teas which were weak, all other descriptions met with good demand which was sustained throughout the month of October.

Unlike recent years, the price-gap between the best and ordinary teas has tended to narrow each week and, although the averages for the best orthodox Assams and Darjeelings were well below last year's level, the sale of common and low medium teas has been very satisfactory, particularly in the last three months.

The following comparative quotations for the 1958 and 1959 seasons, June to November, are interesting and illustrate the increase in the price of common tea and the narrower range in the case of C.T.C. teas this year:

	1959		1958	
	Highest Rs.	Lowest Rs.	Highest Rs.	Lowest Rs.
Plain B.P. ..	2.10	1.60	1.88	1.58
Best Assam C.T.C.	3.60	2.30	5.00	2.00

The strong trend of the market continued in November and most descriptions registered further advances, particularly common teas which appreciated each week. The sale due to be held on 16th November was postponed by a week, pending clarification from the Provincial Government of the implications of the Bengal Finance (Sales Tax) Amendment Act 1959 and its application to tea, and this had a further beneficial effect upon the state of the market.

C.T.C. 'rains' teas sold at prices well above those secured by similar offerings last year and the secondary grades from the better C.T.C. manufacture gardens realised prices almost as high as the primary grades from the low medium C.T.C. gardens.

In sympathy with the price of black Fannings, the common and medium dust quotations ranged between Rs. 2.04 and Rs. 2.22, the better prices being paid for the black leafy exportable types.

In the last sale of the month, plain brokens met with very keen enquiry and prices appreciated well above Rs. 2.00.

Given below are the closing quotations for November which show that plain and medium brokens and fannings were dearer than in the previous two years, while C.T.C. descriptions, though dearer than in 1958, have shown a decline when compared with 1957. The common tea quotations, for this time of the year, were between 40 and 45 nP higher than for several seasons. The up-to-date Dooars district average is Rs. 2.05, against Rs. 2.00 last year and would have been higher but for the poor opening sales of the season:

Closing Average Quotations for November

	Plain		Medium		Best C.T.C.	
	B.P.	Fgs.	B.P.	Fgs.	B.P.	Fgs.
1959 ..	2.06	2.17	2.06	2.25	2.83	2.85
1958 ..	1.60	1.78	1.72	1.80	2.03	2.12
1957 ..	1.65	1.74	1.72	1.88	3.30	3.00

Quality

With the exception of the teas of Assam second flush manufacture, there has been a general overall decline in quality this season in comparison with 1958.

The climatic conditions in Darjeeling were conducive to quantity rather than quality and the new season's teas sold in Calcutta during the early sales were below the standard of previous years. The leaf appearance, however, was satisfactory and care taken in fine plucking and manufacture resulted in a better standard of production than usual in the month of July.

Assam manufacture teas were of a useful standard and, in spite of heavy rain in May and June, good second flush teas were produced. The quality of these was generally above that of the previous season and C.T.C. manufacture teas again showed that considerable care had been taken by the producers.

Some estates in the Dooars and Cachar maintained their usual high standard of leaf appearance, but teas from these districts were, on the whole, below average, the latter district having suffered from severe flooding which made working conditions extremely difficult.

'Rains' manufacture in Darjeeling and Assam was satisfactory for the conditions prevailing and the standard of the teas in leaf appearance was preferable to the previous season. The common tea producing areas showed their usual decline during this period and, although a fair standard was maintained in the liquors of the Dooars teas, leaf appearance was generally rather below the standard of 1958.

The post-'rains' teas from Assam and the Dooars started to show the usual seasonal improvement and in some cases were brighter in character.

The cold weather set in somewhat prematurely in October, and only a limited number of bright liquoring and autumnal teas are expected from the North Indian districts, due to the resultant shortfall in crop.

Crop

The North Indian crop at the end of September was 14½ million lbs. up on 1958, but, during the month of October, the crop dropped 10 million lbs. below last year's record figure for this month. By the end of October, the crop was 490.6 million lbs. which showed an increase of 4.4 million lbs. over 1958. The district-wise outturn figure showed that the only appreciable increase was in the Dooars district, which amounted to 6.5 million lbs.

The crop of the other major producing countries has shown a decline of 13.0 million lbs. and it is expected that the North Indian crop may well close below the final figure for 1958.

Export Quota

The final release of 2 per cent. (14.7 million lbs.) for the 1958-59 season was made on 31st January 1959, making a total release of 67 per cent. (494.5 million lbs.) of the crop basis. The carry-over of special export licence into the present season was 108.0 million lbs., of which 58.7 million lbs. were used and 49.3 million lbs. lapsed after 30th of June, 1959.

An initial release of 55 per cent. (406 million lbs.) of the best crop basis for the 1959-60 season was announced on 16th May and a second release of 5 per cent. (36.9 million lbs.) followed on the 25th October. Thus, the total release of quota to-date this season stands at 60 per cent. of the crop basis.

There has been no great fluctuation in the price of quota this year and, whereas between May and July in 1958, prices varied between 11 and 16 nP, the price of quota during the same period this year eased gradually from 6 nP to 2¾ nP by the end of July. The price weakened further during the subsequent months, and, after the second release in October, dropped from 2 nP to 1½ nP per lb., where it stands at the time of writing.

The Government of India's release of quota illustrates its keenness to dispense with any possible impediment which might stand in the way of this country's exports. This generous release of quota has also discouraged speculators, as is evident from the low price levels at which this commodity has been changing hands.

Shipments

The shipments of North Indian teas to-date show a decrease of 30.8 million lbs. against last year's figure up to the same date. The reason for this is the decrease of 35.3 million lbs. in the shipments to the U.K., but, against this figure, exports to other out-markets have increased by 4.5 million lbs., the Sudan taking 7 million lbs. more than last year and Turkey and other European countries taking 5.5 million lbs. in excess of last year's figure.

Exports of the current season's crop, however, are 2.5 million lbs. ahead of last year.

Conclusion

The U.K. stock figure at the present time stands at 130 million lbs., against 164 million lbs. at the same time last year. About 5 million lbs. more tea has been sold by auction in Calcutta and 16 million lbs. more has been sold in the London auctions. The increase in the offerings on both the London and Calcutta markets and the expected decrease in the crop during the remaining period of this year point to an earlier closure of the sales and it is interesting to note that direct shipments to the U.K. up to September were about 8 million lbs. less than up to the same period last year.

The London stocks and the expected shortfall in the North Indian crop augur well for the future sales of this season, and it is hoped that the present trend of the market will continue. In spite of a disappointing start to the season, the very welcome demand for the commoner varieties of North Indian tea in recent months and improved prices for Assam 'rains' manufacture teas as compared with last year, should result in a satisfactory closing of the 1959 season for the North Indian producers, except for some of those, less fortunate, in the Darjeeling district.

	January—November		Difference (Million lbs.)
	1959 (Lbs.)	1958 (Lbs.)	
United Kingdom ..	199,383,554	234,719,884	—35.3
Irish Republic ..	13,600,540	13,842,156	— .3
U.S.S.R. ..	15,813,675	17,219,476	— 1.4
Rest of Europe ..	9,554,984	6,290,904	+ 3.3
Turkey ..	9,030,015	6,822,233	+ 2.2
Canada ..	8,440,848	10,789,144	— 2.4
U.S.A. ..	14,409,890	15,263,951	— .9
Iran ..	7,484,928	9,843,559	— 2.4
Persian Gulf and Iraq ..	8,301,581	5,737,735	+ 2.6
Egypt ..	20,836,920	23,078,710	— 2.2
Sudan ..	21,062,819	14,053,844	+ 7.0
Other Middle Eastern countries ..	408,799	607,109	— .2
All other places ..	1,974,216	2,786,047	— .8
Total ..	330,303,769	361,054,752	—30.8

BASE METALS IMPORTS LIBERALISED

PRICES RULE FIRM

CALCUTTA, 6th December

A STRIKING feature of 1959 in regard to base metals was that, although the Government ultimately permitted the import of base metals, adequate to meet the growing needs of an industrial economy, there was uncertainty, too often, in import policy. Even after the policy was decided and announced, the actual issue of licences to both actual users and established importers was delayed. The result was that prices rose high during periods of shortage, despite easy overseas advices. It so happened often that the Government found it convenient to release licences when prices in countries from which India should buy were high; apparently, the Government thought that prices would decline and that the country would save foreign exchange in case the licences were released in times of downward trend in world markets! Copper continued to be under official control throughout the year, but there was much delay in the release of permits so that scrap and copper semis and finished goods, which were outside the purview of control, touched at times levels not justified by the price for the ingot material.

Trade circles welcomed the partial restoration of quota licences for established importers and the granting of import licences for industrial raw materials on a long-term basis during the licensing period April-September 1959. In the October 1958-March 1959 policy, it will be recalled, the established traders had been kept out of the import field, excepting tin, because the Government thought that importers had raised prices and paid little regard to the equitable distribution of available materials consistent with actual needs in 1958, when imports had to be restricted consequent on the country's foreign exchange difficulties. In the April-September 1959 policy, the percentage quotas granted to established importers were 20 for copper, 7½ for zinc and 20 for tin. Actual users were happy about the extension of the validity of import licences from six months to one year. This was by all means a liberal policy and, naturally, prices declined. The import policy for the October 1959-March 1960 period was practically an extension of the one in force till then, but a main change was the increased quotas of non-ferrous metals, secured by reducing import quotas for finished products, the indigenous production of which had increased. The requirements of small-scale industries received special attention, and the State Trading Corporation was entrusted with the task of importing these needs and distributing them.

New Lines of Production

On the whole, in 1959, there were greater imports of base metals and scrap to permit expansion of capacity of several items of non-ferrous semis such as brass and copper rods, sections, tubes, hinges, strips, and sheets and other items like cables. Also, some new lines of production, especially in cables, were commenced, and it was only on account of the Government's liberal policy that, in 1959, industrial concerns engaged in the production of non-ferrous semis and finished products recorded notable progress.

Production of base metals in India is currently running at a rate which meets only a portion of the country's requirements. India produces only fire-refined copper and is dependent entirely on imports for the needs of electrolytic copper. The implementation of the scheme to set up an electrolytic copper refinery with an annual capacity of 8,000 tons made sufficient progress during 1959. Simultaneously, the ore deposits at Dariba and Khetri in Rajasthan were being exploited. The installed capacity of aluminium has been increased with the establishment of a smelter in Hirakud. The capacity will be raised considerably when the Kaiser-Birla plan to set up an aluminium plant in U.P. is completed. The output of zinc and lead increased and the plan to set up a zinc smelter within the country to refine the zinc concentrates, which are now being sold to Japan, was framed.

The table at the bottom indicates the trend of base metal prices in the Calcutta market, as well as on the London Metal Exchange and New York Commodity Exchange during the year 1959.

Copper Supplies Scarce

In the early months of the year, an acute shortage of copper supplies was felt and scrap was difficult to obtain. Clean wire scrap in January moved up from Rs. 225 to Rs. 230 per cwt. The upward trend on the London Metal Exchange was attributed to broader European demand and increased inquiries from the U.S.S.R. and China, while, in New York, following the rise in custom smelter's price, electrolytic copper improved by 1 cent to 30 cents per lb. There were disturbances in the Belgian Congo, and fabricators in the U.S. increased their stock following a strike threat in refineries there. The pre-budget rumour of a levy on metal imports in the Government of India budget 1959-60 proved baseless, but the hardening trend gathered momentum. In March, good quality scrap strengthened to Rs. 250, the highest level for the year. By this time, in New York custom smelter prices had risen to 32 cents, but smelters had to withdraw from the market since they had no more to sell.

The price softened in April after the announcement of a liberal import policy. Clean wire scrap declined to Rs. 240, but recovered subsequently to Rs. 245, thanks to emergence of tightness in supply. It was then that the S.T.C. arranged virgin supplies to small-scale consumers. The impact was the fall in price to Rs. 230 in June. Towards the end of June, the quotation moved up to Rs. 235 on revival of demand at lower levels, in the wake of scarce supplies. The price in Bombay was higher and, naturally, several Bombay orders were executed from this end. In July, the price rose to Rs. 240. Blackness in demand followed the monsoon and, by the beginning of August, clean wire scrap had gone down to Rs. 230. Utensil-makers began to meet their requirements at lower levels and, at the close of August, the price had risen again to Rs. 240. In order to meet the shortage of scrap supplies, the Government issued import licences, and the effect was a fall in price to Rs. 235 in September. The rise in import quotas to established importers for the October 1959-March 1960 period led to a decline in clean wire scrap price gradually and, in November, it stood at Rs. 232. By this time, physical copper in New York had risen to 39 cents, as against 31 cents before. This was the impact of the nationwide strike in the U.S. and the U.S. Government's declaration that there was no intention to release any copper from its stockpiles. On the London Metal Exchange, the price advanced to as high as £265 in November on widening of backwardation and pressure on supplies as a result of the continued U.S. copper strike. There were soon reports of prospects for the settlement of the strike and, by the end of November, copper in London receded to £237½. A recovery to £250 was in evidence early in December.

Zinc

Owing to pressure on supplies, zinc spurted from Rs. 103.50 to Rs. 109.00. This was followed by fresh arrivals on consumers' and the S.T.C.'s accounts which pushed down the rate to Rs. 91.50 by the end of March. The scheduled industries were granted import licences to meet their needs, and this also lessened the pressure on the market. Further, commercial demand for making brass declined, in view of scarcity in copper supplies. Soon, the liberalised import policy was announced, and a low of Rs. 79 was immediately touched. Arrivals under new licences were delayed, and the industrial consumers had for a time to depend on market supplies. This brought pressure, and the price shot up to Rs. 97 in April and to Rs. 108.50 in May. Subsequently, there was a sharp setback and, in the absence of support at higher levels, the price gave way to Rs. 98.25 early in June. At this level, speculative demand revived and, by the end of June, the quotation had shot up to Rs. 104.50. A softening tendency followed to take down the rate to Rs. 101 in July, when stocks in the market increased. Commercial demand, especially from bucket galvanisers, was soon in evidence, and this raised the price to Rs. 107.50 in August. Induced by higher advices from Bombay, the price hardened to a high of Rs. 115 by September. A gradual decline set in and, early in November, the price was around Rs. 110. Supplies dwindled, and speculators were on their feet. The result was that the price soared to as high as Rs. 128 towards the close of November.

Tin

The receipt of licences by established importers arrested the hardening tendency in tin early in January. The price moved down from Rs. 608 to Rs. 580 a cwt. The supply position improved notably. Despite the firm trend of both Singapore and London, the local quotation continued to ease to quote Rs. 570 in May. Demand was slow and fresh arrivals under the new policy made the stock position more comfortable. In the beginning of June, the rate eased to Rs. 559, but, at this stage, consumer demand revived. Offtake was very satisfactory and stocks depleted. Consequently, the price recovered to Rs. 587 in June. Fresh arrivals and weaker trend in Penang, notwithstanding good local demand, weakened the price and, by September, the rate had fallen to Rs. 582. This was followed by a rise to Rs. 589 towards the end of the same month. Traders were apprehensive about a cut in import quota. Since these fears did not prove correct, tin came down to Rs. 575 early in October and further to Rs. 565 by November-end. The feature of trading on the L.M.E. was a very steady rise in the price on account of pressure on supplies. The Bufferstock Manager adopted a policy of gradual release from his stock. World demand increased markedly and it was considered advisable for the Tin Council to withdraw the export restrictions on producing countries.

Lead

The supply position in respect of lead was satisfactory throughout the year. There was, therefore, no wide fluctuation in price at any time. The lowest level was Rs. 66.50 per cwt. and the highest was Rs. 84. The difference between the two was only Rs. 17.50, as against Rs. 58.50 for zinc, the lowest and highest rates being Rs. 79 and Rs. 137.50, respectively.

Trend of Metal Prices

	Rate as on 31-12-1958	Lowest	Highest	Rate as on 4-12-1959	Net rise or loss
CALCUTTA (Rs. per cwt.)					
Clean wire copper scrap ..	225.00	225.00	250.00	234.00	+ 9.00
Utensil copper scrap	206.00	210.00	230.00	222.00	+16.00
Malayan tin	608.00	558.00	610.00	562.00	—46.00
Elec. zinc	103.50	79.00	137.50	135.00	+31.50
Virgin lead	85.00	66.50	84.00	73.25	—11.75
LONDON METAL EXCHANGE (£ per ton)					
Copper	221¼	209½	267½	250	+28¾
Zinc	76½	70½	98½	94½	+ 18
Lead	72½	65¾	74½	71½	— 1
Tin	749	744½	800	790	+ 41
NEW YORK COMMODITY EXCHANGE (Cents per lb.)					
Copper	28.19	27.05	34.72	33.26	+ 5.07
Zinc	10.90	9.40	11.95	11.26	+ 0.36
Lead	11.38	10.03	12.30	11.35	— 0.03
Tin	96.75	96.50	103.25	100.50	+ 3.75

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Foodgrains Prices High, Despite Bumper Output

Change In Official Policy Expected

HAPUR, *23rd November*

THE year under review—1959—has again been a difficult one as regards the food situation in the country which continued to remain far from satisfactory, causing considerable concern to the Government. Prices touched new peak levels before the commencement of *rabi* crop arrivals in April, but, thereafter, drifted lower in the wake of Government measures coupled with bumper grain production in the country during 1958-59. The supply position, however, continued to be tight throughout the year, owing to the tendency among cultivators to retain their produce. Prices of foodgrains, therefore, were higher than those envisaged by the Government while fixing controlled rates for purchases effected to build up reserve stocks. The Government of India, with the assistance of State Governments, made renewed efforts to curb this rising tendency. Although the upward trend seems to have halted, the situation has not eased to any significant extent. The lean months of January and February 1960 are yet to follow and it is feared that prices of *rabi* grains may again register a hardening trend. The level of foodgrain prices later will, of course, be influenced by *rabi* crop produce, the sowings of which finished early last month.

Despite the marked improvement in the overall grain production in the country during 1958-59 when wheat, rice and gram crops beat all previous records, prices recorded a substantial fall as compared with last year, though they were still higher than the Government purchase prices. The authorities held the traders and producers responsible for this state of affairs, while the trade was very critical of the various measures taken by the Government. The decision on State trading in foodgrains as confined to purchase of rice and wheat by State Governments at fixed controlled prices, taken by the National Development Council in mid-November 1958, has aroused a keen controversy. The other measures taken by the Government to check the rise in prices included ban on forward and non-transferable specific delivery contracts for sale and purchase of rice and paddy and continued distribution of large quantities of foodgrains through a network of fair-price shops, numbering 48,000 all over the country. The bank credit squeeze also continued this year. Further, powers under sub-Section 3A of Section 3 of the Essential Commodities Act authorised the Government to requisition stocks at the average of prices prevailing in the last three months. The flour mills were prohibited from making purchases from open market; they were supplied only imported wheat. Further, big cities like Bombay, Calcutta and Delhi were being supplied with imported wheat and the zonal restrictions on foodgrains continued.

Early in January 1959, foodgrains prices were near the peak heights of the session, thanks to the Government's acceptance of the National Development Council's recommendation to take over all wholesale trade in foodgrains in two stages; first, wholesale traders were to be licensed to sell grains to retailers at fixed price and, secondly, the State-sponsored bodies were to be established to undertake large-scale purchases and sale operations. The Government imposed control on wheat in the Punjab, Madhya Pradesh and the U.P. It was said that wheat should not be sold at a price higher than the average for the last three months. The control was extended later to gram and barley in the Punjab, Rajasthan and Madhya Pradesh, as well as to peas in U.P. State trading in foodgrains began when the Government decided to begin purchases of rice at prices varying from Rs. 14.50 to Rs. 19.75 per maund according to quality in Orissa and Madhya Pradesh and also later in U.P. in the middle of December 1958. The U.P. Government decided to purchase rice in 23 surplus districts by taking over 65 per cent. of stocks held with traders at controlled prices and, for this purpose, export of paddy was banned from these districts. The Bihar Government also started procurement of rice and paddy.

Rice procurement continued satisfactorily, following bumper crop. But then, there was a general shortage of *rabi* grains, including wheat, in the market from the very beginning of the year 1959. Although rice ruled quiet, thanks to easy supply position, wheat and *rabi* coarse grains continued to be steady to firm. Peak heights in prices were touched early in February when at Hapur wheat was quoted at Rs. 26.50 to Rs. 28, gram at Rs. 23.37 and barley at Rs. 17.50, as against Rs. 24.75 to Rs. 26, Rs. 19.75 and Rs. 16.50 a maund, respectively, on 1st January 1959. In fact, since the failure of the last *rabi* crops in April 1958, *rabi* grains started rising and touched peak levels in February. Timely winter rains, however, considerably brightened *rabi* crop prospects and, under the lead given by gram early in March 1959, all grains registered a downward trend. At the fag end of the season, the stockists were also reported to be anxious to sell whatever stocks were left with them, as the new *rabi* grains were soon to reach the market. In mid-April 1959, all foodgrains slumped heavily, with the beginning of new grains arrivals in the market. Stock position with the Centre and State Governments then was reported to be good at about a million tons and the import programme was to add to the stocks substantially. The lowest prices of the year under review were touched in mid-April when, at Hapur, wheat was quoted at Rs. 15 to Rs. 16, gram at Rs. 12 and barley at Rs. 11.50.

It was at this crucial stage that the Government decided to begin purchase of wheat in the Punjab, Madhya Pradesh, the U.P. and Rajasthan; the purchasing price was fixed at Rs. 13 to Rs. 15 a maund according to quality. Following the announcement of this policy, wheat arrivals dropped and the consumers began to face difficulty in meeting their requirements. The U.P. Government, with a view to stepping up the procurement drive, amended the Wheat Levy Order to extend its provisions to commission agents, requiring to sell 50 per cent. of the stocks coming into their possession for sale or in other manner to the State Government at fixed price. But prices of foodgrains began to rise, as arrivals in the market were meagre and the producers preferred to retain their produce. Government purchases in U.P. were not substantial, as there was a marked difference in the purchasing price and the then prevailing prices in the market. Wheat arrivals, at Hapur, however, continued to reach the market in small quantities which were lifted by consumers from private sources, and the consumers had to run to the villages in order to meet their requirements. The prices of coarse grains purchased from the open market on behalf of the Government were also fixed at Rs. 11.75 a maund for gram and Rs. 10 a maund for barley. But, as these prices were not quoted in the market in any part of the year, no purchases could be made, barring a small quantity of gram by the U.P. Government when it enhanced the gram price to Rs. 12.50.

The total production of foodgrains as a whole in the country recorded a substantial rise during 1958-59 as compared with the previous years, being 73.5 million tons, as against 63.0 million tons in 1957-58 and 68.7 million tons in 1956-57. The detailed figures for 1958-59, as well as for the previous five years, are given in the table at the foot of columns 1 and 2.

The 1958-59 record wheat production of 9.69 million tons represents an increase of 1,201,000 tons or 14 per cent. over the average for the previous five years. The corresponding increase in area, this year's figure being 30,966,000 acres, is 1,435,000 acres or 4.9 per cent. As compared with the partially revised estimates of 7,741,000 tons and 29,300,000 acres for 1957-58, the estimates for the current year show an increase of 1,953,000 tons or 25.2 per cent. in production and 1,666,000 acres or 5.7 per cent. increase in area. The significant feature is the rise in yield per acre from 592 lbs. in 1957-58 to 701 lbs. this year, indicating an increase of over 18 per cent. This is also higher by about 9 per cent. than the average per-acre yield of the five years ended 1957-58. The increase in area in 1958-59 has been shared mainly by Madhya Pradesh, Uttar Pradesh, the Punjab, Rajasthan, Bihar and Jammu and Kashmir.

As regards gram, a new high level of output reached this year and this has contributed materially to the 1958-59 all-time food production record of 73.5 million tons. The current year's area and production of gram were 24,840,000 acres and 6,826,000 tons, respectively, the corresponding figures for 1957-58 being 22,862,000 acres and 4,979,000 tons. There was thus an increase of 8.7 per cent. in area and 37.1 per cent. in production. As compared with the average of the preceding five years, there is an increase of 9.1 per cent. in area and 27.1 per cent. in production. In the case of barley, the 1958-59 year's area and production are put at 8,164,000 acres and 2,640,000 tons, respectively, representing an increase of 615,000 acres or 8.1 per cent. in area and 402,000 tons or 18 per cent. in production as compared with the 1957-58 figures of 7,549,000 acres and 2,238,000 tons. The yield per acre of barley in 1958-59 was 724 lbs., as against 664 lbs. in 1957-58, indicating an increase of about 9 per cent.

There was a marked rise in rice production during 1958-59, though the acreage was only slightly higher. The current year's area was 81,590,000 acres and production 29,721,000 tons as against 1957-58 area of 79,447,000 acres and production of 24,831,000 tons.

Despite the marked expansion in the production of foodgrains, prices of *rabi* grains began to rise as arrivals in the market were meagre. The U.P. Government imposed the wheat levy scheme, making it compulsory to deliver 50 per cent. of stocks to the Government at the controlled purchasing prices. The open market prices of wheat were Rs. 18.50 to Rs. 20 a maund and the cultivators preferred to retain their produce in villages, rather than to bring it to the markets to sell 50 per cent. to the Government at Rs. 13 to Rs. 15 a maund. The traders blamed the Government for this unhappy situation and asserted that, if the Government had not entered the market as purchaser when arrivals began to flow and prices were gradually declining and in fact touched the low level of Rs. 15.50-Rs. 16 for wheat in mid-April, prices would have further declined under pressure of bumper wheat crops. The Government would then have been in a better position to make purchases. The State Government, on the other hand, pointed out that the traders were responsible either for retaining the produce in villages or for hoarding it themselves. This state of affairs continued and the Union Government had to suspend State trading in foodgrains in West Bengal and Bihar early in September in order to ensure an adequate flow of supplies in the market. Government purchases, however, were continued in other States and, upto mid-September, over 1.2 million tons of rice had been procured, while, in the case of wheat, the figure was as low as 200,000 tons.

The official food policy was very much criticised in the Lok Sabha in the third week of August, with the result that the Union Food Minister, Mr. A. P. Jain, resigned and admitted that there was no complete machinery for State trading in foodgrains and that the farmers were retaining their produce due to better retaining capacity. New hopes were raised when Mr. S. K. Patil took over charge as the Food Minister. There were also reports that substantial changes would follow in the food policy after the resignation of Mr. Jain. Prices of all grains sought lower levels early in September. But, contrary to all expectations, the National Development Council decided on 7th September that there would be no basic change in food policy. It was further reported that, due to drought conditions in east U.P., *kharif* crop had suffered heavily. These factors again accounted for the hardening trend in prices here. Towards the end of October, on reports that the rice crop might not fall short of the last year's record crop of 30 million tons, despite floods in West Bengal and some districts of Orissa and drought in east U.P., as the damage caused was likely to be offset by an increase in production elsewhere, foodgrain prices again recorded a downward trend. The Union Government has resumed purchase of rice at the last year's level and, following good rice crop, it is said that heavy quantities of rice are reaching Government stores.

The Government of India is now reviewing the scheme of State trading in grains in the light of difficulties the States have experienced. It was not proper, therefore, to say that the scheme has been given up. The new Union Food Minister is now concentrating his attention on his idea of having a U.S. Food Bank in India, from which India could draw in times of emergency as from buffer stocks, and it is reported that the U.S. response to Mr. Patil's proposal has been quite encouraging. The Union Government wants to build up a buffer stock of five million tons to stabilise prices and this is proposed to be done from either internal sources or imports. The Union Food Minister is also taking up the question of enlarging the present food zones as it would help reduce the great disparity in prices between the surplus and deficit States by facilitating free movement of stocks from the former to the latter. The Government has also decided to set up a statutory Prize Fixation Board, the main function of which would be to fix from time to time prices of foodgrains sugarcane and other crops on the basis of study of prices, soil conditions, etc. The farmers would be largely represented on the Board. Heavy quantities of imports are still reaching the country under previous agreements and India will procure 150,000 metric tons of rice under a supplement to the P.L. 480 agreement (signed on 13th November) which provides for the supply of three million tons of foodgrains, mostly wheat.

Production of Foodgrains in the past six years

(In thousand tons)

Grains	1958-59	1957-58	1956-57	1955-56	1954-55	1953-54
Rice	29,721	24,821	28,282	27,122	24,631	27,769
Wheat	9,694	7,654	9,314	8,622	8,778	7,890
Juar	8,689	8,056	7,249	6,619	9,093	7,954
Bajra	3,791	3,565	2,885	3,374	3,421	4,475
Maize	2,990	3,064	3,009	2,561	2,939	2,991
Ragi	1,722	1,716	1,715	1,817	1,646	1,846
Other small grains	2,043	1,759	1,964	2,037	2,456	2,438
Barley	2,640	2,175	2,827	2,771	2,870	2,905
Total	61,295	52,810	57,245	54,923	55,734	58,268
Gram	6,826	4,754	6,264	5,352	5,393	4,756
Arhar	1,662	1,369	1,954	1,832	1,688	1,834
Other *kharif* pulses	1,542	1,390	1,515	..	..	..
Rabi pulses	..	1,665	1,770	..	..	..

Important Grain Prices prevailing at Hapur on different dates during the year 1959

(In rupees per maund)

Grains	1st Jan.	1st Feb.	1st March	1st April	1st May	1st June	1st July	1st Aug.	1st Sept.	1st Oct.	1st Nov.	1st Dec.
Wheat	Rs. 24.75 to 26.00	Rs. 26.50 to 28.00	Rs. 22.00 to 25.00	Rs. 20.50 to 23.00	Rs. 16.50 to 18.00	Rs. 18.25 to 20.00	Rs. 18.00 to 19.50	Rs. 18.25 to 19.50	Rs. 18.25 to 19.50	Rs. 17.75 to 18.75	Rs. 17.50 to 18.75	Rs. 17.00 to 18.25
Gram	19.50	23.37	21.00	17.00	12.75	13.62	13.25	12.62	11.87	13.00	13.00	12.37
Barley	16.50	17.50	14.50	13.00	11.50	13.25	12.87	13.00	12.00	12.00	12.50	11.75
Bejhar	16.75	17.75	15.00	13.00	11.50	13.00	12.37	12.87	11.25	12.00	11.50	11.25
Rice Mainpuri	22.00	22.00	22.37	22.50	22.00	22.25	24.00	25.25	24.00	24.00	23.50	21.25
Rice Basmati Sela	29.00	32.50	33.00	32.00	33.00	33.00	34.00 to 35.00	36.00 to 36.00	33.00 to 35.00	32.50 to 35.00	32.00 to 35.00	28.00 to 30.00
Peas	Not	quoted		12.25	11.87 to 18.00	12.87	17.25	17.00	14.75	16.75	17.00	16.50
Arhar	Not	quoted			14.50	17.87	17.25	17.00	14.75	16.75	17.00	16.50

RAW JUTE PRICES MOVE UP

Industry Adjusts Output to Changes in Demand

CALCUTTA, *5th December*

THE increased demand for jute goods both for export and internal consumption, the consequent need for mills to increase production by unsealing a portion of the sealed looms in two stages, the maintenance of progress in modernisation in mills and the consequent need for some producing units for diversification of output, the maintenance of self-sufficiency in raw jute output first achieved in the 1958-59 season, the lifting of the ban on export of indigenous raw jute, the further decline in imports of the Pakistani fibre, and a decline in the quality of raw jute output with a late fear that the current season's crop would fall below last year's, were the outstanding developments that determined the movement of prices in jute goods and fibre in 1959. The year taken as a whole once again demonstrated the ability of mills to adjust production to changing demands. The profit margin no doubt increased to some extent, but the same thing could not be said about jute growers. Thanks to the increase in the 1958-59 crop, fibre prices declined, notwithstanding the permission given for limited exports. At the same time, there was a great disparity between paddy and fibre prices. The result was that a portion of the jute land passed under paddy in the 1959 season. However, in view of the large carryover from the 1958-59 season, the supply position is not likely to be affected adversely.

The table below gives the trend of prices of raw jute and jute goods:

	Rate as on 30-12-58	Lowest		Highest		Rate as on 4-12-59	Net Rise, Loss
			Touched on		Touched on		
Raw Jute:	Rs.	Rs.		Rs.		Rs.	Rs.
Assam Bottoms* ..	20.75	20.00	10-1-'59	26.50	4-12-'59	26.50	+5.75
Daisee Bottoms* ..	22.00	22.00	9-1-'59	28.00	4-12-'59	28.00	+6.00
Jute Goods:							
B. Twills†	94.45	88.00	21-2-'59	109.50	14-8-'59	105.35	+10.90
Hessian 40" 10 oz.‡ ..	42.00	37.75	23-2-'59	42.80	19-6-'59	40.40	—1.60

(Compiled from daily quotations) * Per maund † Per 100 bags ‡ Per 100 yards

The decline in fibre prices was so alarming by early January that the Government of India instructed the State Trading Corporation to purchase jute from interior markets for export. The W. Bengal Government was also allowed an export quota. As a result, Assam bottoms improved to Rs. 21.50 from Rs. 20. Mills, in an attempt to arrest the declining trend, stepped up their own purchases. At this time, the demand for goods was so poor that B. twills declined to Rs. 94.65 against the I.J.M.A. minimum price of Rs. 100. *Goods in stock* with mills exceeded one month's production. Sentiment was very weak; trading in futures was also affected. The East India Jute and Hessian Exchange Ltd., under whose auspices futures trading takes place, found it necessary to regulate trading by increasing the prices below which margins were collected. The resulting sobering influence was only a temporary phase, as by the end of January, B. twills declined to Rs. 93.05. The news of suspension of all hessian shipments to Argentine until that country reviewed the foreign exchange position and issued fresh import licences forced down hessian 40" 10 oz. to Rs. 40.50 from Rs. 42.

Prices of both B. twills and hessian 40" 10 oz. declined below the I.J.M.A. minimum rates, and there was evident dissatisfaction allround at the maintenance of these unrealistic rates. Accepting this argument, albeit after a period, the I.J.M.A. withdrew the minimum prices in early February, and simultaneously announced mills' decision to reduce output by sealing 1½ per cent. of the looms. Thanks to the changed situation, the additional margin deposits in futures were also cancelled. These steps could not stem the rot, as goods in stock with mills were very high. Reflecting this position, in February, the lowest rates of Rs. 88 and Rs. 37.75 were touched by B. twills and hessian 40" 10 oz. respectively. Assam bottoms regained to Rs. 21.22 from Rs. 20.75, following purchases by mills and the S.T.C. The S.T.C. announced that established balers would be allowed to export raw jute on the former's behalf. In March sentiment in goods improved, as at lower levels foreign buyers purchased substantial quantities. Although preliminary indications of the forthcoming greater overseas demand for sacking goods were available, the news that Pakistani mills succeeded in diverting some business from Calcutta for sacking on Australian account acted as a bearish factor in April and B. twills could recover only to Rs. 93.95.

Burlap consumption in the U.S.A. was increasing, and in the four months ended April 1959, the figure mounted up to 302.3 million yards which was a record in recent years. Further, interest in hessian for export to the U.K., the U.S.S.R., Egypt and the Argentine was lively. This accounted for the recovery in hessian 40" 10 oz. to Rs. 40.50 in May. The April-end stock details showed that sacking recorded the welcome decline by 4,000 tons. Further, the Government and commercial demand left no doubt that internal consumption was increasing. These factors aided B. twills to recover to Rs. 94.75. The nature of overseas demand for heavy goods left no doubt that, if it should be met without creating a shortage-psychology, production must increase. That mills realised this position was shown in their sagacity in unsealing 1½ per cent. of the total loomage from 22nd June. May-end sacking goods in stock having recorded a decline by 6,800 tons to 61 400 tons, much of the increase in production was naturally concentrated in heavy goods. However, putting into operation 1½ per cent. of the looms meant increasing production by about 1,500 tons a month only, which was not adequate to meet the increase in demand. B. twills advanced to Rs. 96.60 and hessian 40" 10 oz. to Rs. 41.85. As from 1st June, the E.I.J.H.E began to regulate trading also in transferable specific delivery contracts in raw jute and jute goods. Forward contracts were already being regulated by the Exchange as from March 1958, but time had been given by the Government for completing preliminaries before the Exchange could also take up transferable specific delivery contracts. Now that the formalities had been completed, there arose a dispute in regard to the new form for the contract. For, it had raised the moisture content to 4 per cent. from 3 per cent. and it took a few weeks before all the interests concerned could accept the new form. This was in June when some quantity of raw jute was exported to the U.S.S.R. for the first time in ten years. The price of jute, however, did not show any perceptible upward trend since early rains in the season were heavy and these had led to expectations of an increased crop.

Although only a portion of the expected business in hessian from the Argentine materialised in view of the worsening political situation in that country, China began to take substantial quantities of sacking from the month of July. Other countries, including Egypt, the Middle East, Viet Nam, Australia and Sudan made increased purchases in different sacking constructions. By the end of July, B. twills advanced to Rs. 98.50. China continued to lift heavy goods in still greater quantities, and support to the market from other countries also was substantial. Heavy goods in stock with mills were becoming low, and in August, B. twills advanced to a high of Rs. 109.50. This was followed by mills unsealing 2½ per cent. of the looms from 24th August. Mills also announced that these looms would again be sealed off on 2nd January 1960.

But the response to hessian from buyers was not so encouraging, because of labour troubles, U.S. buyers began to show less interest. For this reason, the rise in hessian price was less marked than in sacking, and by the end of August, hessian 40" 10 oz. was no higher than Rs. 40.10. Mills, which were stepping up production of goods, showed greater interest in raw jute; also with reports of official action to limit the jute crop in Pakistan, there was keen interest for export in the Indian market. China again figured prominently as a buyer. By the end of August, Assam bottoms touched Rs. 24.25. Mills had sacking goods amounting to only 45,800 tons, a decline of 8,300 tons from the previous month. A year ago, this stock was as high as 86,400 tons. This reflected the improved demand for heavy goods.

Despite the worsening Indo-Chinese political relationship, China continued to show more and more interest in Indian sacking in September, but since business, as a whole, in the month was lower than in August, the price of B. twills gave way to Rs. 100. Hessian 40" 10 oz. declined to Rs. 40.35. Simultaneously, Assam bottoms fell to Rs. 22.75, despite reports of damages to crop consequent on floods. Purchases of hessian by the U.S. declined, thanks to the continued strike by steel workers. That, even in spite of this, hessian in stock with mills at the end of September increased only by 700 tons to 25,500 tons showed that mills continued the process of transferring hessian looms to sacking. The despatch of an I.J.M.A. goodwill delegation to the U.S., Canada and the U.K. was welcomed in trade circles. September was the first full working month following the unsealing of 2½ per cent. of the looms in August. That, despite the increased output, all goods in stock with mills at the end of September declined by 2,600 tons to 78,600 tons showed that demand was running higher than the increased output. Mainly on account of the sounder statistical position, B. twills in October improved to Rs. 103 and hessian 40" 10 oz. to Rs. 40.85. Reports of damage to jute crop continued, and Assam bottoms hardened to Rs. 23.50. Also, mills showed more interest in the fibre market.

In October, sacking goods in substantial quantities were shipped to the Far East countries and, at the end of the month, sacking in stock with mills declined by 9,800 tons to 32,900 tons. With the end of the U.S. steel strike, that country was expected to show greater interest in hessian. For a time in November, it was anticipated that Pakistani mills would turn to India for goods to meet some of the former's commitments for near-delivery goods. Following this report, B. twills hardened to Rs. 103.10. Hessian 40" 10 oz., however, touched a low of Rs. 39.70. Before November came to an end, B. twills hardened to Rs. 106.75 and hessian 40" 10 oz. to Rs. 40.55. The official estimate showed that the crop would aggregate only 5.1 million bales (including 800,000 bales mesta) as against 6.6 million bales (including 1.4 million bales mesta) last year. Since the expected shortfall of 1.5 million bales was lower than the carryover from last season, there was no fear that self-sufficiency would be affected.

By the first week of December, Assam bottoms moved up to Rs. 26.50. Another anxiety in the market is the unrest among workers of jute mills, who demand higher wages and increased amenities. As the year is closing, there is threat of strike; but market circles fervently hope that any setback to production will be avoided. India has expanded its markets for its jute goods and any failure to meet overseas demand will mean reduced foreign exchange earnings. The jute goods market was steady in early December, and B. twills were quoted in the neighbourhood of Rs. 105 and hessian 40" 10 oz. around Rs. 40.

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Since the above review was made, the price of raw jute has shot up to Rs. 31.50 per maund (Assam bottom). The prices of manufactured goods also have risen, B. twills to Rs. 108.70 and Hessian 40"×10 oz. to Rs. 41.70.

(*Concluded from next column*)

forth of that quality. Arrivals gradually increased to an average of 8,000 to 10,000 maunds daily and even touched the high figure of 12,000 maunds on some days, a record for the past several years. Thereafter, prices eased under pressure of arrivals and the difference in the prices of *balti* and *pansera* qualities was gradually eliminated. The prices prevailing on 4th December were: *pansera* Rs. 16·50 to Rs. 17.50 and *balti* Rs. 18.50 to Rs. 19.25 a maund.

The *gur* production operations are brisk. Many new crushers have been installed in this area. They find it profitable to manufacture *gur* by purchasing the cane at slightly lower price than those fixed by the Government to be paid by factories.

STEEP RISE IN SUGAR PRICES

HAPUR, *4th December*

THE year 1959 witnessed wide fluctuations in sugar prices, thanks to periodical and regional disparities in supply position, following shortfall in output. From the very start of the season, cane growers in the North were tempted to convert their cane into *gur* and *khandsari* which fetched fancy prices from buyers mostly from the South. As compared with the previous season, the output of sugar during 1958-59 dropped by about 57,000 tons to 1,921,000 tons. The fall was mainly in the controlled areas of Northern India, namely, U.P., North Bihar and the Punjab. Domestic offtake, on the other hand, was increasing, the monthly quotas varying from 175,000 to 178,000 tons. In the case of factories in U.P., North Bihar and the Punjab, sales were to be effected at prices not higher than those fixed by the Government last year, that is, Rs. 36 per maund for D. 29 ex-factory, with price differentials for other grades. But prices began to rise from mid-February and the factories sold stocks at rates higher than the controlled rates and premiums were being negotiated in private. By the end of April, most of the factories had closed their crushing season and prices advanced by Re. 1.50 to Rs. 2.50 per maund above the controlled prices. The system of allotment was strengthened with a view to augmenting supplies to consumers by allotting sugar to apolicants at the officially fixed prices. This measure, too, failed, as the allottees made money by selling sugar in the black market and tenders were submitted often by parties outside the sugar trade. The Bombay-Deccan region remained an eager buyer of the North Indian market quota comprising 25 per cent. of production allotted against tenders.

Sugar prices registered a sharp rally early in May, the main influencing factors being reduction of monthly quota, delay of a fortnight in the issue of release orders, and increased demand for marriage season and not weather requirements. Prices advanced further in June. It was then that the Government ordered the compulsory licensing of wholesale sugar traders. While the market was in the grip of control psychosis, hoarding tendency gathered strength and prices touched the highest of Rs. 135 per bag, as against the controlled rate of Rs. 104. In the third week of July, the U.P. Government assumed full control over the distribution of sugar.

Khandsari

The Government of India has no doubt decided to license *khandsari* units and imposed an excise duty of Rs. 5.04 per cwt. on *khandsari* produced with aid of sulphitation process and Rs. 3.92 per cwt. on that produced without such aid. But the actual effect of these measures has been very negligible.

Khandsari in U.P., which ruled steady during the major part of the season, spurted to touch the peak level of Rs. 60 per maund, following removal of export ban from the U.P. State and brisk demand. Since the beginning of the new production last month, *khandsari* has eased slightly. Wet quality is now quoted at Rs. 36, dry quality at Rs. 40-48, and *khandsari* crystals at Rs. 50.

Gur

Early in 1959, ready *gur* (*pansera* quality) at Hapur was quoted at Rs. 15.75 a maund and *balti* quality at Rs. 16.75. The trend of prices continued to be firm even during the peak of the season and prices gradually improved to Rs. 19 to Rs. 22 towards the close of the production season in May 1959. The total arrivals of *gur* into Hapur in the whole of 1958-59 were put at 660.000 maunds, as against 397,000 maunds in 1957-58 and 468,000 maunds in 1956-57 when *pansera* quality was quoted at Rs. 19.62 and Rs. 11.75 a maund, respectively. Owing to the persistently good demand, no large stocks accumulated here; at no time of the season were the stocks above 100,000 maunds. Old stocks gradually ran down and, by the time the new season started early in October, stocks were completely exhausted and new *gur* opened at as high as Rs. 27 a maund. The high prices continued upto the end of the month when daily arrivals rose to an average of 3,000 maunds. But, then, *balti* quality was quoted at a premium of Rs. 3 to Rs. 4 per maund over the pansera quality, owing to good demand from Gujerat, Saurashtra and Rajasthan. Following this development, producers resorted to the manufacture of *balti* quality and bulk of the arrivals in the market were hence-

(*Continued in previous column*)

Hides React After Early Rise

Overseas Demand For Tanned Goods Quite Encouraging

MADRAS, *7th December*

THE year 1959 commenced reasonably well from the point of view of E.I. tanners. They had a profitable, though difficult, trade; they had large raw stocks of kips towards the close of 1958 and held firm to their prices, despite great price resistance from importers overseas. The unexpected sharp price increases during the second quarter of 1959 enabled them to cash in large profits on their inventory, a part of which disappeared when prices declined in the last quarter. The sudden spurt in prices was attributed largely to smaller kill of cattle reported from the Argentine, shortage of hides in N. America and South Africa, and operations of East European countries in raw and tanned hides and skins markets in India as well as elsewhere. The Chairman of Raznoexport, the only Soviet trade organisation in charge of hides import, stated:

"... the real reasons for the increase in market prices on hides are the reduction of livestock slaughter and output of hides in the two main hide exporting countries—the United States and Argentina. In the former, the slaughter of cattle has dropped from 38.1 millin head in 1957 to 33 million in 1958. The Argentine Government bodies, in an effort to restore their herds of cattle, adopted legislation at the end of 1958 to decrease livestock slaughter by 30 per cent. These measures have led to the shortage of hides on the world market."

Export statistics, however, give a different picture. The following table indicates the trend of Argentine hides exports:

(In pieces)

	1957	1958
U.S.S.R. ...	880,618	1,427,978
Poland ...	383,806	1,353,066
Hungary ...	113,862	542,123
Rumania ...	3,109	529,835

The above figures show how the iron curtain countries have been operating. In April 1959, Italy banned exports of raw light hides and calves. It is no wonder that the East European countries have been switching their attention to other markets and offering high prices in order to attract their goods.

U.K. Buying

The chief market for E.I. tanned cow hides and calves was the United Kingdom. Importers were increasingly quality-conscious and the production of better classes of merchandise was on the increase. Premium marks and tannages were in good demand. Light weights found ready buyers and mediums were comparatively slow to move, while heavy weights were difficult to sell unless at buyers' ideas of prices. Inferior grade kips were taken up freely for inland trade at 5 to 10 per cent. over the prices which U.K. importers could offer; consequently, exports to the U.K. were small in this section. As the E.I. kips stockpiled by the U.K. Government in 1951 had been completely sold out by October 1959, the trade expected that there would be good demand for lower grade kips from the U.K. during 1960.

During the first quarter of 1959, U.K. buying of kips was cautious and selective. Top marks found ready outlets, but poorer standards were taken up at a discount and the tanners of the latter classes were hit hard. Demand centred round lower grades, while higher selections were difficult of sale.

In April, the Madras market was taken by surprise when inquiries for kips at 25 to 30 per cent. over ruling prices were received from East European countries and the U.S.A. There was a hectic upswing in prices when several deals were brought to book. U.K. importers trailed behind, as their dressers were not able to establish higher prices for their leather. These high prices were maintained in May and a mild reaction set in subsequently, thanks to lack of further orders from iron curtain countries and the U.S.A.

Though the offtake from South India was not large, it was enough to upset the E.I. tanners considerably, some of whom could not resist the temptation to bypass low-priced contracts and execute higher-priced ones, to the discomfiture of the importers overseas, and this shattered the confidence in the integrity of some exporters at times of stress. The U.K. buyers thought that higher prices for kips would reduce the volume of demand. This expectation, however, did not prove correct. There was a scramble for stocks on offer, as the dressers had small stocks. With buyers coming in to cover before things got worse, prices advanced sharply with exceptional strength.

Shipments of E.I. tanned cow hides to the U.K. in 1959 (January-November) were about 60 per cent. more than the average for the year 1958, cow calf 80 per cent., buffalo hides 50 per cent. and buff calf 17 per cent. Export of tanned cow hides and calf to the Continent were about 400 bales during January-June 1959 and increased by another 1,800 bales during July-November 1959, though the offtake was only 124 bales in 1957 and 153 bales in 1958.

Prices Decline

The steep rise recorded in May spent itself slowly. In U.S.A. and other origins, there was a 10 per cent. decline in raw prices in May and a further 15 per cent. subsequently. Prices of kips decreased steadily during the last quarter of 1959, since the importers adopted a hand-to-mouth policy and kept out of the market to force down prices. E.I. tanners became nervous and were willing to meet buyers' ideas of prices, which resulted in price declines to an extent of 10 to 15 per cent. on peak levels. The market seems to have touched the bottom and is due for a rise before the year is out.

Inquiries for tanned cow calf were excellent during the year, and good marks found ready outlet. U.K. and Continental buyers were in the market and demand outstripped supplies. The U.K., which took 164 bales per month in 1958, imported 290 bales average per month during 1959, while the Continent, which took only 5½ bales in 1958, imported 49 bales in 1959.

Demand for E.I. tanned buff calf was large from all destinations in 1958 and the tanners also had large raw stocks for processing in 1958-59. Owing to overproduction, prices declined sharply during February in the U.S.A., though top marks found a ready outlet in the U.K. throughout the period under review. Following good support from U.K. and Continental buyers, demand revived during the second quarter of the year, and prices touched dizzy heights in September but declined by 10 per cent. during October, and another 10 per cent. during November-December. Exports to the Continent were heavy. The monthly average rose from 2½ bales in 1958 to 70 bales in 1959.

The production of tanned buffalo hides, was moderate, but it exceeded demand. U.K. importers did not want them, because it was not useful for moulded-shoe processes. However, during the first half of 1959, large shipments were made to U.S. ports. During the third quarter, demand slackened and, in the last quarter, inquiries were negligible, as domestic raw prices were lower for them.

Exports

Shipments of E.I. tanned hides and calves to the U.K. and Continent, as stated already, increased appreciably during the period under review, as is indicated below:

(In bales of 600 lbs.)

	1957	1958	1959 Jan/Nov
Tanned cow hides			
U.K.	33,238	23,994	34,560
Continent	34	76	1,675
Tanned cow calves			
U.K.	3,503	1,984	3,181
Continent	90	77	888
Tanned buff hides			
U.K.	532	225	315
Continent	..	..	22
Tanned buff calves			
U.K.	3,942	3,376	3,604
Continent	94	31	763

In the tanned skins section, E.I. tanners had a fair measure of prosperity. Prices were, moving steadily upward month after month till October 1959. In order to meet the quality-conscious importers, they paid great attention to keep their output in step with the growing requirements of the export market. Premium marks were in great demand from the U.K. and the Continent. There was good call for common tannages from the Continent, but supplies were short. As the price difference between top marks and commons was enormous, production of the latter types were uneconomical and resulted in a heavy loss to the relative tanners.

The volume of shipment business with the Continent was on the increase year after year, and the period under review was no exception. Trading was profitable to shippers, as Continental prices were more attractive than U.K. levels.

Light weights and mediums in goat skins were fancied most, as also lower grades in all average weights. There was a rise of 15 to 20 per cent. in the levels between January and June 1959. Due to the falling off in the demand for clothing suedes, shipments to the U.K. were 10 per cent. below the average for 1958 and to the Continent 20 per cent. Prices soared further upwards during August-October when record levels were touched. The tanners were upset by the runaway prices in the North India raw markets, following heavy purchases made by the U.S.S.R. Since they were quoting fantastic prices, importers on the Continent and in the U.K. kept out of the market, and prices declined by 10 per cent. during November, which stimulated slow resumption of steady trading again in December.

During 1959, shipments of tanned sheep skins to the U.K. were about 35 per cent. and to the Continent 75 per cent. over the averages for 1958.

Middle class sheep was in keen demand throughout the year. During March-April, prices spurted sharply by 30 per cent. and the shippers who had commitments were badly hit. Some of the tanners cushioned their losses on an increased percentage of adulterants in their tannages which was deprecated by U.K. importers in no small measure. Prices were kept steady thereafter till November when buyers kept out of the market and prices declined by 10 to 15 per cent. Prime and semi-prime classes had a steady market.

London Public Auctions

Seven public auctions were held in London for the sale of E.I. tanned goat and sheep skins. The offerings were small and were mostly excesses from exporters' orders for shipment consisting of grades and classes which had no market on c.i.f. terms. Messrs. Dyster, Nalder and Co., who have been handling large stocks for the London public sales for several decades, decided to close down their organisation by the end of 1959, leaving Messrs. Flack Chandler, their only competitor, a free field.

Stocks on offer in public sales were small, as there was active shipment business with the U.K. and the Continent during 1959. The consignors imposed high limits on several parcels in line with c.i.f. levels, and a part of the stocks had to be carried over from one sale to another. It has been the custom for the brokers to value the parcels on offer on the basis of earlier public sales, but the trade will greatly appreciate, if, from 1960 onwards, the valuations are made in relation to the c.i.f. shipment levels at the time of valuation, which will be more realistic than basing them on the levels realised in the earlier auctions held two months back.

Exports during the years 1957 and 1958 and in the first eleven months of 1959 were as under:

(In bales of 560 lbs.)

	1957	1958	1959 Jan/Nov.
Tanned goat			
U.K.	10,728	8,186	7,067
Continent	6,590	7,154	6,122
Tanned sheep			
U.K.	7,108	5,021	6,167
Continent	1,814	1,995	3,177

Japanese importers were more active in 1959 than in 1958. The total exports were 1,841 tanned sheep skins in 1957, 1,443 bales in 1958 and 1,683 bales during January-November 1959.

Tanners in the U.S. took about 200 bales tanned cow hides during April 1959 and did not continue purchases subsequently, as their domestic raw market was on the decline. Their interest in buffalo hides and calves and tanned goat skins was, however, appreciable.

	1957	1958	1959 (Jan/Nov)
Tanned buff hides and calves ...	1,529	1,758	3,499
Tanned goat skins ...	971	871	1,759

Exports of dry salted goat skins from South India were small, in view of the competitive buying by E.I. tanners who obtained high prices for their productions. In order to foster the tanning industry, the Government of India restricted the export of raw goat skins to established shippers on the basis of their exports during any one of their best years 1956, 1957 and 1958.

The E.I. tanners have been slowly installing labour-saving machinery to minimise the employment of workers in their tanneries, in view of frequent threats of labour strikes. In fairness to workers, it must be admitted that their threats were not translated into action in several cases.

Outlook

The Government of India has been sending out trade delegations to various countries to tap new markets for E.I. tanned hides and skins, as well as for finished leather and leather goods, in order to improve export earnings. The State Bank of India is considering the ways and means of financing the tanners to hold their stock for better prices when prices overseas decline to uneconomic levels. It should, however, be noted that the 1958 level of prices is not likely to return, because it has been a feature in all undeveloped countries to continue to raise the standard of life of their people, and this, in turn, involves a marked increase in the use of leather. It has been reported that the U.S.S.R. is expected to double their shoe production by 1965 under their Seven-year Plan. Consequently, the upward price curve in the hides and skins market represents a long-term trend rather than a short-term flurry.

The prospects for the trade during the New Year seem to be reasonably optimistic. Several overseas importers, including the iron curtain countries, are interested in E.I. tanned merchandise, and many countries have buoyant economy with money in the public pocket to spend. It is up to the E.I. tanners to guard themselves against pricing their products out of the world markets.

FOREIGN FINANCIAL LEADERS TO VISIT INDIA

Three prominent members of the business and financial communities of the United States, the United Kingdom and the Federal Republic of Germany will visit India and Pakistan early next year to study economic conditions and acquaint themselves with current and planned development programmes in the two countries. The financial leaders—Mr. Joseph M. Dodge, Chairman of the Detroit Bank and Trust Company, Detroit, Michigan, Sir Oliver Franks, Chairman of Lloyds Bank, Ltd., London, and Dr. Hermann Abs, Chairman of the Deutsche Bank of the Federal Republic of Germany—are making the trip, planned for February and March, at the suggestion of Mr. Eugene R. Black, President of the World Bank. Commenting on the trip, the U.S. Under Secretary of State, Mr. Douglas Dillon, said that the United States Government "greatly welcomes this initiative." He was certain that "the viewpoints Mr. Dodge will hear and the insight he will derive from his trip will make an important contribution to discussions in this country regarding the problems of India and Pakistan." The World Bank stated that Mr. Black's suggestion for the trip "was made after consultation with the Governments of India and Pakistan, who have welcomed the idea and will give the members of the group every opportunity to learn about the major issues involved in the economic development of their countries." The Bank also observed that Mr. Black "was convinced of the need for wider understanding in the industrially developed countries of the problems confronting the less developed areas of the world, and expressed the belief that visits such as this by prominent members of the business and financial cummunities of the industrial countries could make an important contribution to that end."

The value of imports (estimated on the basis of a sample analysis) and of exports financed by Indian banks in 1958 was Rs. 220.6 crores and Rs. 201.4 crores, respectively. The figures for 1957 were Rs. 325.6 crores of imports and Rs. 204.5 crores of exports.

This information was given by the Finance Minister, Mr. Morarji Desai, in the Lok Sabha recently. The Minister said that figures for 1956 were not readily available.

THE TITAGHUR PAPER MILLS COMPANY LTD.

CHAIRMAN, SIR WALTER MICHELMORE, ON THE NEW SCHEDULE OF PAPER PRICES

NEED FOR STRENGTHENING RAW MATERIAL RESOURCES

THE importance of ensuring that the expanding paper industry finds new sources of indigenous raw materials is stressed by Sir Walter Michelmore, Chairman, the Titaghur Paper Mills Company, Ltd., in the course of his statement circulated to the shareholders of the Company in conjunction with the Directors' report and statement of accounts for the year ended 31st March 1959. Sir Walter has pleaded for a vigorous drive to increase the sources of Indian pulp, though bamboo is and must remain the industry's staple material. Alluding to the new schedule of paper prices, which comes into effect from 1st January 1960, the Chairman observes that, though it is too early to forecast its precise effect on the Company, the "reduction in prices at the present stage of the industry's development is a retrograde step" and a severe blow to companies which follow a conservative policy of ploughing back into reserve funds required for further modernisation and expansion.

The following is the full text of Sir Walter's statement:

"I take this opportunity of submitting a few remarks on the activities of your Company and the paper industry, to be read in conjunction with the Directors' report and the Company's accounts for the year ended 31st March 1959.

"Shareholders will observe from the Directors' report that Mr. F. S. Mitchell has retired as an ex-officio Director of the Company after 33 years of service with your Managing Agents. During his career, Mr. Mitchell has been closely associated with your Company in various capacities and has been, in a large measure, responsible for the position in the industry which your Company enjoys today. We extend to Mr. Mitchell our best wishes for the future and trust that before long we shall be able to make use of his services again in an advisory capacity as a member of your Board.

Dividend

"You will have noted that it has been possible to recommend an increased dividend to ordinary shareholders. The improved results have been due in large measure to an increased production of 11 per cent. over the figure of the previous year and have been achieved in the face of increasing costs of raw materials, chemicals and labour. The electricity duty imposed by the West Bengal Government has cost your Company Rs. 10.23 lakhs in this year and we are now faced with a new tax imposed by the Orissa Government on the transportation of bamboo which, though it has not affected this year's results, will in a full year cost about Rs. 3.70 lakhs. In addition, no less than Rs. 124 lakhs have been paid to the Central Government in the shape of excise duty.

"Your Company is the largest user of bamboo pulp in the world and still continues to be the largest producer of writing and printing papers in India. Renovations in the mills in West Bengal have continued and it is interesting to note that a sum of no less than Rs. 297 lakhs has been spent on machinery and plant in the last fifteen years. No. 3 mill at Choudwar in Orissa is nearing completion and is expected to be in production in early 1960. We may take legitimate pride in the fact that the planning of the mill was undertaken by your Managing Agents without the assistance of any specialist firm and that the fabrication of a large part of the machinery was carried out by the Company's own resources.

"The Indian paper industry is now producing about 330,000 tons of paper, paper-board and newsprint per annum, and by the end of the third Five-year Plan demand will have risen to about 700,000 tons. This target is a challenge to the industry and to achieve it the twin problems of adequate supply of indigenous raw material and of finance must be overcome.

Raw Materials

"It is very necessary that the expanding paper industry finds new sources of indigenous raw materials for pulping. It seems probable that for a few years at least recourse must be had to larger imports of wood-pulp, more expensive it is true than indigenous pulp, but nevertheless cheaper than imported finished paper. Here again paper prices must allow for this higher cost or the incentive to increase production by using wood-pulp disappears. A vigorous drive must be made to increase the sources of Indian-made pulp, though bamboo is and must remain the industry's staple material. The State of Assam is largely unexploited, mainly due to inadequate collection and transport facilities, but a step in the right direction has been taken by the formation of the Assam Pulp Company Ltd. which should be of great assistance in meeting the industry's increased demands. Other sources of bamboo remain untouched or underdeveloped, and it is to be hoped that State Governments will continue their efforts to increase forest resources by achieving a better yield per acre, and, where necessary, replanting in areas damaged by flooding or careless felling. Other paper-making fibres are bagasse, soft or hard woods, cotton linters, and Sabai grass, the cultivation of which is now in a state of some neglect and might well repay more attention.

A Retrograde Step

"As you are aware, Government requested the Tariff Commission in September 1958 to enquire into paper prices, and on the basis of the Commission's recommendations Government have called upon paper mills to issue a revised price list, effective from 1st January 1960, which will contain very severe reductions. The full implications of these price changes are being studied, and though it is too early to forecast their precise effect on the future profits of your Company, it is clear that the value of sales will drop by at least 8 per cent. I feel it my duty to make plain my considered opinion that this reduction in prices at the present stage of the industry's development is a retrograde step and a severe blow to companies like yours which follow a conservative policy of ploughing back into reserves funds required to provide for further modernisation and expansion. Many mills have borrowed large sums of money to construct new units or expand old ones, and it will be a matter of great difficulty to meet interest charges and provide for repayment with the reduced profit margins now available. It should also be borne in mind that depreciation, which forms an element of cost, is usually calculated on the purchase price of fixed assets, and sufficient resources must be available to provide reserves for eventual replacement at higher prices. Moreover, an attempt to defeat the fundamental economic principles of supply and demand by enforcing a reduction of prices in a time of scarcity can only result in failure, in an encouragement of the black market, and the consequent loss of revenue to Government.

Expansion

"Since the Tariff Commission commenced its deliberations, further variations in cost have taken place, and although prices fixed contain an allowance of 5 per cent. to cover increases, it is inadequate, and already some revision appears necessary. It seems to me that some method should be worked out whereby paper prices may be revised speedily and without friction where there are good grounds for so doing. While it might be argued that the rise in civil prices in April 1958 was too sharp in the case of certain qualities, the reduction to take effect in 1960 is too severe and cannot be looked on otherwise than as a considerable setback to the industry. It would be extremely unfortunate if the opinion that the paper trade is merely looking for a source of quick profit and has no thought for its own future were to gain general currency. The industry must be in a position to plough back sufficient funds for continuous renovation and expansion, and at the same time paper mills must be allowed a margin of profit sufficient to pay a reasonably attractive dividend on ordinary shares and thus attract equity capital instead of relying on loans from outside sources. The Tariff Commission has calculated the fair return on capital employed at 12 per cent. but this figure has to carry managing agents' commission, interest on loans and provision for their redemption, taxation, dividends and reserves for replacement of machinery, expansion and other purposes. For an industry which is expected to treble its capacity by 1965 this return is completely inadequate, and in my view at least 20 per cent. is required, particularly since the cost structure adopted by the Commission provides for depreciation on two shifts only at the rates allowed for income-tax purposes on written-down values of the fixed assets, and contains no provision for replacement at higher price levels. The ordinary dividend which your Directors recommend for the year to 31st March 1959 is Rs. 2.50 per share and represents about 5½ per cent. of the value of the equity capital; that is, the face value of the ordinary shares themselves and the reserves. This does not seem a very excessive return, but I have grave doubts of our ability to maintain that return after this revision of prices and the new system of company taxation introduced in the 1959 Finance Act.

Selling Prices

"As a matter of interest, I give below in the form of index numbers a comparison since 1949 of the variations in Titaghur Paper Mills' average selling price, overall cost per ton including depreciation and all charges except Managing Agents' commission, as well as the selling price of white printing on both civil and Government account. On Titaghur's figures at least it would seem that the present prices are by no means too high, and it should be remembered that Indian mills still produce cheaper paper than British, American or Continental mills.

Base 1949=100	Average selling price	Overhead cost	Price of White Printing	
			Govt.	Civil
1950 ..	109	110	100	100
1951 ..	113	103	100	105
1952 ..	116	107	102.8	105
1953 ..	115	108	103.5	105
1954 ..	116	118	103.5	105
1955 ..	113.5	111.5	102	105
1956 ..	114	109	101.5	105.2
1957 ..	116.5	113.7	102	105.2
1958 ..	125.5	122	106	111
1959 ..	129.5	127	110	116.7
New Prices from 1-1-60.	..	..	110	108

"The Tariff Commission has suggested that manufacturers should have a trained staff of travelling salesmen and inspectors to see that anti-social activities in regard to prices and distribution are put down. This suggestion is praiseworthy but the implementation thereof will yet further increase costs. Your Company has always taken great care to see that as far as lies in its power paper reaches the consumer at a fair price, and this will continue to be its policy.

"In conclusion, I would express on behalf of your Board our appreciation of the services rendered by executive and supervisory staff, particularly those connected with the construction of No. 3 mill in Orissa now nearing completion. It gives me great pleasure to record this expression of our thanks."

The above statement is not a report of the proceedings of the annual general meeting, which was held on 30th December 1959.

Notice

THE BOMBAY BURMAH TRADING CORPORATION LIMITED

NOTICE TO SHAREHOLDERS

NOTICE IS HEREBY GIVEN that in pursuance of the powers granted to them by a resolution passed at the Extraordinary General Meeting held on 29th May 1958 the Directors have extended the final date fixed for the receipt of applications for consolidation of fractional certificates into whole shares of Rs. 125 each, from 31st December 1959 to 31st May 1960.

By Order of the Board,

WALLACE & CO.,

Secretaries and Treasurers.

BOMBAY, *23rd December* 1959.

ASSAM SILLIMANITE LTD.

REFRACTORY PROJECT SANCTIONED

CHAIRMAN'S STATEMENT AT ANNUAL MEETING

IN the course of his statement to shareholders of Assam Sillimanite Ltd. at the Eighth Annual General Meeting held at Gauhati, Assam, on Saturday, 19th December 1959, Mr. S. M. Wahi, the Chairman, said:—

"1958-59 has been again a good year in the Company's history and after eight years of waiting this mining company has transferred its profits to reserves for larger dividends next year. When I was speaking to you last year, I mentioned that the last three years of operation enabled us to maintain a steady profit which went to make up the losses of the earlier years. After wiping out the losses amounting to Rs. 6,80,021.1.11 we carried forward a net profit of Rs. 11,746.38 nP. Adding the profit of this year of Rs. 1,62,236.73, and writing off an amount of Rs. 734.50 on account of freight rebate, as also providing an amount of Rs. 13,366 for wealth tax and Rs. 76,668 for income-tax, the net balance is Rs. 83,214.61 nP. I hope the Company will continue to maintain the same upward trend of profits in the coming years.

"The Directors' report and the balance-sheet along with the auditors' report have been with you for some time and, with your permission, I shall take them as read.

Growing Prospects

"During the year under review we maintained the quality of the material, and, because of this, the growing demand for Khasi Sillimanite is being progressively maintained. In fact, our quality control is attracting new customers notwithstanding the fact that mullite or some other substitutes are being marketed under the trade name 'Sillimanite'. Even with the increased production of 6,255 tons this year we could not meet the market needs. Once again we are left with large pending orders for 7,742 tons valued at Rs. 25.00 lakhs, which would have to be executed next year. This situation and increasing demand have come about even after our accepting orders with much restrictions and only against confirmed letters of credit from new parties.

"Last year, I mentioned about the proposed refractory project which was one of the major conditions imposed by Government in liberalising our export quotas. With the rapid expansion of the steel and other industries in the country there is a gap between the installed capacity for refractories and the anticipated requirements in the second and third Five-year Plan periods. The present installed capacity of refractories in India is 444,000 tons per annum approximately whereas the anticipated requirements by the end of the second Five-year Plan period alone are estimated at twice the present installed capacity. Imports of refractories have registered a steep rise; from Rs. 30 lakhs in 1953 to Rs. 3.32 crores in 1958, entailing large foreign exchange to the country. This, therefore, necessitates augmenting the indigenous production of refractories. With the big developments in steel plants these requirements will continue to rise even beyond the one-million ton target envisaged at the end of the second Plan period.

Refractory Project

"In this context, I have the pleasure to inform you that your Company has been granted a licence No. 6(37)/L.IND.58 dated 15th September 1958 by the Ministry of Commerce and Industry, to manufacture 44,720 tons of refractories per year.

"I mentioned in the last report that a project of this magnitude is beyond the resources of your Company—both technical and financial—and that it was proposed to get financial and technical collaboration with some established and renowned Refractory works in Europe and that negotiations were going on. These negotiations have been successfully concluded with the Vereinigte Grossalmeroder Thonwerke, A.G., Grossalmerode, West Germany, for technical collaboration and tentatively with the International Finance Corporation, Washington, for financial participation. Under the proposed arrangements, the I.F.C. of the World Bank will meet the financial requirements of capital plant and machinery to the extent of U.S. dollars 1,400,000 represented by unsecured Notes. You accorded sanction last year for increasing the authorised capital of the Company by the creation of 600,000 equity shares of Rs. 10 each with a view to taking care of the needs of the project.

"The total investment on this Project is estimated at Rs. 65.00 lakhs for the first stage and Rs. 42.00 lakhs for the second stage. I.F.C. has agreed to put up the entire foreign exchange composition, i.e., Rs. 44.00 lakhs in the first stage and Rs. 21.00 lakhs in the second stage. Balance rupee capital required for the first stage of Rs. 21.00 lakhs is being arranged locally and, with the wide requests of investments from several parties, the raising of this amount, would not present much of a problem. Of course, in due course, the Company shall call for subscription and every one of our friends would have equal opportunity to invest.

"As per scheduled programme, the first stage investment of Rs. 65.00 lakhs on the refractory project during 1960-61 should result in production of refractories worth Rs. 40.96 lakhs by 1961-62. Additional investment of Rs. 42.00 lakhs for second stage in 1961 should result in a total production of Refractories worth Rs. 99.07 lakhs in 1962-63 and Rs. 1.31 crores in the financial year 1963. Net estimated profits after paying taxes, etc., available to shareholders, on this project, are likely to be low at Rs. 14.64 lakhs in the earlier two years but would steady out to an average between Rs. 24.65 lakhs to Rs. 27.00 lakhs.

"With extensive and valuable contacts with the refractory works in the world market as also with industrial works in India, it was considered essential to expand the mining activities of the Company to enable it to meet the requirements of raw materials needed for refractory industry. With this end in view the Company applied for and has obtained Certificates of Approval for prospecting quartzite and chrome ore in Orissa; magnesite and steatite in Uttar Pradesh, kyanite, quartzite and fireclay in Behar. In some cases mining leases are in course of being signed by the Company.

"Thus, the Company would be shortly in a position to offer good quantities and excellent qualities of kyanite, magnesite, chrome and quartzite ores to its overseas customers; as also meet the needs of industries in the country including our refractory works.

Appreciation

"The Directors wish to express their appreciation of the endeavours of the Mine Manager who continues to look after the mine work in increasingly difficult and hard conditions. They specially commend the welfare work that has been done for workers in this period by the Managing Agents and hope that the hard work of all those deeply attached to their duty, would continue to be recognised and respected."

Note—The above statement is not a report of the proceedings of the annual general meeting referred to.

MEN FALL FOR IT!

WOMEN ADMIRE IT!

WHAT IS IT?

A tender skin, clean and soft as a rose petal. A skin that has the glow of health. This is the skin, that woos and wins: the skin of lavish loveliness. MYSORE SANDAL SOAP brings all this within your reach. Use this favourite toilet Soap of one and all.

Manufactured by

GOVERNMENT SOAP FACTORY

BANGALORE

Notices

SHAW WALLACE AND COMPANY, LIMITED

DIVIDEND ON PREFERENCE SHARES

THE DIRECTORS HAVE DECLARED a Second Interim Dividend of 3 per cent., less Income-tax, on the Company's Preference Shares in respect of the year 1959, payable to Members whose names appear in the Preference Share Register on the 15th January 1960. Warrants will be posted on or after that date to the addresses or in accordance with the instructions, recorded in the Company's books.

The Transfer Register of the Preference Shares will be closed from the 8th to the 15th January 1960, both days inclusive.

By Order of the Board,
SHAW WALLACE & COMPANY LIMITED.

4, BANKSHALL STREET,
CALCUTTA, 16*th December*, 1959.

THE BRITANNIA BISCUIT COMPANY, LIMITED

NOTICE IS HEREBY GIVEN that an Interim Dividend of 6 per cent. on Ordinary Shares subject to deduction of Income Tax, and 4 per cent. on Preference Shares subject to deduction of Income Tax has been declared by the Directors for the year ending 31st March, 1960. The Dividend will be payable to those shareholders whose names appear on the Register of Members on the 13th January 1960. Warrants will be posted on or after that date to the addresses or in accordance with the instructions recorded in the Company's books.

The Register of Members of the Company will remain closed from the 6th January 1960 to the 13th January 1960, both days inclusive.

By Order of the Board,
A. P. CHANDA,
Secretary

15, TARATOLA ROAD,
CALCUTTA-27, 18*th December*, 1959.

PRINTED BY J. MIDDLETON FOR G. CLARIDGE & CO. LTD. AT THE CAXTON WORKS, FRERE ROAD, BOMBAY 1, AND PUBLISHED BY SORAB B. MEHTA, B.COM., FOR COMMERCE (1935) LTD., BRADY HOUSE, VEER NARIMAN ROAD, BOMBAY 1. EDITOR: S. V. RAYAN.

FRENCH DYES & CHEMICALS

(INDIA) PRIVATE LIMITED

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Telephone: 242131/2 G.P.O BOX Nº 1539. Telegrams: 'FRENCHDYES'

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FROM

UGINE-AIR LIQUIDE-KUHLMANN

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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.

Women from different parts of the country wear the saree in their own special way. The pretty Maharashtrian women of Western India for instance, wear a nine-yard saree, like a dhoti, taken between the legs and tucked in at the back.

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.

MAFATLAL
GROUP OF MILLS

CLOTH FOR THE NATION

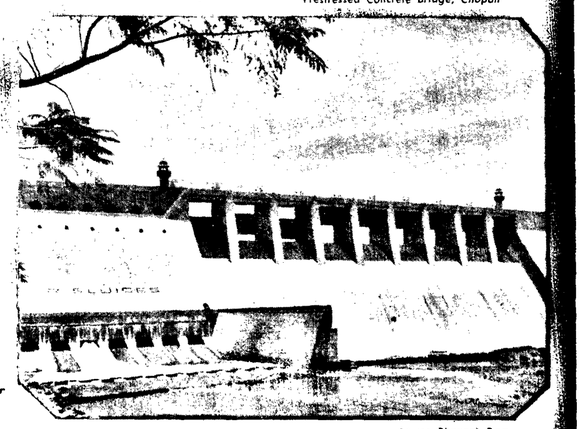
Mafatlal's other interests include Sugar and Dyestuffs

MAFATLAL HOUSE, BACKBAY RECLAMATION, BOMBAY 1.

Concrete for permanence

Prestressed Concrete Bridge, Chopan

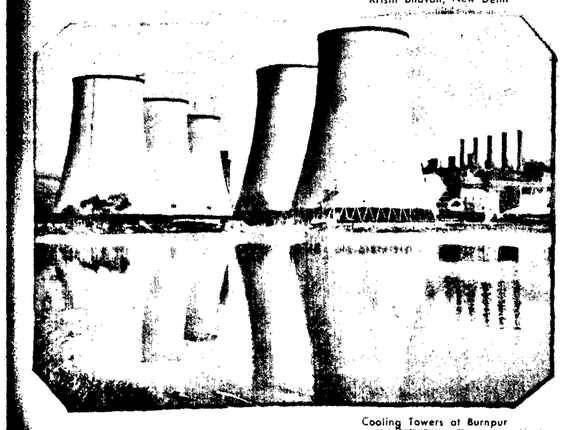
Coimbatore-Mettupalayam Road



Lower Bhavani Dam

Krishi Bhavan, New Delhi

Bihar Institute of Technology, Sindri



Cooling Towers at Burnpur

ACC cement
for quality concrete

ACC

the steel tube age

The production of the **Indian Tube** Company is used for an astonishing and ever-widening variety of purposes.

Indian Tube
The Indian Tube Co. (1953) Ltd.
A TATA-STEWARTS AND LLOYDS ENTERPRISE

ITC-41

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BRANCHES ALSO AT

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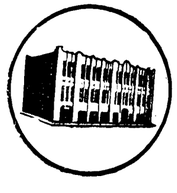
Authorised Capital - - -	Rs.	1,00,00,000
Subscribed Capital - - -	Rs.	88,60,000
Called and Paid-up Capital - -	Rs.	82,98,990
Reserve and Other Funds (including share premium) - - -	Rs.	83,01,884
Deposits as on 30th June 1959 -	Rs.	43,77,46,578

BOARD OF DIRECTORS

L. ALAGUSUNDARAM CHETTIAR
P. V. RM. KULANDAYAN CHETTIAR
K. BALASUBRAMANIA AIYAR
RAO SAHEB E. M. MUTHAPPA CHETTIAR
KUMARARAJAH M. A. M. MUTHIAH CHETTIAR OF CHETTINAD
R. K. VENKATACHALAM
R. SUNDARAM IYER
RAO BAHADUR T. S. KACHAPIKESA MUDALIAR
O. M. SP. L. M. MEYYAPPA CHETTIAR
DR. RAJAH SIR M. A. MUTHIAH CHETTIAR OF CHETTINAD, Kt.
K. ARUNACHALA MUDALIAR
RAMADOSS PURUSHOTTAMDASS

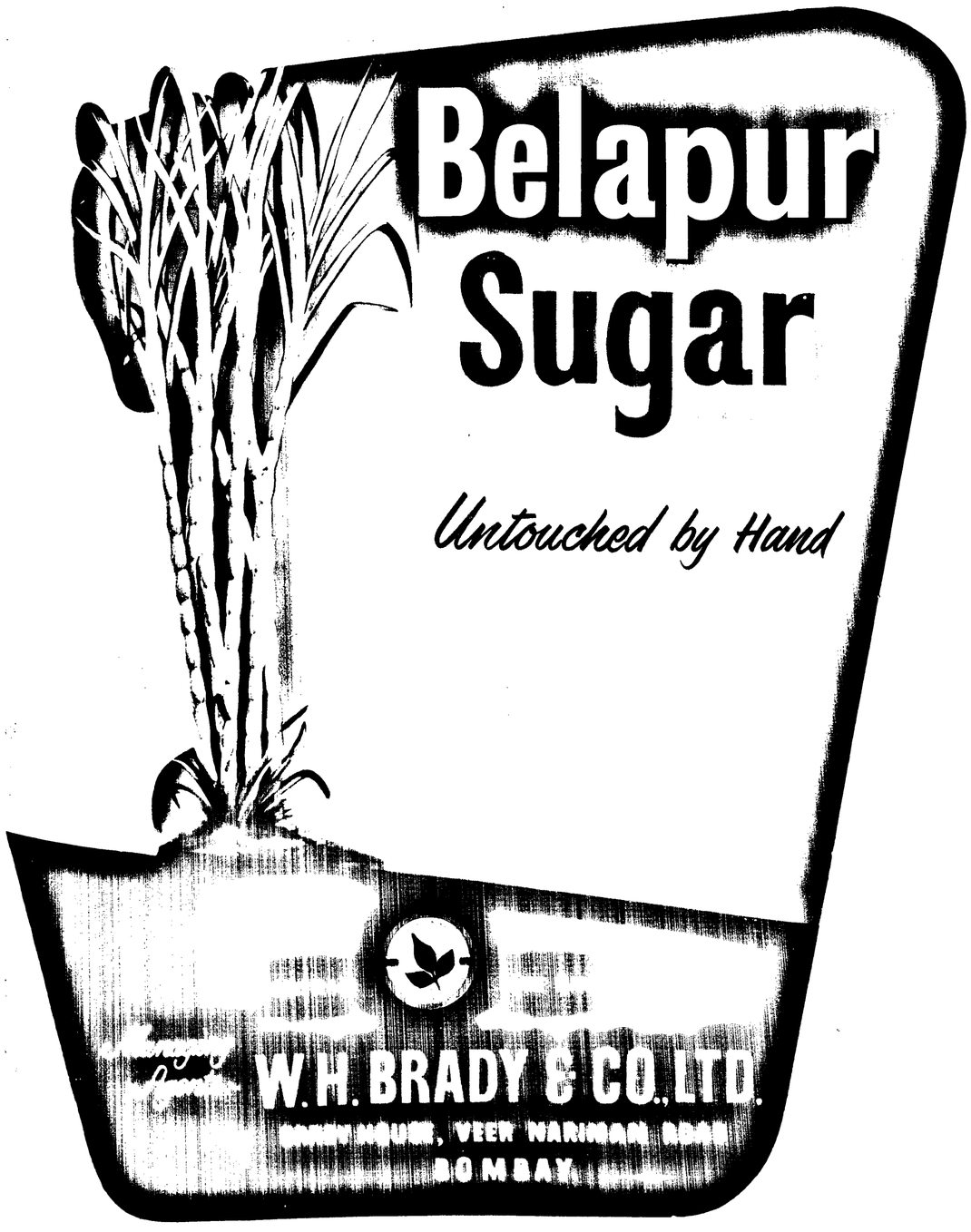
All types of banking business including Foreign Exchange transacted

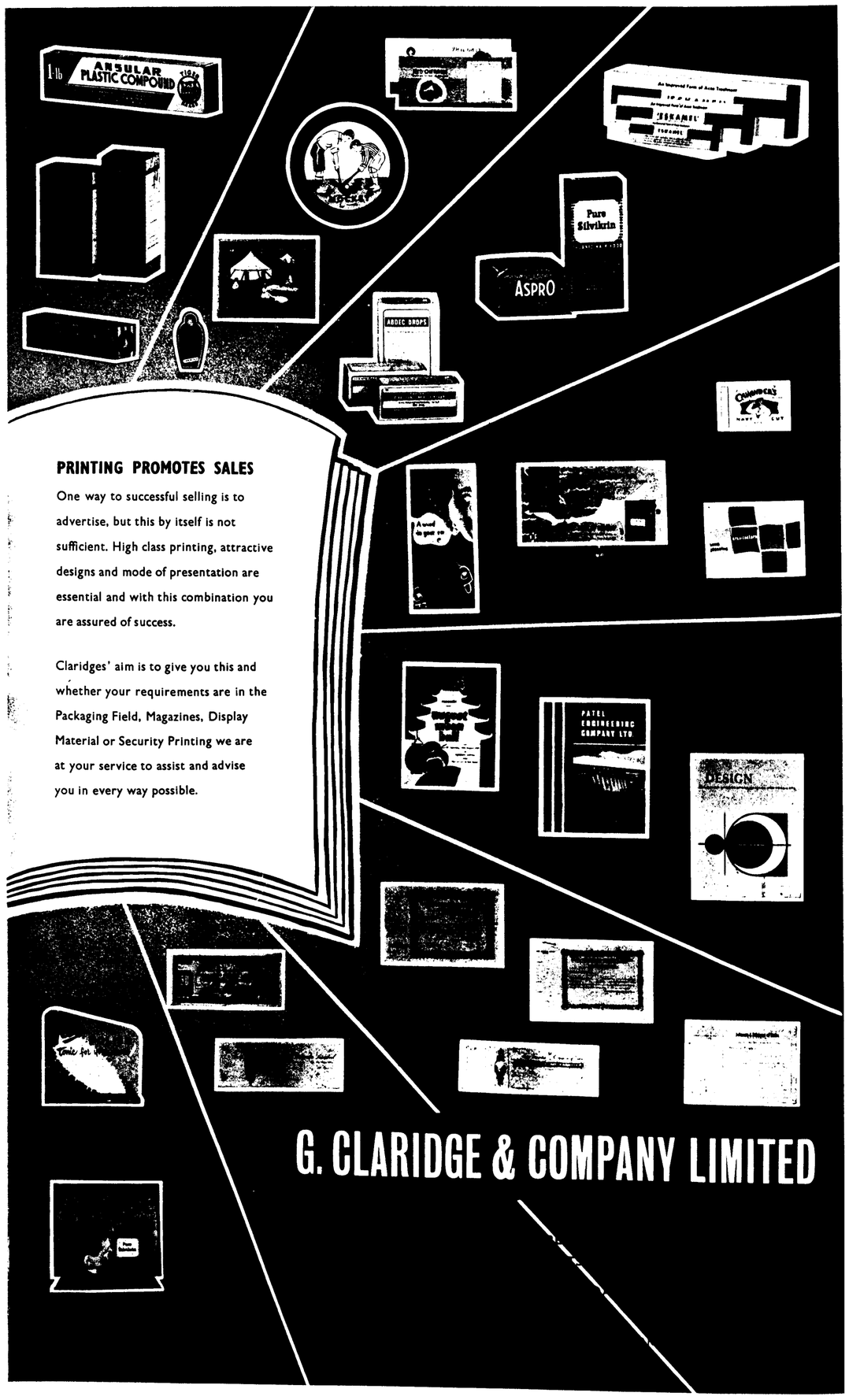


LONDON AGENTS : **WESTMINSTER BANK LIMITED**

NEW YORK AGENTS : **FIRST NATIONAL CITY BANK OF NEW YORK**

T. RAMAKRISHNA RAO,
Acting Secretary.





PRINTING PROMOTES SALES

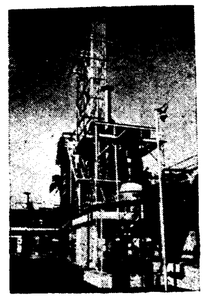
One way to successful selling is to advertise, but this by itself is not sufficient. High class printing, attractive designs and mode of presentation are essential and with this combination you are assured of success.

Claridges' aim is to give you this and whether your requirements are in the Packaging Field, Magazines, Display Material or Security Printing we are at your service to assist and advise you in every way possible.

Here are a few examples of Simon-Carves' ability to combine their long experience of engineering design and construction with the specialised technical knowledge of their clients and to accept reponsibility as main contractors for complete industrial plants on a major scale.

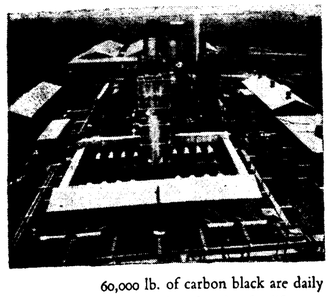
ENGINEERING CHEMICAL PLANTS BASED ON CLIENT'S KNOW-HOW

India's first 3,500 tons per annum Polythene Plant at Rishra, West Bengal, set up by the Alkali and Chemical Corporation of India —Simon-Carves were the main contractors for engineering and for detail design and construction of plant and buildings.



Over 40 million lb. of phosphorus from phosphate rock are produced from this factory at Portishead, U.K., every year for Albright & Wilson; Simon-Carves were main contractors for civil engineering and building and for detail design and construction of plant and buildings. Two travelling pneumatic unloaders were supplied by Simon Handling Engineers.

The Indian Explosives Factory at Gomia, Bihar, where Simon-Carves were responsible for design, construction and erection of the sulphuric acid and oleum plant, for construction and erection of the denitration and acid blending unit and ammonium nitrate plant, and for erection of the nitric acid plant.



60,000 lb. of carbon black are daily manufactured in this plant by the "furnace process" for Cabot Carbon Ltd. (wholly-owned subsidiary of Godfrey L. Cabot Inc. of USA) at Stanlow, Ellesmere Port, U.K. Simon-Carves were main contractors for the entire plant on a green-field site.

DESIGNERS, ENGINEERS & CONTRACTORS TO INDIAN INDUSTRIES

SIMON ENGINEERING GROUP

Simon-Carves Ltd

Incorporated in England.
The liability of the members is limited.
32, Dalhousie Square South, Calcutta-1.

How Big

is 46,000 tons of coffee

IT may be more than a handful—may be it will touch the sky if bags are placed one upon another. The figure must be read in comparison to the past production records to appreciate how big really it is! In the year 1953-54 production was in the level of 23,000 tons. It steadily increased and in 1958-59 the production of coffee in India has exceeded 46,000 tons. Now, the trend of increase is such that even the conservative speculators think it quite possible to touch the figure of 80,000 tons within a period of next ten years.

This achievement was not due to any freak of nature. Tremendous efforts are continuously made to increase the overall production, yield per acre and to improve the quality of coffee. The Research department of the Coffee Board is engaged in continuous scientific activities to improve the quality and increase the yield by employing modern techniques of cultivation. Free technical advice is provided to all planters regarding manures, plant protection and other cultural operations through a large network of Liaison Officers.

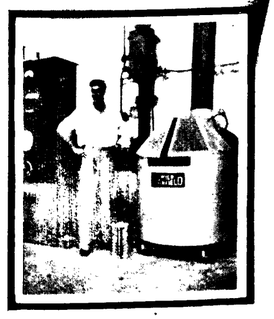
Both internal and export markets for Indian Coffee are rapidly expanding, keeping pace with the increasing trend in production. Consumption in India has increased from 8,000 tons in 1940 to 27,000 tons in 1958.

15,000 tons of Indian Coffee were exported in 1958 to various countries, mainly to West Germany, France, Italy, England, U. S. S. R., Middle Eastern countries, etc., earning foreign exchange worth nearly 7 crores.

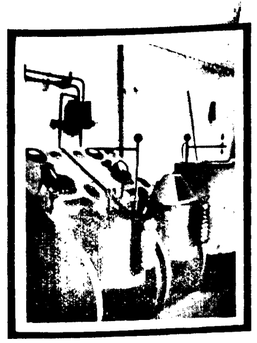
The distinctive aroma of Indian Coffee is preferred by all connoisseurs. Apart from the natural advantage of high altitude, sunny slopes and rich soil, which is ideal for growing good quality coffee, great care and attention are devoted at all stages by the traditionally skilled people. The human touch in it makes Indian Coffee supreme.

COFFEE BOARD

BANGALORE INDIA



A WILD-BARFIELD Salt Bath Heat Treatment Furnace Installed at Hindustan Motors Ltd., Uttarpara, W.B.



Two WILD-BARFIELD Salt Bath Heat Treatment Furnaces, ESB. 346, at Hindustan Motors Ltd., Uttarpara, W.B.

Specialisation

IS THE SECRET OF SUCCESS IN INDUSTRY. ONE CANNOT BE A JACK OF ALL TRADES IF YOU WANT TO MASTER ONE. WE ARE SPECIALISTS IN THE FURNACE FIELD AND WILL BE PLEASED TO HELP YOU WITH YOUR FURNACE AND HEAT TREATMENT PROBLEMS.

WE MAKE

(1) IFCO-THERMIC Oil Fired Furnaces.

(2) ETERNITE—Box Carburizing Compound.

(3) CARBODRIP—Gas Carburizing Fluid.

(4) FOSTER—Thermocouples and Sheaths.

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FORMERLY

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WE SUPPLY

(1) WILD-BARFIELD Electric Furnaces for Heat Treatment and Melting.

(2) GRAFTON—Electric Kilns and Lehrs for Ceramic and Glass.

(3) Applied High Frequency Heat Treatment and Melting Equipment.

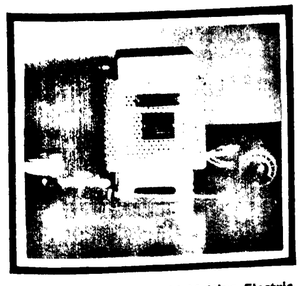
(4) G.W.B.—Electric Furnaces and Ovens (LARGE SIZE) for Heat Treatment, Paint Drying, Enamelling and Melting of Metals.

(5) G.W.B.—LECTROMELT ELECTRIC ARC Melting Furnaces.

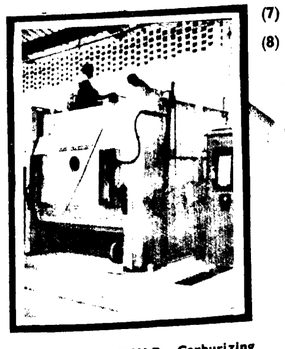
(6) FOSTER—Pyrometers, Automatic Temperature Controllers and Instruments.

(7) THERMIC—Oil Fired Furnaces.

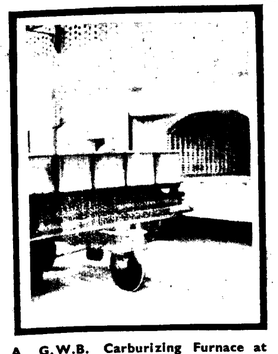
(8) BLYTHES—Ceramic Colours and Enamels.



A WILD-BARFIELD Gold Melting Electric Furnace, Model GMI.



One of two G.W.B. Carburizing Furnaces at Hindustan Motors Ltd.

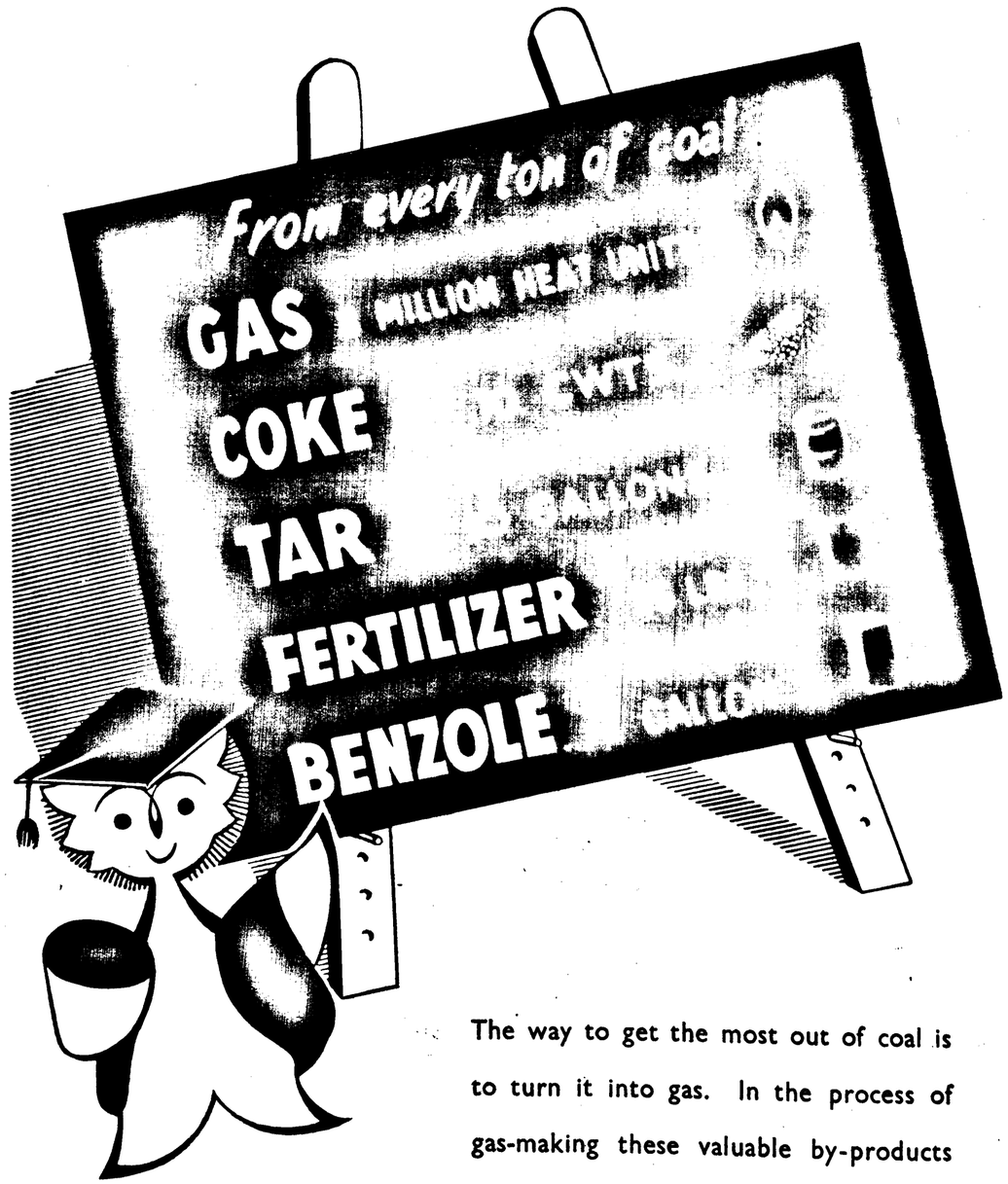


A G.W.B. Carburizing Furnace at Hindustan Motors being charged with Carburizing Boxes with a Gibbons-Van Marle Charging Machine.

An IFCO-THERMIC Oil Fired Salt Bath Furnace, Model OCP. 4, made in India.

"THIS IS WHAT YOU GET FROM THE COAL I USE"

—SAYS MR. FLAME



The way to get the most out of coal is to turn it into gas. In the process of gas-making these valuable by-products of coal are obtained.

THE BOMBAY GAS CO., LTD.

214, D. Naoroji Road, Bombay-1.

COMMERCE

"For Commerce, though the child of Agriculture, fosters his parent
Who else must sweat and toil and gain but scanty fare."
William Blake.

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No esponsibility for the safety of articles, etc., can be accepted, but, if accompanied by stamped and addressed envelopes, every effort will be made to return the unsuitable MSS.

The Editor does not necessarily agree with, or hold himself responsible for, the views expressed by contributors.

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Advertisements intended for publication in the current issue cannot be accepted after midday on Monday.

Company and Public Notices cannot be accepted after midday on Wednesday in each week.

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Telephone: 251331, 253505 (Secretary) Telegrams: "ECREMMOC" (Private), "COMMERCE" (Press), BOMBAY. Post Box No. 840

Calcutta Representative: Mrs. S. P. CHATTERJEE, 24 Netaji Subhas Road, 3rd Floor, Room No. 30, Calcutta-1.

Madras Representative: Mr. P. N. SRINIVASAN, 15 V. S. Mudaly Street, Saidapet, Madras-15.

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1959 In Retrospect

THE exit of A.D. 1959 marks the end of the fifties of the present century and the commencement of the sixties. But for the bellicosity of Communist China, the old year would have had the additional distinction of being the most peaceful year of this eventful decade and would have finished on a very hopeful note for humanity as a whole. By committing unprovoked aggression against India, a country which has striven hard for world peace, and by swallowing up autonomous Tibet, China has marred, to some extent, the good work that has been done by the leaders of the free world, on the one hand, and of Russia, on the other, to resolve their differences and to rid the world of the fear of war. Notwithstanding the jarring note struck by the Chinese Communists, there is no doubt that, during 1959, the world has moved forward towards the goal of peace, the most promising development in this direction being the decision to hold a summit conference between the chiefs of the West and Russia in April next. There are, however, many extremely difficult hurdles yet to be overcome and past experience cautions against taking successful conclusion of these talks for granted.

While disappointments cannot be ruled out, the desire among the developed countries in both the camps for a better understanding of one another and for avoiding another war *at all costs* has been strengthened by the spectacular achievements in the conquest of space. The successful landing of a Russian craft in the moon and the continued experiments by Americans in space travel have demonstrated beyond doubt that man has the power to blow up the globe. This realisation is bound to spread in the coming years and, while minor clashes among smaller and less powerful nations may occur, a global war is very unlikely. Indeed, the race among the nations in the sixties may well be confined to producing the goods required for fighting poverty. It is just possible that the fourteen-year-old cold war is coming to an end, yielding place to the much longed for Golden era.

Economically at least, the world is moving in that direction. One of the major factors that have contributed to a significant lessening of political tension in the Western world is the bold attempt of Mr. Khrushchev to raise the living standards of Russians. The very fact that the Russian authorities are devoting a good deal of attention to the production of consumer goods and that they are actively encouraging their people to expect to have in a few years' time the amenities which the people of America and other Western countries are having has given rise to optimistic thinking about the feasibility of peaceful coexistence between the two power blocs in the West. Again, there is today a lively appreciation among the developed countries of the urgency of helping the underdeveloped countries. The free world has made certain concrete moves in this direction, as witness the decision to establish International Development Association and the increases in the resources of the World Bank and the International Monetary Fund. The sympathetic manner in which the Western world is reacting to India's third Plan requiring a large amount of foreign assistance is another indication of this encouraging trend. In fact, the question of aid to underdeveloped countries figures prominently on the agenda for the proposed summit talks of world powers in April next.

Not only the desire to help seems to be gaining momentum, but the capacity to give has also improved. The second Industrial Revolution in the West is gaining speed, bringing in its wake new sources of power and new means of production, both of which are enhancing the productivity of that part of the world. This development apart, the economies of the developed countries are in a better shape than they were a year or two ago. Industrial and agricultural production alike has gone up markedly in America and Western Europe. Despite the prolonged steel strike, industrial production in the U.S. recorded a rise of about 10 per cent. during 1959. In the West European countries, the increase ranged from 5 to 10 per cent., with Britain and West Germany recording a rise of 9 and 7½ per cent., respectively. Large increases in steel, metal-using and chemical industries and lesser but still important increases in textile and food processing have occurred. Industrial output was higher in Soviet Russia and East Europe also; increments of gross industrial output ranging from 9 per cent. to 14 per cent., as compared with 1958, are reported in most countries. The rising tide of economic activity is reflected in a marked expansion in world trade which had suffered a sizable setback in 1958. After declining from $101,061 million to $96,105 million, the value of world exports (excluding Soviet area countries and Mainland China), for instance, reached a high annual rate of $101,880 million in the second quarter of 1959. Similarly, world imports rose from $100,736 million in 1958 to an annual rate of $107,000 million in the second quarter of 1959. The bulk of the expansion in world trade was, however, only among the industrial countries. Although the exports of underdeveloped countries were a little better than in the previous year and they realised slightly higher prices, their gains were not very appreciable and were more than offset by the continued adverse terms of trade. However, thanks to external aid and larger flow of foreign investment capital, their balance of payments difficulties were smoothed out.

The economic scene of industrial countries in 1959 was characterised by five outstanding features. One, high level of employment; two, a perceptible rise in consumer expenditure, particularly in durable goods and residential construction; three, increase in external reserves, the U.S. being an exception; four, convertibility of currencies, accompanied by substantial relaxation of trade restrictions; and five, absence of inflationary pressures in most of the countries, despite full employment and increase in consumer expenditure. In fine, 1959 was quite a prosperous year for the industrial nations and their people enjoyed a distinctly higher standard of living.

The experience of the U.S., however, differed from that of the rest of the developed countries in two important respects, namely, balance of payments and industrial peace. The U.S. balance of payments position continued to be adverse and the gold loss persisted. In 1958, its net balance of payments deficit was $3.4 billion, of which $2.3 billion was a gold loss. In 1959, it widened further, to an annual rate of $4 billion and the U.S. gold reserves have fallen to $19.10 billion. Although these reserves are almost equal to the combined monetary gold stocks of all other free countries and provide a comfortable ratio of reserves to liabilities, the continued gold drain is worrying the U.S. authorities. This difficulty of the U.S. would have been less severe but for the prolonged strikes by its steel and dock workers. In fact, it will be no exaggeration to say that the stability of U.S. economy now depends on the behaviour of its industrial workers. It must be said to the credit of Western Europe, particularly the U.K., that, in recent months, they have taken prompt measures to assist the U.S. to limit the drain on its gold reserves to proportions that will not undermine the strength of the dollar, the stability of which is of vital importance to the whole of the free world. There are already signs that the situation has begun to improve. Officials of the U.S. Department of Commerce are confident that, in 1960, the U.S. balance of payments deficit will be a great deal smaller than in 1959, as they feel that the gain in imports will be relatively less than that in exports.

For India, too, 1959 was a better year than 1958, at least from the economic point of view, as will be seen from the detailed reviews of the various aspects of the economy in the following pages. The pace of industrial growth was greater than in 1957 and 1958; on the basis of latest available figures, the increase in 1959 will probably work out to 6 per cent., as compared with 1.7 per cent. in 1958 and 3.5 per cent. in 1957. Steel, cement, coal, jute goods, matches, salt, soap, chemicals, automobiles, machine tools and several engineering industries have contributed to this growth. Among the major industries, textiles and sugar alone failed to expand. Growth in productive capacity, better supply of raw materials, easier availability of working capital and fewer strikes were the chief factors responsible for higher production. Between January and August 1959, the number of mandays lost was only 2.64 million, as against 5.36 million in the same period of 1958, the number of workers involved falling from 749,776 to 401,494. Agricultural production, particularly foodgrains, was significantly higher. Foodgrains output was better by 17 per cent. Among the commercial crops, only cotton was a shade lower, while others—jute, oilseeds, sugarcane and tobacco—were far above those in the preceding year. Raw jute, in particular, was a record. Plantation crops, too, were bigger. In view of the increases in both industrial and agricultural production, the national income for the year under review is bound to show a perceptible improvement when the figures are published.

Despite the growth in production, prices and cost of living followed an upward trend for the third year in succession. During the eleven months ended November 1959, wholesale prices had advanced by 6 per cent. By October 1959, the cost of living, too, had gone up by about the same percentage. Defective control policies, larger population, the stress on export drive and a further increase in money supply caused by a larger amount of development expenditure—all these factors were cumulatively responsible for the continued advance in price levels and cost of living. In short, the creeping inflation well maintained its pace. The advance would have been more substantial but for statutory price controls on power and fuels, cement, steel and several other basic materials. To the extent these prices did not fully reflect the effect of higher cost of production and allow for a reasonable profit margin, there is an element of suppressed inflation and corrosion of capital, the effects of which will surely assert themselves in course of time.

The foreign trade of India was on a somewhat higher level. Both imports and exports rose, but the expansion in the former was greater than in the latter, so that the adverse balance of trade widened markedly. In the first ten months of 1959, imports rose by 16 per cent. (Rs. 101 crores) to Rs. 729 crores. The bulk of the increase was under food. Raw cotton, petroleum, chemicals, fertilisers, mining machinery, railway and motor vehicles accounted for the remainder. Exports improved by only 2.9 per cent. (Rs. 14.31 crores) to Rs. 488.84 crores, notwithstanding export incentive schemes, liberalisation of 200 items from controls and other steps taken to boost exports. Consequently, the unfavourable balance of trade rose from Rs. 147 crores to Rs. 235 crores. Nonetheless, India's foreign exchange assets showed a net improvement, thanks to sizable foreign aid and the effective steps taken during the year to curtail smuggling of gold and other prohibited items. Between 2nd January 1959 and 11th December 1959, foreign exchange assets showed a rise of Rs. 16 crores to Rs. 205 crores, as against a drop of Rs. 108.60 crores in the corresponding period of 1958. While this improvement is gratifying, the level of external reserves is miserably low and serves as a sharp reminder of this country's absolute dependence on friendly foreign nations.

The outlook for 1960 is rather obscure so far as this country is concerned. The picture that one can visualise is a criss-cross pattern of both favourable and unfavourable elements. To take the latter first. Border troubles with China have raised a big issue, involving the honour and integrity of the country. Its cost in terms of real resources is not yet known, but it is bound to make a big hole in the amount available for investments designed to raise living standards. Among the purely economic factors, it looks as though jute and cotton textiles will be hit by high cost and even scarcity, to some extent, of raw materials. The food situation is quite confusing. Even though total food production is expected to be about 73 million tons and cereal prices are well below those a year ago, the country's experience in 1959 makes it difficult to predict the trend. Suffice it to say that the margin is thin and official policy is uncertain. Supplies of sugar and cloth are by no means plentiful to take care of the needs of a growing population and a high level of expenditure, with a sizable inflationary potential. To say the least, there will hardly be any relief from the pressure of higher prices and dearer cost of living. On the contrary, the chances for the opposite are strong. As for the favourable elements, high in the list is the growing goodwill of the Western world towards India. The Chinese hostility towards India has not so far upset Indo-Soviet relations. The Communists' influence seems to have waned to some extent. The economic policies of the Government are less doctrinaire than they were at the commencement of the year and confidence among investors is high. World economic activity continues to expand and prices of several agricultural commodities have improved. The terms of foreign trade have changed a little in favour of India and this improvement is likely to be sustained well into the New Year. Another important favourable factor is the bright prospect of industrial growth being maintained at a slightly higher pace than in the old year. It is, however, too early to say how the aforesaid sets of factors will move as the year 1960 marches forth.

CLIMATE FOR EXTERNAL AID

By "LIBRA"

A DISCIPLE of Socrates who was contemplating marriage approached the master for his advice on the wisdom of his decision; and Socrates encouraged him by saying, "My son, please do as it pleases you, for, in the matter of marriage, whatever you do you are bound to regret."

Architects of India's third Five-year Plan are presently worried by having to make a decision as between designing a big plan with a big foreign exchange gap or a small one with a manageable exchange gap. Their lot is unenviable, because whatever they do, they are bound to get into trouble. If they make a big plan and fail to find the external finance, everyone will say they have made a mess by not limiting their ambitions. If they make a small plan, they can finish off nicely but the results in terms of economic growth will be inhibited below the potential rate, and will, in any case, put off further the day when India's economic growth can go forward on its own momentum. Getting into economic planning is like getting under a shower for taking a bath. If the shower goes off after you have applied the soap, you are in worse condition than before you got into it.

These difficulties of the economic planners are not made any the less by the problems that have arisen on India's northern borders. Whether the Chinese intend to take over only the areas shown on their maps and then invite Mr. Krishna Menon for a tea party for re-establishing Sino-Indian friendship, or whether they want to go further and liberate India from its flirtations with capitalism, they are bound to remain a source of trouble for the duration, at least, of the third Five-year Plan and a colossal strain on India's foreign exchange resources.

Go Forward

Even apart from this threat, India, like the man in a race approaching the finish, is already near the end of its resources and is gasping for breath. The external reserves have dwindled to insignificant figures; exports cannot be stimulated except in a small way, perhaps; imports are already cut to the bone; inflation, though not yet galloping, has eaten up the middle classes and dried up the source of individual savings; and our external debt, though not colossal, is large enough to justify pausing to think. All in all, it is a situation serious enough to call for some hard-headed and realistic thinking. It is a situation which seems to be heading for a disaster—whether one moved forward or one stepped back. The suggestion offered in this article is that, in this dilemma, it is, perhaps, the path of wisdom for all of us to go forward and face the disaster, if we must, rather than apply the brake and skid into disaster anyway!

After all, with all our devotion to the democratic way of life, we have some right (have we not?) to expect other democracies to come to our aid in the comfortable belief that aid for economic growth is less heinous than aid for guns and gunpowder, though eventually we may, perhaps, have to ask for both!

The trouble is that exactly at a time when we are so direly in need of this aid money, the only country that had cheerfully co-operated with such efforts so far, namely, the U.S.A. itself, has gotten into trouble; and those that it had itself helped to build up are outpacing it in international competition. It is the story of the hare and the tortoise all over again! Europe and Japan are now beating the U.S.A. at its own game of free competition and the U.S. is worried about the drain of gold that is going on for many months now. Like King Lear pleading with his daughters, Uncle Sam is asking Europe to share his burdens and maintain his dignity! The U.S. is worried that it is falling behind the Soviet rate of growth; it is worried about not producing enough scientists, engineers and what not like the Russians are doing and each Russian Sputnik is adding to America's complex of inferiority and many Americans feel they are rapidly becoming an underdeveloped country themselves in need of some more rapid growth.

The Europeans might give us some help; but giving has not been in the tradition of Europe. Some of them are enlightened enough to see the change of the age; the growth of interdependence; the need for helping the dependents with a view to helping themselves—but they are still a small and ineffective minority, though a growing one. The British conservatives are worried that the Americans are ruining the prospect for their capital markets by starting junkets like the I.D.A.; the Germans are worried that they cannot export capital without an equivalent import to balance the export; the French have been making valiant declarations about aiding underdeveloped countries, but they are spending some $30 million per day to hold on to Algeria and they will themselves need help so long as they wish to keep on to this adventure. Soviet Russia is itself not too opulent and what it can give in the last analysis is limited by its own lack of a large economic base and its desire to help everybody from East Asia to Latin America.

Make A Good Case

Why then should we plump, in these circumstances, for a large chunk of foreign aid, one may well ask? Does not the path of wisdom indicate that we set our sights low? The reason why we should set our sights high is that, while difficulties are there all around the world, there is, perhaps, no time when difficulties of one kind or another do not exist. And, in the broad perspective of standards of living and economic growth rates, there is a clearer realisation today than ever before of the need for the richer countries to put themselves out and be of help to the poorer ones, not only out of philanthropic interests but out of a desire to help those that help themselves and out of an enlightened self-interest that, unless the differences in living standards are reduced, neither group can preserve peace nor achieve progress. A great deal, therefore, would depend on the way in which India organises its own case and marshals its point of view to the world in terms of recognised and understandable arguments for economic assistance. This calls for not merely projecting a foreign exchange gap and sitting on the sidelines for someone to come and fill it up; it calls for precision in our estimates; strength and persuasiveness in our negotiations and appropriate integration at the level of foreign policy between our economic needs, on the one side, and our aspirations to contribute effectively to peace, on the other.

As far as the United States is concerned, it is true that it is encountering problems in its payments position and the dollar is not as strong today as when the country embarked on the Marshall Plan venture. But, on the other hand, the U.S.A. is not as poor as the payments situation suggests. Its potentialities for growth are not yet exhausted. Its wheat surpluses will still take care of a large gap in our food budget for several years. Its Liberty ships, if these can be purchased at reasonable discounts, can give strength to our commercial shipping or our Navy. Its obsolete arms sold at cheaper prices can reduce significantly the gap in India's arms budget. As compared with an annual average of $8 billion it gave to Europe under the Marshall Plan, a $1 billion aid to India for five years will not cripple the U.S.A. If anything, it will provide a stimulus to its dwindling export surplus.

India Lobby

Secondly, there is today in the U.S.A. a better appreciation, both technical and political, of India's efforts and its somewhat unique position as a planner among the underdeveloped countries. There is recognition that India's capacity to absorb capital today is much more than the recent flow of capital has been and this is a significant difference in attitude as compared with the time when the second Plan was being launched. There is in the U.S. now also an India Lobby which then did not exist, thanks largely to the quiet work of the India Centre at the M.I.T. on influential sections of American opinion. There is a wide recognition that, if India fails, the cause of economic growth in all underdeveloped areas will suffer a grievous loss. And this is a good base for India to work on.

The now proposed collaboration of Europeans with the U.S.A. on aid to underdeveloped countries will not be an unmixed blessing for the underdeveloped countries. There are too many conservative elements in Europe that would tend to dilute American idealism. There are the "sphere-of-influence-wallahs" still very active and kicking. They would like to make a brokerage, political or economic, on an American buck lent or given to India! The European conservatives are kicking their legs at the thought of loans repayable in local currencies, while India's need for loans of this kind would be very large indeed. Not that there is no realisation in Europe of the importance of giving aid to the poorer countries. But the idealists are few. And they have to contend with financial and banking interests that are selfish and unenlightened by the larger interest. They are even ignorant, for example, like the Germans, who are new to capital export and are talking about their inability to export capital unless the capital exports are requited by imports from underdeveloped countries. If we can pay for their capital now and here, why on earth do we need loans or aid?

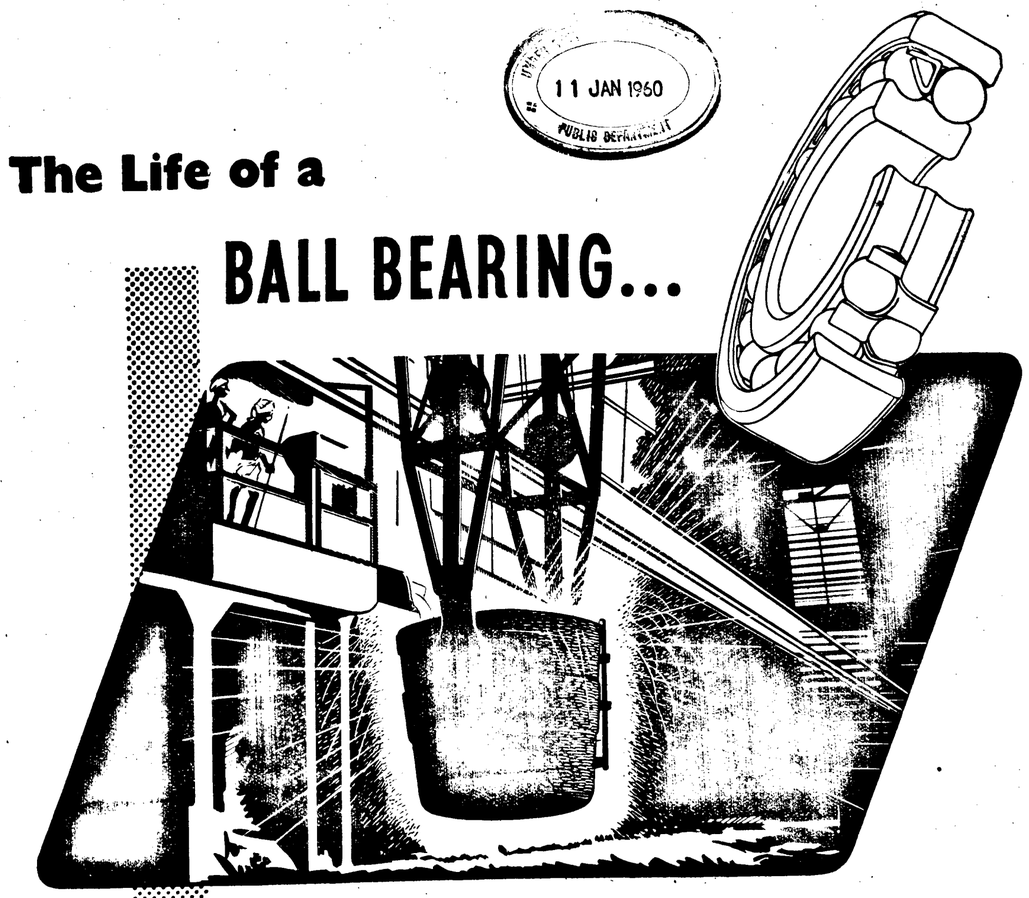
The missing link in the German argument is that international liquidity must be increased if capital exports have to be sustained in the absence of current imports to pay for them. Here the contribution of the I.M.F. is going to be vital. But precisely at this delicate juncture, the Fund, under the very conservative guidance of Mr. Jacobsson, is dragging its feet and is unable to appreciate the problems of balance of payments deficits of developing countries. Here again, India has to play a delicate and skilful role in dislodging the I.M.F. out of this old-fashioned outlook on the problems of development.

There has also to be on our side not only attempts to postulate the size of the foreign aid needed, but also, in however rough and ready a fashion, some idea of its further components such as the amount which could be absorbed as loans having regard to the ratio of service charges to our export earnings; amounts that could be absorbed as loans repayable in local currencies; amounts needed as grants; amounts to be obtained as private capital; and amounts needed to step up defence expenditures. Under each head, again, the area from which they are to be negotiated needs to be mapped out, especially because the negotiations will be spread between the U.S.A., Europe and Moscow. Distinctions between these categories and their geographical allocation cannot be drawn too finely, but some hypothetical allocations would have to be worked out.

Much progress has been made in this direction by the establishment of an Indian Economic Commissioner General's office spreading its tentacles from Washington to Moscow. But its efforts abroad have to be guided and sustained by an intensive research at home, which is at present lacking as far as one can see. Our position in dealing with international missions and in individual country negotiations tends to be rather passive, tends to be one of reacting to questions and proposals initiated by others rather than one of initiating proposals from our own side. This is, perhaps, inevitable to some extent, particularly when we are at the receiving end, and particularly when civil servants are charged with work that calls for aggressive initiatives that they are never accustomed to take. But, unless we can do that, our progress is bound to be slow.

Foreign Policy

There is, at present, a concerted attempt for co-operation between creditor countries in their dealings with underdeveloped countries and it would be in India's interest and that of the region around her if India tries more keenly to develop a regional concept for the flow of capital and suggests devices to accomplish a common approach between the recipient countries. This could be done by revitalising the Colombo Plan machinery which already exists. There are proposals in Europe to invite other European powers to join hands with this organisation. Both for organising a more rapid economic progress as well as for improving relations generally between countries in South-East Asia, India's initiatives or lack of them seem to be deplorable. And the External Affairs Ministry—alone perhaps among the Departments of State of the more important Governments of the world—does not have either an economic advisory organisation nor any concept of the interrelation between economic policy and foreign policy. Our foreign policy is not made, as it is in other countries, by advice based on parliamentary groups, foreign policy associations, business groups and citizens councils. It is made, on the contrary, on the basis of the thought and ideas of two people, the Prime Minister and Mr. Krishna Menon, who draw their inspiration mostly from political principles of a rather abstract character and unrelated to economic interests and needs. We have carried crusades for peace that have resounded to the glory of India around the world, but now, when peace is being threatened on our own borders, we discover that we do not have the material basis for defending that very structure either in terms of economic strength or defence needs. It is important that foreign policy has to be geared rather consciously and keenly not only to peace but also to the needs of economic progress.—*All Rights Reserved.*



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SIX AND SEVEN DISUNITING EUROPE

Outlook for Poor Countries in the Non-Soviet Orbit Sombre

By Dr. THOMAS BALOGH
FELLOW OF BALLIOL COLLEGE, OXFORD

THE so-called Common Market is much more than an economic *gimmick*. It is a political move, which originated in the cold war, to confront Russia with a powerful political and military organisation in the West and at the same time so closely to tie Western Germany to the west of Europe as to make impossible any compromise with the Russians which would endanger the original conception of N.A.T.O. It was a conception grown out of the Acheson-Dulles line of resistance against further encroachments of Stalinism after the Czech collapse of 1948 when a Coalition Government was roughly displaced by a Communist one. At the same time, it represents essentially a coalition of Catholic powers ruled by Catholic parties or, as in the case of France, by a semi-automatic regime which has the blessing of the Catholics and which shares their economic views.

Once this fruit of extreme anti-Communism and anti-Socialism took its shape—and paradoxically there can be no doubt that the resistance of America to the Suez adventure, the culmination of the Arab policy of the Fourth French Republic played a prominent part in this—it was inevitable that it should develop its own momentum. This momentum has set it up as the only effective counterpoise to the United States' policy in the Western Alliance, a counterpoise which is evidently growing daily in strength and in success. The sabotage by General de Gaulle of the strenuous efforts of the Anglo-Saxons, and especially of Mr. Macmillan, to get a summit meeting shows how far this momentum has already developed. For the first time the Americans were forced, on the insistence of one of their lesser allies, to change an officially declared policy. The British hardly ever dared openly to oppose American policies, and such modifications of policy as either Mr. Attlee or Mr. Macmillan ever achieved were done extremely discreetly. The great exception of Suez was again much more of French than of British contrivance. The French soundly appreciate that the Americans, so long as they have no reliable ballistic missile of intercontinental range, must depend on allies and allies have a veto power. This the British never realised, either under Labour or under the Conservatives, as is abundantly clear from the rather more indiscreet memoirs of American statesmen on the relationship between England and America since the end of the war.

Double Defeat for Britain

Thus, politically, the Common Market marks a double British defeat. On the one hand, it marks the defeat of the British hopes, desires and delusions about the possibility of an effective Anglo-American special relationship within N.A.T.O., and, within this context, the defeat of the view consistently held in Britain that there is no reason for, or possibility of, the emergence of a third force. The third force has emerged, and with a vengeance. Far from mediating between an extreme anti-Communist America and an increasingly strong and increasingly less bellicose Russia, it now impedes a lessening of international tension. For this both the French and the West Germans have very good reasons. The French are obsessed by conceptions of glory which General de Gaulle, like Hitler before him, has fully explained in his various writings. Although they cannot openly admit it, leading circles in West Germany do not in the least wish to be reunited with the East Germans, because the union would inevitably bring into power a Social Democrat Government. This Adenauer and his friends fear much more than the continuance of partition out of which they have done only too well. Hence the resistance to a series of meetings at the summit, and to the patient treatment of particular issues which might yield agreements, in favour of global conferences with global conceptions put forward by global generals. While Continental pretensions increase, the forces of N.A.T.O. are weakened and the West is forced more and more towards a strategy which necessarily involves the great deterrent, the choice between defeat and suicide—as even Generals now admit. If any proof were needed of the complete fatuity of British foreign policy since the war, the past few weeks have furnished it.

A strong European coalition, led by Britain, in a progressive direction after the war might now be a factor for unity in Europe and peace in the world. The so-called unification of Europe has on the political plane up till now merely disunited and weakened Europe and led to an aggravation of the difficulties in the way of lessening tension. The ultimate futility of the Foreign Office conceptions which were swallowed by all Ministers from Bevin onwards has become manifest to all.

Negative Approach

On the economic front, too, the emergence of the Common Market as a factor on its own has meant disunity and trouble rather than a trend towards unity and progress. In this respect, too, it represents a complete and utter failure of the policies of the high bureaucracy, which under Labour prevented O.E.E.C. from becoming an effective co-ordinating agency between European countries, and under the Conservatives led the country to a complete impasse on the basis of the purely negative *laissez-faire* conception of a Free Trade Area. I have always disliked and distrusted the Common Market concept. I disliked it, because I always felt, and still feel, doubtful whether such disparate societies and economies can be unified in so negative a way. I felt that such union, the subjection of territories at diverse stages of development, can do nothing but make the strong richer and the weak poorer. I also suspected that the tensions which continue to exist even domestically, despite the steady integration of society through the so-called Welfare State, and despite the feeling of national solidarity, would in this context be magnified, give rise to feelings of rivalry, and thus undermine rather than strengthen the capacity of Europe to stand up to the Soviet challenge.

I also felt that this type of approach, while it may improve the situation of primary producers within the territory (including the dependent and associated territories which were brought into it), would do immense harm outside. I felt this, because I feared that the sort of policy which a coalition bloc would pursue would fail to increase national income and demand sufficiently fast to offset the deleterious impact on outside producers of the increase in domestic supplies due to the assurance of protected markets. There is in any case a technical revolution going on in all highly developed areas. This has already resulted in a vast acceleration of growth of primary produce, especially in temperate zones (German agricultural productivity up till 1958 has been increasing faster even than their headlong industrial expansion). The application of already existing technical knowledge to the less developed parts of the European community might result in explosive increases in primary produce. Thus I felt that the establishment of a vast protected trading area might lead to the same sort of problems with which America faced the world immediately after the war. Within this powerful new unit, however, the Germans with their overwhelming strength would establish clear leadership. The consequential situation would be extremely unhappy for all who remained outside, and unhappier for the purely primary producing countries of what used to be the Sterling Area.

British Miscalculations

Three possible policies could have been pursued by the British Government, had their official advisers been at all equal to their task and realised the magnitude of the threat. It could have either opposed it in G.A.T.T., or prevented its coming into being by influencing opinion within Six, which was extremely divided. Or it could have entered into it, hoping to modify it to such a degree as to enable it to become the basis of a full development of European productivity and productive power. Finally, it could have looked to its own defences, refurbished the Sterling Area, created common organs of effective co-operation, and looked for European partners to take part in it. In this way, a third potential equipoised economic unit might have come into being, equipoised both in relation to America and in relation to the Common Market.

The British did nothing of the sort. They let the Americans back the French-sponsored Schuman Plan which grew into the Rome Treaties. They did not strengthen opposition to the latter, and only when the French discomfiture at the hands of Colonel Nasser led to the ratification of these Treaties did they wake up to the reality of the ruinous possibilities implied. They then hoped to force the French, through the Germans, to dissolve the Common Market into an even more negative, even less purposive, Free Trade Area. They were willing to gamble that the opening of the markets of the poorer and weaker countries would recompense British industry for the blow it would undoubtedly receive at the hands of the much more dynamic German industry in the British market. While Dr. Erhard was quite willing to embrace a universalist solution, because he thought that the formation of a tighter but smaller European bloc would not yield as great an advantage to Germany as a completely open European system, his views did not prevail. His preference for free trade in Europe, or as far as that goes in the world, was rational, in stark contrast to that of the British Board of Trade, because German industry has a superior dynamism to all. For the decisive factor moulding German policy was not economic but political. Adenauer gladly sacrificed the vague possibility of an even more brilliant expansion for German industry for the tangible advantage of a firm Franco-German *entente*. He could do this, because he was convinced that the handicaps imposed on German productive power by the protectionist aspect of the Common Market (which filled the ignorant officials of the British Board of Trade with such horror) would not prevent his being able to compete successfully outside.

Little Seven

The reaction of the British was a surprised chagrin, and they replied by trying to muster seven out of the 12 countries not in the Common Market which were members of O.E.E.C. The Little Seven, stretching from Scandinavia to Portugal, and from Austria to Britain, are straddled by the Common Market countries which hold two of its members (Switzerland and Austria) in an iron grip, surrounding them on three sides. Apart from the Swedish market, there is little to go for, and the Portuguese are bound to get badly hurt in the negative conception of opening tariffs for manufactured imports rather than positive development. Moreover, the Americans, who, because of military reasons, could not oppose the Common Market when it was formed and are now even less able to oppose it, at last begin to realise the possibilities for displacement of their exports by the Little Seven arrangement, and especially their exports of certain foodstuffs in which the Little Seven might divert trade. Thus, unjust as life is, while the Americans were sponsoring the disuniting Common Market of the Six which really does menace their grip, they are now loudly protesting against the much less dangerous, because innocuous and rather puerile, attempts of the Seven. The two underdeveloped areas of N.A.T.O. and O.E.E.C. which were not in the original Common Market—Turkey and Greece—with much greater perception immediately applied to be included, which will, of course, even further menace those underdeveloped areas which remain outside, as the potential increases in these countries of primary production, once help is forthcoming, is prodigious.

German and French Miracles

In the meantime, the internal economic development of the Six has shown both the advantages and the disadvantages of liberal economics. The German miracle has now been followed by the French miracle. Both are exceedingly simple to explain. They were born out of a decisive weakening of trade unions and an increase in the share of profits in the total national income, by

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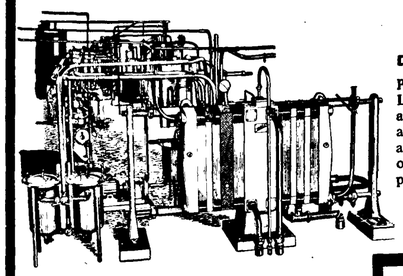

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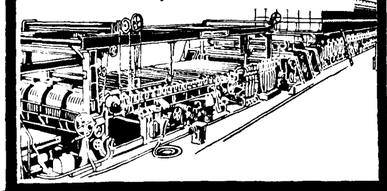

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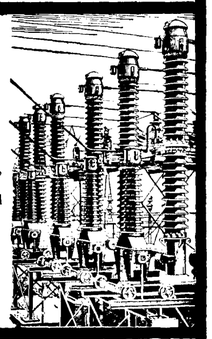
L & T supply for hydro-electric and thermal power stations, substations and distribution installations, high quality electrical equipment manufactured by ESCHER WYSS, OERLIKON, HAEFELY and NORDEN; and LK Switchgear now manufactured by L & T at Powai



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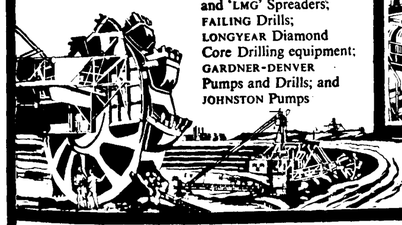
To the Neyveli Lignite Project, and other mining schemes, L & T have supplied 'LMG' Bucket Wheel Excavators and 'LMG' Spreaders; FAILING Drills; LONGYEAR Diamond Core Drilling equipment; GARDNER-DENVER Pumps and Drills; and JOHNSTON Pumps



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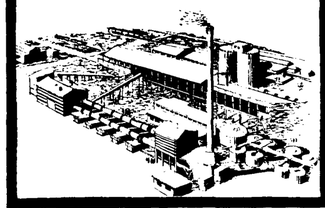
Engineering Construction Corporation Private Limited a fully owned subsidiary of L & T, has constructed a number of cement factories, notably the U.P. Government's Cement Factory at Mirzapur. L & T, together with ECC, undertakes to do "turn-key" jobs, including all design work, civil engineering and the supply and erection of equipment



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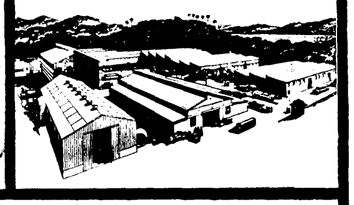
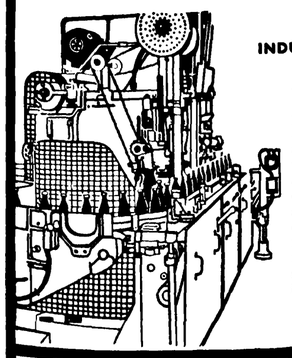
Products manufactured at L & T Powai Works
Dairy machinery and refrigeration equipment; solvent extraction plant; switchgear and motor starters; induced draught cooling towers, petrol dispensing and metering pumps; sheepfoot rollers and belt conveyors; stainless steel, copper and aluminium equipment for the chemical and dyestuff, drug, pharmaceutical and food-processing industries; and distilleries and breweries





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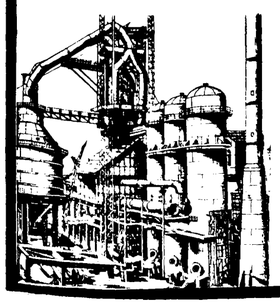
Numerous industrial appliances are supplied by L & T. These include DIAF pharmaceutical machinery; MORGAN FAIREST labelling and tablet strip-packing machinery; DANFOSS automatic refrigeration controls; ELLIOTT, BRISTOL and GORDON process control instruments; DE WALT power saws; EUTECTIC welding alloys; and up-to-date bottling installations



ERECTION
At the Rourkela steel works, L & T have erected 3 Blast Furnaces, a 'Pig' Casting machine, and the Rolling Mill Buildings, involving a total of 63,000 tons of steel work. These are only the more recent of the erection contracts executed by L & T

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the stimulation of export surpluses and sustained employment, despite the deflationary impact of the collapse of union strength. In Germany, this collapse of union strength was engineered by the confiscation of trade union funds by the American-sponsored currency reform, and the immense influx of manpower from the East which kept the labour market glutted with unemployed, despite rapidly increasing employment due to the investment financed out of the vastly increased profits. German efficiency wages are still exceedingly low, though German real wages have increased very fast—indeed, much faster than wages in Britain. But German productivity increased even faster, owing to the vast investment programme. The miracle of Dr. Erhard was no greater than that of Hitler after 1933 or Dr. Schacht after 1923.

It has now been followed by a very similar French miracle, based on the devaluation of the franc and the cowing of the French trade unions through the victory of de Gaulle and the failure of the general strike. This provided the opportunity for profit, provided that opportunity could only be realised by an excess of exports. This was provided for first by the British currency and balance of payments troubles, mainly due to the fact that Britain sustained a capital export to the Sterling Area. More recently, it was the American balance of payments deficit which sustained the economy in France and Germany. If America and Britain had taken competitive steps to stop these deficits, the world would have spiralled down, as it did in fact spiral down after 1931. The growing American preoccupation with this deficit, and more especially the American intention to cut grants and loans to underdeveloped countries in the hope that Britain and the Common Market countries would make it up, might well lead to a severe diminution of the net resources at the disposal of the underdeveloped countries, which are already under grave pressure since 1957 because of the fall in commodity prices. It is unlikely in the extreme that an increase in the contribution of Western Europe, including Britain, will offset the cuts, especially if, as is now likely, the intra-European liberalisation proceeds still further and thus depresses the outside countries even more. The outlook for the poor countries of the non-Soviet orbit is sombre.

The newly found strength of the Franco-German community is explained by these factors (Italy, the smaller partner, shared in it up to a point). Industrial production in Britain increased by less than a sixth since 1953. It expanded in Germany by over two-thirds and in France almost two-thirds, in Italy by a half. While there is a labour shortage in Germany, there seems to be no shortage in industrial capacity such as now threatens Britain. Thus, in the next few years, the likelihood is great that the balance of economic power will further shift to the disadvantage of Britain.

Incentive To Intransigence

To some extent this success also explains the lesser desire of the French and the Germans to go to the Summit. There is now no longer any pretence that anyone expects a nuclear conflagration. The French and the Germans thus feel no urge to decrease tension. Their military expenditure is either not due to the tension, or is easily borne: the crippling cost to France of the Algerian expenditure would not cease merely because of the success of the Summit. In contrast, the British economic system is very fully loaded. It is menaced by the much faster increase in productivity in France and Germany (not to speak of Russia) in manufacturing, which might at a later point offset the favourable impact on the British international position of the crisis in raw material and food prices. The Conservative Government, in its quest for electoral victory, has committed all possible reserves to an immediate increase in consumption. This duly produced the victory by giving a sense of ease and prosperity, despite the sluggish performance of the British productive system practically ever since 1955 (the domestic real product hardly increased by two per cent.). The British economy could only produce striking further advances if either the terms of trade improved or if it could use productive resources now committed to armaments to increase consumption or investment. If that investment is to be at all effective before the next election it must be done now. There is a good deal of rational economic thinking, therefore, in Mr. Macmillan's eagerness to scale the heights.

President Eisenhower is in a very different boat. He is obsessed by the problem of inflation, as is Dr. Jacobsson, head of the International Monetary Fund, whose baneful influence can be felt in America as much as in the rest of the world. Unlike his Democratic opponents, whose belligerence is buttressed by modern Keynesian economics, he wants to cut his budget, and the Summit could gratify this wish. He does not realise, as does Mr. Acheson, that such a cut is likely to increase unemployment rather than anything else. He too longs for a summit to ease the burdens of what he imagines to be the sorely tried American taxpayer, though, at best, what would happen is that the American automobile industry would have to invent new (perhaps cone-shaped) cars in order to absorb the release of purchasing power. It is clear that at the moment the Anglo-Saxons are on the defensive, and both are, tactically and strategically, in a weak position.

The increase in monetary pressures, the talk of cuts, all presage, however, that the liberal miracle is suffering from a basic internal weakness. It can only persist so long as it can sustain itself by selling outside. Once the prop is removed, its internal balance is also menaced. And this prop is now wobbling. It is to be hoped that, when the Western leaders meet, this weakness will be more seriously considered than it has been hitherto. Despite temporary successes, the Western coalition is more disunited, less coherent, than it has been since the war, and, economically, it has grown relatively weaker, and not stronger, in comparison to Russia. Should Russia begin to apply its newly accumulated technical advances to the consumer goods industries, the international economic picture might assume a very different shape. In that case, the persistent tendency of manufacturing prices to increase in terms of primary produce will at last come to an end. Unfortunately, this relief will not come, thanks to Western insight and foresight.—*All Rights Reserved.*

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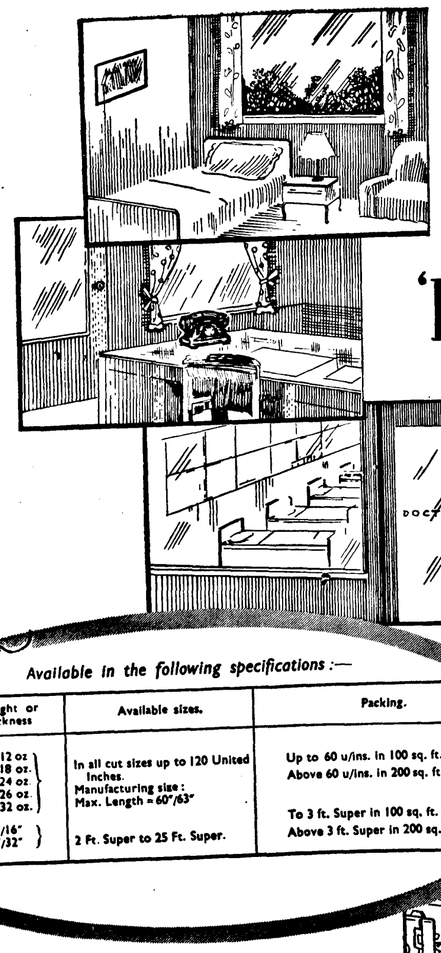

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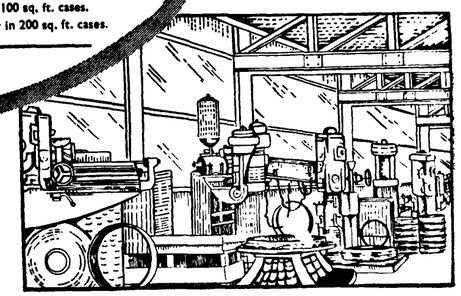

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Mutual Confidence And Loyalty Should Be The Basis Of Their Relationship

By C. C. DESAI, I.C.S. (Retd.)

EVER since the so-called L.I.C. affair or the Mundhra scandal, the importance and the enormity of which were greatly exaggerated, beginning with dramatisation during the Chagla inquiry, there has been constant talk in Parliament, in the Press and in public, as to what should be the ideal relationship between a Minister and his Secretary in the Parliamentary form of Government like the one we have in this country. It is a fascinating subject on which one can argue *ad infinitum* or write with equal conviction for differing and even conflicting points of view. On this occasion, however, I shall draw more upon my own personal experience than upon theoretical considerations, drawing-room arguments or popular reactions. I shall not, of course, express any opinion as to where exactly any fault lay in the L.I.C. matter.

I have been Secretary to Government both in my Province of Service, namely, Central Provinces and Berar of those days, and at the Centre. I have served before independence and after independence. I have served during the Parliamentary form of Government and also when the Constitution had to be suspended and Advisers had to be appointed in the Provinces in war-time to carry on the Government. I have served under Indian Members of Government in the bureaucratic days as well as in the Parliamentary days and also under British Advisers inevitably cast in the role of cynics, autocrats, and rulers. I have seen the working of Government both from within and, during the last 18 months, from without.

Husband and Wife

In the light of the varied experience which it was my privilege to acquire over 35 years of service in the Indian Civil Service, it is somewhat amusing to me to find efforts being made in the highest quarters in Government for codification of relations between a Minister and the Secretary to his Ministry or Department. To my mind, this is something like codification of relations between husband and wife! Although marriage has been an institution ever since the beginning of civilised life, no one has attempted to put down on paper as to what should be the law or custom governing relations between husband and wife. Relations between a husband and wife are a matter of daily concern to all of us, in every country, in every generation and from time immemorial, and if these relations have not been codified, one can safely draw the conclusion that, firstly, such relations are incapable of codification and, secondly, it is not worth making an attempt to do so. Although relations between husband and wife are not exactly parallel to relations between Minister and Secretary, the problem is in many respects similar and the experience of one should be a good guide for the other. No two people think or feel alike, and yet the husband and wife have to live a life of unity, understanding and adjustment without which life would not be worth living and the institution of the family would have no meaning. In both cases, everything depends upon mutual confidence, mutual respect, mutual accommodation and mutual goodwill.

Relations between Minister and Secretary are equally indefinable and incapable of codification. In fact, an attempt at codification might lead to more misunderstandings and might do more harm than good. Is this not also the experience of over-codification in our own Constitution? The British Constitution is the least codified of all and yet there are less Constitutional disputes or misunderstandings or litigations in the United Kingdom than perhaps in any other country. So it is not codification that makes for peace or avoids misunderstanding. It is more the convention, the understanding and the spirit of adjustment that provide for peace or harmonious working. This is equally true of the relations between Minister and Secretary.

Whenever I had a new Minister, the first thing I used to do was to go to him and tell him quite freely and frankly that, while he could depend upon my carrying out his policy and implementing his decisions without fear or favour, without let or hindrance, he should similarly extend to me the privilege of tendering him advice also without fear or favour, without let or hindrance. The Minister should not expect the Secretary to tender such advice as the Minister would like to have. That would be like the doctor prescribing for his patient the medicine desired by the patient! Any such advice would not be worth the paper or worth either giving or taking. The Secretary, by virtue of his long association with the administration, is particularly suited to examine a proposal, to analyse it and to bring out points in favour and points against. He is also qualified to draw a balance between the differing viewpoints and to give his advice as to what would be the best solution or what would be the correct decision. The Secretary has nothing to do with politics, and, therefore, his views and recommendations are based strictly on merits and should have nothing to do with political factors, party considerations, or ministerial wishes. Having analysed the case thoroughly and having given his advice on merits and objectively, he should then await the decision of the Minister who is free to depart from or go against the advice of the Secretary in the light of other considerations which may be equally valid and relevant in so far as he, i.e., the Minister is concerned.

Party Line

It is open to the Minister to take a political view of a case or even to inject party considerations into a matter. This is implicit in a Parliamentary form of Government. After all, a Minister is responsible to Parliament and must, therefore, ensure the support of the majority party which may have come into office on certain assurances, promises, and principles. There is nothing seriously wrong if a Minister takes a party line and decides a case manifestly against the fundamental merits of the same. If the Secretary feels that the Minister has gone wrong, he may take the case back personally to the Minister to reconsider. Should the Minister decide to stick to his decision, the matter should rest there in so far as the Secretary is concerned. Once the Minister has decided, it is the duty and the responsibility of the Secretary to adopt the Minister's decision as his own even when it differs from his own recommendation, and to gear up the entire administration so as to make a success of it to the best of his ability. He is a good Secretary who adopts his Minister's decision, whatever it may be, as his own and does his utmost to make a success of it. On the other hand, he is a bad Secretary if he questions the judgment of his Minister, chafes under the decision of his Minister and is half-hearted in giving effect to it.

Constant Contact

I used to tell Ministers that this is my conception of the relations that should exist between Minister and Secretary and that I would do my best to live up to it, although, occasionally, I may fall short of the standard, regard being had to the inevitable weaknesses of human nature. In such cases, it was open to the Minister to point out if there was any coolness towards implementing his decision and I would regard such pulling up as not only necessary and justifiable but also in my own interest. On the other hand, it is incumbent upon the Minister to have faith in the *bona fides* of the Secretary until and unless he finds on unimpeachable authority that the Secretary is not fully loyal to him. There would be many occasions when people dissatisfied with the Secretary or smarting under his straightforwardness or wishing to create misunderstanding would go to the Minister, try to misrepresent the Secretary to the Minister and make out as if the Secretary was unco-operative, if not hostile to him. The Minister must see through the game, must rise above all such misrepresentations and must not allow his mind to be poisoned against his Secretary until and unless he has had *personal* evidence of the disloyalty or the lukewarmness of the Secretary and, secondly, he has brought such cases to the notice of the Secretary and given him an opportunity of clearing up the misunderstanding, if any. This necessitates that there must be constant, personal contact between the Minister and Secretary as also absolute confidence between the two. One must have the absolute freedom to tell the other what he has heard against the other and seek an opportunity of clearing up, so that nothing works against the maintenance of best relations between them.

Another thing which I used to tell my Ministers was that I always held that my Minister's reputation was regarded by me as my reputation and that I would hope that the Minister would regard my reputation as his own. One naturally does one's best for one's own reputation. If the Secretary identifies his own reputation with that of the Minister, he would equally do his best to protect and promote the reputation of his Minister. And the same would be expected of the Minister also. The Minister must not only protect the reputation of his Secretary but also of the department under his charge.

It is a matter of detail, but it is worth noting that a good Secretary would try to resolve differences of opinion with his Minister by discussion and oral argument rather than by writing notes or putting everything on record. The whole idea underlying "record" should not be to save one's skin in the event of the differences becoming a scandal and, therefore, subject to an investigation by an outside party. Neither the Minister nor the Secretary should proceed on the assumption that he must above all save his skin and, therefore, he must put on record whatever he has to say or whatever views he holds. When this stage comes or such a thought enters, it is unhealthy and it is far better that the two should part than that they should work as a divided team which cannot be in the best interest of the Department or of the Government. If there is understanding between a Minister and the Secretary, all this is unnecessary. If this understanding is lacking, putting on record only accentuates and exhibits the lack of confidence, and is altogether unwholesome. I am not suggesting that everything should be done orally and that nothing should be placed on record. All I am saying is that a fetish should not be made of reducing everything to record. It follows that absence of a record does not mean that there was no understanding, discussion or decision between the Minister and Secretary, or that the Secretary acted on his own initiative, keeping the Minister in the dark.

Sardar Patel

I remember that most of the decisions and discussions between Sardar Patel who was Minister for States and myself when I was Additional Secretary in the Ministry of States were oral. And yet, there was never any occasion for Sardar to feel that I had exceeded my authority or that I had kept him in the dark or that I had done something which was not in keeping with his policy. Likewise, I never felt that I would not have the fullest support of Sardar if ever a decision of mine was questioned by any authority, administrative or legal. I had many Ministers with whom I worked. I had my share of misunderstandings with my Ministers. Yet, I could look back upon those years and say with confidence that never were those relations so happy as in the time of the Ministers who depended more on confidence than on paper noting. I do not wish to go into names for obvious reasons. There have been occasions when a Minister has felt that I had not kept him sufficiently informed of the actions that I had taken. I had even been called upon to explain these insinuations or allegations against me. But, ultimately, I had no difficulty whatever in putting files and papers before the authorities and satisfying them that nothing had ever been done over the head of or behind the back of the Minister and that too after a complete presentation of the case and all the conflicting viewpoints. It was generally my habit to record notes of discussion as far as possible, but I do not consider this as absolutely necessary nor would I insist upon it as indicative of the loyalty, trustworthiness or competence of the Secretary.

As for the division of functions between Minister and Secretary, it is obvious that the Minister should

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NOBLESSE OBLIGE

By A. T. MATHYOO

WE live on the threshold of an era which, by any past standards, is progressing and prospering. The principal industrial countries of the world have made impressive advances in productivity and wealth and their industrial expansion has reached the point of no return. Our own crust that has been lying over us for several centuries has begun to show signs of cracking and breaking up. While we still have many Herculean problems confronting us, some of them, it must be admitted, overwhelmingly crushing, we can, nevertheless, see everything before us expanding—trade and commerce, industries, income, means of transport and communications. In brief, we are experiencing in India today a phase similar to what in Britain at the turn of this century Bernard Shaw and H. G. Wells in their writings gave expression to, the Shavian world of Supermen and Wells' Utopias in which men lived as gods. As our conception of human history, nay, of the universe itself, is expanding, our hopes and ideas are keeping pace with that tempo, too. But it is increasingly realised that the achievement of this progress in a measure that will tangibly affect the 350 million of this vast land will only be possible with the active support of those countries of the West which today are in the privileged state of material affluence.

The progress West Germany has made in the short span after the World War, for instance, has been made largely possible by the money poured into her industries by America. No doubt the discipline and natural industriousness of the people contributed substantially to the money thus coming in from external sources being utilised in the proper channels to the country's best advantage. To go back to earlier times, Britain herself arrived at her present industrial and economic growth to a point of no return with the aid largely of the resources she freely commanded at her will over the Empire she ruled. External sources of income are as necessary as internal for any country embarking on such large-scale development programmes.

No Monopoly for Technology

The question is in what form and in what measure the aid is to be had. Living as we do in an age that is dominated by science and technology, it is on this aspect of development that India and all the countries of the East are endeavouring to match the West. But the West has progressed so far ahead of us that to catch up is no mean task, particularly when it is realised this progress—the triumph of the West over both nature and the world—has undoubtedly gone into its head. It has led many in the West to believe, for instance, that the whole of technology is a more or less incommunicable art. However, one has the authority of the greatest thinkers and scientists of the West that there is no evidence that any country or race is better than any other in "scientific teachability": there is a good deal of evidence, on the other hand, that all are much alike; tradition and technical background seem to count for surprisingly little.

Sir Charles Snow, in his Rede lecture at Cambridge the other day, stated in no unmistakable terms that there is no getting away from it that it is technically possible to carry out the scientific revolution in India, Africa, South-East Asia, Latin America, and the Middle East, within fifty years. There is no excuse, he said, for Western man not to know this; this is one of the situations where the worst crime is innocence. And so today scientists are, along with the unprecedented advance of technological triumphs, exploding the doctrine of the innate superiority of white races that had become widely accepted in the West since about the middle of the last century. Although science has little yet to say of the innate mental differences between the different races of mankind, it is increasingly becoming known that scientific study has so far failed to establish the existence or nature of any such innate differences. And so we come inevitably to put our faith on the prediction of Sir Charles Snow that the gap between the rich countries and the poor can be removed and that it will be. If the West are shortsighted, inept, incapable either of goodwill or enlightened self-interest, then it may be removed to the accompaniment of war and starvation. In order to forestall that contingency, it behoves the West to be vigilant.

Gap Between Haves and Have-nots

The average income per head per year in the rich West—including Canada and America—is approximately Rs. 6,000. In contrast, our *per capita* income is barely Rs. 270 which we have reached after an increase of 18 per cent. in our gross national income achieved under the first Five-year Plan. The highly industrialised countries of Europe, North America and Australasia, with a population of 400 million, thus enjoy a far higher *per capita* income, as compared with the income at barely subsistence level of the 1,000 million in Asia (excluding China), Africa and South America! Moreover, our income, for all practical considerations, has remained static over the last three centuries or more, whereas, in addition to maintaining its existing wealth at a high rate, the Western nations are at present saving and investing productively some 10 per cent. of its income or Rs. 400 per person per year, thus continuing to widen the gulf between the haves and have-nots. In other words, the West, after meeting all the expenses of its high standard of living, is investing on productive activity more than what India earns to keep body and soul together of its millions of inhabitants!

The West's capacity to save and invest has resulted in the incredible technological developments we witness today such as a human contraption attaining its lunar target for the first time since man came into existence; for the first time in history, a cosmic flight had been made from the earth to another celestial body when, on 14th September 1959, the second Soviet cosmic rocket reached the surface of the moon. The Soviet moon rocket, with a last-stage weight of 3,342 lbs., treated against bacteria so as not to contaminate the surface of the moon, carried red pennants and a hammer-and-sickle emblem inscribed "The Union of Soviet Socialist Republic, 1959"! Likewise, there are innumerable other scientific attainments to the credit of the West, even if they are not of the same stupendous magnitude, both for constructive and destructive ends and for the social and economic well-being of their peoples. In contrast, we lag woefully behind, wallowing in a state of abysmal poverty, ignorance and squalor.

As the most powerful bulwark of democracy among the underdeveloped countries, we in India, however, have the satisfaction that we are exerting our utmost to emerge out of what at times appears even to the stoutest heart as an utterly hopeless situation. And, as our second Five-year Plan nears its end, we, undeterred, are again focussing our attention on the next and more important phase of this effort. An expenditure of Rs. 10,000 crores is the target of the third Plan, but what it will achieve and how much material change it will bring about for the fast-increasing population is, perhaps, unpredictable. If one puts any faith into the theory advocated by Prof. Rostov of the M.I.T., in the United States, we are at present in the initial stage of resolving our ideological proclivities. From here to the stage described as the "take-off into sustained growth" is a far cry.

Meanwhile, it is expected that 16 million persons will be provided with employment when the third Plan is in full operation: the suggestion has been made that for agriculture and rural development a sum of Rs. 1,200 crores should be earmarked. Industrial development should absorb 40 per cent. or Rs. 4,000 crores of the total expenditure and this, it has been suggested, should be divided on the basis of 45 : 55 between the private sector and the public sector. Perhaps, the climate for attracting foreign industrial investment in India is not all that it should be. However, the Congress Party's own attitude to existing large-scale private enterprises has been defined in *its* Industrial Policy Resolution which states that there is no intention to nationalise such enterprises since it would only mean diverting public resources which could be more profitably utilised in new industries and thus add to production. As for expansion of existing enterprises and setting up new ones, the issue involved in these has to be decided necessarily from the point of view of optimum economic and social advancement. Each case would be decided on its own merits rather than by laying down rigid rules.

The non-Communist bloc has made available to India for her first and second Five-year Plans, a sum of $2,747 million against $258 million by Russia. For the third Plan, an agreement has recently been signed between India and Russia at Moscow whereby the capacity of the Russian-installed steel plant at Bhilai will be doubled and the scope of the machine-building project at Ranchi and a coal-mining machinery project will be enlarged. Other activities in which Russia will participate in the third Plan are (1) work of the Natural Gas and Oil Commission, (2) two electrical projects, and (3) fertiliser plants. Russian credit for financing these under the third Plan will be Rs. 180 crores, against the total investment of Rs. 4,000 crores proposed for industry and mining in the third Plan.

These large-scale, modern industrial units are spectacular, no doubt, in their own way, but they hardly touch India's basic needs and problems. Unless a fresh approach to our agricultural needs is made and sufficient food to feed the growing population is produced from domestic sources, we would have failed miserably in our efforts to usher in a better tomorrow for the masses. A World Bank Mission, after a study of our agricultural output, has reported that it is quite within our possibility to increase the yield of foodgrains per acre by three to five times but no efforts likely to lead to this result on an appreciable or universal scale appear yet to be on the anvil.

A recent report of the agricultural experts of the Ford Foundation stated that, in order to meet the requirements of the increasing population, India's output of foodgrains should increase by 8 per cent. per year instead of the present rate of 3 per cent., lest the gap between availability and demand at subsistence level reach a tragic level by 1965. No conceivable programme of imports or rationing, these experts have pronounced, can meet a crisis of the magnitude that the present, low rate of increase may precipitate. Our irrigation projects, besides the three multipurpose schemes referred to above, spread throughout the country (of which the major river valley projects being Tungabhadra, Kosi, Chambal, Nagarjunasagar, Koyna, Rihand, Bhadra, Kakrapara, Machkund, and Mayurakshi) have proved but a drop in the ocean: they together will irrigate some 83,500,000 acres by 1961, while hundreds of thousands more acres of parched earth cry for better irrigation and manure before our yield per acre and overall production can approximate anything to the required level.

It is problems of this type that we are facing as we approach the third Plan and, while our own efforts have to be gigantic, we shall hope that others will look on India's needs and aspirations with a kindly eye. Malthus forecast in 1789 the fate of a nation whose rate of increase is greater than that of the resources of its environment: scientists have come increasingly to believe today that a nation's environment is world-wide and that there will always be potential danger, until individual nations begin to think in terms of the welfare of humanity as a whole.

West's Moral Obligation

In the context of our own efforts at finding the wherewithal to build, it is heartening to see the role European scientists are playing by trying to usher in a new orientation on the whole vista. For instance, Prof. Blackett, who has achieved world distinction in nuclear physics, elected to address two years ago the British Association for the Advancement of Science not upon a question that directly concerned the physical sciences but upon one which primarily concerned economists, politicians and moral philosophers. He considered it more important to emphasise in this address the aspect of the West's giving massive economic aid to Asia and advocated it without ambiguity for a number of reasons, both realistic and altruistic. Economists have long abandoned the notion that one nation can only grow rich at the expense of another.

Entering the field of political and moral controversy, in this context, Prof. Blackett observed how one begins to see the long-range political dangers of the widening gap between the West and the East. On the celerity of achievement of social progress in the East will depend the continued survival of such political forms of government as we in India, for instance, have been at pains to foster since independence. Some of the motives for a substantial aid programme have also been advocated on the ground of moral and religious values. Many feel that such wide disparities in wealth, health and opportunity are wrong and that to work to reduce them would give a new sense of moral purpose to the West. Recently, said Prof. Blackett, it has been aptly

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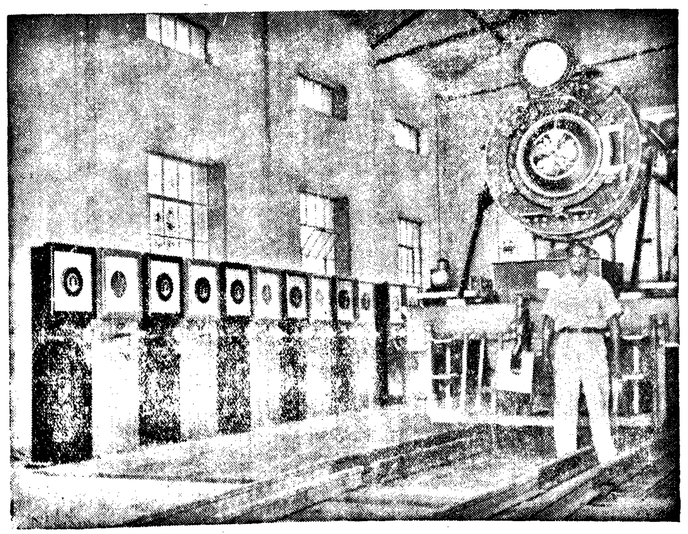

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suggested that massive Western aid to Asia might be considered as reverse lend-lease for the incalculable debt which the West owes the East for the age-old gift of the great tradition of empirical technology which was the essential first basis of Western triumphs. And, therefore, as a great scientist, he advocated that the West should make the great experiment of sacrificing some of its immediate prosperity to give massive aid to the have-not countries. If the major nations of the West cannot agree quickly to provide the required £1,000,000,000, then he advocated that Britain should "go it alone," and make her contribution of £150,000,000 a year available to her former colonies, in addition to what she is already doing. Scientists and technologists have a special responsibility in this matter, since it is their genius and their skill which alone can bring the material basis of happiness within the reach of all. As a scientist himself and also partly a technologist, Prof. Blackett believes that the uneven division of power and wealth the wide differences of health and comfort among the nations of mankind, are the sources of eternal discord in the modern world, its major challenge and, unrelieved, its moral doom.

Danger of Totalitarian Pressure

"For the sake of the poor who needn't be poor if there is intelligence in the world, it is obligatory for Europe and America, for the whole West, to look (on the problem) with fresh eyes." The problem posed by the underdeveloped countries and their penury is how best and effectively the West can come to their succour. Today, it is a life-and-death struggle among the nations of the earth for the triumph of one or the other of the two ideologies that dominate the whole world and to which they respectively owe allegiance. In this struggle, it is increasingly being realised, India is really the West's last important card in Asia. So to preserve it is the West's bounden duty, if only in their own self-interest.

Our own actions and attitude to the West are no doubt as important in the dispensation of Western aid as those of the donors themselves. Often we are constrained to view with suspicion the motives of the donors, and, in turn, they often try to camouflage the real problems by offering merely food and consumer goods, while we are looking for technicians in greater numbers, the help of geologists to discover natural resources, educators and up-to-date industrial equipment that are of more lasting value. And, as opposed to the attitude of eminent scientists and world thinkers, feeble-minded foreigners, working merely for a livelihood in the have-not countries, pay scant attention to the crises ahead and resort to actions that are an anathema to the people among whom they come to live during a brief span of service and so imperil themselves and the world for all time. What the magnitude of the peril is very few of these birds of passage seem to fathom. Immediate profits seem to blind their vision to aught else.

Tibor Mende, author of *Conversations with Mr. Nehru*, who has travelled widely in Asia and recently was again in India, China and Japan, summed up his observations in a talk over the B.B.C., when he said that, in India, in nearly every hotel he met those square-shouldered Russian technicians on their way to construction sites somewhere in the country. Even in the smallest of our towns, he found bookshops displaying piles of splendidly illustrated reviews and booklets which provide glowing, descriptions of the latest achievements in Communist countries. The Communist world is more genuinely interested in the economic problems of underdeveloped areas and is helping to solve them more than the West is, if for no other reason than that it wishes to weaken Western influence in these regions. In Japan one can hardly open a newspaper, according to Mende, without finding detailed articles on the latest developments in China. Every day delegations leave Tokyo for Moscow or Peking; and trade links between those countries are being forged. On the Trans-Siberian railway, from Peking to Manchuria, one may, it seems, see at each station delegations of Chinese workers saying farewell to Russian engineers whose service in China had terminated, and genuine feelings are displayed. Conferences at which Asians or Africans of different colour and race discover emotional common denominators against the white man are frequent: at every Peking hotel, there are today negro delegations from every corner of Africa. They arrive from their daily tours of factories and institutions in large Zis cars, normally reserved for the privileged of the regime. In short, within that vast triangle, between Tokyo, Peking and New Delhi, new ties are being forged and in their wake new power patterns are likely to emerge.

Many in the West are no doubt alive to the need to influence these patterns, so that they would conform, as nearly as possible, to practices of the free world with, of course, variations to suit the needs of the East before they become absorbed under stronger pressure in the opposite bloc. The realisation of this need on the part of the West is somewhat belated and, perhaps, still not universal. The reason for this is not far to seek. A cryptic survey of the last three hundred years reveals how, during that period, the West has been transforming both the material way of life and the mental outlook of mankind by its scientific, technological and industrial revolution; we of the East in the meantime unfortunately have remained stagnant. Western scientists, technologists and craftsmen conquered nature and their fighting men—traders, administrators and last, though not least, their missionaries—had proceeded to conquer the world and as a result 100 million Europeans were at one time ruling 700 million people in Asia, Africa and South America. Man tends to feel superior to those whom he rules and to despise those whom he exploits. However, the position the West thus came to occupy is now being challenged and increasingly so since the end of the last war, though its beginnings have, perhaps been felt since 1918 when Japan first developed the European techniques and then Russia; and today China is transforming herself under a system hitherto unknown to her soil.

The momentum thus developed against the West's superiority is gaining strength and may, in a massive sweep, tilt the power from what was considered the West's safe anchorage to a new fulcrum. What is the West to do under this upsurge, so that we of Asia and particularly India march with it and not against? If China is any criterion, the West can only be a silent onlooker, but the scope does exist for it to play a powerful role particularly in India as she attempts to throw off the shackles of centuries. In Mende's words: "The West may be able to use whatever influence it can retain (in India) to ensure that a post-Nehru authoritative regime tackles India's basic problems without recourse to revolutionary methods." According as it interprets in practice the motto *noblesse oblige*, the West should, without vacillation, apply itself to the task, and so forestall the Communist bloc's active intervention. Russia's own advantage in this competition between her and the West for winning over Asia and Africa, should it develop, has been revealed cogently by Gunther in his *Inside Russia Today*. Russia, unlike the West, makes no distinction of colour and as Russian industrial output expands—under Khrushchev's latest proposal for complete disarmament in four years the scope for it is tremendous—the volume of Russian aid to the East will proportionately mount.

Our recent troubles over the border issue with China, who, despite her own gigantic task of emancipation, seemed to be prepared to embark on an unexpected adventure and Russia's attitude to it—the U.S.S.R. for the first time in its 42-year history failed to rally full-throated in this instance to the support of a fellow Communist State—has no doubt prepared the psychological ground in India still more in favour of Russia. As Gunther has observed, "one point of marked interest and importance which is often neglected by Americans is that a country may become friendly to Moscow not merely by reason of Communist subversion or blandishment but because it admires socialism and natural planning. ... People want education, technological advance, economic amelioration, and above all neutrality. American policy, for instance, in supporting the Baghdad Pact, is bitterly resented in several countries and it is we (Americans), not the Russians, who are accused of being troublemakers." And so if it is genuinely appreciated that India's needs are real and that her ability to serve as the strongest link with the West among the free nations of the world is real too, to the question: Will Russia conquer the world in thirty years? one can only turn to Gunther's answer: "Perhaps. It is possible. It depends on how stupid we (of the West) are"!

The Chance for Co-operative Aid

To many in the West used to their high standard of living and income, it might be difficult to appreciate, away from the stage, how true in real life can a people's lament be that "*tomorrow and tomorrow and tomorow creeps in this petty pace from day to day unto the last syllable of recorded time: And all our yesterdays have lighted fools the way to dusty death!*" But today in India the efforts to relegate such thoughts to the limbo of oblivion are beginning to bear fruit, though we inevitably still remain on the fringe of this new era. The people, however, are beginning to experience a new sense of sharing in the gigantic experiment of building dams and bridges and industrial plants which shall wean them from poverty and disease that had once made them fey.

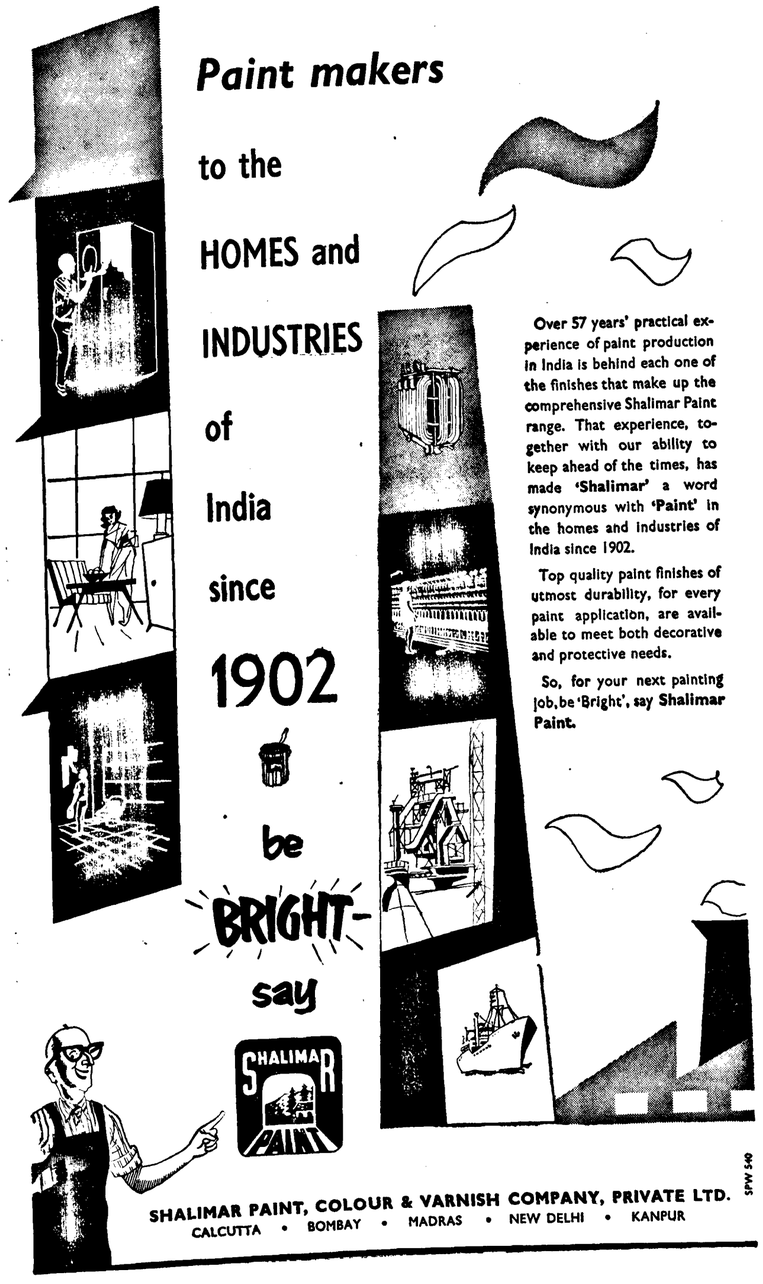
In this experiment that she plans to continue under the third Plan, India offers another opportunity to the West and a new challenge. Our hope springs from the U.S. President's recent observation that "the problem of underdeveloped nations is more lasting, more important for Western civilisation, than is the problem of the Soviet-Western differences and quarrels. There are one billion seven hundred million people today living without sufficient food, shelter, clothing, and health facilities. Now they are not going to remain quiescent, they are learning something about their own lot and they are comparing their lot with ours. They are just going to have an explosion if we do not help them. I believe the biggest co-operative job that all the world that calls itself civilised, including the Soviets, ought to address itself to is this problem and on a co-operative basis help to solve it, so that these people can achieve their legitimate aspirations; and that is a problem that every one of us must address himself to and see what we can do, what our proper part is."

The fears that the conflicting motives of the West and the U.S.S.R. in offering aid to undeveloped countries would tend to disrupt the world still further without narrowing the gap between the haves and have-nots may be largely allayed by the trend now becoming apparent that the U.S. and U.S.S.R. may work out a scheme of co-operating in the offer of economic aid. It is being suggested, for instance, in authoritative quarters that the U.S.-sponsored U.N. Special Fund that has already come into existence for pre-investment surveys in developing countries would be the logical mechanism for U.S.-U.S.S.R. co-operation in foreign aid in a bigger, unprecedented way. Scientists who are transforming the world today are convinced in their belief that the time has come to move from national traditions and aspirations to others based on international welfare and it remains for politicians and statesmen to translate this belief into their own thoughts and actions.

So far so good in advocating to meet the needs of undeveloped countries. What of the interests of the investing countries? An American journal recently pointed out that U.S. investors in foreign countries need more than kind words to protect their interests as long as they continue to be uncertain, because of the attitude of the undeveloped countries, whether they will stay in business in such countries from one day to the next. Many "exotic quarters," this journal stated, have sung in praise of private international enterprise, and among the "exotic" songs have been cited Vice-President Rojas of Argentina's appeal to the foreign investor and Malaya's Prime Minister, Prince Abdul Rahman's observation to the U.N. Economic Commission for Asia that Asians should remove any fears that private foreign investment might interfere with the sovereignty and true national interests of the receiving country. Even "socialist-minded India, whose ambitious Five-year Plan is on the rocks," this journal states, "has spoken kindly of that intrepid and bewildered creature, the overseas investor"!

The investors' adverse reaction to all our kindly and encouraging sentiments is quite understandable and legitimate, when we look at the international economic reality from their angle. "Egyptianisation," which meant expropriation of foreign enterprises in Egypt, in addition to seizure of the Suez Canal: intermittent threats to cut the flow of oil through pipelines that pass through Syria and other Near West countries: extreme left-wing Government pressure on foreign enterprises in Ceylon: in Indonesia, first the most callous expropriation of Dutch enterprises in a move of international blackmail, followed by a steady drift by the Djakarta Government toward Communist control; and, latterly, in our own country, the threat of Kerala's Communist Chief Minister to "Keralise" the foreign-owned plantations of that unfortunate, and in the context of world events insignificant, State!

In the light of all these experiences, no amount of honeyed phrases such as contained in the "exotic" songs referred to before can serve to convince the foreign investor of what he most looks for: long-range security. Governments including our own, must learn the responsibility that comes which being law-abiding. As a German banker seems to have said: "An international convention is needed to assure that both capital-export and capital-import countries will treat foreign interests fairly and without discrimination and to abstain from direct or indirect illegal interference with such investment." Where then lies the remedy? Certainly not in ignoring the obligations of the rich countries to the poor because the latter have black marks to their discredit. A solution is possible and indeed should be assiduously sought to give the foreign investor adequate security by incorporating in the Charter of the United Nations a provision that "any Government which, by unilateral action, abrogates an agreement made by that Government may expect the investing country, either singly, in conjunction with other countries or through the United Nations, to take such economic measures and abrogate any agreements with the offending nation as the United Nations may see that circumstances warrant."—*All Rights Reserved.*



PROSPECTS FOR INVESTORS

By GEORGE CARVELHO

CALCUTTA, *9th December*

AN assessment of investment prospects for the coming year must inevitably be, to a large extent, a projection of stock market behaviour during the year that is drawing to a close. In the present case, the normal uncertainties of any attempt at forecasting are aggravated by the fact that the trend of share prices in 1959 did not follow a uniform pattern throughout the year. Broadly speaking, the first ten months, from the beginning of January till the end of October, was a bull phase, during which prices, for the most part, were rising, confidence was growing and the volume of business was expanding. In contrast, the rest of the year, particularly from about the middle of November onwards, was marked by a sharp break in prices, shrinkage of business and the onset of a mood of uncertainty. The problem of the market analyst is to attempt a judgment as to whether the bearish trend at the close of the year would prove to be temporary or whether it would set the tone of the market for most of the coming year.

Optimism Wanes

Viewed against the background of the year as a whole, the sudden reversal of sentiment in the closing months appears disproportionate to any intelligible cause. It is true that, while the market was booming, in the earlier part of the year, there were those who asked whether the rise was justified on real economic grounds or whether it was not being carried too far, depressing yields to the point where they ceased to be attractive, so that a corrective reaction was needed. But, in the then prevailing mood of exuberant optimism, such fears were brushed aside as unworthy of serious attention. Much was heard of growth prospects, of the advantages of equities as a hedge against inflation. It was pointed out that, whatever the pessimists might say, most industries were prospering and were engaged in implementing ambitious expansion programmes. The new issues market was more active than for many years past and almost every new issue was snapped up by investors who cared little for yields and thought only of how their capital would appreciate over the years.

Then, in the space of a couple of weeks in November, the situation was transformed. Optimism and confidence were replaced by uncertainties, fears and forebodings and a general note of depression such as had not appeared since the dark days of 1957, when the market was staggering under the impact of the Krishnamachari budget.

China Threat

Of the factors responsible for the change in sentiment, the most important is said to be the emergence of the border threat from China. This is, of course, a matter of the gravest import, with far-reaching implications, political and economic. In future, the formulation of economic policies and the whole course of planned economic development will have to be shaped by the fact that there is a powerful nation on our borders with plainly aggressive designs on our territory. It is necessary to reckon with the possibility that defence expenditure will have to be increased. Taken in conjunction with the need to raise additional resources for the Plan and the financial burden resulting from the acceptance of the recommendations of the Central Pay Commission, there appears to be ground for apprehensions of additional taxation in the 1960-61 budget.

With the level of taxation already bearing heavily on industrial production, this could be a serious matter for investors. On the other hand, experience has shown that budget forecasting is likely to be wide of the mark. In any case, the indications are that a supplementary budget is unlikely, which means that there is time between now and the end of February 1960, during which the situation may be radically altered. Moreover, there are other aspects of this matter which market opinion does not appear to have considered adequately.

Other Aspects

First, the chances of securing foreign aid on an even more substantial scale than in the past, will be improved, now that India is directly threatened with aggression from a Communist State. Second, the fact that Russia has studiously refrained from supporting China in this matter raises the question of whether China would be prepared to "go it alone." Third, the visit of President Eisenhower and discussion of the Chinese threat by him and Mr. Nehru could bring about a better understanding between India and the West, which could have economic consequences. Fourth, the danger from China has already created a greater awareness of the overriding importance of rapid economic development, for, ultimately, a nation's military strength is a function of its industrial capacity. The Government is already reported to be studying the possibility of accelerating the rate of expansion of industries in the light of defence requirements. This could result in a more realistic and less doctrinaire approach to policy questions and an awareness that private enterprise can make a much-needed contribution to the building up of economic strength, if only the necessary incentives are provided.

This tendency could be further strengthened by the popular revulsion against the Communist Party of India, as a consequence of its ideological association with the nation which threatens the territorial integrity of India. In any case, open war between India and China appears unlikely, at least for a long time to come. Meanwhile, the danger from China could, perhaps, lead to better relations with Pakistan, which again would have favourable economic consequences. All told, so long as a shooting war is avoided, the Chinese adventure could have the wholly desirable effect of forging a stronger bond of national unity and a united determination to build up the economy to be able to repel any aggressor. It looks as if the Chinese border threat, considered in all its aspects, does not justify the gloom and pessimism that pervades the stock market.

Remarkable Phenomenon

It is instructive to set against these factors, the influences that were responsible for the earlier buoyancy of share prices. The Reserve Bank's index number of variable dividend industrial securities rose from 136.5 at the end of 1958 to 156.8 at the end of October 1959, a rise of 14.8 per cent. This followed a 13.6 per cent. rise in 1958, so that, in the two years together, share prices rose by as much as 28.4 per cent. This rise more than made up for the capital losses suffered by shareholders in the two earlier years, when the index declined by 16 per cent. in 1957 and 11 per cent. in 1956, a total fall of 27 per cent.

These figures represent a remarkable phenomenon. They point to an upsurge of confidence on the part of private investors, an improvement in the economic climate which more than made up the ravages resulting from the ill-considered fiscal burdens imposed in the name of a socialist pattern of society. What is more striking is that the revival of confidence took place without any major change in Government policy. There has been no important measure of tax relief in 1959, for the removal of the wealth tax on companies and the tax on excess dividends were not intended as tax concessions nor, taken in conjunction with the new system of company taxation did they have any such effect.

As the Finance Minister himself said in his budget speech, they were part of a simplification process of the whole system of corporate taxation and investigations into the effect of the new system have established, beyond dispute, that the majority of shareholders will be adversely affected. Instead of tax concessions, the tax on bonus issues has been extended to issues of bonus shares out of share premium account, the rates of personal wealth tax have been increased by one-half per cent. on each slab and the provisions of the expenditure tax have been made more stringent. In other respects, too, the Government has made it clear that it means business when it talks of the socialistic pattern of society. The enthusiasm for co-operative joint farming and the renewed emphasis on land ceilings are interpreted as an attack on the rights of the peasant proprietor as well as the large landowner. The managing agency system, the favourite target of anti-capitalist attack, has been further restricted by the imposition of a sliding scale of remuneration with rates ranging from 10 per cent. of the first Rs. 10 lakhs of net profit to 4 per cent. on the slab over Rs. 1 crore. State trading in foodgrains was accepted, though its implementation proved more difficult than its adoption in principle. The State Trading Corporation expanded the range of its activities and entered the jute trade.

Economy Picks Up

All this might seem an inauspicious setting for a revival of investment confidence and rise in share prices. And, yet, throughout the first ten months of 1959, the stock market was characterised by such a recovery. Perhaps, the most important reason was visible evidence that the economy was developing. The pace of economic growth may have been slower than that visualised by the planners, but the fact of growth was plainly visible. Foodgrains production set an all-time record of 73 million tons for 1958-59, though, in some quarters, this claim was treated with scepticism in view of the continuing scarcity and high prices of food. The rate of growth of industrial production, after declining to 1.5 per cent. in 1958, as compared with 4.5 per cent. in 1957 and about 8 per cent. for each of the years 1956 and 1955, was again moving up and the available figures suggest a figure of about 6 per cent. for 1959. The drain on foreign exchange reserves has been checked and, though the performance of exports leaves much to be desired, there is no longer a foreign exchange crisis. Foreign aid has come in on a larger-scale than was hoped for and, though import austerity continues to be necessary, the external resources for the remaining period of the second Five-year Plan seem to be assured. Foreign private investment however has been disappointing and the inflow has been a mere trickle, quite inadequate in relation both to needs and investment opportunities. Development expenditure has been maintained at a high rate and banks have ample resources at their disposal. There has thus been a steady increase of funds seeking investment and, even after heavy borrowing by the Central and State Governments, there has been ample money left over to keep the market for existing securities as well as new issues at a higher level of activity than in the past.

Raw Material Costs

More important than these general considerations in influencing the judgment of the ordinary investor is the fact, to which balance-sheets and dividend warrants bore testimony, that almost every industry was doing reasonably well. Cotton textiles appear to have recovered from the depression caused by accumulation of stocks. Demand has revived and fears have been expressed that, instead of overproduction, there might be a cloth shortage. Subsequently, the rise in raw material prices has induced a note of caution. In the jute industry, the effects of modernisation and rationalisation have been reflected in larger profits, though, here again, high raw material prices cause some degree of concern.

The engineering industries, free from the earlier difficulties created by steel shortage, have expanded output and look forward with confidence to further growth. The paper industry, trying vainly to meet an almost insatiable demand, has been expanding productive capacity, but the decision of the Tariff Commission to reduce the selling prices of paper has reduced profit margins. The coal industry, after waiting patiently for the Government's decision regarding selling prices, was sorely disappointed at what is considered a meagre and quite inadequate increase. Still, well-managed collieries are able to make fair profits. Even the tea industry is, for the moment at least, able to get economic prices at the auctions, though the spectre of overproduction hangs over the world market and common teas encounter stiff competition, particularly from Ceylon and East Africa.

Steels

In steel, which leads the entire stock market, the two producers in the private sector are apprehensive that, when the steel projects in the public sector come into full working, the supply will exceed the demand. This situation may be aggravated if a still bigger target for steel production, of the order of 10 million tons of ingot steel or 7½ million tons of finished steel, is set for the third Five-year Plan. As long-term lock-up investments, however, both Tata Iron and Steel Company and Indian Iron and Steel Company are attractive, because there can be no doubt about the ability of both concerns to maintain the present rate of dividend, and any problem of overproduction that may appear will be only temporary. As the machine building and steel fabricating industries expand, offtake of steel will grow. Ultimately, we shall need very much more steel than even the projected third Plan target.

Perhaps, the most striking evidence of the revival of confidence was the remarkable activity of the market for new issues. Not for many years has the investor been presented with so large and varied a choice of new flotations. And the response has been equally striking. Almost every new issue, whether in the form of rights shares

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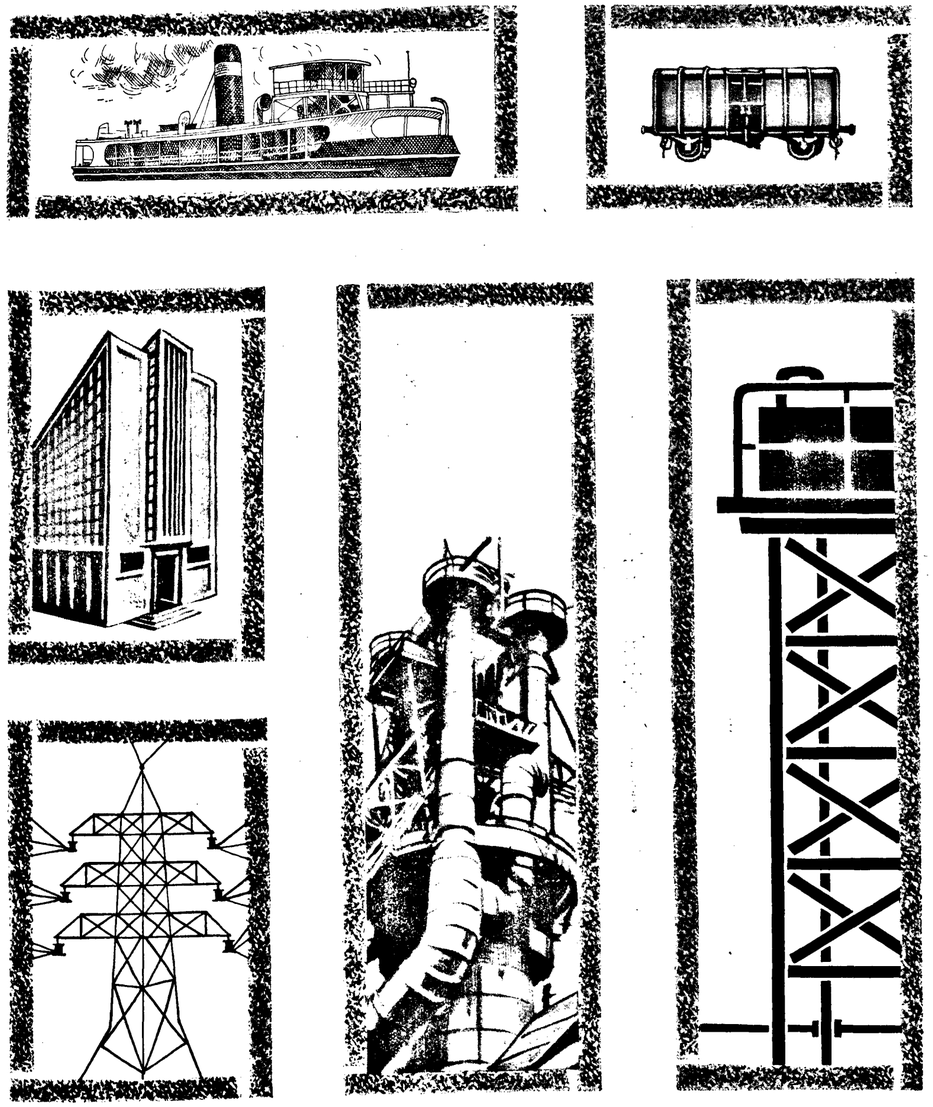

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by existing companies or by newly formed companies, has been fully subscribed and, in many cases, the issues have been oversubscribed to a fantastic extent. The scramble for subscriptions to new issues is proof that investors are becoming more and more growth minded. The accent is no longer on yields but on prospects of capital appreciation, so much so that investors are prepared to take up shares of new companies even though they will not be in a position to pay dividends for some years to come. They believe their patience will be rewarded in the future, both with high dividends and capital gains.

Healthy Feature

This tendency has been reinforced by awareness of the advantages of equities as a hedge against inflation. This is a natural and healthy feature of a developing economy and shows that investors are not unduly perturbed about the burden of taxation on profits or the other manifestations of the Government's socialist economic policies. At the same time, it is likely that these factors have prevented the rise in equity prices from going as far as it would have gone had the restraining influences been absent. In spite of the rush for growth stocks, yields on equities at prevailing prices are above those on fixed interest bearing bonds, whereas in countries of the West, which do not possess the growth potentialities of underdeveloped economies, equity yields, in many cases, have fallen even below those obtainable on gilt-edged. While Indian investors have shown readiness to take up new issues with no prospect of dividends for some years, when they buy shares of going concerns, yield considerations are still, apparently, an important factor.

The spate of new issues is welcome also for another reason. There have been signs that, with more and more money seeking investment in shares, the supply of floating scrip has been less than the demand. Such concentration of investible resources on a constant or diminishing stock of scrip has had the effect of forcing up share prices and depressing yields to the point where the Life Insurance Corporation decided to stay out of the market because returns were not attractive enough. The flow of new issues should help to correct this imbalance, to some extent, by making an increasing volume of scrip available to match the increasing amount of money seeking investment.

Taxation

No assessment of the investment outlook is possible without an examination of the likely effects of the new system of company taxation. The abolition of the system of grossing of dividends in the hands of shareholders and its replacement by the system of deduction of income-tax on dividend income at source, together with the reduction of the rate of taxation on profits of companies and the abolition of the wealth tax on companies and the tax on excess dividends are the chief features of the new system. Its effects on investors will vary according to the circumstances of each particular case, depending on how much the company in question will gain through not having to pay the wealth tax and the excess dividends tax and through the lower rate of tax on corporate profits. It will have to be estimated, in each case, whether this saving will be sufficient to make up to shareholders the loss they suffer through the abolition of grossing. Expert opinion is agreed that, in the majority of cases, companies will not be able to do this. So shareholders, in most cases, will lose through the change to the new system. Among those who will be particularly hard hit are shareholders of banking companies, because such companies were not liable to the wealth tax on companies and so will derive no advantage from its abolition and, furthermore, such companies usually distribute relatively modest dividends and so their gain through repeal of the tax on excess dividends will be small.

Another set of investors who will be adversely affected by the new system of corporate taxation will be holders of preference shares, which are not expressly described in the company's articles of association as "tax-free." Where the share is not so described, the company is at liberty to distribute the prescribed rate of preference dividend as the gross dividend, out of which tax at prescribed rates will be deducted at source, so that the actual net dividend received by the shareholders will be considerably less. Further, problems arise in the case of investment by one company in another. All in all, it looks as if, in the name of simplification, the Finance Minister will be found to have whittled down the dividend income of shareholders on the whole.

Reaction Overdone

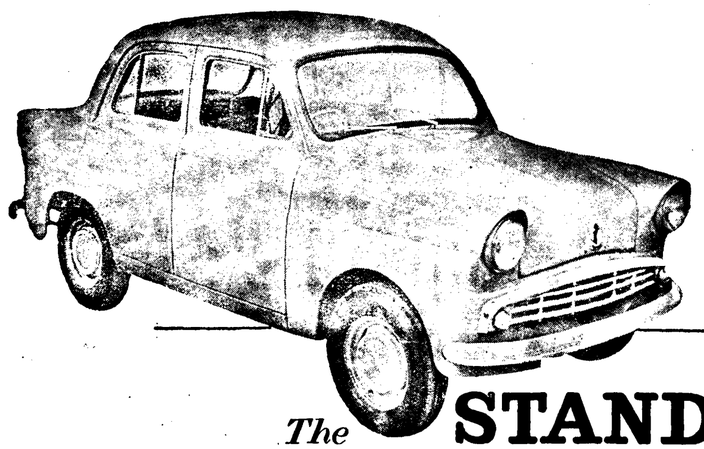
In assessing the outlook for 1960, it would appear a fair inference from the available evidence that the present reaction is overdone and will prove to be temporary and that the rising trend will eventually be resumed. That is, unless the border trouble with China flares up into open war, which at present appears unlikely. The 1960-61 budget may contain some unpleasant surprises, but even this is no reason for alarm or despondency. Experience has shown that even the Kaldor-Krishnamachari 'integrated' system of direct taxation is compatible with attractive profits and has not proved a deterrent to the bull market of 1958 and 1959. On the other hand, if the Finance Minister really desired to boost the morale of the stock market, he could do so without sacrificing any substantial revenue, by some quite simple fiscal adjustments. Most important among such changes would be the abolition of the tax on bonus issues, which has been unequivocably condemned by every recognised fiscal authority.

It would be unrealistic to expect any sharp swing in Government policy, away from socialism and in favour of private enterprise. Even if those in power desired such a change, which is extremely unlikely, it would be politically inexpedient. It must be assumed that socialism will continue to be the goal of policy, but this is not necessarily incompatible with a measure of pragmatism and realism in economic policy. Here again, experience has shown that the private industrial sector can exist and even prosper and expand within the framework of a socialist pattern of society.

The tempo of development expenditure will be stepped up with each succeeding year. Deficit financing will continue and may be increased. Clearly, there will be plenty of money about and much of it will flow to the stock market. The investment habit is spreading, more and more people are learning the advantages of investment in equities. The time seems ripe for the launching of the unit trust movement in India, so that middle class investors may be provided with the opportunity to invest their savings in equity capital, with the least possible risk and a reasonable prospect of capital gains over the years.

There seems to be no reason for anxiety over the general state of the economy. Agricultural production, always subject to the vagaries of climate, seems on the rise and in the field of industry, there is going on a remarkable expansion, both in established industries and in building up productive capacity in spheres where none existed a few years ago. Both in range and depth, there is

(Continued on page 32)



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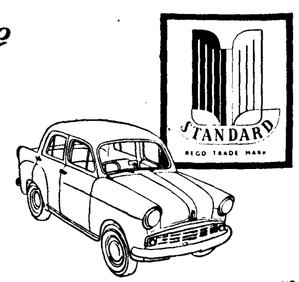

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Creeping Inflation And Economic Progress

No Satisfactory Solution Yet Found Anywhere

By G. O. HOSKINS, O.B.E., B.Com., M.Sc. (Econ.), F.R.Econ.S.

LONDON, *30th November*

IN the United States two years ago, there occurred an extraordinary phenomenon. There was an industrial setback; growing unemployment, the monetary authorities held credit in an iron grip, and, with it all, the country suffered steadily rising prices and the cry of inflation was drowning the cry of falling production. Several countries since the war have suffered, even if in less dramatic form, the evils which so recently afflicted the United States, and even more common has been the phenomenon of rising production accompanied by a steady rise in prices. Great Britain has experienced the last phenomenon to the full, and in this country, as in all industrially developed countries, and even in the less fully developed countries which, like India, are making their way fast, there is an absolute obsession with this problem of creeping inflation.

The achievement of a high degree of monetary stability, coupled with rising production in the United Kingdom in the last two years, has led to the supposition that perhaps British monetary policy has succeeded, in some ill-understood way, in finding a remedy to the disease. Britain has seemed to be enjoying economic progress without inflation, and the question is naturally asked: How is this done?

Long-term Look

But the economic scene is not one that can be observed by a glance stretching over a couple of years. What has really happened in Great Britain over the long term? In 1948, the level of industrial production was taken as 100 by the British Central Statistical Office in setting up new standards for measuring national income and expenditure and the prices and costs which are part of them. The latest detailed survey published by the Office put production in 1954 at 122 (an increase of rather less than 4 per cent. per annum), and in 1957 at 130 (an increase of rather less than 3 per cent. per annum). Over the same period, the price level moved as follows: taking 1948 as 100, in 1954 it was 128, and in 1957 it was 144. Thus, over a period of ten years, while output rose at an average of 3 per cent. per annum, prices rose half as much again at the rate of 4½ per cent. per annum. Clearly, over that period the United Kingdom was suffering from creeping inflation.

Let us now move the scene forward to the past five years and bring it right up to date. In that time, up to and including the first half of this year, the index of industrial production rose by 10 per cent., that is, a rate of increase of only 2 per cent. per annum. Admittedly, in the middle of this year, the production level was 5 per cent. higher than a year ago; but, equally, if we take the first half of this year, the increase over the first half of last year was still only at the rate of 2 per cent. Admittedly also, prices in this more recent period have not risen faster than the very low rate of increase of production, and it is this which has led to the theory of the arrest of creeping inflation. The theory would indeed have looked better, if prices had been *falling* over this quiescent period!

But, if one may paraphrase Lord Keynes: It is easy to achieve economic equilibrium in a dead world; and can a rate of industrial output of 2 per cent. per annum be considered as other than dead? Other countries can indeed make a better showing. In Germany, for instance, industrial production increased 50 per cent. in the five years 1953 to 1958, while the cost of living increased only 10 per cent. France enjoyed the same increase in output (50 per cent.) over the five years, and a rise in the cost of living of 22 per cent. Italy had a production rise of 43 per cent. and a cost of living rise of 13 per cent. Even the Netherlands enjoyed a rise in industrial production of 26 per cent. against a cost of living rise of 17 per cent.; and Belgium with a much more modest production rise of 15 per cent., had a cost of living rise of 8 per cent. These are all countries in the Common Market, and it is clear that these countries have one thing in common: the rise in production over the five years prior to the formation of the Market outstripped in differing degrees the rise in prices.

Labour Docile

For these European comparisons, the index of industrial production has been taken on an *exactly comparable basis*: and, on this basis, whereas the United Kingdom saw a rise in industrial production over the five years of 14 per cent., the cost of living rose by 19 per cent. Thus it would seem, on the basis of figures alone, easier to sustain the argument that Western Europe has conquered creeping inflation than to sustain the argument that the United Kingdom has done so. But the answer in the case of Western Europe is not far to seek. These are countries which, relative to the United Kingdom, have had far less labour controls, and in the country where the progress of production has been most spectacular in relation to prices, that is, Western Germany, the Trade Unions have been singularly weak; so that the general impression is that Western Europe has been going through a phase rather comparable to that of Britain in the nineteenth century—with all the reservations that such a sweeping comparison requires. But, in brief, the comparison is that the criterion of progress in the countries cited has been industrial production and not full employment.

In Britain, ever since the war, the criterion by which Governments have been judged has been their ability to maintain full employment, and even Conservative Ministers who did not subscribe perhaps as wholeheartedly to the theory as the Opposition, know that they can retain office only if they can maintain full employment; and, broadly, employment has been maintained in the United Kingdom over the period which we are surveying. In the latter part of that period it has been maintained without inflation, but it is patently clear that, in the United Kingdom, when inflation has been at its least, so, has the growth of production. In short, the United Kingdom appears to be suffering from a particularly frightful malady of stagnation. That is not, of course, how we see it ourselves in this country, but it is certainly how countries of the Common Market view us. And to the extent that we have avoided inflation, we have eschewed rising production.

But it was with the problem of inflation in relation to production that the Government set up the Radcliffe Committee whose Report was published earlier this year. The Report studies in great detail how a monetary policy can be used to combat inflation without checking output. Unfortunately, the Report is unable to lay down a formula whereby industries can boom and prices remain stable. Indeed the cynic can be excused for saying that full employment and rising production are completely incompatible with stable prices, and Britain is faced by the dilemma: "Inflate and let producton rise, or control prices and stagnate."

Fortunately for this country, however we may fear the cynics to be right, we do not accept this conclusion, and search for a better answer. The Radcliffe Committee did not find that answer, but they reached certain useful conclusions. Firstly, they laid down that monetary policy by itself will not regulate demand in the short run. It can, over a period, damp down or stir up demand, and if its less used aspects are applied, such as controlling hire purchase and putting ceiling limits to bank advances and capital issues (the sort of weapon used a couple of years ago) then it can be effective.

Equally, the traditional method of bank rate can be effective if it is moved fast enough and far enough, but, even here, the Report stresses that bank rate works rather more like the gears of a motor car than was supposed; that is, to be effective, one has to move it to entirely different levels, not simply through slow, close stages. Thus, if from a middle level, bank rate is moved sharply to a high level, or to a low level, it may be effective, but intermediary movements might have the effect of delaying the intended action.

Along with interest rates, goes the weapon of credit restriction and, though long-term investment policy is rather discredited as a quick medium by the Committee, local authorities and spenders of money on public works, large-scale building and so forth, can be put off placing new contracts if interest rates move too high or if their credit is restricted sufficiently; but the current rate of construction and spending will grind only slowly to a halt.

Debt Management

Thus, the Committee comes to its well-known conclusion that monetary measures by themselves cannot keep the economy in balance: "Monetary measures can help, but that is all." Of course, this is only a development of the general proposition of Lord Keynes that what affects demand most is the current level of liquid resources; so, if hire purchase finance is suddenly interrupted, the mass of demand for such buying must suddenly come to an end. If the Government begins borrowing through new issues, or through the sale of its own holdings of the National Debt, it can have an immediate effect on the volume of liquid resources: and, if having withdrawn these from the market, it sterilises them through not spending, then demand can also be at once affected. Indeed the Committee makes a powerful recommendation that the public debt should be managed henceforth as a major monetary weapon.

But all this is negative to the main problem which is how to raise production without suffering inflation. Between 1955 and 1958, Britain suffered virtual stagnation in production. In that period, all the brakes on spending were being applied to prevent inflation which they succeeded in doing, but there was nothing at work to stimulate output.

Where does all this lead us? It leads us straight into the field inadequately explored by the Committee: the possibility of direct action comparable to the war-time controls which might be used to push production up, coupled with positive restraints on prices. An increase in production by these methods was a feature of Labour post-war policy, but, in that time, the country equally suffered post-war *inflation*.

Failure of Policy

We have therefore seen in the United Kingdom the failure of monetary policy rapidly to eliminate inflation, the failure of monetary policy to stimulate production, and the failure of production policy to eliminate inflation. The question, therefore, remains wide open: is it possible through the combination of production policy with monetary policy to achieve a steady rise in output without an accompanying rise in prices *plus*, of course, full employment *and* the maintenance of the more or less free capitalist system? All we can say is this: any solution on these lines has been neither tried nor fully worked out in theory, while, on the other hand, as Western Germany shows once again, the more or less freely working capitalist system achieves the best results when its freedom is rather more than less. It is up to those convinced that a different economic approach is necessary to show that they can succeed in the fields where both uncontrolled capitalism and restricted capitalism have failed.—*All Rights Reserved.*

PROSPECTS FOR INVESTORS

(*Concluded from page 30*)

reason for satisfaction at the performance of the industrial sector.

There seems to be a new sense of urgency about the need to attract foreign private investment. This is a matter on which the Government and the business community speak with one voice. Both are convinced of the advantages of a substantial inflow of foreign capital. It is not too much to expect that such unanimity of opinion will lead to the devising of practical measures for the purpose. Already, double taxation agreements are being concluded with the principal capital exporting countries and an investment guarantee agreement with the U.S.A. for covering the risk of expropriation has just been signed.

The withdrawal of the Life Insurance Corporation from the stock market is likely to be only temporary. If the present recession in prices reaches the point where yields on first-class equities again become attractive, there can be little doubt that the L.I.C. support for investment will again be forthcoming on a generous scale.

On the whole, in the normal course of things, that is barring war or other unforeseen contingencies, the investment prospect for 1960 seems to be fairly bright. It is reasonable to expect that the clouds that we see now will pass, the skies will clear and the investment climate will prove to be salubrious and invigorating.—*All Rights Reserved.*

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SURPLUS FOOD RESERVES AND ECONOMIC DEVELOPMENT

By B. R. SEN

DIRECTOR-GENERAL, FOOD AND AGRICULTURE ORGANISATION, UNITED NATIONS

THE primary concern of F.A.O. is to raise the levels of nutrition among the peoples of the world. More than one half of the world population subsists on diets inadequate for health, and the rate of improvement is painfully slow. The main remedy is the raising of real incomes through economic development and F.A.O's work, both technical and economic, is directed to this overriding objective of raising production and consumption levels in areas of chronic malnutrition. This objective is inevitably a long-term one, because, even in the most favourable circumstances, agricultural output increases only at the rate of a few per cent. per year and the process of growth is dependent, to a large extent, on the accumulation and investment of capital. Moreover, increases in production must be secured mainly in the poorer countries, where only a small part of current production can be set aside to provide the capital needed for growth. But the need for more food is now more urgent, for the under-developed countries have entered a dynamic phase of development, in striking contrast to the static conditions of the past, and economic development, because it increases employment and accelerates urbanisation, creates an expanded demand for food which has to be met before the development programmes have had time to yield larger supplies of food or of other goods that can be used to finance larger food imports. In addition to this problem of providing for increased levels of production and economic growth in general, the under-developed countries are also faced, from time to time, with the problem of meeting immediate food shortages resulting from crop failures and other natural disasters.

Two Questions

On the other hand, in the more-developed countries, and especially in North America, large agricultural surpluses, greatly exceeding the absorptive power of the world's commercial markets, have accumulated during the present decade. It is natural, therefore, that, in recent years, public discussion and the attention of economists and public administrators have been directed towards two questions:—(*a*) Can these surplus supplies be used as a reserve to meet sudden demands for food in needy countries? and (b) Can these surpluses be used to assist the economic development programmes of the underdeveloped countries?

These problems are of particular relevance to India where population is growing fast and food production often falls short of the growing rural and urban demand. India has set a target for self-sufficiency in foodgrains by the end of the third Five-year Plan with a safety margin to meet bad seasons and natural calamities. At present, consumption levels are low and there is little or no safety margin to ward off a crop failure.

At the F.A.O. Conference in Rome this November, there has been much discussion of these issues, and particularly of the ways in which surpluses can be put to good use in the fostering of economic development and in shielding the poorer nations of the world against famine.

There have been several attempts in the past to tackle the problem through international action on a world-wide basis. Both the World Food Board, proposed in 1946 in the expectation of a recurrence of food surpluses in some parts of the world, and the International Commodity Clearing House, proposed in 1949 when there were signs that surpluses would re-emerge, did not materialise for lack of support. An interesting feature of the latter proposal was the provision for the sale of surplus food from hard currency areas against local currencies (a feature subsequently pursued on a large scale in the bilateral transactions conducted under the U.S. Public Law 480), but there was no provision under the I.C.C.H. proposal for the use of the inconvertible currency balances which would have accumulated over the years.

Position Examined

When food surpluses again disappeared in 1950, international discussion turned to the narrower problem of famine relief. Studies were undertaken by F.A.O. on the possibility of establishing an emergency food reserve or an emergency relief fund. These studies were not followed up by action on the part of Governments, though some provision was made for machinery to facilitate *ad hoc* inter-governmental action to meet famine emergencies.

Surpluses reappeared at the end of 1953 and grain surpluses have since grown to very large dimensions. Study of the problem, and action on it, proceeded along several different lines. The F.A.O. Committee on Commodity Problems was established in 1949 to work on three aspects of surplus disposal—the formulation of principles and guiding lines to be observed in the disposal of surpluses, the development of suitable methods of disposal and the strengthening of inter-governmental machinery for consultations on these matters. In 1954, a set of F.A.O. Principles of Surplus Disposal was drawn up and has since been formally accepted by about 40 member-Governments. The first, and the most significant, of these principles is that the solution to surplus problems should be sought in increased consumption rather than in measures to restrict supplies. To a large extent, with memories of the Great Depression of the 'thirties still fresh, the Principles were an expression of the concern felt as to the damaging effects surpluses might have on world markets, and the Principles laid stress on the importance of preventing surplus disposals from having harmful effects on normal commercial markets. But the current intense interest in the possibilities of a constructive use of surpluses as an aid to welfare schemes, and, particularly, as an aid to economic development, may also be said to have been started when these F.A.O. Principles were put forward. F.A.O. has since undertaken, through working parties and field missions, detailed studies on the possibilities of disposals on special terms, placing emphasis on those in aid of economic development. The Pilot Study in India, for instance, which examined ways of using all types of surpluses for this purpose, was intended as an example for the planning of such programmes in other countries as well as India. The machinery for inter-governmental consultation was strengthened by the establishment of a Consultative Sub-Committee on Surplus Disposal in Washington in 1954.

This Sub-Committee meets frequently to review bilateral surplus disposal programmes and transactions, serving as an inter-governmental forum at which Governments affected by these programmes and transactions can ensure that their interests are taken into account. More recently, it has been giving increasing attention to the study of experience in surplus disposal operations in recipient countries and to the study of the problems of national reserves with the more positive aim of seeking constructive uses of surpluses. Some international action programmes have also been devised by this Sub-Committee for the development of milk production and consumption, as, for instance, the so-called Calcutta Scheme, whereby surpluses of skim milk have been applied with the object of aiding domestic dairy development. I think it can be claimed that the work of F.A.O. in the field of surplus disposal problems has not only helped to advance inter-governmental co-operation in these matters, but also made a real contribution to economic thinking on the still rather unfamiliar problems of the use of surpluses.

World Food Reserve

In 1954, the General Assembly of the United Nations asked the F.A.O. to examine again the possibility of establishing an international stock of foods. This time the concept was of a World Food Reserve having the four main objectives of raising low levels of food production and consumption; of relieving famine and other emergency conditions; of counteracting excessive price fluctuations; and of promoting the rational disposal of intermittent agricultural surpluses. The F.A.O. report* pointed out some of the difficulties and problems that would result from the operation of multi-purpose food reserves on an international scale. Chronic malnutrition could not be cured by a World Food Reserve operating on a self-financing basis and acting, at the same time, as a world buffer stock for counteracting excessive price fluctuations. The reserve would have to be constantly replenished, unless the extra food supplies for supplementing chronic deficiencies could be paid for out of income derived from the additional development programmes which these food supplies would help to finance. A World Food Capital Fund, composed of surplus food stocks to be utilised for financing the development programmes of under-developed countries, along with other forms of capital provided on an international basis, as might have been a feature of the proposed S.U.N.F.E.D. appeared to be a better idea. Such a fund, the report stressed, might also be used for international emergency relief; but its functions would be difficult to combine with buffer stock operations. The feasibility of a World Food Capital Fund would, of course, be dependent on the willingness of countries with surplus stock to "internationalise" their holdings. Attention was also drawn in the report to the need for national reserves in under-developed countries and to the greater possibilities of planning for multi-purpose reserves on a national rather than on an international basis.

Bilateral Aid Programmes

In 1953, a great expansion in bilateral programmes for the use of surplus supplies was initiated by the United States. Provisions for the sale of surplus supplies against importing countries' currencies was made under Section 550 of the Mutual Security Act of that year. In the following year, much more extensive disposals against foreign currencies, and by grant and barter arrangements, commenced under the authority of Public Law 480. The generous provisions for emergency relief, including transfers by grant, under Title II of that law, together with aid from other countries, have removed the threat of serious famines. As a result, the scope of international action in emergency situations now lies mainly in the early detection of emergencies and the speedy transmittal of information to potential contributors of relief. From the point of view of both the volume of disposals and the implications for increased consumption, directly and in the long run, sales against foreign currencies under Title I are the most important. These sales, which have generally been made at prevailing export prices, are negotiated subject to assurances that they do not displace United States' usual marketings or be unduly disruptive of world market prices, and are generally in accordance with the F.A.O. Principles of Surplus Disposal which place great emphasis on the desirability of such sales being for additional consumption. They thus contribute directly to the improvement of poor diets in areas of low purchasing power and limited access to foreign exchange. In addition, there is, in contrast to the earlier F.A.O. Clearing House proposals, a wide range of uses of the currencies obtained and, in particular, a large proportion of these currencies is invested in the development programmes of the recipient countries. Many countries have benefited. India, for example, has been allocated the equivalent of $90 million in grants for economic development, $74 million in loans to private enterprises and $384 million in loans to the Government out of the total she agreed to spend on surplus wheat under Title I agreements made during the first five years of these operations. There is no doubt that the contributions made by the United States under Public Law 480 have made it possible for underdeveloped countries to obtain large quantities of food that they could not have had otherwise, especially in view of their lack of foreign exchange resources.

"Food for Peace" Conference

Under the Colombo Plan, which was adopted in 1951, the quantities of food supplied on concessional terms are smaller. However, food other than for emergency relief can be supplied by direct grant.

This year a new approach to these problems has been made through President Eisenhower's "Food for Peace" plan, in which he proposed that the United States "should explore anew with other surplus-producing countries all practical means

*Functions of a World Food Reserve —Scope and Limitations, Commodity Policy Study No. 10, F.A.O., Rome, 1956.

Look intently at the faceless crowd —
and you will discern the face of the individual.
It may be a face lined with care or lit up
with laughter, serene or sad, young or old. Whether
it belongs to a poet or a peasant, an architect
or an artisan — it is unique! For, no two faces —
nor the personalities they reflect — can
ever be quite the same.

A man has many characteristics which are
in common with all men — and yet, as a personality
he is so different from everyone else.

It is precisely these differences that confer
the stamp of individuality on a person. Nothing can
obliterate the differences — and nothing should!
Try to cast everyone in the same mould, and
it is the mould that gives way.

Even though he may be the smallest unit
in the nation, the individual has the power within
himself to shape the destiny of the nation.
In India today, he is free to choose his words, the
path he treads, the work he does, the beliefs he
cherishes, or the goods he buys. His needs
and hopes, his aspirations and fears, will control
the destiny of a nation. In fact he
mirrors the nation.

That is why he is the focal point of the
big plans for industrial development in the country.
Mighty industrial undertakings vie for his favour.
For, his custom amounts to a vote of confidence in an
enterprise. The survival of an undertaking is
dependent on winning such votes in an increasing
measure. That is also why our efforts are directed
towards serving the individual men and women
and children of India. Through them
we serve the nation.

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of utilising the various agricultural surpluses of each in the interest of reinforcing peace and the well-being of friendly peoples throughout the world." A meeting of five major wheat exporting countries was held in Washington to consider this proposal. Attention at this meeting was focussed on wheat, in which the largest surpluses exist. The Wheat Utilisation Committee, which was established in consequence of this meeting, is a consultative body composed of Ministers or officials having policy responsibilities, representing Argentina, Australia, Canada, France and the United States. The Committee's studies and actions are to be directed towards projects which increase consumption directly, projects to aid economic development in a way that will permit most effective use of national currency funds accruing from sales of surplus foods, and projects to establish national food reserves.

Until this new development, the approach to the problem of poverty in the midst of plenty has been multilateral with respect to study and discussion, while action, with the important exception of the United Nations technical assistance programmes, has taken place mainly through bilateral agreements. International discussions have not resulted in a World Food Bank or Reserve. The new departure on a limited multilateral basis recognises that the process of surplus-generation is likely to continue for years to come and that the potential use of surpluses for economic development holds promise, through the expansion and mutual planning of disposal programmes, not only for speeding economic development and progressively raising nutrition standards in the areas of greatest need, but also for the future expansion of commercial trade.

The interest of the Wheat Utilisation Committee in the subject of national food reserves gives hope of assistance in their establishment and derives in part from F.A.O's study of the inadequacy of existing stocks in under-developed countries and the functions which such reserves could perform.

An Opportunity and Not a Danger

Such, very briefly, is the chronicle of the post-war search for ways of avoiding a repetition of the experience of the 'thirties and for a positive solution of the paradox of poverty in the midst of plenty. The great difference between the pre-war and post-war periods is that we no longer regard surpluses as a serious danger to the economic health of the world to be dealt with by drastic destructive methods. We now regard them as offering an opportunity not simply to alleviate occasional famine, but also to play their part in plans for economic development. How food surpluses can be geared into economic development presents some difficult economic problems and it is worthwhile to look more closely into some of these and, in particular, those of national food reserves.

The main reasons for the establishment of Government-owned or controlled food reserves in under-developed countries are, first, the vulnerability of such countries, where usually the standard of living is near the margin of subsistence, to fluctuations in their food supplies; secondly, the inability of commercial interests in such countries to hold sufficient stocks and their reluctance to sell stocks readily when local shortages develop; and, thirdly, that imports may not become available in time (or cannot be readily purchased because of exchange shortages) in situations requiring the immediate supply of additional food.

Instability of food supply is a characteristic of under-developed countries. In the first place, they are more liable to severe crop shortages from drought or flood than most advanced countries and, as many of them rely very largely on their own crops rather than on imports, domestic crop failures may cause severe shortages until arrangements can be made for emergency imports. Moreover, because of poor communications and inadequate marketing systems, shortages may be severely accentuated in towns and other deficit areas. The need for a sizable cushion of stocks of staple foods is, moreover, greatly accentuated when a country embarks on a development programme and its demand for foodstuffs is growing rapidly, in order to prevent sharp rises in price that might slow down the pace of development.

The ability of countries to hold stocks either commercially or under Government ownership turns on the fact that stocks lock up capital and are thus not directly productive. They also involve recurring expenses and administrative problems.

State Intervention

Some stocks of food, of course, exist in every country. But the incentive to farmers and traders may not always be sufficient to provide stocks for unforeseen demands and stocks in one part of the system may not be available to meet demands in another part. In the commercial sector, traders cannot be expected to hold sufficient stocks to cushion unforeseen major shortages. Storage costs are high, crop estimating is difficult and liable to error and market information generally poor, so that the risk of loss to stockholders from unforeseen changes in price is great. Furthermore, the opportunity to hedge such risks through effective future markets is limited. As a result, traders will tend to minimise their risks by clearing most of their stocks by the end of the season, unless they anticipate poor crops and considerably increase local prices in the following season—or considerable increases in world prices in the case of export crops. Speculative purchases and hoarding may increase carryovers from one season to another and, in so far as they are based on correct expectations, they will help to even out variations in supplies and prices. If the forecasts are wrong, however, they will tend to destabilise prices. In view of the imperfections of the market, especially difficulties of communication and of transport, even when traders correctly anticipate a rise in prices in an area of temporary shortage, speculation and hoarding may result in excessive price increases. For these reasons, there is a strong case in countries exposed to such instabilities of supply or of price for the intervention by Governments in the management of food supplies with a view to countering these instabilities. But such intervention presents particularly difficult problems in under-developed countries.

The decision of a Government to hold stocks must rest on a comparison of the economic and social costs and benefits of the operation, which, like those of any other public service, are largely intangible. For an under-developed country, however, especially one with a rapidly rising population, the cost in terms of foregone economic opportunity involved in the holding of stocks is extremely, if not prohibitively, high. The ultimate remedy for food shortages, both permanent and temporary, is the long-term one of raising the level of output per worker. This objective must be striven for by all the technical, educational and social means appropriate, but all such measures require capital in one form or another. Scarce capital in such circumstances should not be locked up in stocks or allowed to remain in unproductive use.

Thus, although the need for stockholding is greatest in countries suffering chronic malnutrition, the ability to maintain them is least in such countries. Indian experience illustrates the difficulties very well. Her development programmes for agriculture alone, including, for instance, schemes to bring 25 per cent. of the cultivated areas under irrigation by 1961, involve vast amounts of capital. Commercial stockholding is being encouraged by the setting up of storage and credit facilities for farmers, but this also requires large amounts of capital. Some central reserves have been accumulated but they are quite inadequate and far short of the modest targets aimed at.

Main Functions

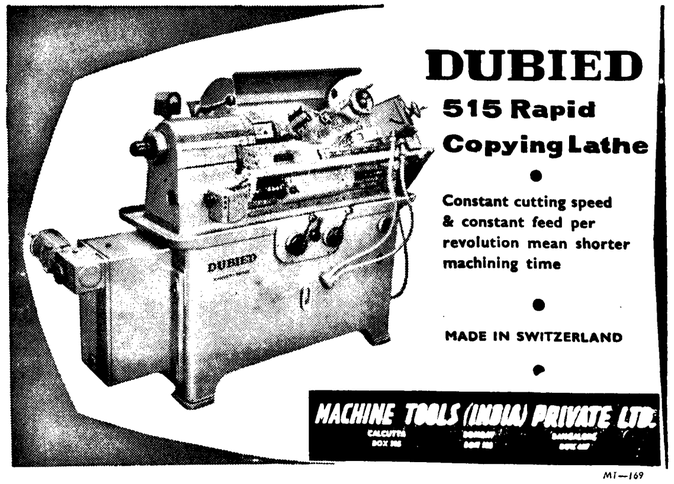
The three main functions of a national reserve would be to provide emergency relief, to counteract price fluctuations and hoarding, and to provide elbow-room for development. In view of the generous provisions for famine relief from abroad already existing, the role of a national reserve in this respect would be as a first line of defence and its effectiveness would depend on its size and locational distribution. As regards its price stabilising role, the aim would be to prevent excessive price fluctuations by making stock releases and additions at the appropriate time. In particular, the reserve should prevent severe increases in price due to hoarding, speculation and panic. The very knowledge that the Government has adequate reserve stocks can be of great psychological value in sustaining confidence in times of crop failure; but the reserve must be large enough to convince hoarders and speculators that they cannot profit by holding back their own stocks until the Government stocks are depleted. The size of the reserves needed to ensure confidence in this respect will be reduced in so far as other measures help to maintain confidence in stable prices.

If surplus foods were made more generally available by grant, or by other arrangements giving full consideration to a country's economic and financial position, the difficulties for under-developed countries would be lessened. Moreover, uncertainty and variability in import requirements would be reduced to the benefit of stable commercial trading relations.

Major Point

The major consideration for exporting countries studying the possibilities of increased surplus disposal would be the effect of such grants on the rest of their commercial and concessional trade. Since imports for building up a national reserve are a net addition to normal supplies, they should not reduce the volume of other imports over a period. This feature should be an incentive to exporting countries to expand their programmes of surplus disposal for this purpose, especially if their plans could be co-ordinated multilaterally. In order to safeguard their national and commercial interests, the surplus holding countries could reasonably stipulate that a country receiving surplus supplies for reserve purposes should keep public accounts and make them available to an international forum, such as the F.A.O. Consultative Sub-Committee on Surplus Disposal. The terms of replenishment might be considered in the light of these accounts.

The idea of a national reserve established through bilateral aid seems to have taken firm root in India. It is my hope that an international policy for assistance in the establishment of national reserves will soon emerge. I may say that I have personally made it a central part of my endeavours as Director-General of F.A.O.—*All Rights Reserved.*



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An Investment Capacity Approach to the Third Five-Year Plan

Machine Gap and Food Gap May Be The Limiting Factors

By Dr. P. R. BRAHMANAND
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THE object of this paper is to make a quantitative assessment of the real factors that would tend to set a limit on the probable size of the third Five-year Plan. In order to understand the relevant relationships, it is necessary to examine the experience in this respect during the first two Plans. During the course of our paper, we shall build up two important indices: (1) the index of investment; and (2) the index of supply of capital goods. It is argued in the paper that an investment programme of the order of Rs. 10,000 crores during the third Five-year Plan would tend to face sizable bottlenecks in capital goods and foodgrains. The position, however, appears to be somewhat easy in steel and cement. Thus, if the third Five-year Plan is to be successful, it must build within itself investment programmes for expansion in the outputs of tools and foodgrains. We shall throughout abstract from the problem of mobilisation of the real resource potentialities.

Investment Trends

First, it is necessary to have an idea of the growth of investment in the economy during the last eight years. Unfortunately, adequate and reliable data in this respect is not available (A number of quasi-official estimates, however, have been made—*Vide* articles by Drs. V. V. Bhatt and D. R. Khatkhate—*Economic Development and Cultural Change* April, 1959). Dependable data in respect of investment in the public sector is available and is fairly reliable. The Planning Commission estimated the total investment in fixed capital in the first Five-year Plan at about Rs. 3,100 crores at 1952-53 prices. It has been found that an index based upon the geometrical mean of the consumption of steel and cement in the economy would tend to give a fairly reliable estimate in respect of growth of investment in fixed capital. On the basis of the consumption figures in respect of steel (making provision for imports) and cement, we have worked out an investment index for the period 1950-51 to 1958-59. On the basis of the Planning Commission figures for aggregate investment over the first Five-year Plan, it is possible to obtain year by year figures for investment by means of the above index. Deflating the yearly values by index of price level of manufactured goods, it is possible to obtain values of investment in fixed capital in terms of current prices. From these figures, it is possible to calculate the ratio of investment to national income in each of the years. The following table gives the position in this respect. A breakdown of investment for the public and the private sectors is also given.

TABLE 1

Growth of Net Investment in Indian Economy since 1950-51

(Rs. crores)

Year	Investment Index (1950-51 =100)	Investment at constant (1952-53) prices	Investment at current prices	National income at current prices	Ratio of investment to national income (Percentage)	Investment in public sector	Investment in private sector
1950-51	100	450	450	9,530	4.8	204	246
1951-52	112	504	636	9,970	6.3	212	424
1952-53	121	545	617	9,920	6.3	210	407
1953-54	129	581	575	10,480	5.6	256	319
1954-55	152	684	694	9,610	7.7	341	343
1955-56	176	792	784	9,980	7.7	482	302
1956-57	228	1,026	1,077	11,310	7.7	558	519
1957-58	236	1,062	1,147	11,350	10.1	724	423
1958-59	222	999	1,079	12,344	8.5	831	248
1959-60*	250	1,125	1,240	13,350	9.3	..	..
1960-61*	275	1,240	1,360	13,880	9.9	..	..
1965-66*	500	2,250	2,500	17,350	14.4	..	..

* Figures are conjectural. Actual figures for 1959 and 1960 may be higher.

These figures are very close to estimates of investment by various quasi-official sources. It might be noted that investment during the third year of the second Plan was nearly double that during the first year of the first Five-year Plan, that is, it appears that, during the last seven years, aggregate investment has gone up by nearly 100 per cent. During 1958-59, there was a significant slack in the level of investment in the private sector. The indications are that, during 1959-60, private investment had revived substantially. One can make a reasonable estimation that, at the end of the second Five-year Plan, the investment index would be 275. This will have to be raised to 500 by the end of the third Five-year Plan, in order that an investment outlay of Rs. 10,000 crores may be fulfilled.

Investment Capacity

A number of factors go to determine investment capacity. In the case of some factors, the economy would have a surplus, whereas, in the case of some others, the additional demand arising on account of additional investment will have to be met through growth of production and/or through imports. It is well known that, in respect of unskilled labour, there would tend to be no problem of shortage. There may, however, be shortages in respect of skilled personnel and technicians. Even here, the growth of capacity in the technical institutions has been proceeding at a fairly rapid rate and there is no fear that a large investment plan would tend to be held up on account of shortages of technicians. Efforts, however, have to be and are being made simultaneously for a large expansion in the supply of engineering, scientific and managerial personnel. One can reasonably assume that a large-sized investment plan of the order of Rs. 10,000 crores would not be regarded as unfeasible on ground of shortages of various grades of labour.

But, then, there are other factors which are more crucial in determining the growth of investment capacity in the economy. Amongst this, we may list the trends in respect of availability of (*a*) steel and cement—the most important amongst the construction materials, (*b*) production capacity in respect of capital goods, and (*c*) production capacity in respect of food and other important wage-goods. One can make a broad statement that the size of the investment plan would be determined by the quantiy of availability of steel and cement, capital goods and wage-goods, particularly foodgrains. To the extent that domestic supplies are inadequate, a foreign exchange gap is bound to develop, and, if the required foreign exchange is not available, the overall size of the investment plan too would tend to be adversely affected. It is necessary to have a rough estimate of the possible extent of additional demand for the above goods that would tend to develop as a result of an investment outlay of about Rs. 10,000 crores during the third Five-year Plan.

Steel and Cement Consumption

The availability of steel and cement affects the production levels of machinery and tools, residential and other building construction, transport capacity and project activity and is thus a crucial factor in determining the investment capacity of the economy. The consumption of finished steel has been rising significantly in India since the commencement of the first Five-year Plan. During the course of the first Five-year Plan, we consumed about 7.7 million tons of steel for an investment outlay of about Rs. 3,100 crores at constant 1952-53 prices. During the first three years of the second Plan, we consumed 9 million tons of steel for an investment outlay of about Rs. 3,200 crores at constant prices. During the first Plan, we imported 2.2 million tons of steel. During the first three years of the second Plan we imported 5.2 million tons of steel. The capacity to produce steel in the economy is expected to go up to about 4.7 million tons of finished steel at the end of the second Plan. We may expect domestic production to rise substantially during the last two years of the second Plan. One can tentatively estimate that about 15 million tons of steel would tend to be consumed during the second Five-year Plan for an investment outlay of Rs. 6,000 crores at 1952-53 prices. Assuming an outlay of Rs. 10,000 crores for the third Five-year Plan, the total requirements of steel may be put at about 28 million tons. On the basis of the capacity at the end of the second Plan, it may be estimated that domestic production during the third Five-year Plan could amount to 25 million tons. The real resource gap in respect of steel may just amount to 5 to 6 million tons, unless domestic production plans go awry.

During the first Five-year Plan, we consumed 19 million tons of cement for an investment outlay of Rs. 3,100 crores. During the first three years of the second Plan, domestic consumption amounted to 17 million tons. It may be estimated that, over the entire period of the second Plan, involving an investment outlay of Rs. 6,000 crores, consumption of cement would amount to about 32 million tons. As per the second Plan, domestic production capacity of cement was expected to go up to about 16 million tons per annum at a level of production of about 7 million tons per annum. Even assuming that the capacity plans would be delayed somewhat, it should be possible for us to produce at home about 60 million tons of cement over the third Five-year Plan. For an investment outlay of Rs. 10,000 crores, the requirement of cement may be estimated at about 52 million tons. Thus, there is certainly a potential real resource surplus in respect of cement over the third Five-year Plan. The following table indicates the position in respect of availability of steel and cement during the three Plans:

TABLE 2

Steel and Cement Consumption in Investment Plans

(Figures in brackets indicate domestic production capacity)

	Investment outlay (Rs. crores)	Steel (Million tons)	Cement (Million tons)
First Plan ..	3,100	7.7	19
Second Plan ..	6,000	15.0	32
Third Plan ..	10,000	28.0 (23)	55 (50)

Capital Goods Supply

It is now necessary to examine the relationship between investment expenditure and capital goods requirements. Unfortunately, no aggregate data on this very crucial relationship are readily available. We have, therefore, worked out a first estimate in this respect.

In 1951, the total number of workers employed in industries manufacturing machinery, shipbuilding, railway workshops and transport equipment was 292,000 (*vide Monthly Abstract of Statistics*). Number 15 of the National Sample Survey is devoted to the Sample Survey of manufacturing Industries in the year 1951. The sample units in the industries classified as automobiles, coachbuilding, shipbuilding, aircraft assembling, textile machineries and accessories employed 75,800 workers and manufactured output worth Rs. 49 crores. The value of output manufactured in the industry *plus* work done for customers). The value of output per worker amounted to Rs. 4,600. The Ministry of Commerce and Industry publishes an index of industrial output classified into capital goods, intermediate products and consumer goods. The total value of output in 1950-51, on the assumption that the output per worker would be equal to Rs. 4,600, would amount to Rs. 187 crores. The value of output thus derived is in terms of 1950-51 prices. By utilising the index of prices of manufactured goods between 1950 and 1959, it is possible to ascertain the value of output of capital goods at current prices. The following table indicates the results of the above calculations:

TABLE 3

Domestic Production of Capital Goods

Year	Index of output of capital goods	Output of capital goods at 1950-51 prices (Rs. crores)	Index of prices of manufactured products (1950-51 =100)	Output of capital goods at current prices (Rs. crores)
1950-51 ..	100	187	100	187
1951-52 ..	119	222	119	264
1952-53 ..	96	180	104	187
1953-54 ..	107	200	99	198
1954-55 ..	133	249	100	249
1955-56 ..	169	316	99	313
1956-57 ..	209	391	105	411
1957-58 ..	226	423	108	457
1958-59 ..	235	439	108	475

Let us now examine the trends in regard to the supply of capital goods in the economy. The total supply of capital goods consists of domestic supply *plus* imports. Figures regarding imports of capital goods are obtained from the trade returns published by the Ministry of Commerce and Industry. Imports of capital goods takes place both on private account and on Government account. Under the leading capital goods, the trade returns include locomotives, machinery, vehicles, ships and aircrafts. Assuming that

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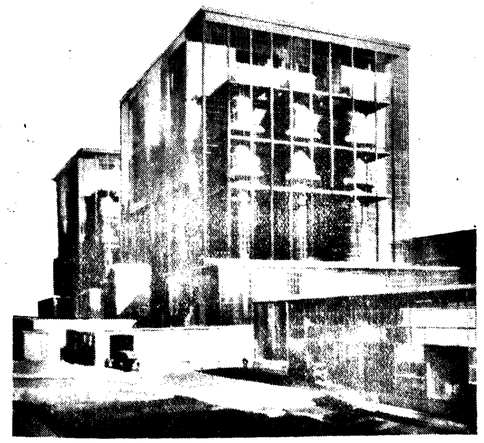
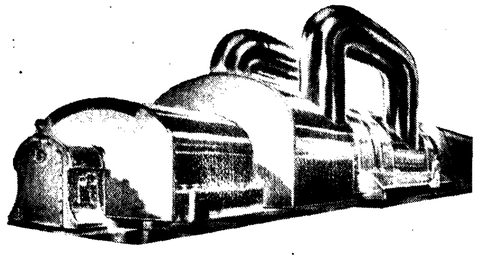
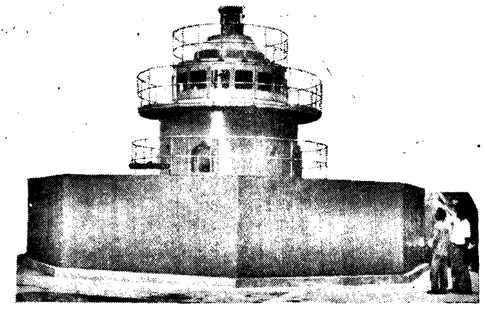


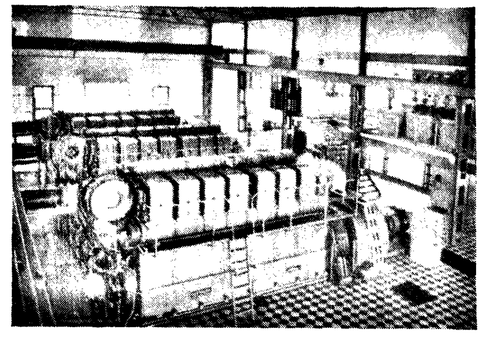
NUCLEAR. The first 500 MW Atomic Power Station is under construction at Hinkley Point, U. K., by the 'ENGLISH ELECTRIC'—Babcock & Wilcox—Taylor Woodrow Consortium. The English Electric Company is supplying six main 93.5 MW Turbo-Alternator Sets, three 33 MW Variable Speed Turbo-Alternator Sets and a fifteen-circuit 275 kV duplicate Busbar Switching Station. The Reactors to be used at this Power Station will be of 'ENGLISH ELECTRIC' design.



STEAM. One of five 200 MW Steam Turbo-Alternators which the Company is supplying for the High Marnham Power Station, U.K. Early this year the Company received an order for two 275 MW Steam Turbo-Alternators for the New Blyth Power Station, U.K.



HYDRO. One of two 37.5 MW Water Turbine Generating Sets installed at Hirakud Power Station, Orissa. In the past 10 years the Company has supplied the entire plant for four major hydro-electric stations in India—Radhanagari, Nizamsagar, Sarda and Sengulam, and is manufacturing five—50 MW Water Turbine Generating Sets for the Rihand Power Station, U.P.



DIESEL. Three 'English Electric' Diesel Alternator Sets installed at Saateni Power Station, Zanzibar. The total output of the engines is 3,936 B.H.P. at 375 r.p.m. and the Station supplies the Island with a large part of its electricity.

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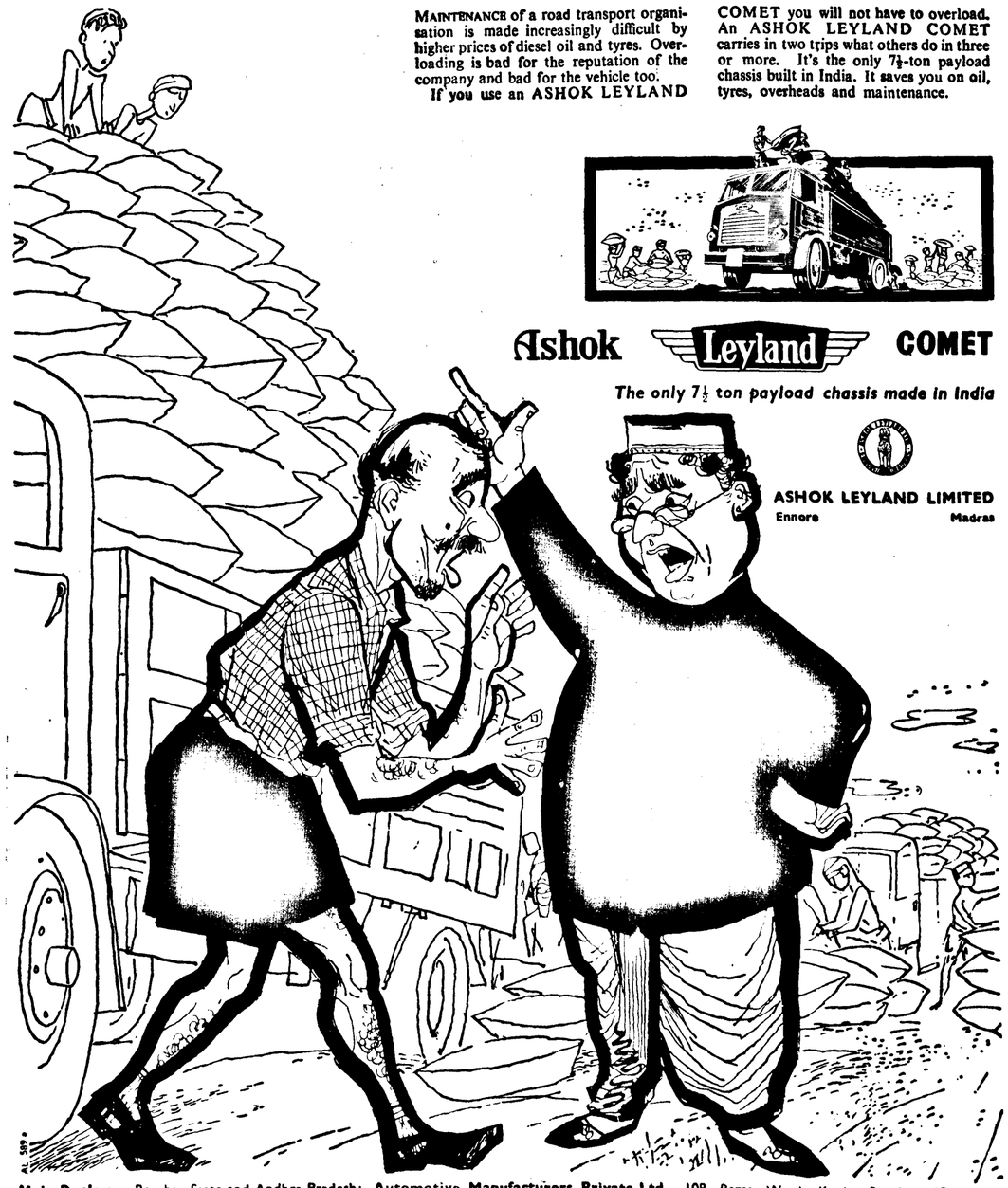

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the price level of imported capital goods would move in the same manner as the price level of manufactured products, it is possible to obtain the value of imports of capital goods at constant prices. To this may be added the output of capital goods at constant prices in order to obtain the total supply of capital goods. It would be interesting also to note the proportion of capital goods produced at home out of the total supply. The following table gives the relevant figures:

TABLE 4

Supply of Capital Goods

(Figures in brackets indicate imports at current prices)

Year	Imports at constant prices (Rs. crores)	Home output at constant prices (Rs. crores)	Total supply at constant prices (Rs. crores)	Domestic supply as percentage of total supply	Index of supply of capital goods
1950-51	132 (132)	187	319	59	100
1951-52	135 (167)	223	358	62	112
1952-53	133 (139)	180	313	58	98
1953-54	124 (123)	200	324	62	102
1954-55	135 (135)	249	384	65	120
1955-56	197 (195)	316	513	62	161
1956-57	241 (254)	391	632	62	198
1957-58	288 (313)	423	711	59	223
1958-59	219 (238)	439	658	67	206

Let us now examine the broad trends in regard to aggregate investment and the impact that such investment has upon the demand for capital goods. The following table gives estimates of gross and net investment between 1950-51 and 1958-59 at constant (1952-53) prices:

TABLE 5

Relation Between Investment and Capital Goods Supply

(Rs. crores)

Year	Gross investment	Net investment	Supply of capital goods	Ratio of col. 4 to col. 3 (Per cent.)
1	2	3	4	5
1950-51 ..	720	432	306	71
1951-52 ..	952	571	344	60
1952-53 ..	909	545	307	56
1953-54 ..	920	552	311	56
1954-55 ..	1,095	657	369	56
1955-56 ..	1,253	752	498	66
1956-57 ..	1,726	1,036	607	59
1957-58 ..	1,840	1,104	683	62
1958-59 ..	1,731	1,039	632	61

It will be noted that there is a remarkable stability in the ratio of outlay on capital goods to total investment expenditure. One might assume that during the second Plan, for an investment outlay of Rs. 6,000 crores, the outlay on capital goods amounted to Rs. 3,750 crores. Out of this, domestic production might be estimated to have contributed about Rs 2,300 crores, thus leaving a gap of about Rs. 1,450 crores met through imports. Assuming that the degree of capital intensity in the economy remains unchanged over the third Plan, for an investment outlay of Rs. 10,000 crores the total capital goods required would be Rs. 6,000 crores. It is possible that at the end of the second Plan, annual domestic capacity might amount to Rs. 550-600 crores. Assuming that, over the third Plan, the production of capital goods would run at a high level, the total supply out of domestic sources may be placed at about Rs. 3,000 crores to be met through imports, development of additional production capacity and/or changes in the degree of capital intensity in the investment programmes. During the course of the second Plan, heavy balance of payments deficit on current account could be afforded on account of the existence of foreign exchange reserves and of the availability of various forms of external assistance. There would be no comforting foreign exchange cushion in foreign exchange reserves during the third Plan period. The required imports of capital goods have perforce to be financed through export earnings and external assistance. Assuming that out of the export earnings of about Rs. 650 crores, about Rs. 300 crores would be available for outlay on capital goods, there would be yet a capital goods gap of Rs. 1,500 crores to be made good, in order to meet the requirements of an investment plan of Rs. 10,000 crores.

Investment and Food Supplies

Let us now examine the impact of investment outlay on the demand for food. We expect the investment index to go up from 275 at the end of the second Five-year Plan to about 500 at the end of the third Plan. Assuming an investment plan of Rs. 10,000 crores, the investment during the last year of the third Plan would be approximately Rs. 2,500 crores. Investment at the end of the second Plan may be put at Rs. 1,350-1,400 crores. Thus, the volume of investment will have to rise by about Rs. 1,000-1,100 crores during the third Plan period. Some part of this increase in investment will be met through increased imports of capital goods and materials. But assuming that about 75 per cent. of the increase in expenditure would be met through increased production of capital goods and construction materials at home, about Rs. 750-800 crores will be the *increased* investment expenditure during the third Plan. Assuming that potentially about 80 per cent. of the outlay would be on purchase of various consumer goods, and, of this, about 40 per cent. would be the outlay on food, an increment of investment of Rs. 750-800 crores will imply an additional demand for food at about Rs. 320 crores. At market prices, this would be equal to about 6½-7 million tons. This quantity of foodgrains will have to be available as *surplus*. In other words, to yield this amount of surplus, domestic production will have to be raised by a significantly larger amount. The investible surplus of food—not the same as the marketable surplus—as a ratio of food production may be between 1/5-1/8. This would imply an additional food output worth about Rs. 1,800 crores or, in physical terms, an additional output of about 35 million tons. We have assumed away the impact of the additional food consumption, as a result of food consumption in the non-food consumption sector which has to expand in order to meet the non-food consumption requirements of the workers in the investment sector. It is obvious that a target of expansion of about 35 million tons would be the minimum, in order to finance, in real terms, a Plan of the size of Rs. 10,000 crores.

Table 6 indicates the broad position in respect of the relationship between investment outlay, and capital goods and foodgrains.

TABLE 6

Investment Outlay, Capital Goods and Foodgrains in the Plans

	Investment outlay (Rs. crores)	Capital goods		Foodgrains	
		Supply (Rs. crores)	Imports (Rs. crores)	Supply (Million tons)	Imports (Million tons)
First Plan	3,100	1,892	724 (39%)	324	13
Second Plan ..	6,000	3,750	1,450 (39%)	380	15
Third Plan	10,000	6,000	3,000*	490	..

* Conjectural. Figures in brackets indicate imports as percentage of total supply.

Conclusions

It is now possible for us to assess the prospects of an investment outlay of Rs. 10,000 crores during the third Five-year Plan period.

Our examination reveals that the economy would be nearly self-sufficient in steel and more than self-sufficient in cement. As defence production may go up substantially, there might be a small steel gap. In respect of cement, the growth of capacity would outpace growth of production. In respect of capital goods, we would face an overall gap of about Rs. 3,000 crores, out of which half may be met through imports financed by export earnings. It *does* appear that there would tend to be a *machine* or *tools gap during the course of the third Five-year Plan, if we keep in mind an investment outlay of Rs. 10,000 crores. A minimum of expansion of about 35 million tons in respect of foodgrains has to be provided for to meet the additional food requirements arising on account of the step-up in the investment outlay. Thus, the possible size of the third Five-year Plan will depend upon two important factors; (a) the possibility of overcoming the *tools gap* and (b) the possibility of overcoming the *food gap*.

From a longer run point of view, it may be possible to fill the above gaps through increased initial attention towards the manufacture of machines and tools, and of foodgrains. As argued elsewhere by the present writer (*vide* article "Investment to Speed up Rate of Growth", *Indian Express*, 14th November 1959) a total investment of about Rs. 4,000 crores on agriculture is necessary both on behalf of the private and public sectors if the output of food is to grow at the rate of about 7 per cent. per annum. This suggestion is based upon the ratio of capital to output in agriculture estimated at about 1:6. It has been noted that there are no substantial differences between the Chinese and the Indian experiences in this respect. The Chinese ratio is only slightly lower than that in India. Prof. Malenbaum, for example, opines that there are practically no differences between the capital to output ratio in agriculture in India and in China. (India and China, "Contrasts in Development"—by Malenbaum, *American Economic Review*, June 1959). There is no room for the belief that the 35 million tons expansion of foodgrains can be brought about largely through organisation implying very little investment expenditure. If food is to be produced through more work, more food has also to be consumed. More food through more fertilisers implies more investment upon fertiliser manufacture. More food through larger and better tools would also imply more food to be consumed in the tool factories. There does *not* appear to be any escape from the need to divert substantial investible resources in favour of agriculture during the third Five-year Plan. Fortunately, most of the additional investment might emerge on the farms themselves. This, in its turn, would imply that a major part of the incomes that accrue to the farmers must be ploughed back in own investments. There is little room for the optimism that the public exchequer can mop up large surpluses through taxation and levies on the rural sector. On the other hand, both the public and private sectors can have an ample field in respect of the expansion programmes in the manufacture of machinery and tools.

There is no doubt that the size of the third Five-year Plan will largely be conditioned by our ability to make good the machine gap as well as the food gap. To the extent that foreign assistance enables us to procure more food, the size of the domestic gap is reduced. Similarly, in respect of machines. To the extent that the required additional manufacture in machines and food does not take place, the problem of financing a Rs. 10,000-crore Plan would be *both* financial and real. But to the extent that the economy builds up capacity in machines and food production, the problem becomes just a financial one.

One final remark may be added to the above. It is possible that, if the nature and the location of the bottlenecks that would tend to emerge during the third Five-year Plan is noted early, adequate precautions may be taken to see that capacity in the required sphere is augmented and/or appropriate adjustments are made in the pattern of investment. The gap in respect of machines and tools may be partly made good by a change in the degree of capital intensity in the investment programmes. This implies the required inputs and tools and implements per unit of output of investment sector is reduced. The industrial sector concentrates upon a larger production of those implements and tools which enable a higher rate of employment per unit of capital and at the same time imply a lower input of capital per given unit of output. It is in this direction that there is considerable scope for new and dynamic thinking. The foodgrains gap, however, is somewhat intractable and requires adequate planned efforts at an early stage.—*All Rights Reserved.*

CONSUMER GOODS : A COMPARISON

Coming to other essentials, we find that our standard of consumption is very low as compared to other countries. For example, the *per capita* consumption of soap in India is only 1.1 lbs., as compared with 25.30 lbs. in the U.S.A. and the U.K. In India, we have also one pair of shoes for 4 persons, whereas, in the U.S.A. and the U.K., 5 persons have 18 pairs and 14 pairs. We should increase the *per capita* consumption of soap to 5 lbs. and shoes 1 pair per person. With regard to other durable goods like radios, refrigerators and air conditioners, our backwardness as compared to other countries is colossal. For example, in 1957, the U.K. had 3.7 refrigerators, 9.7 washing machines, 28.5 radio sets, 15.1 television sets and 11 automobiles per 100 persons. The U.S.A. had, in the same year, 26.5 refrigerators, 23.5 washing machines, 78.8 radio sets, 27.4 television sets and 40 automobiles per 100 persons. But in India, we have only 1 radio for 300 persons, 1 gramophone for 650 houses, 1 sewing machine for 100 families of 5 persons each, 1 domestic refrigerator for 1,000 pucca houses, 1 motor vehicle for 900 persons (in the U.S.A. they are now thinking in terms of having 2 cars per family), 1 cycle for 100 persons, and 1 scooter for 10,000 people. There is one camera for 50,000 persons, 1 typewriter for 5,000 persons, 1 watch for 80 persons, and 1 cinema for 1 lakh of people. We have 1 telephone for 45 pucca houses, 1 post office for 6,500 persons and 1 telegraph office for 36,000 people. There is only 1 tractor for 7,000 acres in our country and consumption of fertilisers (in terms of nitrogen) per acre is 1.2 lb."
—*Source: Employers' Association, Calcutta.*

INVESTMENTS—THE SLOGAN OF PEACE AND PROSPERITY

By B. T. THAKUR

AGGRESSION on our north-eastern frontier must force upon us the need of realistic policies. President Eisenhower, leader of the democratic countries in the world, has already started on his strenuous mission to a number of countries, including ours, to improve understanding of their basic problems and so strengthen their resolve for peace and prosperity. By the time this appears in print more will have been known of the actual visit and of the talks between him and our leaders. But I have no doubt that it will prove momentous. It must bring both countries nearer. It must remove whatever remnants of fear and suspicion that are still left in the minds of the peoples of these two great democratic nations and open widely the gates of co-operation on the private front for our economic betterment and for the peace of the world.

A few days back, in his address to the Associated Chambers of Commerce in Calcutta, our Finance Minister realistically dealt with India's economic problems. This is a good augury for India's future prosperity and for improving our standards of living. Suitable climate for growth of industrial initiative and internal and external investments are the prerequisite of progress.

Basic To Progress

Whatever may be the ideological bias of any country, there is no denying the fact that investments play a basic and vital role in increasing economic and defence potentials. If a backward country, through its ignorance or inability, fails to realise the importance of savings and capital as the primary builders of peace and prosperity, the blame for the failure of its plans and economic purposes must be entirely borne by its leaders. And if, may God forbid!, any such country loses its freedom through unpreparedness, distrust and confusion in thinking and policies, the future generations will curse them for once more permitting its history to slip back into slavery.

Today, economists, financiers and thinkers of the world have a much clearer understanding of the problems of human well-being than at any time in the past. Science and technology have made its solution easier. As peace of the world is indivisible, so is its prosperity. Hungry and naked people of the backward countries are a great danger to the richer nations. By force of circumstances, they become pawns in the game of international supremacy. In order to elevate them to the dignity of educated and intelligent men and women, with fully satisfying standards of living, it is necessary for everyone who has the means to help them to speedily build up their economic growth.

Better Appreciation

There is greater awareness of the problems of the poorer countries amongst the richer nations, and greater understanding of how they can be solved, than among the leaders of the backward peoples themselves. The World Bank, the Development Fund, the Technical Co-operation Mission, the Colombo Plan and similar institutions of many countries are all out to help them in the tasks of their economic constructions. The report that the U.S. Under Secretary of State, Mr. Douglas Dillon, is visiting European capitals to impress upon Western democracies the urgency of their suitably participating in investment aids to Asian countries emphasises the increased consciousness of the Governments and political parties that the task of seriously tackling the poverty of countries like India cannot be delayed any longer. But those who have recently emerged out of the bondage of foreign rule seem to be greatly obsessed by the fear of foreign help. They still think in terms of the experience of their forefathers, who, perhaps by accepting such help, lost their freedom. They seem completely to ignore the historical experience that the U.S., the richest nation in the world today, Canada and many South American countries have been built or are being built up with assistance of foreign capital. To such cowardly thinking people, all foreign understanding, all external sympathy and all international investments are motivated by the helper's devilish designs to ensnare the poorer people back into slavery and colonialism. They forget that the world today is far different; forcible new conquests by employment of deadly weapons can be ruled out. And, if any nation becomes stupid enough to resort to new aggression, the victim of such attack will attract the sympathy and help of militarily and industrially powerful countries to resist that attack. Fear-dominated policies of poorer countries, to resist friendships and to control flow of economic aids and influences, which can assist them to rise from their present poverty into much wanted prosperity, and through industrialisation even to ensure their national sovereignties, are actually hampering them in their march towards their national goals. Unless countries like India shake off their fear of internal classes and of external peoples, their progress is bound to be slow and unsatisfying. It is very likely that, on account of the poorer results of their unaided or poorly helped economic efforts, they may find themselves badly involved into serious conflicts, both within and outside their frontiers, which must put back by many years their planned achievements.

Respect Economic Laws

In a democratic set-up, restrictive policies which interfere with the operation of economic laws and of factors that promote prosperity are suicidal. No doubt, in a democracy, the ignorant and the hungry lay down the law. But that does not mean that such law is correct, helpful or even obeyed; nor does it mean that the leaders, in their lust for power, should abandon their intelligence to pamper them in their folly. The extent to which laws are violated, ignored and usurped in poverty-dominated countries is colossal and ghastly. Those whose duty it is to apprehend non-compliance of law are too poor to be high-principled and easily succumb to the temptation of the flesh, which, in the face of the urgency of personal and family wants, becomes too weak to resist the demands of duty.

It is not enough for leaders and thinkers to urge people to be good, industrious, thrifty or virtuous. They are basic to progress and social peace. We should, however, make it easy and profitable for people to be so. If, by mere preaching, the world could be good and noble, there should be no problems facing us, or the world, today. The problem of problems is that people should automatically behave and conduct themselves so as to be builders of virtue and prosperity. Good speeches may momentarily carry away the listeners, but they soon find that empty words do not fill empty family chests or provide the wherewithals for the next meal.

Idealism Versus Realism

In a poor democratic country struggling to overcome its poverty, policies which give greater emphasis on want rather than on work, or give greater value to idealism than to realism must prove tardy and frustrating. Many countries that became free after the Second World War are now faced with the realities of economic and human laws. Things have not moved as they wanted them to move. Even in totalitarian countries progress does not develop 100 per cent. according to order, though there the conditions for compliance of decree or law through compulsion and force should be easier.

Capital is basically most essential for economic advance. In a society emerging out of its traditional and primitive methods of work, there is little of accumulated savings or capital to provide for new modern machines, tools and buildings. There is very little of trained personnel and skilled labour. There is little of developed resources in raw materials or power. They all need new capital for their development. Without availability of investments, no economic progress is possible. It is immaterial whether the capital comes from public resources or private means or even through plunder, as in the case of Imperial powers which built their economies with the sweat of colonial people, but capital is vital to economic betterment. Without it no progress is possible. Investments are the foundation of civilisation and peace. Instead of looking at it with fear and suspicion, we must make them the slogan of peace and prosperity. They must be tenderly and respectfully approached to answer our prayers for fulfilment of want and security.

Law of Compound Interest

After sufficient growth in economy, savings can go on automatically increasing. The law of geometrical progression, or, as popularly understood, the law of compound interest, applies to developments in self-propelling or self-producing phenomena like population and productive economies. But there are enormous risks and difficulties in the availability of capital in the initial stages where production is insufficient to match consumption and savings involve great, often unbearable, sacrifices. Capital being the first and foremost requirement for development, it has to be wooed. Restrictions on its entry, employment or reward are too galling and seriously hinder newly developing economies. Human nature, being what it is, needs incentive of maximum return, and good reward to compensate for sacrifices involved in savings and for uncertainties and risks inherent in new enterprises.

Are the backward countries doing enough to attract capital? My candid answer is, "precious little." If anything, their taxation laws and badly administered bureaucratic controls are retarding investments. Millions of rupees of American P.L. 480 funds available for internal development purposes are lying unutilised. Private foreign capital knows it has great profitable scope in this country. Why do we not make it easy for it to come to our aid? We want our exports to develop vastly and rapidly to pay for much needed foreign machines and tools. Why do they not grow in volume? With China bent upon gaining political advantage through exporting below cost, the threat to our exports is much greater than we actually realise. Why is our rupee depreciating continuously in the free market of the world? These are questions which point to the weaknesses in our economic thinking and economic policies.

In order to improve climate for internal and external investment, we must make basic changes in our thinking. We shall have to introduce new ideas on, and give new shapes to, our savings. With liquidation of princely and *zamindari* incomes and the emergence of new conscious proletarian classes of expanding earnings, new types and agencies of investments have become necessary. What are we doing to attract men of small means in this country and abroad to induce them to contribute to our upliftment, with mutual benefit to both? They are intelligent men of goodwill who can help materially. Is our Reserve Bank or the Finance Ministry doing anything concrete to interest these people in our economic programmes? New schemes of co-operation of small savers in building up international industrial investments recently introduced in Europe and elsewhere are getting very popular. Why do we not think on these lines?

People's Capital

We want People's *Raj*. We can only get it through People's Capital and not through politically and bureaucratically dominated inefficient public enterprises or Government-owned industries. It is expected that, in the U.S., in the coming decade, the share-owning population will further increase from its present high figure of 12½ million to 20 million. To promote people's investments, America, Britain, Germany and many other countries are devising newer methods to make them popular and safe. Unit Investment Trusts, which possess all the elements needed in good, liquid and safe savings, free from the risk of depreciating currency, are developing fast in Western countries and so helping in the growth of democratisation of capital and economy. Why is the Indian Treasury so sluggish in permitting sanctions for the introduction of similar institutions in this country? To many requests made to the Government of India on this question, the answer is that our laws do not permit *pro rata* credit of income-tax deducted at source on dividends, when distribution from such pool of dividend income is made to the holders of Unit Certificates. But is not the law to help man rather than man should be slave to the law? Law must keep on changing to fit in with changing concepts and conditions. Why cannot we shake off slavish obedience to ideas, forms, rules and procedures which have become outmoded and out of date?

In our search for conditions in which people's investments owned by small and medium savers can grow, we must pay particular attention to the following ideas, facts and experiences:

(i) *Stability of Purchasing Power*

Through inflation, dictated by popular demand for expanding non-productive expenditure, monetary savings lose in their purchasing power. With what conscience then can we ask small savers to save? anyway, in spite of our preaching about the value of savings, the small man ignores our advice and continues to be attracted by gold, silver, property and other forms of wealth. If we make him conscious that there are other types of real stable

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value like equities where purchasing power of savings can not only be stable, but growing, there is no reason why he should not be weaned away from the wasteful habit of hoarding bullion. Unit Investment Trusts offer him such stability. A certificate, denoting any interest in such a trust, represents a share in a number of well chosen, properly diffused and efficiently managed equities.

(ii) *Safety of Investment*

The small man must be protected against frauds and deceits of and mismanagement by the custodian of his savings. Unit Investment Trusts hand over all their shares and securities to a first class reliable bank which not only becomes a vigilant custodian of such wealth, but, under the Trust deed, has wide powers to see that the provisions in the Trust deed are fully observed and the investor does not suffer through incompetence or illicit operations of the manager.

(iii) *Distribution of Investment Risk*

To guard against vagaries of markets, it is a good investment advice "not to put all one's eggs in one basket." Unit certificates relate to ownership in many counters covering many varied industries which mitigates risk of fall in the composite value and thereby reduces the investment risk.

(iv) *Liquidity and Convertibility*

Several forms of wealth like property and mortgages are not easily convertible into cash when the investor wants money badly for urgent family or private purpose. Unit Investment Trust Certificates are quoted on the stock exchanges and have ready buyers. Even the management is required by the Trust deed to quote buying and selling prices every day, the difference between the two quotations being required to be small.

(v) *Credit for Tax Deducted at Source*

By passing on the benefit of tax deducted at source on dividends on shares owned by the Trust, to the participating beneficiaries registered in the books of the Trust from time to time, there is no violation of fundamental principles of the theory of taxation, and, if anything, by agreeing to do so our legislators and administrators would be doing justice and acting on principles of equity and fairplay. The individual holder of a unit certificate will show, in his tax return, the income he gets from the pool and, at the same time, show the relative share of tax deducted and paid at source. If he is liable for tax at higher rate, he will pay the excess. But, if his total taxable income is of a lower order, he will get back the difference between the tax amount payable by him and the amount of tax deducted at source. This is permitted to individual investors in the case of their individual investments. The demand is that the same principles should apply when investments are pooled together by a large number of investors and each such investor must be treated on the basis of his individual tax liability and not be taxed on the basis of collective liability of the group.

(vi) *Attracting Foreign Investors*

How can we attract foreign savers to participate in our investments? If we permit them to participate in our Investment Trusts, there is reasonable chance that they will be attracted by the good yield available on our ordinary shares. A small foreign investor with limited means, cannot risk to put all his money in one or two shares. He must broadbase his investment, and spread it over a number of counters which he can only do through unit certificates. In foreign countries, people are now more attracted by equity shares than the loans and bonds of their own Government, so much so that the return subject to tax on ordinary shares in America, France and other European countries is lower than what is available on the loans and bonds issued by their Governments and local authorities. It is so, because investments in equity capital have prospects of better future return and also serve as a hedge against fall in the buying power of money. With the vast prospects which our economic plans and programmes offer, foreigners should find our investments a source of growing incomes. External investments of smaller people should be more desirable than the concentrated holdings of bigger industries interested primarily in the growth of their potentials and profits.

Introduction by the United States of insurance scheme to compensate American investors against expropriation, exchange risk and similar dangers of their investments in India, a few days before President Eisenhower's visit to Delhi is a move in the right direction and must stimulate foreign interest in the employment of their capital in this country. We must take fullest advantage of it by facilitating entry of such investments. The writer is particularly gratified at this development, as he has been urging for the last few years upon business and political leaders of European and American countries that introduction of such an insurance by democratic Governments to their own nationals would better safeguard their democratic freedom and of the world, with appreciable premium income to their exchequers, and little or no loss, than any other means or methods. If we do not succeed now in stimulating the flow of savings from abroad in the service of our economic growth, the fault will be entirely ours.

(vii) *Incentive and Reward*

Unless we make our tax structure more balanced, offering incentive and reward to those who work hard, to take investment risks and make sacrifices by postponing satisfaction of current personal wants, it will be futile to think of adequate development of capital resources. Taxes have nothing holy about them. They are meant to find funds for good, purposeful expenditure. As the law of compound interest applies to taxes, too, why not base the tax policy on the principle that growing prosperity and profits generate increasing volume of taxes, and that, with sufficient incentives, the growth in taxes, even at lower or diminishing rates, can be much more than through inhibiting methods of penalising effort and enterprise through high taxation? Why should people, particularly of other countries, come to help us, if we tax them more than their own countries or other countries that are patiently standing in long queues with very attractive terms? No doubt, we occupy a very strategic place in world politics as a result of which foreign governmental aid flows towards us. But is it fair to take advantage of such a situation and persist in our confused ways and policies? Free co-operation between the free peoples of the world, developed freely on the basis of benefits accruing through growing economies, has more enduring value than aid through State pacts dictated by vagaries of world politics.

Our Prime Minister and other political leaders have urged that the country must wage war against poverty. They seem to forget that, whether it is war against aggression, internal strife or economic insufficiency, they all need money, preparation, and men well versed in

(*Continued on page 70*)

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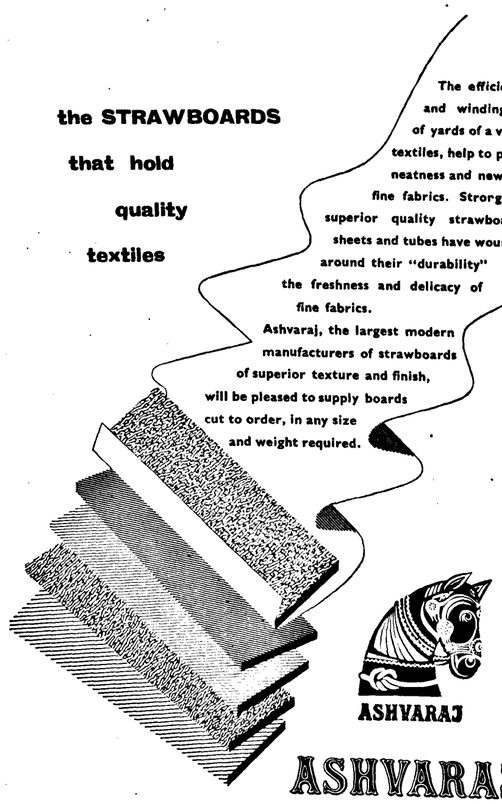

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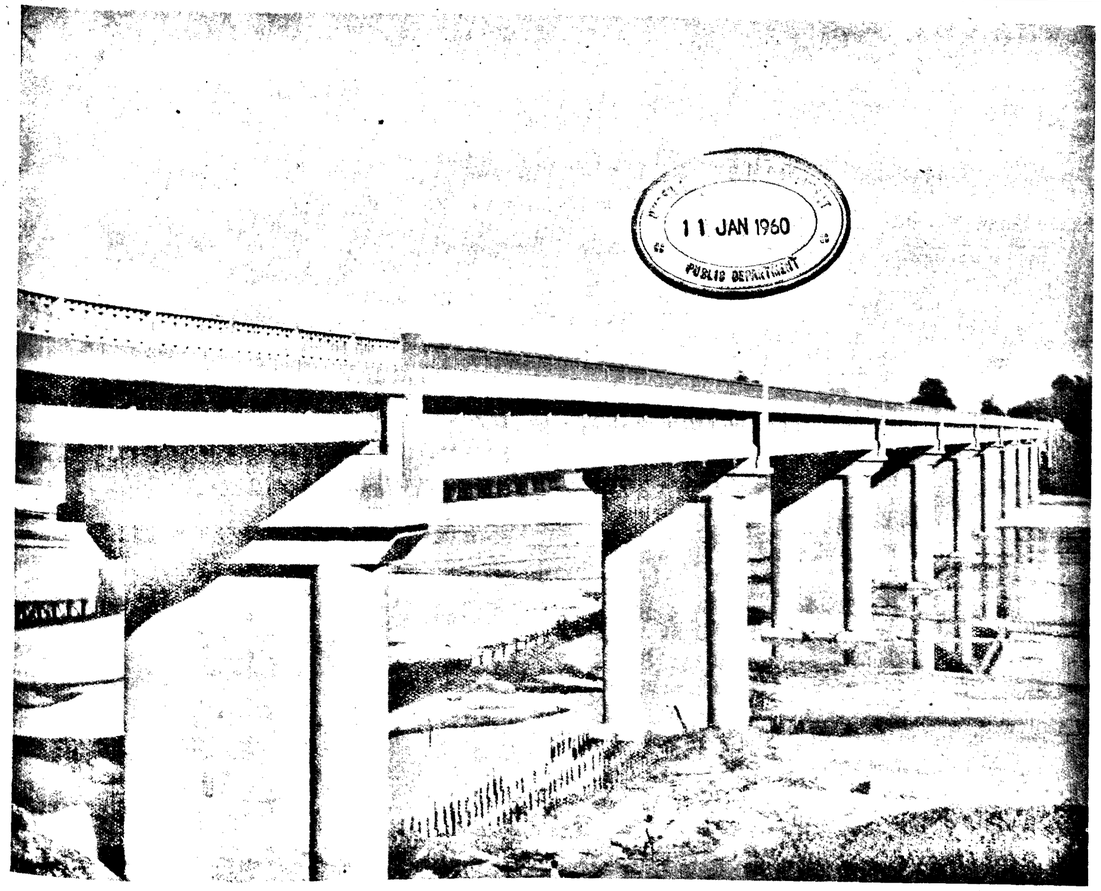

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The Food Problem—Some Lessons From Madras

Rational Solution Without Involving Much Financial Outlay Possible

By M. S. SIVARAMAN, I.C.S.
ADVISER, PLANNING COMMISSION, NEW DELHI

FOR two decades the problem of food deficiency has persisted in the country. Various measures have been initiated to produce more of cereals, but the demands of a growing population seem to have outstripped local production and there is increasing dependence on outside supplies of rice and wheat. Taking the country as a whole, the problem remains no nearer solution, though, in certain parts of the country like the Madras State, cereal production has gone above the requirements of the population, with the result that this State, which was deficit in foodgrains in 1952-53 with a production of 1.98 million tons of rice, became slightly surplus in 1957-58 by producing 3.2 million tons of rice.

Apart from the increase in its total production, the acre yield of rice in Madras has also increased from 1,034 lbs. in 1952-53 to 1,294 lbs. in 1957-58. The experience of Madras is all the more interesting when viewed against the earlier background of a steady deterioration in the yield of rice in this State during successive quinquennial periods from 1930 to 1950 as shown below:

Acre yield of paddy in Madras in terms of rice

Quinquennial period ending	*In lbs.*
1935–36	1,026
1940–41	1,016
1945–46	1,000
1950–51	886

Note: The fall in the last quinquennium was accentuated by drought.

Thus, for the first time since 1930, the decline in yield was arrested in 1951 and thereafter there has been an improvement in the yield per acre from year to year, as seen in the following table:

Yield of rice per acre in lbs. in the important paddy-growing areas

State	1953-54	1954-55	1955-56	1956-57	1957-58
Andhra Pradesh	1,078	1,087	1,015	1,006	1,114
Assam	870	903	866	887	844
Bihar	707	457	613	679	403
Bombay	817	822	796	812	746
Kerala	922	986	1,025	1,025	1,024
Madhya Pradesh	623	583	681	758	485
Madras	1,122	1,149	1,209	1,255	1,294
Mysore	1,032	951	1,187	965	1,110
Orissa	527	513	489	529	415
Punjab	885	825	698	846	841
Uttar Pradesh	558	531	614	537	531
West Bengal	1,099	865	920	943	870

It will be seen that the impact of various schemes of agricultural development has not resulted in any similar upward trend in the acre yields of rice, the chief cereal crop of the country, in any of the other States where the yield has fluctuated from year to year.

In the last five years, there has been a slight increase in the gross cropped area under paddy in Madras but no significant change in the irrigated area under paddy, though there has been the normal variation in the seasonal condition. The quantity of ammonium sulphate used in this State for all crops in 1957-58 was 84,000 tons which was 16,500 tons more than the quantity applied for the crops in 1953-54. Even assuming that the entire excess consumed was used for manuring paddy, the increase in production of rice by the use of the fertilisers would be 33,000 tons, but the actual production of rice has increased by 700,000 tons over that in 1953-54. Taking the State as a whole there has been no obvious correlation between the total quantity of fertilisers used and the additional production of rice.

The progress in Madras is clearly a significant proof of the efficacy of the special measures locally adopted for the improvement of rice production. The increase in the acre yield is important in dealing with the problem of improving nutritional standards in the country; for, unless the acre yields rise to higher levels in every part of India, it will not be possible to diversify crop production on our limited cultivable area and produce more of protective foods like milk, meat, eggs, etc

Empirical Art

Now that one State has shown definite improvement in crop production under Indian conditions, it will be useful to examine some of the factors that have led to this result. Paradoxical as it may seem, traditional agriculture all over the country is essentially sound in principle, in spite of the general low average yields. The experience of centuries has taught the Indian farmer an empirical art of agriculture fairly correct in its facts, but the practice of this art has varied with the economic status and mental qualities and attitudes of the individual cultivator. The technical knowledge, capacity and industry of the farmer differ in different States, in different districts in the same State and sometimes in the same village. All over the country, it is not an uncommon sight to find subsistence farming on rainfed lands away from habitation while the best types of agriculture can be seen near the village site. In one and the same village, we come across adjacent fields growing good and indifferent crops. Some fields are well manured while others are unmanured. Some fields are irrigated from wells or other sources, while fields close by depend only on the rains. Every principle of good husbandry is followed by some, while the crops are badly grown and uncared for by others. If any example of good farming is needed, it is often found near at hand. The agricultural extension worker who has been led to believe, in the course of his training, that a mere demonstration of improved practices will bring about an immediate change for the better in the neighbourhood gets completely baffled when he finds that good farming is not catching as easily as he was led to believe.

Not Conservative

In order to explain the failure to improve acre yields, there is a growing tendency to attribute the low yield of crops to the ignorance of the average cultivator, to his "primitive" methods of crop husbandry, to his very "conservative" habits, apathy and unwillingness to adopt scientific methods without adequate subsidies and incentives. There can be no greater mistake than this. Several instances can be cited to show that the ordinary farmer is not excessively conservative or averse to improvements. For instance, in the South Arcot district in Madras, the area under groundnut in 1897 went down to 52,000 acres or less than a third of what it was a few years previously as a result of deterioration in the quality of seeds and outbreak of diseases. Thereupon, a new variety from Mauritius, which gave a better yield was introduced by Messrs. Parry & Co., the chief exporters of groundnut in those days, and, in less than five years, the area went up to 343,000 acres in South Arcot. In those times, there was no agricultural staff worth mentioning, no demonstration farms to show the superiority of new seeds, no schemes of development of seeds in Government farms and thereafter through subsidies. Good seeds spread fast on their merit. Even in these days, if a seed is really intrinsically superior, the cultivator goes all out to get it. For instance, I introduced Lakshmi cotton, a type of American cotton in the Bellary district in 1952-53 from Gadag through a co-operative organisation in Bellary. Within three years Lakshmi cotton, with its outstanding performance, more or less completely replaced the traditional indigenous Western cotton in that area.

There can be no doubt at all that the cultivator takes even to new crops with which he is totally unfamiliar, if they are really profitable. For example, Virginia tobacco was introduced for the first time in Guntur district in 1920 on two acres on an experimental basis. The cultivation of this exotic variety was so successful that, in a few years, Virginia tobacco was extended to over 200,000 acres in Guntur and the adjoining districts. To mention another striking example, in 1906, a few seeds of Cambodia cotton were found mixed with imported lint and an attempt was made to use these seeds to raise a crop under unirrigated conditions. Next year, the potentiality of Cambodia cotton as an irrigated crop under Indian conditions was discovered by one of the employees of Messrs. Harvey & Co. in Virudhunagar. Within two years, the production of Cambodia cotton went up to 7,500 bales and the cultivation of this cotton was extended to over 300,000 acres in 10 years' time.

Orissa Experiment

Such rapid development has taken place not only in respect of profitable cash crops, but also in the case of useful ideas. Thus, in Orissa, the yield of rice has been low, as the crop is not adequately manured. In 1957, the spread of green manuring as a solution to this was started by distributing one-anna packets of *dhaincha* seeds, each packet containing about two ounces of seeds sufficient for growing the plants in one acre of paddy for producing green manure seeds. Though the Orissa cultivator is not generally familiar with green manuring, the area green manured in the State increased from 10,000 acres in 1957 to 100,000 acres in 1958 and a million acres in 1959 and the extra production through this measure is expected to be 100,000 tons of rice in 1959. It is confidently expected by the State authorities that four million acres would be green manured by 1960 and eight million out of nine million acres by 1963 or 1964.

Such instances can be multiplied but those mentioned will show that the Indian cultivator is not conservative, apathetic or ignorant. If any worthwhile idea is given to him, he takes to it quickly even without the help of inducements and subsidies. No large extension staff is necessary to spread such ideas, provided the solution offered is really an answer to his felt needs through approaches which can be followed by him in his present economic set-up of grinding poverty.

Disabilities

One of the major contributory factors for the success of extension in one area and failure in another can be traced to the nature of the approach to the problem and the proposed solution. The extension staff has to recognise that the average cultivator labours not from ignorance of sound agronomy, but from certain economic and environmental disabilities which can be got over only if his resources improve—and his resources will not improve unless the productivity of his land goes up. We are, therefore, up against a vicious circle. If poverty of the average cultivator is not removed, it will not only perpetuate poor cultivation but prevent further improvement. This in turn makes him poorer with every increase in the number of mouths to feed.

Speaking of the cultivators of Coimbatore, Sir Frederick Nicholson observed in 1887 as follows:

"In garden lands, the cultivator is a past master of his art and, unless it be in his water lift, it is doubtful whether there is anything to teach him. There cannot be much to teach a man who can produce in one crop from 30 to 80 bushels of grain per acre according to circumstances such as the kind of crop, season and his means. Inspection of his cultivation from fallow to reaping will show that all the minutiæ of good cultivation are elaborately attended to. His cattle frequently never leave the gardens that are tilled but are fed with *cholam* fodder, cottonseed and grass on the spot. The sheep are penned for months on the ground, the soil is thoroughly ploughed with additional cattle manure if needed and according to crop and soil, with masses of village sweepings up to 25 cartloads per acre which in addition to cattle droppings, refuse of fodder and stubble provide ample humus and other soils like tank silt, red earth are added according to crop and soil. Seed is sown most sparingly, the crop diligently weeded and watered according to need. This is no fancy picture, but may be daily seen in operation in the better classes of gardens. As elsewhere stated, the economic status of the ryot is the most important factor in the practice of this art."

Nicholson was of the view that empty purses "led to rude cultivation" and a full purse in the Coimbatore Vellalas' hands could conquer season and soil. This diagnosis of the root cause of indifferent cultivation is true of agriculture all over the country.

Crux of the Solution

A rational method of attacking both poverty and poor cultivation on an extensive scale will, therefore, be to devote special attention to factors in crop production which can be improved with little or no financial outlay. The problem of raising the low yields on millions of acres of cropped area in India, irrigated or unirrigated, has to be primarily solved through measures which can be followed on every field without much expenditure of money. If extra money has to be spent on this, the financial outlay will be staggering and it is doubtful if the cultivator or the country can afford this for

many years to come. On the other hand, if more production results from extra physical effort, we will succeed in creating the resources for a more rapid rate of progress. What with millions of the agricultural population in the rural areas who are only partially employed in the course of the year, it should not be difficult through their efforts to eliminate, even within two or three years, some of the factors that have depressed crop yields and thereby pave the way for more striking development of agriculture.

It was this approach to agricultural extension that has accounted for the success obtained in Madras and there is no reason why it cannot be extended to other areas. Among the various measures that can be taken for increasing agricultural production, special emphasis was laid on two items, manures and seeds, without which there can be no successful agriculture anywhere. A new technique of mass development of these essential prerequisites of good cultivation was evolved and, for the first time in the history of agricultural extension in Madras, it was possible for the normal extension staff of the Agricultural Department to spread with success large-scale development of manures and seeds on millions of acres without expenditure of public money.

Soil Deficiency

One of the main reasons for the general low yield of crops in Madras, as also in the rest of the country, as compared with some other countries, is the deficiency of soil nitrogen under tropical conditions. Nitrogen is of great importance in plant growth and, unless it is supplied in adequate quantity, there can be no improvement in the level of agricultural production. As this is a fundamental problem affecting nearly all cultivated area in Madras, the first step taken was to find a solution for this by which every cultivator could make good the nitrogen deficiency of his fields without interfering with his normal cropping practices.

Any solution to be accepted by the cultivator in his present economic set-up should be capable of general adoption, requiring no extra finance or dependence on outside supplies. As a result, suitable shrubs, and green manure plants were found which could be developed from small nucleus materials to produce the necessary manure for every field in every village in two to three years. Some of the Government farms in Madras which used to purchase farmyard manure and composts were directed to produce their complete requirements of organic manure by way of composts for use on dry and garden lands and green manure for use on irrigated lands. As a result, self-sufficiency in manures was reached even in the rainfed farms in the course of three years. Border planting of green manure shrubs, perennial or annual, was done in all the Government farms for producing the green manure seeds or the manure without in any way affecting the usual crops.

When the Government farms became self- sufficient in green manure and compost, the interest of the cultivators was roused. No longer could the cultivators point out the difference between precept and practice in the departmental farms. The gospel of self-sufficiency in manures through self-help was received without scepticism. Thus, in the Paddy Research Station at Aduthurai in Tanjore district, *Sesbania speciosa*, a leguminous shrub capable of growing in the swampy paddy fields, was planted along with the paddy crop and a few of these plants helped to produce 40 to 60 lbs. of seeds required for growing the green manure crop on each acre field. Thereafter the green manure was raised just before the main crop either by sowing the seeds at the time of the harvest of the previous paddy crop in January/February or by sowing the seeds in June after irrigation commenced and it was found that, even in the five to eight weeks' time required for paddy seedlings to grow in the nursery, it was possible to produce in each acre field even 10,000 lbs. of green manure sufficient for manuring two acres. The production of green manure in the Aduthurai Research Station on a net cropped area of 45 acres went up from 20 tons in 1948 to 400 tons in 1952-53. The yield of the second crop of paddy increased from 2,000 lbs. in 1948 to 4,000 lbs. in 1952. The total output of paddy increased from 107,000 lbs. in 1948-49 to 233,000 lbs. in 1952-53. The profit per acre rose from Rs. 100 from the first crop of paddy in 1948 to Rs. 474 in 1952 and the profit from the second crop of paddy from Rs. 208 in 1948 to Rs. 543 in 1952-53.

Aduthurai Miracle

Many leading cultivators of Tanjore and the neighbouring districts were invited to the Aduthurai Research Station to see the results for themselves. Mass enthusiasm was kindled among the farmers with the co-operation of influential cultivators. Voluntary agricultural associations were formed in every village to spread the message of Aduthurai. The staff of the Agricultural Department arranged small quantities of nucleus supply of seeds in every village and helped to propagate the idea of self-help as a solution to the manure problem in paddy areas by planting *Sesbania speciosa*.

The result of the *Sesbania* campaign which was started with four maunds of seeds in 1951 was spectacular and the progress in its spread in Tanjore district is given below:

	Acres
1952	168,000
1953	317,000
1954	521,000
1955	564,000
1956	1,045,000

In five years' time, the entire physical area under paddy in Tanjore was covered by *Sesbania*. Thus, a simple idea was taken up for complete extension and it spread to all families in every village in the district through the keen and enthusiastic co-operation of the cultivators themselves for a programme of self-help which did not involve them financially. It is significant that this rapid spread covering over a million acres and the entire cultivated area in a district took place without increase in the normal departmental staff of the Agricultural Department and without offer of subsidies, which implies that the solutions to many of the major fundamental problems of agriculture depend for their spread on the intrinsic merit of the solutions rather than on subsidies and undue expansion of the extension staff.

The results obtained at Aduthurai cannot be considered as peculiar to conditions in Madras. In the Cuttack Rice Research Station in Orissa, soil fertility has been similarly built up through green manuring and, in one experiment, where the effect of repeated use of green manure was studied, it was found that, by using 5,000 lbs. of green leaves per acre by growing *dhaincha* and using 50 lbs. of ammonium sulphate, the yield of paddy steadily rose from year to year from 2,541 lbs. per acre in 1949 to 3,461 lbs. per acre in 1954. It was also found in Cuttack that such residual effect and improvement in the fertility status of the soil was not seen in the plots which had received only inorganic fertilisers.

More Organic Manures

The experience of Madras in the matter of paddy cultivation is capable of extensive adoption all over India, with suitable modifications for wheat. The recent efforts made in Orissa to develop green manuring have been referred to earlier. Similar attempts are being made in West Bengal, Bihar, Uttar Pradesh and Assam. In these States, the area green manured at the beginning of the second Plan period was insignificant. No concerted steps were taken previously to produce the green manure seeds or convince the cultivators that it was possible to grow sufficient green manure for transplanted or broadcast paddy and for wheat in five to six weeks without forgoing or affecting the main crop. In many of the Agricultural Research Stations in these States, the requirements of green manure seeds and sometimes of farmyard manure and composts were obtained from outside sources and this had stood in the way of effective extension propaganda. During the last two years, special attention has been devoted to make the State farms self-sufficient in organic manures as was done in Madras, before the idea could catch among the farmers and it is expected that there will be rapid development of production of organic manures in the next few years.

Along with the emphasis on manuring, special attention was paid in Madras to spread of improved seeds. The release of improved strains of some of the major crops is one of the noteworthy achievements of the Indian Research workers in agriculture and these seeds produce an increase in yield of 5 to 10 per cent. and sometimes more if the field is properly manured. The spread of improved seeds has to be taken up along with the development of manuring: for the mere use of improved seeds, without improvement in manuring, cannot result in any overall increase in the yield over a period of time. Actually, in Madras, there was a decline in the paddy yield from 1930 to 1950, a period which synchronised with the release of many improved strains.

Confidence Returns

The easy approach to manuring and the outstanding results obtained in Aduthurai helped to change the outlook of the Madras farmer and create a keen demand for the improved seeds. Thereupon, in 1952, a scheme was initiated for rapid spread of improved seeds by taking the village as a unit and restricting the supply of improved seeds to one pound per acre of paddy in the village which is sufficient to produce in one season, the seed requirements of the entire village by harvest time. By this method, large-scale procurement, movement and storage of seeds by the Agriculture Department was avoided. The cultivators who had not previously used the improved seeds were in a position to watch the performance of the new seeds under local conditions. The seeds were developed in the lands of cultivators selected by the other cultivators in the village. At the time of harvest, the improved seeds were distributed among the other villagers largely on an exchange basis and the chief sanction behind this scheme was village public opinion which could often assert itself.

In every village, there are keen cultivators who take a pride in supplying quality seeds to the others even at no extra cost. The great merit of this scheme was that the seeds were produced and made available in the village itself and the cultivators got possession of the seeds even at the time of the harvest and therefore they could keep up the viability of the seeds by periodical drying which is not often possible in a Government departmental seed store. As paddy is essentially a self-fertilised crop, the purity of the seed is assured if fresh supplies of pure seeds are made every year to the village seed farm. Care has, however, to be taken to see that the persons selected for growing the seeds do not raise more than one strain at the same time, as otherwise there is a possibility of mixing up of strains in the threshing floor. The village seed farm scheme ensures complete availability of the seeds in the village and full coverage without dependence on outside agencies.

Stagnation to Hope

The result of these two measures of rapid development of green manuring and improved seeds helped to change the outlook of the farmer from stagnation to one of hope. A way was shown by which it was possible to improve production through local efforts and the effect on rice production was reflected on the increase in the acre yield of rice in the State. Madras was thus able to raise its production and reach a level of self-sufficiency as indicated earlier.

Every acre of cultivated area in India, wherever it may be, requires an adequate supply of manure and good seeds and, unless the problems of supply of these two essentials of cultivation are satisfactorily tackled, we will not succeed in our efforts to improve the acre yield of crops. A plan for each field which does not involve any financial outlay on the part of the cultivator is a necessary step which will lead to a more comprehensive plan, involving crop planning, improvement of irrigation, intensive use of artificial fertilisers and pesticides. By meeting the basic requirements of organic manures and improved seeds for all cultivated areas in the country, the yield can be stepped up, as in Madras, and the resources necessary for financing bigger plans of agricultural improvement can be created through the cultivators' own efforts on their fields, without depending unduly on outside supplies.

The experience of Madras shows that there can be rapid coverage of improved manuring and seeds with the help of local leaders by inculcating a sense of local pride in achievement through local efforts. The methods do not look grandiose, but striking results have been obtained in Madras and, if these methods are adapted to other areas and pursued with vigour and faith, we can confidently look forward to similar results. Now that concerted attempts are being made through Community Development programmes to change the farmers' outlook and inculcate into them a keenness for better life through industry, self-reliance, prudence, forethought and elimination of wastes of all types, it should not be difficult to extend rapidly schemes of agricultural production by which farmers can, through their own efforts, get out of the backwardness that had been their lot. When this happens, the problem of cereal supplies will be a thing of the past.—*All Rights Reserved.*

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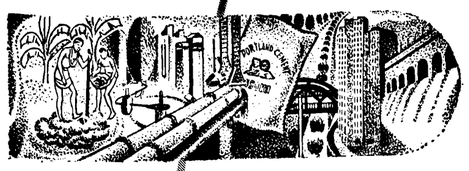

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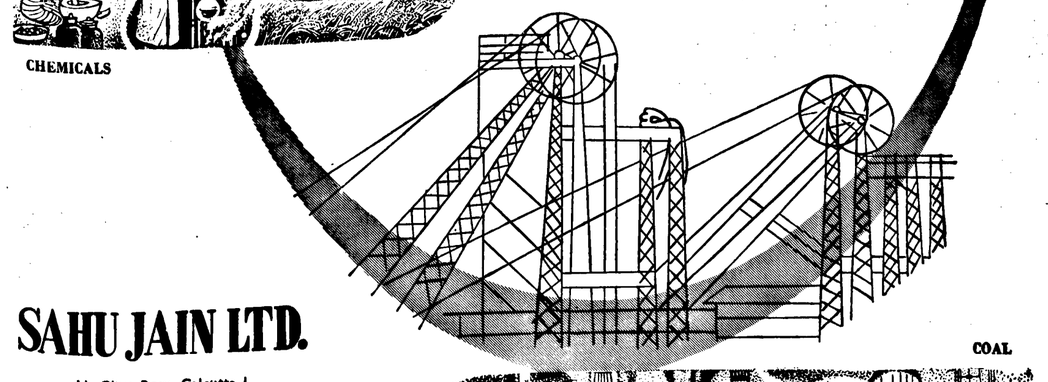

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COAL

OUR FOOD SITUATION

COERCIVE MEASURES NO SOLUTION TO THE PROBLEM

By Prof. B. R. SHENOY

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THE Indian economy may be, with justification, caricatured as a foodgrains economy. This is evident in our production and price trends. In recent years, agriculture accounted for between 45 and 51 per cent. of Indian national income. Foodgrains (cereals and pulses) constitute 67 per cent. of Indian agricultural production and 24 per cent. of India's wholesale trade in all commodities. Between 22 and 55 per cent. of the expenditure of urban workers (depending upon the part of the country) is on foodgrains. The percentages are higher in the rural areas.

A major change in the production or prices of foodgrains soon colours the entire Indian national economy. Foodgrains production jumped up by an annual average of 15.8 per cent. during the two years ended 1953-54; the annual average increase in agricultural production during these two years was 12.4 per cent. and in the national income 6.5 per cent. Foodgrains production flagged in the following two years and both agricultural production and national income flagged too. All three moved up by 5-7 per cent. in 1956-57. A fall of 10 per cent. in the output of foodgrains in 1957-58 led to a fall of 9 per cent. in agricultural production and the national income of the year is estimated to be down by 1.55 per cent.

The General Index of prices generally tends to move in the same direction as the index of foodgrains. When the latter fell by 21 per cent. (average of weeks) in 1954-55, the General Index fell by 7 per cent.; when foodgrains prices rose by 27 per cent. in 1956-57, the General Index rose by 14 per cent. In 1957-58, the foodgrains index moved up by 5 per cent. and the General Index by 3 per cent. This cautions us against lightly tampering with the foodgrains economy of the country. The dangers of it are particularly great under adult franchise.

The Inflationary Phase

The prevailing price rise in foodgrains, which dates back to May 1955, permits of division into three more or less distinct phases. Broadly, the first phase covers the period ending 1956-57, the second phase comprises the following two years (1957-58 and 1958-59), and the third phase dates with the current financial year (1959-60). A price rise may result either from an increase in effective demand or a fall in market supply. The rise in foodgrains prices (and of the General Index) in 1955-56 and 1956-57 (the first phase) reflects, as we shall presently see, the inflationary expansion of money incomes and the consequent increase in the demand for foodgrains. Until the close of 1954-55, expansion of the physical volume of the national output and the expansion of money incomes moved in step, the index during the year, of the former being 108.8 and of the latter 108.6 (1952-53=100). Inflation appeared in 1955-56, as a result of our attempt to invest non-available resources through credit creation (deficit financing). The index of money supply (money incomes) during the year jumped to 123.8 (a rise of 13.7 per cent. over the preceding year), while the index of real national income lagged behind at 110.8. Foodgrains prices leading, there ensued a rise in the General Index of prices. Between May 1955 and the close of the year 1955-56, foodgrains prices rose by 46 per cent. and the General Index by 20 per cent. This phenomenon was repeated in 1956-57, national income rising during the year by 5 per cent., money incomes by 6 per cent., foodgrains prices by 20 per cent. and the General Index by 9 per cent.

Facts do not suggest that the price rise may be attributed to any fall in supplies. Though the (gross) output of cereals in 1954-55 and 1955-56 was below the peak (58.27 million tons) attained in 1953-54, the annual average net availability (production plus imports less exports adjusted to changes in stocks) of foodgrains (cereals and pulses) in 1955 and 1956 was 59.74 million tons. The corresponding average for the preceding two years was 57.10 million tons. The increase in the availability of foodgrains exceeded population growth, so that *per capita* net availability of foodgrains slightly improved from 14.95 ozs. per day in 1955 and 1956 to 15.20 ozs. in 1957 and 1958.

Depth of Poverty

The sharp rise in foodgrains prices underlines the depth of Indian poverty—that the masses of the people are both under-fed and under-nourished. When their money income rises, it first flows into the foodgrains market to purchase more or better quality foodgrains. More generally, the preference for other wants would rank after foodgrains. As, during these two years, money incomes rose faster than the increase in the supply of foodgrains, there emerged a pronounced bulge in foodgrains prices.

In 1957-58 and 1958-59 (the second phase), the expansion of money incomes has been moderate compared to the expansion in 1955-56. In 1957-58, money supply rose by Rs. 74.7 crores (3.2 per cent.) and in 1957-58 by Rs. 109.04 crores (4.6 per cent.), a total rise of 8.0 per cent. during the two-year period. Simultaneously, however, unlike during the first phase, the supply situation deteriorated. The net availability of foodgrains fell from 62.92 million tons in 1957 to 57.71 million tons in 1958. Adjustment being made for the increase in population, *per capita* net availability of foodgrains declined from 15.7 ozs. per day in 1957 to 14.3 ozs. per day in 1958. The opposite movements in supply and demand are reflected in a rise in prices, which is disproportionate to the expansion of money supply. Foodgrains prices rose by 23 per cent. to a peak of 114.0 and the General Index by 11 per cent. to a peak of 116.3, both in August 1958 (1952-53=100). Since then, both indexes fell until April 1959, the General Index touching 112.1 and the foodgrains index 96.5.

Price Rise Despite Record Output

The uptrend in foodgrains prices, despite the record increase in output, in the current financial year, 1959-60, the third phase, calls for an explanation. In April 1959, money supply went up by Rs. 83 crores (3.3 per cent.), an all-time record increase for one month—the previous high being an increase of Rs. 58 crores in March 1958; the latter, at least in part, reflected the seasonal expansion of money supply; as evidenced by the volume of scheduled bank credit, the busy season was still on the ascendant in March 1958. The seasonal factor as an explanation of the expansion of money supply may not apply in an equal measure to the increase in April 1959, as, judging from the same evidence, the busy season had begun to recede during the month. Thereafter, though money supply declined with the progress of the slack season, the net seasonal contraction as at the close of September 1959 was Rs. 67 crores, which was somewhat less than the normal seasonal contraction in the monetary circulation; the seasonal contraction of money during the three years ending 1958-59 averaged Rs. 90.8 crores per year. The trend in money supply, therefore, may be said to embody some little element of "inflation."

Prices, however, have been steadily and continually on the increase since the low reached in April, the General Index as well as the five group indexes rose, in September 1959, above the August 1958 peak, the General Index touching 118.0 and food articles (of which foodgrains are a sub-group) 121.9. Though the foodgrains index, too, rose, almost alone among the sub-groups, it was still below the peak attained in August 1958, being at 105.3 at the close of September 1959. This queer phenomenon is contrary to the normal pattern in which the more general trend has been for foodgrains to lead the other price components in the upward march of prices. Possibly, this indicates the artificial character, resulting from our policies, of the foodgrains market.

Official View

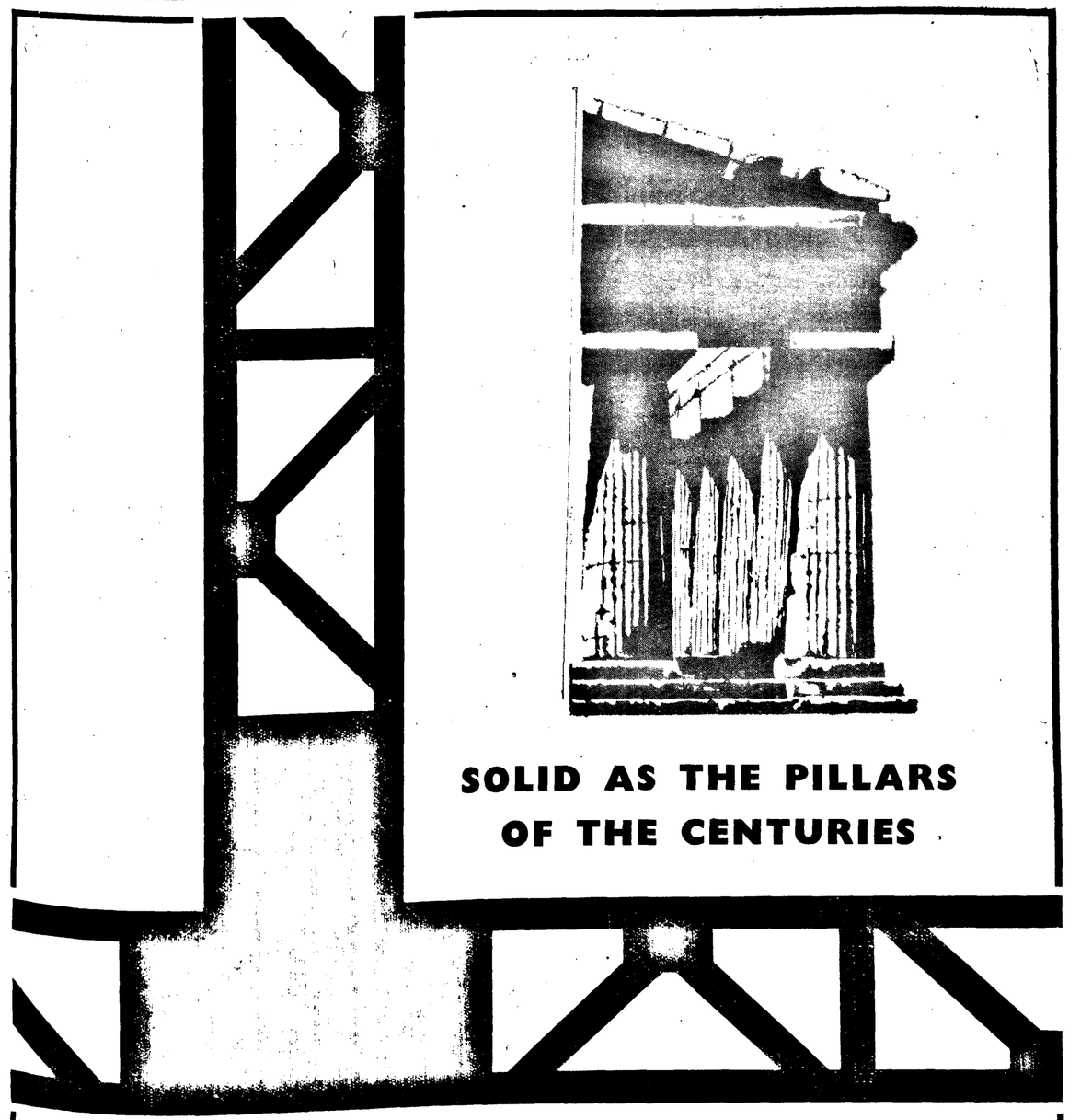
The official view would seem to be that the price rise is principally due to at first the trade, and later also the larger farmers, withholding stocks from the market. This explanation has been advanced as the principal cause of the price rise for the whole of the period since May 1955. The explanation is logically unsatisfying, as unless it is argued that the tempo of hoarding varied during the period for some unknown reason, it is difficult to interpret, on the basis of this explanation, the varying rates of the price rise, the downtrend in prices between August 1958 and April 1959, and the renewed uptrend since April 1959. The fact of the matter is that hoarding is a consequence, not the main cause, of the price rise. We might as well argue that the mercury in the barometer is the cause of the storm. The causes of the price rise lie deeper in the forces affecting demand and supply. We have seen that, in 1955-56 and 1956-57, the principal cause of the price rise was inflation (over-investment) and, in the following two years, partly inflation and partly shortfall of production. Whatever may be the cause of the price rise, once the market is satisfied that a price rise is likely, hoarding will take place; hoarding will increase in extent and intensity in proportion as the expectation of the price rise grows into a certainty.

In the context of stiffening prices, prevention of hoarding becomes an uphill task and, once the upward price trend is well set, hoarding cannot be wholly prevented. If the larger firms should abstain, the lesser traders and the producers will step into the breach; even non-traders and householders will temporarily join the hoarders, while the price rise continued. If vultures exist, they will look for, and gather around, the carrion in the open fields. And, even as the vultures subserve the needs of public health, the traders, granted always the subsistence of effective competition warn the economy today of the coming shortages of tomorrow. They help to moderate the price fall at harvest times and the price rise between harvests. Their activities become anti-social only when they are able to function as monopolist buyers or sellers. Whilst the basic causes of the price rise remain operative, prices will be high or will rise, hoarding or no hoarding; penalising hoarding will not relieve the price problem. Foodgrains prices over a period of time, say, one season, will reflect the overall foodgrains supply and demand position of the period. Unless stocks are carried over to the next season, the intra-seasonal withholding of stocks for a price rise cannot affect the average seasonal price; it will only minimise the range of price variations during the season. It is important to recall these basic doctrines of price economics, as we, sometimes, accuse the foodgrains traders for the rise in foodgrains prices as though a body of three lakhs of individuals scattered round the country were a monolithic monopoly organisation. Traders have control over prices only if they are monopolist buyers or sellers, which, cases in the remoter rural areas apart, the foodgrains traders in India are not. The wholesale foodgrains prices in India are competitive, not monopolistic.

Reasons

The price rise during the third phase took place notwithstanding a record harvest of 73.5 million tons of foodgrains during the agricultural year 1958-59 and imports of 3.17 million tons during the calendar year 1958. Imports thereafter have continued at about the same annual rate. The output in the agricultural year 1957-58 was 61 million tons and imports in the calendar year 1957 3.58 million tons. The rise in prices took place notwithstanding an improvement of 18 per cent. in the domestic output. The principal explanation would seem to be threefold: first, the decision to extend State trading to foodgrains; secondly, the prospects of continued inflationary finance and, thirdly, the market's doubt of the sustained increase in the output of foodgrains and of our ability to maintain imports at the present high levels.

The reason for the price effect of the decision to extend State trading to foodgrains is easily seen. When the State, with its (supposed) bottomless purse, enters a market, prices invariably tend to stiffen and the trade (as well as the farmers) show reluctance to release stocks on the market. This is the universal experience throughout history. It betrays the amateur within us, when we blame the trade (and the producers) for this and describe a spontaneous and a natural phenomenon as being an anti-social conspiracy by vested interests to sabotage Governmental encroachments in the preserve of the private sector. No such conspiracy is feasible either at the wholesale or at the retail levels, because of the extent of



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the market and the numbers of the dealers. When prices are firmly set on the uptrend, it makes little sense for the State to engage in purchase operations, mobilise its powers of credit control and invoke the coercive provisions of the Essential Commodities Act, hoping to force stocks into the market! We might as well jam the brake and press the accelerator simultaneously and expect the engine to function smoothly. If our objective is to correct a price rise, commonsense suggests sales from stocks, not open market purchases. Though State trading in foodgrains in the sense of open market purchases by the State has been abandoned in several States, it still prevails in U.P., M.P., Orissa and Assam. There is no sustainable case for State purchases of foodgrains. While, in practice, there is a retreat from State trading in foodgrains, our policy pronouncements stand committed to an extension of it.

Bullish Fervour

Passing on to the second factor responsible for the current price rise, during the three years, 1955-56 to 1958-59, while national income in real terms rose by 5.4 per cent., money supply expanded by 24.4 per cent., despite the moderating influence of a depletion of the currency reserves by Rs. 465 crores and of foreign aid of about Rs. 425 crores, and prices rose during the past 3½ years at an annual rate of 8.1 per cent. During the current year, placing foreign aid at the budget figure of Rs. 337 crores, and assuming the flow of savings into the public sector to continue at the rate suggested by the performance of the past three years (Rs. 350 crores), the savings gap in the projected plan investment of the year (Rs. 1,121 crores) may be of the order of Rs. 425 crores. The blueprint of the third Plan is being prepared on the assumption of an overall order of investment of Rs. 10,000 crores in five years, or double the average rate of the first three years of the second Plan. With stagnant *per capita* incomes, national savings flowing into the Plan have remained around 5 per cent. of the national income. Assuming foreign aid to continue at about Rs. 300 crores per year, the visible resources for the third Plan (including the public sector and the corporate private sector) are of the order of Rs. 4,250 crores. The doggedness with which we wish to pursue Plan investment targets suggests continued inflationary pressures. This coupled with the fact that *per capita* net availability, per day, of foodgrains and pulses in 1958, namely, 12.3 ozs. and 2.0 ozs., respectively, is much below the optimum nutritional standards—given adequate supplies of vegetables, fruits and milk or, in the case of non-vegetarians, eggs and meat, the nutritional optimum consumption per adult, per day, is 16 ozs. of cereals and 3 ozs. of pulses—has led to the market expectation that the expansion of money incomes would impinge heavily on foodgrains prices and that the bullishness of the foodgrains market may prevail for some time.

The bullish sentiment is also affected by two other considerations. During the past three years, deficiencies in foodgrains supplies were made good through imports, the imports in 1956-57 costing Rs. 102 crores and in 1957-58 Rs. 153 crores. They represented 79 per cent. of the utilised foreign aid in 1956-57 and 61 per cent. of the aid in 1957-58. With our balance of payments in heavy deficits and the currency reserves nearly all gone, imports of foodgrains on this scale for an indefinite period may not be easy. The various restrictive and penalty measures on the foodgrains trade (which we shall presently review), the adverse effects of which must, in some degree, be felt by the farmers, may deter the use of transferable land and resources for the increased cultivation of foodgrains in the food producing States so that the maintenance of the domestic output of foodgrains at the present level may be difficult.

Measures Adopted by the Government

In an attempt to tackle the foodgrains prices problem, we adopted, at various times, four categories of measures. First, we divided the country into five zones of wheat and two of rice, the movements of the cereals into and out of the zones being banned except under permit. Since the price rise of 1958, the number of zones for rice has been raised to 11 and for wheat 7. Secondly, directives were issued to scheduled banks to restrict credit against rice and wheat. Thirdly, in certain States maximum (and in some other States also the minimum) wholesale prices were fixed for the two cereals—floor and ceiling prices exist today in U.P., M.P., Orissa and Assam—the wholesale dealers in them were licensed and there was applied to them the Essential Commodities Act, 1955, whereby any dealer may be required to surrender a part or whole of his stocks at the average price of the preceding three months. In certain scarcity areas, grain was distributed at controlled prices through fair price shops. Fourthly, we imported from abroad large quantities of foodgrains. Fifthly, as a long-term solution of the problem, it is proposed to implement the new scheme of "State trading" announced in the Lok Sabha, on 2nd April 1957, by the Union Minister of Food and Agriculture, and co-operative farming. The determination of the Government to enforce this last programme has been reiterated by the National Development Council, the Chandigarh session of the All-India Congress Committee, and by spokesmen of the Government. Finally, it is proposed, primarily through imports, to build up a "food bank" of five million tons of foodgrains "for checking any rise in the prices of foodgrains." This is the latest addition to official therapeutics for the food prices problem.

Zonal System

The division of the country into zones and the restriction of credit against foodgrains, have more a nuisance value than any basic capacity to relieve the fundamentals of the food problem. The theory behind the zones is unconvincing. It seems to be that the zones may facilitate a better mobilisation of the regional surpluses, prevent hoarding, and conserve local production for local needs first. Zones cannot correct the overall shortages in foodgrains supplies. They have accentuated regional price variations by driving up the prices in the deficit areas higher and by preventing prices in the surplus areas from rising in full measure, both consequences emerging from the imperfect flow of foodgrains as between zones. The following statistics are representative of the accentuation of the regional price variation:

Price of Wheat per maund

Date	*Price per maund in*	
	M.P.	*Bombay State*
	Rs.	Rs.
June 1956 (pre-zone period)	14.22	15.06
June 1957	13 88	18.82
June 1958	16.62	17.77
June 1959	14.43	21.08

The cutting up of the national market has led to smuggling into deficit areas through circuitous routes or by collusion with the custodians of the law, the attendant additional costs (on account of longer transport and "hush" money) being passed on to the consumers. Thus, zones have not benefited the consumers in the deficit areas, as prices in these areas have risen unduly, nor have they benefited the farmers in the surplus areas, as prices in these areas are lower than they might be. On the other hand, under pressure of the relative price penalty, the zonal division may lead to a diversion of land and resources from food to non-food crops and worsen the scarcity position. Almost the only parties to gain from the zones are the (licensed) wholesalers and other middlemen to whom would now accrue, quite unmeritedly, larger profits from the accentuation of the regional price variations, the foodgrains smugglers and the recipients of the "hush" money. Zones cannot solve the price problem; they have made it worse.

Credit Curbs Against Foodgrains

The curb on credit against foodgrains rests on the superficial theory that the rise in prices is the result of hoarding and that, if hoarding was handicapped by credit curbs, the price rise may be checked. The entirely false and untenable thesis that the prevailing foodgrains prices problem in India is largely the result of an unholy conspiracy on the part of the trade and that a solution must be sought through "teaching the trade a lesson" seems to pervade official thinking and policy action in this field; ironically, however, the effect of our policies has been to benefit the trade and to penalise the consumer. Credit curbs were first applied to rice in May 1956 upon the discovery that, in April of the year, bank credit against rice was "100 per cent. higher than in the corresponding period of the previous year." Seeing in this a cause of the price rise, the Reserve Bank of India directed commercial banks to increase the margins for loans against rice and to refrain from fresh advances in excess of Rs. 50,000 (per party) on this security. Though rice advances declined thereafter, from Rs. 26.30 crores at the close of April 1956 to Rs. 13.22 crores in the middle of July 1956 and to much lower levels subsequently, the price of rice remained firm, the rice trade, apparently, being able to find finance in other ways than by mortgaging rice stocks.

This experience did not deter us from resorting to the same device in December 1957. It being thought that the terms of the earlier credit restraint were not sufficiently rigorous, it was decreed that the aggregate credit against rice should not exceed 75 per cent. of the average of the corresponding credit of the preceding three years. A similar curb was applied to wheat in September 1958, the limit in its case being 66⅔ per cent. of the average credit in October 1957. The experience of this added rigour in the restrictions was not significantly different, though the shock of the measure produced a temporary shake up in prices, notably in the case of rice. The price of rice fell from 104 on 7th December 1957—the new circular of the Reserve Bank was dated 11th December—to 101 in two weeks and to a weekly average of 99 in February 1958 (1952-53=100). Thereafter, the index, wholly ignoring the credit curb, moved steadily to a peak of 118 in August 1958. Since then, the index fell to a low of 92 in the first quarter of 1959 again. In the case of wheat, the price shake up being too short-lived to affect the monthly index, prices rose to 105 in September 1958, from 101 in August 1958—the new circular of the Reserve Bank was dated 10th September—and steadily moved to a peak of 126 in January 1959; it then fell to 92 in May 1959, and has been moving up since.

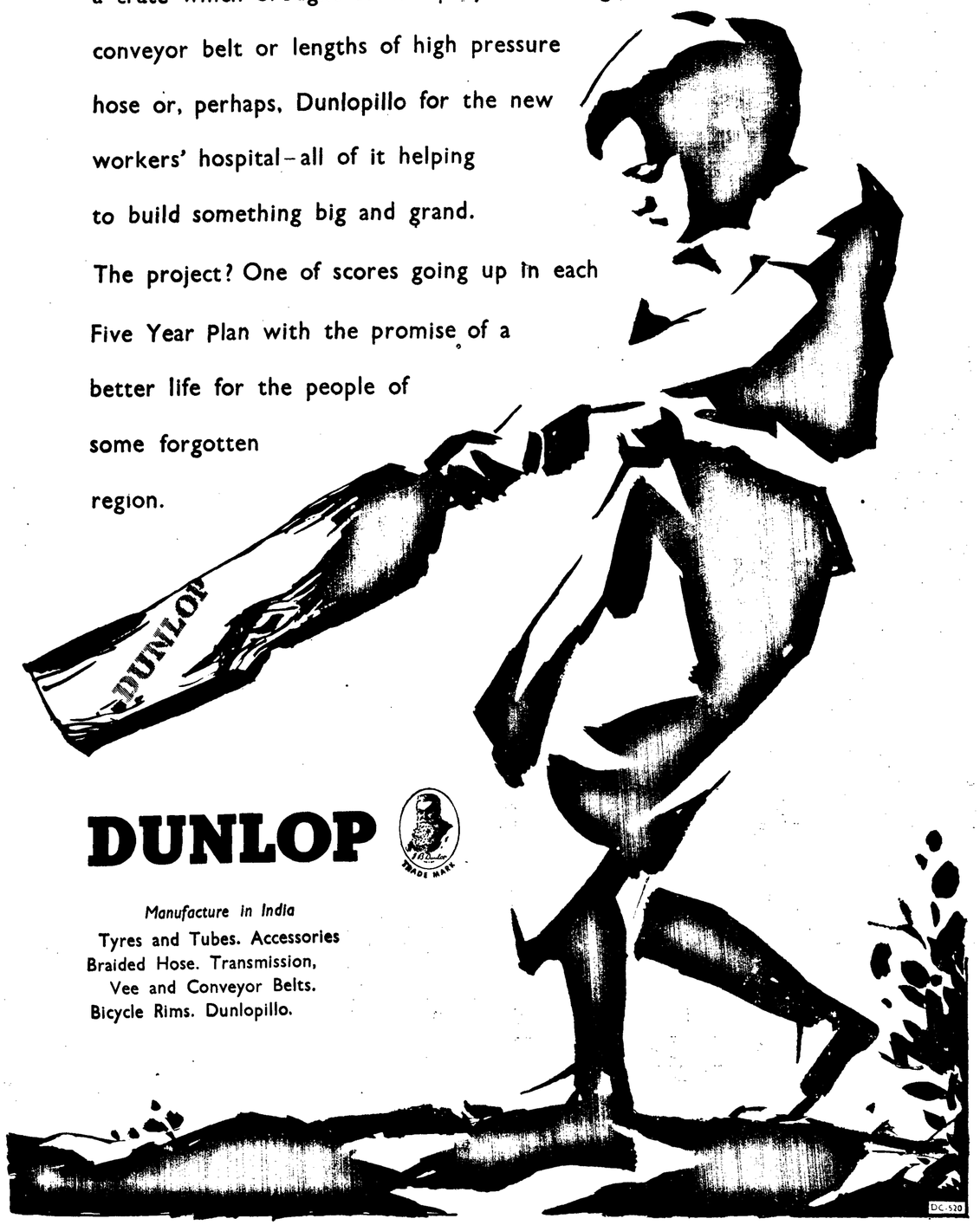
Scheduled bank advances against rice on 27th April 1956 (i.e., before the introduction of credit curb) amounted to Rs. 26.30 crores and represented 3.6 per cent. of total scheduled bank advances on the same date (Rs. 727 crores). The credit against wheat on 14th June 1957 (before the introduction of the credit curb) was Rs. 20.89 crores and represented 2.2 per cent. of total scheduled bank advances on the same date (Rs. 930 crores). On 25th April 1958, scheduled bank advances against rice fell to Rs. 13.96 crores; and the advances against wheat on 13th June 1958 fell to Rs. 4.17 crores. This meant a fall in credit supply of the order of Rs. 7 crores in the case of rice and of Rs. 16 crores in the case of wheat. The shortfall of credit in the case of rice represented 0.73 per cent. of total scheduled bank advances on 25th April 1958 (Rs. 957 crores) and in the case of wheat 1.75 per cent. of total scheduled bank advances (Rs. 912 crores) on 13th June 1958. The magnitude of the shortages being so negligible, there was little difficulty in making up for them by drawing on the credit available to the rest of the economy, through intermediaries or directly (by hypothecating other assets). The trade could bear the higher cost, if any, of this as, during the past two years (1957-59), the price of rice rose at an annual rate of about 11 per cent. and of wheat 16 per cent. (both as at their peak points). Some traders have got round the curb by arranging "clean" advances to take the place of advances against foodgrains subject to curbs. Possibly, a part of the sharp increase in recent years in the borrowings of State co-operative banks from the Reserve Bank (from Rs. 13.20 crores in 1955-56 to Rs. 35.01 crores in 1957-58 and to Rs. 49.72 crores in 1958-59) may have seeped into the finance of stock-holdings by growers, who (according to the Asoka Mehta Committee) joined the hoarders in 1956-57. Some finance for hoarding may have also come from potential Small Savings, which declined to Rs. 60 crores in 1956-57 from Rs. 70 crores in the preceding year; Small Savings recovered to Rs. 70 crores in 1957-58 and, notwithstanding the Small Savings drive, were still at Rs. 72 crores in 1958-59. Thus, though the statistics of advances against wheat and rice declined, this does not necessarily indicate any decline in the credit available to the rice and wheat trades. This demonstrates the utter futility of credit curbs (even as a marginal factor of restraint) for tackling the foodgrains prices problem, though our unabated faith in this device is indicated in the renewed Reserve Bank directive on the subject (credit curbs against foodgrains) to the Scheduled banks on 29th December 1958 and 10th July 1959, and the extension of the credit curb as a means of price control to groundnuts on 6th February 1959.

Fair-price Shops and Prices

Price notifications in the *Gazette* and elsewhere, which is what "price control" amounts to, and the application of the Essential Commodities Act, 1955, cannot alter foodgrains prices as determined by the forces of demand and supply (as neither would be affected by these measures). They may create the unnatural phenomenon of multiple prices, the "controlled" prices applying to the limited transactions which may receive official cognisance and open market prices applying to the rest. As the latter will tend to compensate for the sales at official prices, the average of the two sets of prices may not be far different from what prices might have been in the absence of "controls." All wholesale transactions, however, would be recorded at

Today a plaything in a child's hands...But it has already played its part in a cycle of events that will change his future...this fragment of a crate which brought to the project site a great conveyor belt or lengths of high pressure hose or, perhaps, Dunlopillo for the new workers' hospital—all of it helping to build something big and grand.

The project? One of scores going up in each Five Year Plan with the promise of a better life for the people of some forgotten region.



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"controlled" prices, higher prices being illegal. This would involve concealment of incomes, tax evasion and anti-socialistic shifts in income distribution (through the device of the taxable incomes of the traders becoming tax-free because these incomes cannot be declared in the tax returns). Above all, they may vitiate the price index.

It is quite illusory to suppose that fair-price shops may influence retail prices. Open market prices will be affected only to the extent market shortages have been covered by imports or by drafts on stocks. Shortages remaining unchanged, the channel of distribution is a matter of indifference from the price standpoint. Distribution of part of the supplies through fair-price shops would reduce by an equal measure both supply and demand (flowing into the open market), and prices in the open market would continue to reflect the scarcity position (notwithstanding the fair-price shops), though the magnitude of the operations in it would be now smaller. Fair-price shops would do little else than add one more price to the multiple prices, without altering the overall price position. Distribution through fair-price shops involves a haphazard consumer subsidy (part of which may leak into the hands of dealers), which, with deficit budgets, we can ill-afford. Sale of the same grain through the open market will have the same price effect and no fiscal burden.

It may be, of course, possible to influence open market prices in an isolated community by organising a *blitz* sale of foodgrains through fair-price shops, the amounts poured into the (isolated) market meeting the largest bulk of the consumption demand. But it is not possible to attempt this in more open communities (or over extensive parts of the country) in a background of overall shortages, as we cannot maintain divergent prices in interconnected communities for the same commodity, at the same time. Success of the measure in isolated spots would not alter the overall price picture. It proves no more than that, though general scarcity and high prices may prevail over the economy as a whole, it is possible to organise favoured pockets of consumption at prices subsidised at the expense of the national exchequer—which is not to prove much.

State Trading

Both the interim and the ultimate parts of the new scheme of "State trading" of the Union Minister of Food deal with the trading part of the machinery of distribution. Many features of the interim part are already in operation in several parts of the country. The ultimate part, under which the entire foodgrains trade will be co-operativised, may take long to materialise, as, firstly, experience has shown that the success of co-operation in India is limited by the availability of personnel with both competence and character and, secondly, the distribution costs of co-operatives not being always lower than that of the trade, they cannot make much headway in competition with the latter. As they would not affect the aggregate demand or supply, neither part of the scheme may correct rising foodgrains prices. Its principal objective—"to maintain price levels which are fair to the producer and the consumer"—may be defeated, if the licence holders should function as monopolist buyers and sellers. The scope for this (in the remoter parts of the country) may be larger than now if licensing should restrict their numbers. Licensing may also add to their prestige, which they may not be slow to exploit to their own advantage. There is no better guarantee of prices fair to the producer and the consumer than effective competition among dealers, i.e., a free market economy in foodgrains.

Co-operative farming as a solution to the foodgrains deficit rests on the validity of the assumption that it would increase the yield per acre, the idea being that the integration into optimum farms of fragmented units might permit modern methods of cultivation. Assuming this expectation to be valid, extension of co-operative farming on a large enough scale to produce an impact on overall output may take decades to achieve, among other reasons, because, first, integration of fragmented units is a formidable task in itself, secondly, the additional capital requirements of the reform would limit its progress and, thirdly, the personnel with the necessary competence and character to run the farms is far too scarce. If, however, "co-operative" farming is achieved through coercive or pressure tactics, or we adopt the policy of collective farming, it may give rise to, as has happened in all agricultural communities where collective farming has been imposed, internal conflicts and resistances, which may react adversely on output. The expectation of an increase in foodgrains production through integration of fragmented units may not, then, wholly materialise. This reform would, thus, seem to be too speculative a proposition for some considerable time as a way out of the prevailing foodgrains prices problem.

Foodgrains "Bank"

The proposed food "bank" of five million tons of foodgrains may not be productive of more than limited relief in a background of price inflation resulting from, as presently, over-investment. First, it may turn out to be an expensive proposition well beyond our present means. Domestic output and market supplies being short of demand, the building up of stocks on so large a scale would have to be through imports; to draw on the home market would be to widen the market deficit and to demoralise further the price position. The foreign exchange costs of five million tons of foodgrains may be of the order of Rs. 250 crores, or more than the annual average (Rs. 248 crores) of utilised foreign aid of the first three years of the second Plan. We can ill-afford to devote such large sums of our external resources, which are no less scarce than internal resources, for the luxury of holding impressive buffer stocks. These stocks would not add to the stream of the national product (as they are in the nature of hoarded resources). But service on the loans, from which the stocks were built up, would be drawn from the national product, so that the stocks will have a debit effect on national well-being, when service charges on the loans become payable. If the average interest on the loans was 5 per cent. and repayment of capital 3 per cent., the annual service charges may be of the order of Rs. 20 crores. The scarcity of capital being so great, the effective capacity of the countries abroad to extend aid to India being none too immense, and the demand for investment capital in virtually all sectors of the economy being so pressing and considerable, even if the aid from which the stocks would be built up were a free gift, there is no sustainable case for converting such large sums into foodgrains stocks in face of the urgency of speeding up Indian economic development and lifting up the masses of the Indian people from the morass of poverty and distress.

The latest idea of the Government, in this context, to construct, in Bombay, the "biggest silo warehouse in the world" to store 50,000 tons of grains at a presently estimated cost of Rs. 3 crores, with funds borrowed from the Export-Import Bank, U.S.A., takes us to a corollary of the same point. Though this colossal monument may perpetuate the memory of the chief architects of this idea and of the donors (creditors) overseas, it will heighten the tragedy of the fact that, not far from its site in any direction, the warehousing facilities in the village *mandis* and (decrepit) farmhouses are in such an awful state.

Secondly, the buffer stocks, however large their magnitude may be, cannot successfully deflect foodgrains prices from their normal course as determined by market conditions. When the general price trend is upward, because of inflationary pressures, foodgrains prices, too, would move up; recent Indian experience has shown that, under inflation, foodgrains prices generally lead the rest of the price structure. It may be possible to beat down this price bulge in foodgrains by releasing stocks from the "bank." But there are limits below which foodgrains prices will not remain for long, especially in an inflationary background. If as a result of *blitz* sales of foodgrains, foodgrains prices should fall below their cost of production—which will tend upward under inflation—or even below their due position in the normal price structure, the output of foodgrains, under pressure of the relative price penalty, would be adversely affected, land and resources being shifted from food to non-food crops. When this happens, the very "success" of the policy will lead to the eventual failure of the price control measures by affecting supplies. The buffer stocks may be, then, soon exhausted in filling the continually widening food gap.

Role of Buffer Stocks

This is not to say that buffer stocks have no lawful part to play in the Indian economic setting. The purpose of buffer stocks, which is analogous to the resources of the I.M.F., is to make good unforeseen shortfalls in supplies, the most common example of this being due to crop failures. Importation of foodgrains to cover such deficits may take time and if crop failures should be attended by a strain or deficits in the balance of payments, as often happens, foreign exchange scarcity may impede adequate imports to cover the food deficits. Buffer stocks (built up from past balance of payments surpluses) would come in handy in such situations and may help to prevent undue rises in foodgrains prices. Buffer stocks are a necessity in an agricultural set up in which some have identified a five-year cycle of three years of good or normal crops and two years of short crops. They cannot, however, be expected successfully to hold in check an inflationary price rise in foodgrains; to assign such a role to them is to fancy that they may render inflation non-inflationary.

Thirdly, unduly large buffer stocks (built up at such heavy costs), may prove to be a handicap in times of price recession. For some time until May 1955, the foodgrains prices problem, as the problem of agricultural prices in general, was to check a price decline. The large magnitude of the buffer stocks may render price support operations, when the market is burdened with surpluses, much more difficult than ordinarily: they may cause the trade to unload all their stocks on the price support authority and this may give rise to inflation.

Remedial Measures

How shall we, then, tackle the foodgrains problem? The experience of the past over four years and the foregoing analysis suggest that the foremost pre-condition for preventing a rise in foodgrains prices is non-inflationary Plan finance and credit policy. Experience and logic suggest, too, that import of foodgrains to cover the deficiency in supplies is the obvious short-term remedy. Once the foodgrains deficit has emerged, whatever may be the reason for it (inflationary expansion of money incomes, crop failures or natural calamities), this is the only short-term exit from the situation, if prices must be prevented from getting out of control. In a background of overall shortages, coercive measures directed against hoarding, introduction of State (or co-operative) trading in foodgrains, fair-price shops, division of the national market into zones, credit curbs, and such other measures of tinkering with the machinery of trade would be worse than useless as the foregoing review has demonstrated. Such measures do not touch the problem of the shortages. They may react adversely on output and aggravate the food deficit. The demand for foodgrains being inelastic, small shortages in supplies may produce disproportionately large price rises and induce extensive hoarding, which may fan the flames of the price rise. The costs of food imports in the recent past have been heavy; during the three years ending 1958 they amounted to Rs. 339 crores. But this is the penalty we have to pay for the policy of inflationary finance (the futile attempt to invest non-existent resources) and, the artificial scarcities created by State trading. In the absence of these artificial scarcities, there would be no necessity for importing foodgrains in the current year, in view of the bumper harvests in 1958-59. Foreign exchange devoted for the importation of foodgrains may be, then, available for plan finance.

The Long-term Solution

The long-term remedy to the problem of food shortages lies in stepping up domestic production. But it is not fair by the farmer to insist that he grow rice or wheat and be content with a net return of Rs. 129 (on rice) or Rs. 97 (on wheat) per acre because the country is faced with a foodgrains shortage, rather than make Rs. 529 per acre by growing tobacco, or Rs. 165 per acre by raising groundnut. (The figures are national averages of net incomes per acre in 1952-53.) Nor is it in the national interest to raise poorer crops in place of richer ones. The aim of long-term policy, then, should be to step up supplies by increasing the yield per acre from land which is relatively best suited for foodgrains, not by growing foodgrains where richer cash crops may be raised. The major problem before the country is the problem of poverty. Under-nutrition is a part manifestation of it. A solution to the problem lies in maximising the national product, including agricultural production, not in producing foodgrains regardless of costs. Since foodgrains account for 67 per cent. of agricultural production, improvement of the agricultural industry should produce increased output of foodgrains. If, however, the production of foodgrains should conflict with the objective of maximisation of the national product, the latter objective should prevail. The food deficit should be, then, met by imports, which the increase in the national product should permit without causing an undue strain on the balance of payments. There is nothing basically wrong—unless it be reasons of military strategy—in depending on imports to meet the food needs of the country, in part, if such a policy should be necessitated by considerations of lifting up the national product. For some considerable time, however, national self-sufficiency in foodgrains should be attainable if output per acre of foodgrains, which is among the lowest in the world, is improved to its economic limits by technological progress, for which vast scope exists.

(*Continued on page* 132)

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Recent Price Trends and Monetary Factors—A Reassessment

Scope For Deficit Financing Seems To Be Greater Than Many Think

By Dr. M. H. GOPAL

VERY recently, the Governor of the Reserve Bank of India† spoke on the current economic situation and the role of banks since independence. The Governor observed that, in view of the distress in certain areas caused by the food crisis, "the overall situation gets obscured and even distorted." Although the main issues dealt with by him related to economic growth —whether the country is making progress; if so, at what rate; whether stability has been sacrificed in this process of growth; and what part banks have played—pointed reference was made to the price situation, particularly to the changes over the last decade.

This paper is concerned with the last of these issues. It analyses two broad facets: (1) internal price trends, and (2) how far these trends are traceable to monetary factors. These facets are related to two periods, namely, (*a*) the "long period" of eleven years of independence (1948 to 1959), and (b) the "short period" of 1954-59. Both the issues are of great current policy significance, particularly for an assessment of the twin questions: (1) Have price rises in independent India been so marked as to cause real anxiety regarding the development process? and (2) the theory of deficit financing apart, is "money creation" really to blame for the price variations? Next to the Plan, price and monetary trends have been most written about in India during the last few years, and protagonists and critics of "money inflation" have been plentiful. This paper, which is a microanalysis, is the outcome of the author's belief that the official data, as currently available, present a situation very different from and more revealing than is commonly believed even in knowledgeable quarters.

The main steps in the analysis are as under: (1) the problem of the base year; (2) (*a*) the trends in the general wholesale prices and the components with 1948-49 as the main base, and 1939 and 1952-53 as secondary ones throwing sidelight on the situation; and (*b*) with reference to a few economic indicators, namely, money supply, national product, agricultural output, industrial production, and consumer prices; (3) an explanation as to why, though facts are to the contrary, there is the widely prevalent feeling of marked inflation and of monetary factors as being responsible for this; and, finally, (4) the policy implications of the analysis. The statistical data given below are from official sources cited in each table, but they have been adjusted to the common base year.

Choice of the Base Year

Any kind of assessment over a period implies a starting point with reference to which the trends are to be traced. Since comparison is over time as well as between different variables in the same period, it is essential that changes in all the economic indicators should be related to the same base year, as, otherwise, comparison would become meaningless and biassed. In current professional literature, and even in the same publication, different years are used for different indicators. Thus, the *Reserve Bank of India Bulletin* takes 1949 as the base for consumer prices; 1949-50 as the base for yields of industrial securities; 1951 for industrial production (revised series); 1952-53 for imports and exports, security prices and wholesale prices; 1953 for production and prices; 1954 for gold and silver prices and so on. *The Eastern Economist* bases its index for agricultural production on 1936-39, and takes up 1939 for consumer prices and wholesale prices general purpose index.

Alternatives

There may be in each particular case valid reasons for resorting to different base years; for example, non-availability of data, modification of computational methods such as weightage and composition, and different computing authorities such as the Reserve Bank, the Central Statistical Organisation and the *Eastern Economist*. But, whatever the explanation, a comparison over time and between the behaviour of a number of indicators can be valid and significant only if they are reduced to the same year and compared over the same period. If the comparisons are not with reference to the same year or over the same period, distortions would result Thus, the Governor of the Reserve Bank of India has made two sets of comparisons. By comparing national income in *1957-58* with 1950-51, he concludes that the total output has increased by 6¼ per cent. per year and the *per capita* one by 1¾ per cent. and by comparing *1956-57* with 1948-49, he gets the results as 4 per cent. and 2 per cent., respectively. Why in one case it should be 1957-58 and in another 1956-57 and the bases too different is a bit intriguing. For, if the latest year for which national income data, though provisional, are available, 1958-59 is compared with the first year of their availability, namely, 1948-49, the emerging picture is an increase of 3 per cent. per year; and if the Plan years are compared, that is, 1951-52 with 1958-59, it would be 4 per cent.

In selecting a base for our present purpose, four alternatives are available: (1) 1939, the pre-war normal year; (2) 1947-48, the year of Indian independence; (3) 1948-49, the first full year after freedom; and (4) 1951-52 the beginning of the planning era. Although they may be utilised as checks and amplifiers —as, in fact, they have been in this essay—one only should form the central base, and which year it should be, depends on the purpose of the enquiry. Since my aim is to follow the changes in purchasing power, i.e., the existence, extent and causes of "monetary inflation trends" in *Independent India*, 1939 is excluded automatically. For, politically, it belongs to a different era; territorially, it relates to a different area; economically, both Indian and world conditions were totally different in 1939; and so were the national objective and instruments. A comparison of the last decade with 1939 serves, at best, one purpose—to show how much prices and other conditions have changed between the pre-war and the post-war years. I shall refer below to the 1939 prices only to throw sidelight on the current issue and no further.

Four major considerations should be borne in mind in choosing from among the other three: (1) *The territorial unit*: Free India and her conditions and policies should be the major criterion. From this angle, all the three years—1947-48, 1948-49 and 1951-52—are satisfactory. (2) *Proximity of the base*: This condition also is satisfied, since my main purpose is to trace any inflationary changes over the last decade. Had the purpose been to assess the results of the Plans only, the pre-Plan year, 1950-51, should have been the choice; perhaps, better still, 1951-52, which, though the first year of the first Plan, reflects more accurately, because of the lag between investment and results, the effects of the Plan on the national output, money supply, prices and so on.

But my purpose is to review the decade of independence, of which the eight Plan years form a part. As such, 1951-52 has no special significance as a base. (3) *Normality*, i.e., since the Government's policies, particularly those affecting prices—e.g., money creation, investment targets, production achievements, etc. —are in question, it is difficult to decide what constitutes normality. Different economic indicators have different 'normal' years

The main test for selection would, therefore, be (*a*) the year should comprise the full period of 12 months, and (*b*) it should not have experienced any major upheavals such as floods, famines and war. 1947-48 fails to satisfy this test, since free India was born in August 1947, with only seven months to go, and since the political and communal holocaust bordered on a war. A comparison of the later years with 1947-48 could, therefore, not be valid and suggestive.

Satisfactory Base

For other reasons too, 1948-49 is a satisfactory base. Some of India's economic measures, e.g., the Industrial Policy Statement of 1948 and Shanmukham Chetty's new fiscal policy of 1947-48 were formulated and made operative. Moreover, some kinds of data, e.g., on national output, are available for 1948-49 but not for 1947-48. There are, however, two important limitations: first, 1948 was the 'decontrol' year characterised by a sudden rise in prices, amounting to 25 per cent. over the 1947 level. But this 'abnormality' continued long enough to become a normal feature, for, not until 1954-55 did wholesale prices touch the 1948-49 level nor reach the 1947 height. A second limitation is the relative uncertainty about money supply data. A Reserve Bank publication of 1954 (*Banking and Monetary Statistics of India*, July 1954) gives monthly money supply statistics for 1948-49 in the *Indian Union* whose annual average differs materially from the volume that may be inferred from a later document of the same authority (*Report on Currency and Finance* 1953-54). The former average is followed below, but the *trend* of the conclusions does not appear to change even if the latter is considered.

Moreover, since my principal object in this paper is to assess the role of money in the 'inflationary' context and since deficit financing became prominent only a few years ago, 1948-49 appears to be the best base for a meaningful comparison of the trends in the different economic indicators. One fact to be stressed even at this stage of the analysis is that inflation had already begun in the war days and so any assessment of the responsibility for the present policy cannot go behind 1948-49. While, therefore, making this—the first full year of freedom—the base, I shall also utilise the other years as supplements to throw any further light on the policies.

Conceptual clarity also is essential since various types of inflation —money inflation, price inflation, wage inflation, cost inflation and so on, as also "suppressed inflation," "regional inflation" and so forth—are currently referred to.

Economic Indicators of Inflation*

The term 'inflation' is used in this paper as indicating a marked fall in "the purchasing power of the national currency" over the *whole* of the territory it operates in. According to this definition, inflationary and non-inflationary conditions cannot co-exist in different parts of the same country, e.g., inflation in Bengal but no inflation in Bombay; or more in one State and less in another.

Although the meaning is generally familiar and its effects universally felt, there is no single composite criterion to indicate its prevalence and its extent. Hence the need for a number of economic indicators of differing degrees of importance. These relate broadly either to price movements or to monetary expansion. Some of them detect the existence of inflation—and this is the purpose of this essay —some measure the rate of inflation and some help to forecast economic behaviour.

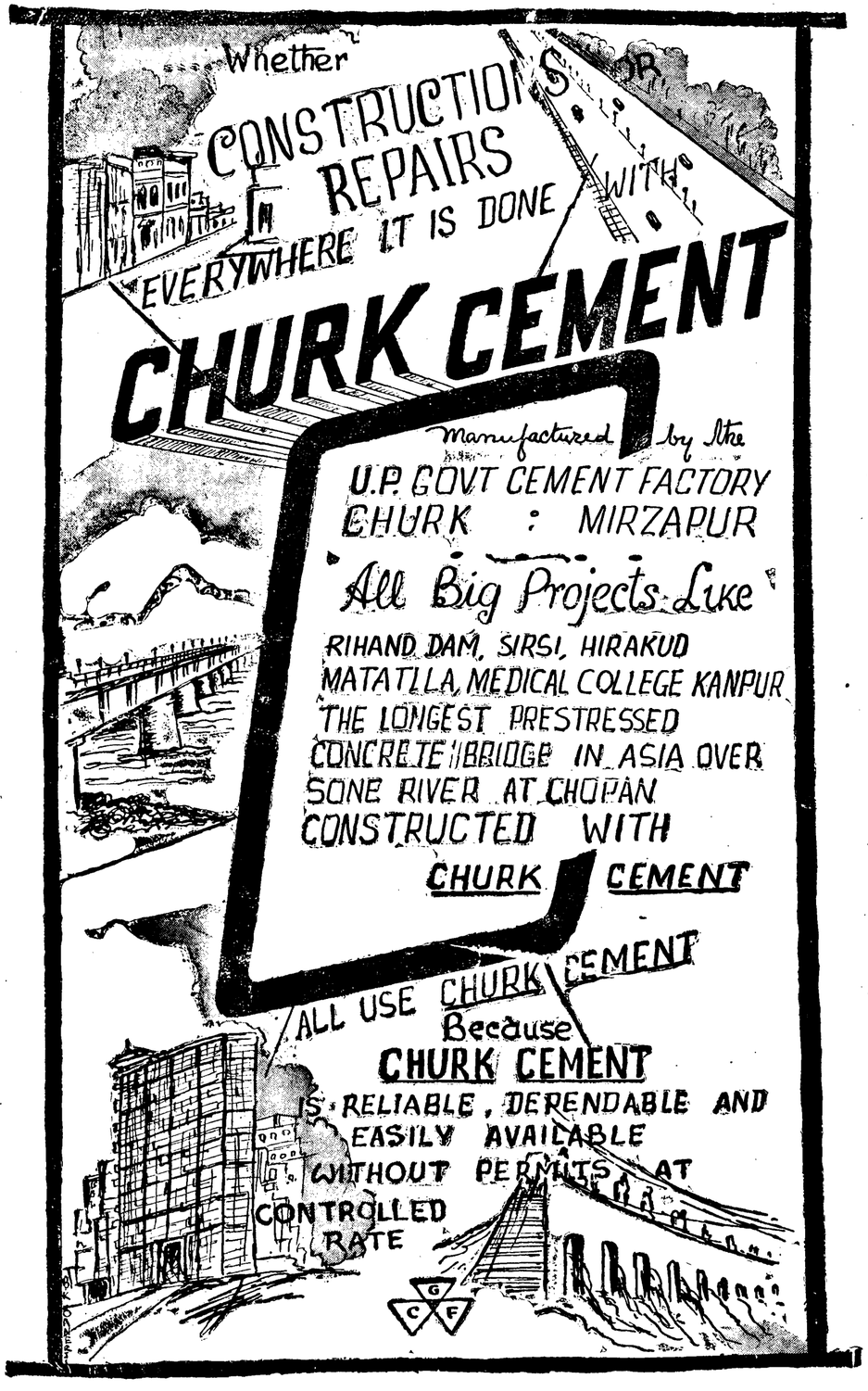
Among the indicators, the increase in the *general price level* is generally a major clue to inflation but this rise must be considered in terms of its continuity and volume. Not all price increases, however, are inflationary. Normally, a good price index can be depended upon to point to inflation since it represents the ratio between national expenditure and national product. Often a comprehensive *Consumer Price Index* has been regarded as a better indicator of inflation than wholesale prices; but this appears unsatisfactory for the purpose of this paper since the main issue is whether the internal purchasing power of the national currency has depreciated over the whole territory of its operation. Prices of major foodgrains and sectoral prices such as the course of price and interest rate charged could also act as indicators.

In this essay, however, both the wholesale and the consumer price indices, as far as they are available, will be taken into account —the all-India wholesale price index being regarding as of greater importance than the all-India consumer price (working class) data, because the latter are not comprehensive enough for an accurate measurement of price changes.

The next set of indicators relates to *monetary expansion*. As expanding money supply is not necessarily inflationary, either in indicating or in generating it, any increase will have to be judged in relation to the liquidity preferences of people and similar considerations. One of the facets of the monetary index is the income elasticity of circulation which, no doubt, is important but which particularly in an underdeveloped country is difficult to get

†Speech at the Institute of Bankers, on 20th August 1959. (Reprinted in *Reserve Bank of India Bulletin*, August 1959. pp. 1006-11.)

Economic Indicators of Inflation in E.C.A.F.E. Countries (mimeographed pamphlet E.C.A.F.E. 14/10/54).



at. Equally difficult is to ascertain the turnover of bank deposits but an approximate idea of velocity can be had by relating deposits with clearing house data in order to arriver at a "per cheque" basis. I have adopted the E.C.A.F.E. suggestion that a handy indicator of monetary expansion is "the total of currency in circulation and checking accounts." Total money supply (coins+currency+deposit money) without any adjustment to the velocity of circulation as far as is possible, will be termed in this paper 'unadjusted,' while the supply with deposit money related to cheque clearance will be referred to as 'adjusted' money supply.

Next, data relating to *private expenditure*, which also acts as an indicator, may be studied very roughly through statistics of consumption of important articles. Similarly, the net *supply of goods and services* available for consumption is yet another criterion. This concept of agricultural production broadly relates to total production *minus* quantity exported, utilised for seeds and waste, and *plus* imports. Similar is the importance of industrial production as an indicator, but, since data regarding the output of rural, cottage and small-scale industries cannot be completely obtained, the currently available *indices of agricultural and industrial production* have been utilised.

With 1948-49 as the base and wholesale prices as the important observant and all-India consumer prices (working class) as the secondary one, this paper will follow the trends in prices as well as in other indicators, compare the changes in the general wholesale prices with those in the price components, aggregate money supply, aggregate and *per capita* national output, and agricultural and industrial production. The period of comparison is 1948-49 to 1958-59.

The Indicators Applied

Over the 11 years under observation, the *general wholesale price index* rose by 14.3 per cent., an annual average of 1.3. In the first four years (1948-49 to 1951-52), prices rose by an average of 4 points a year, most of the increase (15.5 points) being in 1949-50 and 1950-51. This was due to the decontrol measures and the Korean War, when industrial raw materials shot up by 27 points in two years, and suddenly collapsed by 35 points in the next year. With the general price level falling by 14 points in 1952-53, the index touched 93.6 by 1955-56. (It is necessary to caution here that the weights in and composition of the index from 1952-53 onwards have been different from the earlier years and, therefore, consistency and comparability are limited. This fact should be borne in mind in this and the succeeding paras. But broad comparisons appear to me to be valid.) Thus, in the next three years —1952-55—*the fall* was about 5 points per year. Since 1955, prices have been rising, first in a spurt of 13 points in a single year and later, rather slowly.

The Plan period of eight years, 1951-59, falls into two broad periods —that of falling prices 1951-55, and that of rising prices, 1956-59. The fall was of the order of 22 points and the rise, 21 points. A part of this rise must be put down to the *price recovery* in the *late post-Korean* years, because the conditions created by the Korean situation and the super-harvest of 1953-55 were abnormal and naturally upset the post-war normal trend. If allowance is made for this, the rise in the three years after 1956 was about 10 to 12 points, i.e., an annual average of 4 points. How far such a situation can be called inflationary is a matter of doubt; and this doubt is strengthened by the behaviour of prices over the whole period of 11 years, i.e., a rise of 14 points and of the surprising trend in the wholesale price components.

The first component, whose behaviour is baffling, is "*food articles.*" The rise in their all-India wholesale prices over 11 years has been 7.6 per cent., i.e., 0.7 per cent. per year, which is almost incredible. In the first three years, the food price index went up, as other prices did, but not to the same extent, being only 8.8 per cent. of which 6.6 was in 1950-51. Then the index began to fall, at first by 4 points in the next year and then, suddenly by 11 points in 1952-53 with a further fall of 4 points in 1954-55—in all, a fall of 20 points in four years. Since then prices have been rising, the increase in the last four years being 4 or 5 points a year, though in 1958-59, the rise was by 8.2 points. In 1958-59, the level was 107.6, but lower than in the pre-"deficit finance" year, 1950-51. Although there have been fluctuations, they have been less marked in food, than, for example, in raw materials, the limits of variation in the former being 20 points and in the latter 36 points but food prices have fluctuated more than manufactures, in which the variations were 15 to 16 points only.

Industrial raw material prices have risen by 12 points in 11 years, i.e., by about 1.1 a year. They, however, touched the record of 133 and a rise of 16 points in a single year in 1951-52, mainly on account of the Korean situation. Similar is their record fall of 35 points in the next year. After a fall of 8 points in the succeding three years, the level rose to about 114 by 1957-58, though, in the next year, there was a slight fall. Since 1955-56, the level has gone up by 15 points, i.e., an annual average of 4 points. Two significant features of the raw materials group are: (1) the greater degree of fluctuations and the higher rise than under food; and (2) an actual fall in the level by 2.4 points, whereas food prices advanced by 8 points in 1958-59.

In contrast with food and raw materials, the *manufactures group* shows relative steadiness. In the last eleven years, the rise in both 'semi-manufactures' and 'manufactures' has been about 16 per cent., that is, an annual average of 1.5 per cent. In the four years preceding 1952, both sub-groups showed a rise, the former by 14.3 per cent. and the latter by 16 per cent., i.e., 3.5 per cent. to 4 per cent. a year. One point of difference was that manufactures suddenly jumped up in 1950-51 by 14 points, whereas semi-manufactures were a little less jerky. The latter steadily declined till 1954-55 and, since then, except for 1956-57, have risen by an average of 2.6 points per year. 'Manufactures' have shown much greater steadiness. Except for the Korean War year of 1951-52, when the level rose by 14 points in a single year, they were around 107 and 108 for two years after 1953. In the next four years, 1955 to 1959, they increased on an average by 2.5 points a year. Except for the sudden rise from 99.0 in 1955-56 to 105.6 in 1956-57, they have been relatively stable in the eleven years. In January, 1959, they were 114 and in August 119.9. Still greater stability in the price level is evident in manufactures, whose indices advanced only by 8 points in seven years and was 109.8 in August 1959. More or less the same trend is noticeable in the *'finished products'* components, though the intermediate products have shown *a very slightly* higher rise, 10 instead of 8 points in seven years.

It is, thus, clear that the broad trends of wholesale prices are similar whether the base is 1948-49 or 1952-53, that is, the magnitude of the price rise is small and the fluctuations in 1948-49 right up to August of the latter year are not, by and large, very marked.

Let us look at the *price situation in relation to* 1939. The new series, with 1952-53 as the base in which weights and components are different from the old series, is not strictly comparable with the earlier figures. But since comparisons are often made in the public and inferences drawn, and also since the magnitude, if not the trend, of price changes would be different in the 1939 context, there may not be much inaccuracy in relating 1948-59 prices to the pre-war base, particularly because neither the 1939 nor the 1952-53 base will form the major premise of my conclusions.

In *terms of* 1939, three conclusions stand out. First, the price rise has been very considerable being *nearly* fourfold larger in 1948-49 and *more* than fourfold in 1958-59; secondly, in the decade since 1948, the increase has been apparently marked; and, thirdly, except for the Korean War year of 1951-52, the fluctuations in 1954-59 as a percentage of 1939 would be the same as with the 1948-49 base or the 1952-53 one. The prices of the manufacturing group fluctuated between 327.3 in 1948-49 and 402 in 1956-57, i.e., 8 points a year and the semi-manufacturing group by 4 points a year. The sudden jump in the former sub-group and the relative stability in the latter may be noted. It is the industrial raw materials and the miscellaneous group, however, that give the jolt. In 1948-49, the price level was 4½ times the 1939 prices and in 1956-57 it passed the fivefold limit, the all-time high of 591 being reached in 1951-52.

Other Indicators

We may turn to the other indicators, and begin with the *consumer prices*. Comparison of these with wholesale prices has to be a bit cautious, since the former relate to the calendar year and the latter to the financial one. But, over the period of a decade, broad comparability is permissible. The consumer price index increased uptil 1951-52 by about 2 per cent. per year; later, except for 1953-54, continuously fell till it reached 98.9 in 1955-56, i.e., by 2 points a year, though the fall was 5 points in 1954-55 and 1955-56 each. Since 1955-56, it has advanced from 98.9 to 119.6 in 1958-59 and 122.7 in May 1959. As compared with the base year, the rise in the succeeding eleven years has been about 2 points a year. There have been fluctuations such as a fall in 1952-53 and in 1955-56 and a marked rise in 1956-57. But, by and large, there has been a steady but slow increase in the all-India working class consumer prices —19.3 points, as compared to 14.3 in wholesale prices, in 11 years. In the period since the first Plan and since 'deficit-financing' became markedly operative in 1955-56, both wholesale prices and consumer prices have advanced by 13 points and, in the first six months of 1959, the former was up by a further 2 points and the latter by 3 points. In other words, there has been generally a similarity in the behaviour of the two price indices and so, either may be compared with the other indicators.

The rise in the *gross national product* at constant prices has been about 34 per cent. in the last 11 years, i.e., an annual average of 5.0, though, since 1951-52, the rise has been more marked than in the earlier years and in some recent years, e.g., 1955-56 and 1958-59, it has been still larger. Because of population growth, the *per capita* output has expanded less slowly, being 12 per cent. in in all years, i.e., 1.1 per cent. per year. Since 1951-52, the increase has been a little larger, e.g., in 1956-57 as much as 3.5, though it fell in the next year. In other words, the overall annual rate of growth in the national product has been 3 points a year since 1948-49, as compared with the price rise of 1.5.

Agricultural production has expanded by 28 per cent. since 1948, i.e., at an annual rate of 2.8 per cent. The fluctuations in production have been marked but, except for the last two years, these have been amidst a rising output trend. Industrial output has been up by 4.5 per cent. a year.

Turning to *money supply*, which has been suggested as a major ingredient of inflationary forces, it is worth repeating that "monetary expansion" by itself does not necessarily indicate or generate inflation. Of the 'unadjusted' volume of money, coins and notes expanded by Rs. 480 crores, i.e., from Rs. 1,216 crores to Rs. 1,692 crores in 11 years and the increasing trend was almost continuous over the decade except for 1951-53. Bank money with the public (unadjusted) was up by Rs. 100 crores in 1948-59, rising from Rs. 667 to 765 crores. Thus, the total unadjusted money supply increased by 23 per cent. in the decade, i.e., roughly about 2 per cent. per year. The rate of rise has not been uniform. In the last seven years, for instance, the index has risen by 36 points from the floor level of 87 per cent. in 1951-52, that

TABLE I—*Indices of Economic Indicators*
(Base year 1948-49=100)

Year	General index (Wholesale prices, all-India)	Money supply		National product at 48-49 prices	*Capita* per net output (48-49 prices)	Agricultural production	Industrial production	Index No. consumer prices (working class)
		(c)	(d)	(e)	(e)	(f)		(i)
1948-49	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1949-50	102.5	91.9	99.0	102.0	100.7	106.6	97.5	103.1
1950-51	108.9	(a) 97.6	105.1	102.3	99.8	101.9	96.8	(g) 104.1
1951-52	115.5	88.9	95.8	105.2	101.3	103.9	108.1	108.2
1952-53	101.2	87.0	93.7	109.4	103.9	108.7	112.0	106.2
1953-54	102.4	88.4	95.2	116.0	108.8	121.9	114.2	109.3
1954-55	98.6	94.7	101.9	118.8	110.1	124.1	122.0	104.1
1955-56	93.6	(b)107.7	115.9	121.2	110.8	123.6	132.3	(h) 98.9
1956-57	106.6	114.0	122.8	127.2	114.3	131.1	145.3	108.2
1957-58	109.7	117.7	126.8	125.2	111.6	120.9	148.4	114.4
1958-59	114.3	123.1	132.6	134.5	112.7	(128.0)	150.7	119.6

(a) Index numbers with 1939 base is available in *Report on Currency and Finance* 1953-54. Base was shifted by dividing the series with 1939 as base by the Conversion factor which is the Index number of 1948-49 in the above series.

(b) These figures are based on revised series with 1952-53 as base year (*Report on Currency and Finance* 1958-59). The figures are arrived at by multiplying the new series by conversion factor which is the index number for 1952-53 with base 1948-49.

(c) The figure given as the 'simple' average of 12 months beginning from 1st April 1948 to 31st March, 1949 is taken as the base for 1948-49. (*Banking and Monetary Statistics of India* issued by R.B.I., July 1954, page 681.)

(d) The figure given in the Reserve Bank of India Report on *Currency and Finance* 1953-54 in statement 17. Taken as the base for 1948-49.

(e) Source: *Monthly Abstract of Statistics*, May, 1957 (page 114).

(f) Index of agricultural production is available with base 1949-50. (*Monthly Abstract of Statistics* May 1959). The base was shifted by dividing the index No. for 1948-49 with the base 49-50 which is available in the *Agricultural Situation in India*, July 1958.

(g) The indices with base 1946 is available. The base was converted by dividing the series by conversion factor which is index number for 1948.

(h) New series was started with 1951 as base. Base was converted by multiplying this series by $\frac{I\ 1951\ (1946)}{I\ 1948\ (1946)}$ where I 1948 (1946) and I 1951 (1946) represent the index numbers for 1948 and 1951 respectively in the old series with 1946 as base. (Source: *Monthly Abstract of Statistics* May 1959, pages 97, 22-23).

(i) Figures are based on the All India Consumer Price Index Number series with 1949 as base (*Monthly Abstract of Statistics* 1959). Base is shifted by dividing the series by conversion factor which is the index number for 1948 with base 1949.

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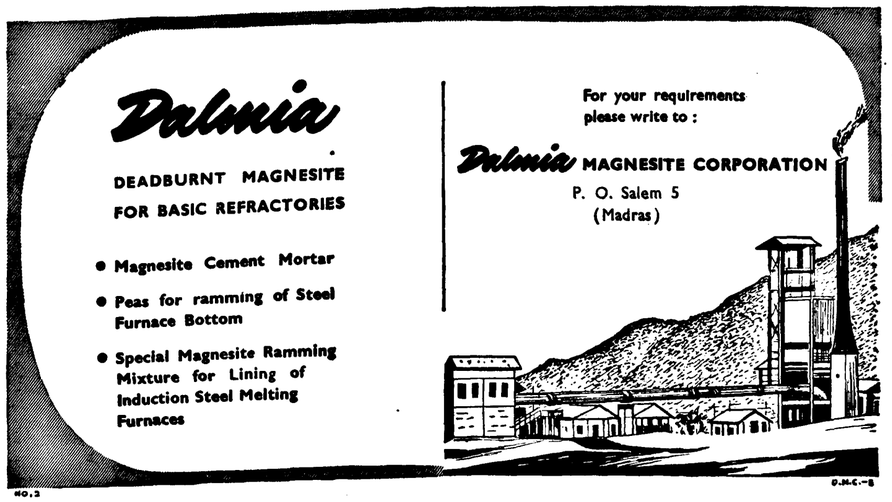

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is, an average of 5 per cent. per year but in some years, the increase has been higher still.

If bank money is 'adjusted' to the velocity of circulation indicated by cheque clearance data, slightly more meaningful results follow. Although the total value of cheque clearances has expanded, there has been a proportionate rise in the number of cheques issued, with the result that the 'velocity' has not materially changed. In fact, the "per cheque amount" decreased between 1948-49 and 1952-53, except for one year, and, since then, during the last seven years, except for a further fall in 1954-55, has been steady but 30 per cent. lower than in 1948-49. If bank money with the public is adjusted to this interpretation of velocity, there has been only a 20 per cent. increase in money supply in eleven years, i.e., less than 2 per cent. a year. Since 1952-53, there has been a steady rise in the total volume of 'adjusted' money supply but the price level has fluctuated, and neither the volume nor the pattern of price and money changes has been similar.

The Time Lag Explanation

It has sometimes been suggested —and theoretically this is largely true—that there is a time lag between variations in money supply and those in the price level. Apparently, this thesis to some extent may be supported by the changes in the two indicators during the last four years. Thus, assuming one year lag between the variations in money supply and its effect upon the price level: in 1955-56, adjusted money supply increased by 14 points while wholesale prices increased by 13 points in the next year. Similarly, in 1956-57, money supply expanded by 6 points and 1957-58 wholesale price increased by 3 and so on. Between 1955 and 1959 adjusted money supply increased by 23 points while in 1956 to 1959 prices went up by 21 points. *Apparently* a direct relationship between these two appears to be established, provided a time lag of one year is assumed.

This thesis, however, will not hold water if the logic of the argument is extended to the earlier years, as evident below:

—	48-49	49-50	50-51	51-52	52-53	53-54	54-55	55-56	56-57	57-58	58-59
Annual changes in money supply (index)	—	—5	7	—6	+9	—1	+8	+14	+6	+3	+6
Annual changes in price level (index)	—	+2.5	+6.4	+6.6	—14.3	1.2	—3.8	—5	+13	+3.1	+4.6
Volume of deficit financing (in crores of rupees)* ..	—	—	—	8	42	35	101	150	238	499	156

* *Note.*—1. These do not include sales or purchases of securities and also ways and means advances by the Centre to the States.

2. State figures for 1958-59 are the latest.

Source.—The Central and State Budgets for 1959-60 (B.E.).

The foregoing variations in the adjusted money supply and the wholesale prices during the last 11 years, point out that there is no consistency between the fluctuations in the two indicators. Thus, in 1949-50, money supply decreased by 8 points and instead of a sympathetic decrease in the price level in the next year—assuming a one year lag—there was actually an increase of 6.4 points in prices. Comparison of 1950-51 with 1951-52 suggests an apparent similarity in the movement of money supply and prices. But a deeper probe points to the real fact; for, in 1951-52 money supply decreased by 6 points while prices fell by 14 points; in 1952-53, a *reduction* in money supply by 12 points was followed by an *increase* in prices by 1.2. Similarly, there does not appear any logical relationship between the movements of money supply and prices in the next two years.

Let us look at this relationship from the angle of the aggregate effects; between 1949-50 and 1953-54, the net decrease in money supply was by 17 points, whereas the net change in the price level in 1950-51 to 1954-55 was a fall of 3.8. I do not contend that money supply has not had any effect at all on prices, but I only suggest that the direct relationship either quantitatively or over time between these two indicators is not established. We must, therefore, seek the explanation for the rise in prices elsewhere than in the monetary factors.

The foregoing money-price relationship may also be expressed thus: the general wholesale price index in the "long period" of eleven years seems to be almost wholly independent of money supply, the correlation co-efficient being 0.2785, while a positive correlation of a high order is found between money supply and the value of the national product (0.6014). The correlation between *money supply* and the other variables would broadly be as under: (1) and wholesale prices= 0.2785; (2) and national product =0.6014; (3) and *per capita* income =0.5291; (4) and agricultural output=0.4410; (5) and industrial output=0.8081. Taking together the first three of these indicators, it is clear that the trend in the price level has had little to do with the combined effect of money supply and the national product. For instance, in 1956-57, when the *money supply decreased* slightly and the national product increased significantly, the *price level rose* significantly. Instances to the contrary are also found. This compels the inference that the changes in the price levels since independence are to a large extent independent of the monetary factor and must, therefore, be traced to some other agency which may be termed "organisational and administrative."

"Short Period" Trends

The situation in the years 1954-59 is particularly important since the protagonists of monetary inflation have been pointing to these years—where deficit financing became a major aspect of State policy—as having led to the inflationary tendencies.

The general price level with 1948-49 as the base fell from 98.6 in 1954-55 to 93.6 in the next year and from then on increased so as to reach 114.3 in 1958-59; in the same period, the consumer price index changed from 104 to 99 in the first two years and then by about 20 points in the next three years. These rises are, no doubt, very marked for such a short period but, as suggested earlier, they must be viewed in the context of the falling trend between 1953-54 and 1955-56. From this angle and even assuming that the 1953-54 prices had continued, the increase in wholesale prices by 1958-59 was 11 points during the last five years, that is, an annual average of about 3 points.

Let us look at the changes in money supply in this period. The 'unadjusted' money supply index rose from 94.7 to 123 in the five years following 1954-55, i.e., an average of 6 points a year; the increase being particularly rapid since 1956-57. The national product expanded by about 16 points in these five years, i.e., an average of 3 points, while the *per capita* net output remained practically the same in 1958-59 as in 1954-55. The index of agricultural production increased to 131 in 1956-57, but, after a very marked fall in the next year, reached 128, that is, if 1958-59 is compared with 1954-55, the rise has been very little. On the other hand, industrial production went up by 28 points in 5 years, i.e., an annual average of 6 per cent.

These trends in the various indicators suggest that (1) the rise in price that has taken place in the last four years is, no doubt, marked, if it is not placed in the context of the earlier years, and (2) the national product increased at a slower rate than money supply. But, in the absence of correspondence in the movement of money supply and wholesale prices, the claim that money supply has been even a major factor in changing the price level cannot be sustained.

Regional Variations Explanation

It has sometimes been suggested that the inflationary rise can be observed when regional price variations are compared. Something to this effect, though not exactly in the same terms, was said by the Governor of the Reserve Bank in the speech quoted earlier. Thus, for instance, it may be pointed out that prices in Bengal are higher than those in Madhya Pradesh and that the high prices in Bengal may be termed "regional inflation."

This approach has the appearance of being satisfactory, but, in effect, it would lead, in my judgment, to a misinterpretation of what regional inflation means. No doubt, regional inflation is a fact but in a different sense. Thus, if in the South-East Asian region the currencies of the different States, such as Pakistan, India and Burma, have depreciated internally and there is inflation in each one of these States, all of them taken together and as constituting the South-East Asian region, may be said to be under regional inflation, because the different national currencies in a particular region have gone down in value.

This is entirely different from a situation where *within the same country* and with the same monetary standard operating, there is said to be regional inflation as though the rupee in Bengal is something different from the rupee in Bombay. So long as inflation denotes the fall in the purchasing power of a national currency, it is only where there is an overall fall in its value internally that the term inflation could have any significance. If the thesis of regional inflation in the former sense is accepted, it would lead to the inference that there might be inflation within the same region, as between the rural and urban areas, or as between different towns and cities leading to an *ad absurdum* position.

What is emphasised here is not that there are not very marked differences in the price levels between different regions in India but that these differences should be ascribed to factors other than monetary conditions; for example, administrative and organisational defects, lack of adequate and efficient transport facilities or the *scare* of a rise in prices. The concept of regional inflation with reference to the same country does not appear to be logical.

Reasons for the Inflation Feeling

I have suggested above that the rise in prices is a fact but that it is not due to the monetary process. What then could be the reason apart from the organisational causes mentioned above? I would put down the reasons under material and psychological heads. The former largely refers to the maldistribution of the available purchasable goods, particularly the consumer goods. This maldistribution arises because of hoarding, inadequate transport facilities and the imbalanced exploitation of the production facilities. Thus, for instance, where cloth of one type is wanted cloth of another type may be produced.

What is more important is the psychological factor. A large part of the price rise and 'inflation' are partly the consequence of a crowd mentality, i.e., when once the idea gets going that prices are rising, panic sets in and makes the price position worse than it need be. A price rise is exaggerated when it succeeds a low price period. Thus, when the price index touched the lowest level in 1953-54, a *price recovery* from that level was severely felt. Moreover, while the economist looks to all-round price changes for inflation, the common man is influenced by the rise in the few commodities that affect him, particularly the necessaries, specially foodgrains prices like rice and wheat whose prices have considerably gone up and in particular local regions. These factors accelerate the inflation scare.

The remedy for these is, on the one hand, the improvement of organisational factors—a readjustment of the production apparatus and a reshaping of the investment pattern under the third plan, in addition to the necessity to impress upon the people through the Press, platform and propaganda the true facts about the rise in prices.

Policy Implications

If the thesis propounded above, namely, that (1) since independence the rise in prices is not, by and large, as considerable as is made out to be, and (2) that this rise, whatever the degree, cannot be traced to monetary factors, is sound, then follow certain policy implications of some significance to the resources position for the third Plan.

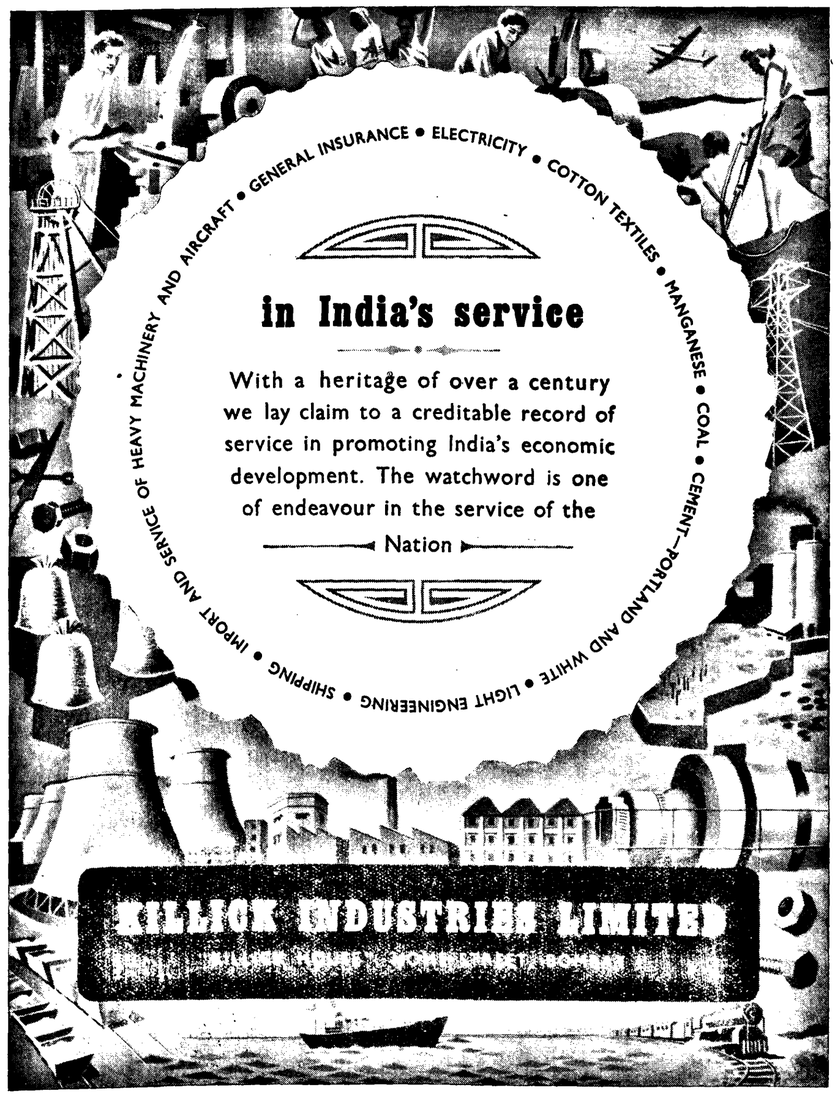
The first implication is that the effects of deficit financing undertaken so far have not been as frightening as some critics make out. This is so, because there has been a substantial increase in production and so long as output increases even at the rate at which it has been increasing during the last decade, the dangers of monetary inflation are not so imminent. Secondly, if a

(*Continued on page 122*)

TABLE II—*Money Supply with the Public*

Year	Variations in money supply (Crores) (*Unadjusted*)	Cheque clearances. Index of average per cheque	Deposit money adjusted to velocity (Crores)	Total money supply *adjusted* to velocity (Crores)	Index	Annual changes in money supply (as in col. 6)	Annual changes in price level (as in col. 9)	Price index
1	2	3	4	5	6	7	8	9
1948-49 ..	— 43.26	100	667	1,879	100	..	..	100.0
1949-50 ..	— 18.67	88	571	1,786	95	— 5	+ 2.5	102.5
1950-51 ..	+118.84	89	570	1,909	102	+ 7	+ 6.4	108.9
1951-52 ..	—174.92	99	581	1,797	96	— 6	+ 6.6	115.5
1952-53 ..	— 39.08	78	441	1,640	87	— 9	—14.3	101.2
1953-54 ..	+ 29.26	74	417	1,646	86	+ 1	+ 1.2	102.4
1954-55 ..	+126.65	74	450	1,761	94	+ 8	— 3.8	98.6
1955-56 ..	—263.69	76	516	2,021	108	+14	— 5	93.6
1956-57 ..	+128.57	77	582	2,138	114	+ 6	+13	106.6
1957-58 ..	— 75.94	76	594	2,200	117	+ 3	+ 3.1	109.7
1958-59 ..	+109.92	76	588	2,312	123	+ 6	+ 4.6	114.3

Sources.—(a) *Reserve Bank of India Bulletin*, August 1959.
(b) *Report on Currency and Finance*, 1953-54, statement 17.
(c) *Report on Currency and Finance*, 1958-59, statement 23.
(d) *Report on Currency and Finance*, 1948-49, statement.



Institutional Resistance To Economic Growth

People's Habits And Social Organisations Need Reform

By Dr. R. BALAKRISHNA
PROFESSOR OF ECONOMICS, MADRAS UNIVERSITY

THE various countries of the world are at different stages of economic development. Some suffer from mass poverty which is chronic. They have obsolete methods of production and social organisation. As contrasted with the economically advanced countries, they are in a state of underdevelopment. There is, however, scope for progress among them, as they have potentialities of growth. But, in their attempts at development, they face considerable resistance from the institutional set-up in which they are functioning. These institutions are the embodiment of the habits of the people and the social setting in which they live. They determine largely their sense of values and their mode of behaviour. These institutions are varied in their origin and purpose. They are social, cultural, legal, administrative and economic. Each of them has a profound influence on the process of economic growth. Social institutions, like religion, caste, joint-family, etc., determine the attitude of the people towards economic pursuits. Certain religious beliefs and the philosophy they teach may be incompatible with the attitude that is essential for economic growth. The restrictions imposed by caste may interfere with the vertical social mobility so essential for economic growth. The extended family as a social institution has been a drag on individual initiative and economic enterprise.

Social Outlook

In India, these social institutions have been exerting a negative influence on economic growth. The status accorded to women by the ancient law-givers has been a source of considerable economic waste. The institution of early marriage, the limited rights of inheritance allowed to them and their deprivation of various other privileges in the existing social system in India, all these have been a source of economic loss to the country. The joint-family system is an outmoded social institution in the context of present economic development. It was a device for the preservation of property from generation to generation and for the continuance of the religious practices hallowed by tradition. But the head of the family had no freedom to invest the resources of the family. As a result, so much of potential capital was lost for economic development and the people continued to be agriculturists, as it was the only safe method of investment from the standpoint of the joint-family. The Hindu religion placed emphasis on other values of life than that of an aggressive search for wealth. Thus, the social institutions of India have inculcated beliefs and attitudes that have tended to stifle economic growth. There are, however, tendencies at present which are likely to overcome their influence in due course. The new Hindu Law Code, in particular, has been aimed at a reordering of the social structure to render it more conducive to economic development.

Cultural Pattern

The culture of a people which finds expression in various institutions, such as those for fine arts and for literary pursuits, cultivate values and attitudes which may either welcome or resist innovations in the sphere of economic development. Culture is the learned, socially sanctioned behaviour of the people. When it contacts other cultures in the process of economic growth, it may offer resistance to development. India has had its traditional culture, vestiges of which are present even today. At the first impact of the West on Indian civilization, there was a need for an adaptation of the culturally prescribed motivation, but this has not been fulfilled even after the lapse of so many years. There has all along been a resistance to a modernisation of technique and a change in the mode of life. The people have not taken kindly to a disruption of their traditional culture. The erosion of the social system, though active, has only touched the fringe. The changes associated with economic growth, such as the rise of a proletariat and the emergence of social tensions, are disliked. Even the growth of towns and their evil consequences, which are the necessary concomitants of economic growth, are abhorred. In the remote areas of the country monetisation is feared, as it might destroy family relationships and undermine authority and tradition. Modern technology is resented, as it runs counter to the rhythm of work socially approved according to traditional culture. So the greatest effort is to induce a cultural change favourable to economic development. The socio-political structures of underdeveloped countries have to be adapted to fall in line with the requirements of economic growth.

The legal system and the judicial institutions of a country exercise a pervasive influence on the character of economic growth. In assessing the role of law in economic development, it is necessary to ascertain, at the outset, the law and order position in a country and the protection it offers to property. Unless individuals are assured the fruits of their effort, there can be no incentive to work. Authoritarian intervention in the normal prosecution of individual activities will also undermine confidence. The observance of the rule of law is the best guarantee of personal interests. The judiciary must be independent of the executive, in order to inculcate confidence in the minds if its citizens. The institution of private property and freedom of contract, with powers to own and dispose of factors of production, are the essential legal props for the sustenance of the capitalistic system. When the legal system of the country assures the maintenance of these props, there will be freedom of manœuvre in the economy, permitting a change in the status and occupations of the people. Innovators can then seize opportunities and contribute to economic growth. The legal framework of most underdeveloped countries incorporates all these essentials, but what exactly exists behind this facade is difficult to guess.

The tax laws of a country impinge on business activity even more directly than the general law and order position. Underdeveloped countries have the misfortune of having had their fiscal structure implanted from abroad. Taxation is the major method of mobilising domestic savings in countries with a low level of national income. When such countries propose to operate new industries and wish to implement a socialistic policy, a sizable part of the national income should be raised in the form of tax revenue. This is a process having serious repercussions on the opportunities for economic growth in a country. Therefore, unless a balance is held between the freedom of manœuvre permissible for individual *entrepreneurs* and the necessity for State participation in economic development, tax laws may interfere seriously with the possibilities of economic growth. It is a matter of doubt whether this aspect of the problem has received due consideration in the enunciation of the tax laws in India.

There are also direct legal controls of economic enterprise by the State, such as the Industries (Development and Regulation) Act and the Company Law Amendment Act. Such legal powers may have adverse effects on economic growth, unless they are very judiciously exercised. Very often a technical aid programme sponsored from abroad for economic development may have to face the competition of officially sponsored indigenous rivals. The State, with the legal authority behind it, may checkmate development on modern lines, lest it should interfere with schemes conceived on a sentimental basis. The *ambar charka* is a case in point in India.

Administrative Machinery

A common heritage of most of the underdeveloped areas, which is a great obstacle to economic development, is an ineffective, untrained, incompetent and usually corrupt public administration. Combined with it are an uncertainty of civil rights, lack of proper trade union leadership and the absence of a really free Press. Collectively, they create conditions not altogether conducive to an untrammelled process of economic growth. In such circumstances, the State is not the best agency to undertake the task of economic development left unfulfilled by free private enterprise. It is also a matter for serious consideration whether the democratic form of government is the best political agency for the furtherance of economic development in underdeveloped areas. In an underdeveloped country, it may not be so difficult to install the democratic form of government as to create for its sustenance a broad diffusion of economic, political and social competence. Perhaps, an authoritarian government may be more effective in its methods and techniques at the initial stages of economic growth. A backward society can grow more rapidly under an authoritarian regime, since democracy, as it now obtains in underdeveloped areas, cannot develop the techniques essential for enthusing individualistic action towards innovation and development. But economic development by itself is not a sufficient

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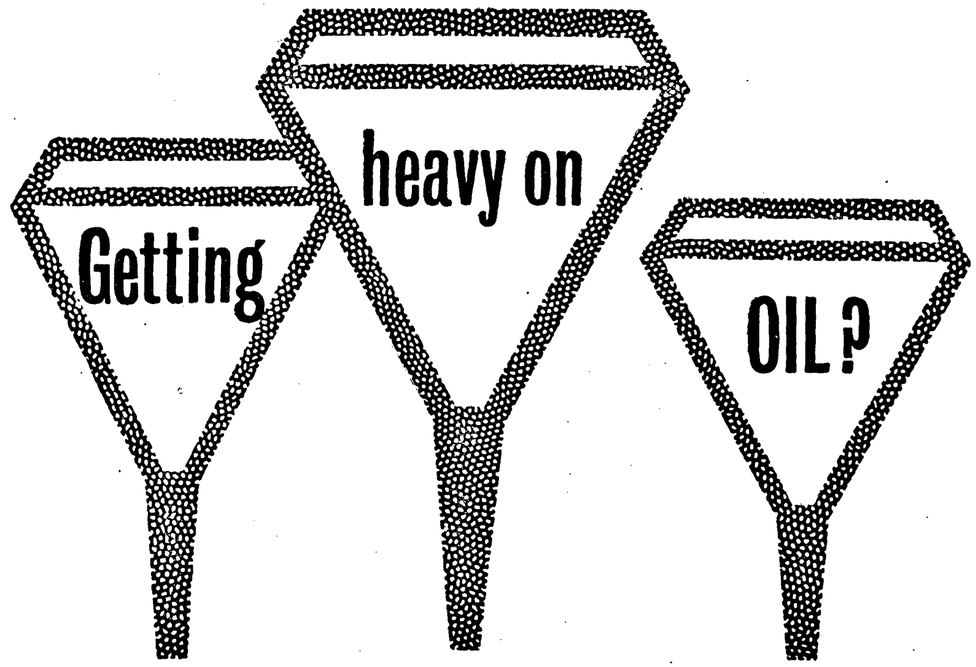

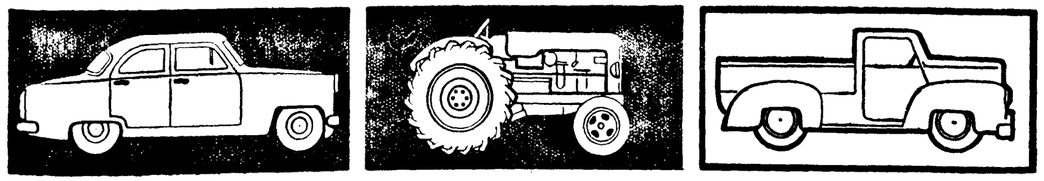

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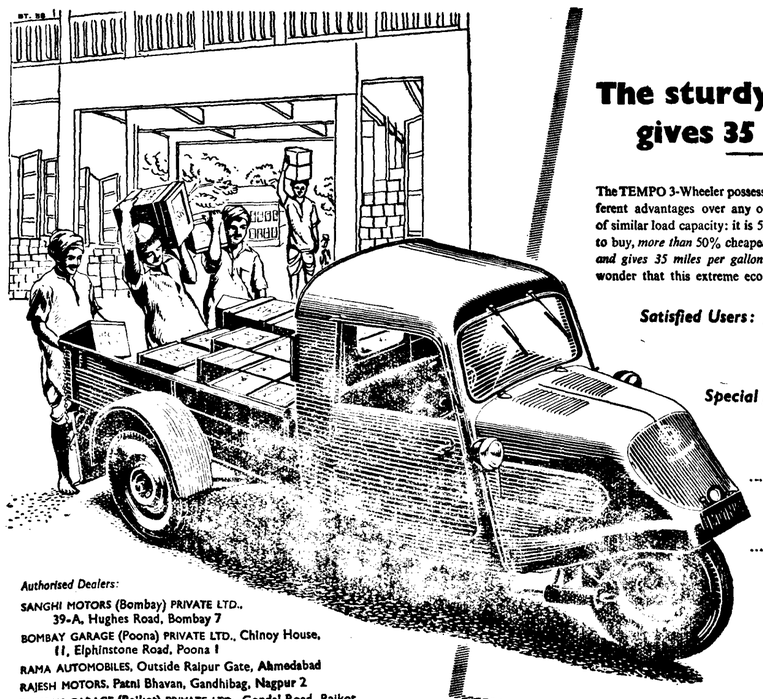

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condition of human well-being. Development nurtured under authoritarian auspices may imperil certain essential values of life which ought to be preserved and promoted. Hence it is necessary to purge democracy of the evils which it is likely to acquire in the process of its operation in unfavourable environments. It is a doubtful proposition whether democracy has yet been made safe for backward areas.

The civil services is, perhaps, the greatest asset of the administrative system of a country. To interfere in the methods of its recruitment and to allow scope for nepotism are the greatest disservices that political leadership could do to the country. The indirect impact of civil services on economic development is invaluable, but the effectiveness of it would depend upon the quality of its personnel. The educational institutions of a country are no less important in shaping the growth of an economy on democratic lines. A reasoning and questioning attitude should be inculcated by the educational system, in order to promote economic growth. The success of this endeavour would depend upon the degree of autonomy that they enjoy in a country. Administrative interference in shaping the educational system may give a wrong slant to the acquisition of knowledge that is so essential to economic growth. Admission of personnel to educational institutions on criteria other than those of merit is fraught with dire consequences to the growth potential of a country. The administrative system of a country should be reoriented in accordance with the needs of present-day objectives. They must manifest a high degree of flexibility to stand the test of the modern conception of statecraft. The State now has perforce to undertake various activities besides its normal administrative functions. For their successful implementation the civil service may have to carry special cadres of technically trained personnel in addition to the administrators. Their recruitment and training should be on special lines.

Economic Institutions

The institutional pattern from the economic standpoint should be one that associates differential effort with differential reward. By implication it would give rise to great inequalities of income. But the climate of opinion among underdeveloped countries is generally hostile to such income differentials. This is one of the main reasons for the slow progress of some of the economic institutions in these countries, though they have flourished in Western economic environment. The joint-stock company, for instance, could have made greater headway during the century or more of its existance in India had it not been associated so closely with the acquisitive motive. The private limited company, on the other hand, is much more popular as a form of business organisation, as it is more akin to the family type of enterprise and less aggressive in its search for wealth. Besides, the public joint-stock company suffers from a serious limitation wherever the investment habit is not well developed. Among underdeveloped countries, confidence has not yet been fully inculcated in managerial skills. The problem of management and administration is much more difficult that the technical problem of production. Owing to the low level of management skills, the public joint-stock company has not made as much progress as is necessary for a higher rate of economic growth. The trade unions are another important economic institution. But free and constructively led trade unionism is a lacuna in underdeveloped countries. In the building of economic institutions for the future this should take a predominant part.

Managing Agency System

The managing agency system has been a peculiar economic institution that has grown out of the exigencies of the circumstances in the evolution of the Indian economy. It played a notable part during the gestation period of the industrial economy and is still contributing much towards its sustenance. But the abuse of its power in certain respects has undermined public confidence. It has also left its impress on the structure of the Indian economy by the adoption of stereotyped methods of organisation, avoiding the risks of rationalisation. It was not in the interests of the managing agency to make every concern under its control adopt the most efficient technique for maximising productivity. Since they had a variety of concerns under their management, what they lost on the swings they made up on the roundabouts. The latest Company Law Amendment has attempted a rigorous control of the activities of managing agents. But, in this endeavour, there is a risk of the baby being thrown away along with the bath water.

Much store is also laid by the co-operative institutions. But they require for their success the ability of groups of people to co-operate, a sense of civic responsibility and a certain minimum of honesty and integrity. These are not to be easily found either in public offices or in private individual dealings in underdeveloped countries. It is not an economic institution that can be superimposed on the people by the State. Its success can be measured only by the spirit with which it is worked. So, as an economic institution, the co-operative form cannot yield the results expected of it, until the people are trained for it. Banks and financial corporations are among the other economic institutions which could contribute to growth. While banks have had a slant towards commerce, finance corporations are of recent origin. So the financial sinews of growth have been visibly lacking throughout the industrial history of the country. Chambers of commerce and other associations of business men, like the "Forum of Free Enterprise," have acted merely as a bulwark against forces that have had a neutralising effect on their effort. Until they make constructive contributions, they may not be instrumental in accelerating economic growth. Underdeveloped countries may even require political parties based on definite economic programmes. They will have the power to shape economic institutions that would aid growth.

Thus, economic growth in underdeveloped countries is a difficult and time-consuming process. The people have to be trained and their habits of work and social organisation must be changed. Finally, the will to develop should be inculcated. Motivations should somehow be altered to change a static into a dynamic economy.—*All Rights Reserved.*

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Principles Of Taxation For Underdeveloped Countries

Indian Tax Scene Surveyed—Proposals For Improvement Suggested

By Prof. RUSSI JAL TARAPOREVALA

THIS article, written on the eve of the announcement of our third Five-year Plan, analyses the desirable goals of tax policy, surveys the taxation record of the Government of India during the second Five-year Plan and suggests the course which the Government should follow in respect of its tax policies in the future.

I

GOALS OF TAX POLICY

Incentives: The five general goals of a desirable tax policy, especially for an underdeveloped country like India, are first outlined. The most important goal of policy for the Government of India should be the economic development of the country at the maximum possible rate. It is suggested that this goal should take priority over all other aims of policy. Thus, in determining the taxation policy, the Government should, at least in the immediate short-run period of, say, ten years, aim at stimulating the maximum possible rise in national income, the maximum possible rate of industrial development and the maximum possible economic progress of the nation.

Savings, Investment and Entrepreneurship: Economic development is a function of savings, investment and entrepreneurial activity within the country. The dominant aims of tax policy should, therefore, be the stimulation of the growth of domestic savings at the most rapid rate, the prompt and proper investment of savings and the encouragement of risk-bearing or enterprise in the country. The tax policy should be predominantly incentive-oriented, especially in underdeveloped countries. There is some controversy in economics about the exact impact of taxes on the incentives to save and invest. In an underdeveloped country like India, there is no available statistical data to indicate conclusively the correlation between the taxes and the incentives to save, to invest and to take risks. The Government has repeatedly made the claim that even the excessive burden of direct taxation imposed in the past four years does not affect and has not adversely affected the incentives in the Indian economy—this has been the defence of its past taxation policies. There is, however, no data to "prove" or justify the claims made in this direction. On the contrary, there is good reason to believe the classical view that a substantial reduction in personal incomes, wealth and other personal resources through taxation is likely to affect adversely the incentives to save, to invest and to undertake entrepreneurial activity. A shrewd practical observation of the Indian economy during the past four years and the little data that is available seems to indicate the applicability of such a correlation between taxation and incentives.

Psychological Repercussions of Tax Policy: Tax policy can affect incentives through the real burden of the taxes imposed and also through various psychological repercussions of tax policy. The actual reduction in incomes, wealth and personal resources through taxation has immediate short-run effects on the savings and investments of individuals. But the expectations about the course of tax policy in the future and the psychological fear of a sharp increase in taxation during the coming years can act as the most severe disincentives to savings, investments and entrepreneurial activity. For example, the introduction of four successive budgets coming within a few weeks of each other from September 1956 to May 1957 and the imposition of a large number of harsh direct taxes in these budgets led to a rude shake-up in the confidence of the investing classes in India, raised fears and gave apprehensions in their minds about the course of future tax policy, resulted in a drastic fall in the prices of industrial equities and adversely effected the incentives for savings, investment and entrepreneurial activity in the private sector from 1956 up to 1958.

Favourable Economic Climate: The first and most important goal of tax policy for an underdeveloped country should be to maximise the incentives to save, to invest and to take risks on the part of its nationals. This can be done by keeping tax rates at reasonable levels, by inspiring the confidence of the investing classes and by creating an economic climate which will engender the most rapid growth and prosperity of the country. This applies to a mixed economy like ours, where the private sector and the public sector exist side by side and even where the Government may want the public sector to expand more rapidly than the private sector as in India. This is so, because, in the next ten years at least, the private sector will continue to account for the predominant proportion of the national product (probably over 80 per cent.). Hence policies which will adversely affect the private sector are likely to have a predominant adverse effect on the economic development of the nation.

Second Goal—Revenue: The second goal of tax policy should be to raise revenues for the Government to enable it to defray its current expenditures and to finance the development of the public sector. India, like many other newly independent underdeveloped countries, has witnessed a tremendous expansion of Governmental expenditures and activity in the post-independence years. A portion of this increase in the current expenditure of the Government was inevitable and necessary, in view of the greatly increased role of the Government in the economic development of the nation—tax revenues raised to defray such expenditures are justified.

Wasteful Non-developmental Expenditures: Unfortunately, the past few years have witnessed a sharp rise in the non-developmental and administrative expenditures of the Government of India which is the result of much unnecessary proliferation in the bureaucratic machinery on the lines of Parkinson's law. Tax revenues used to finance unnecessary non-developmental administrative expenditures of the Government represent a shocking economic waste. Such a trend results in a diversion of resources from the private sector which could have been used by it for productive investment and economic development into non-developmental governmental expenditures. This adversely affects the progress of the country.

Collection Costs of Inefficient Taxes: There has also been in the past four years an unfortunate tendency on the part of the Government of India to introduce a number of different taxes which have yielded relatively small gross amounts to the revenue but have involved very substantial administrative expenditures of collection. Such taxes must be considered as inefficient levies from the viewpoint of revenue considerations. They constitute tax measures which yield poor net revenues (that is, gross revenues *minus* administration expenses of collection) and involve the Government in immense problems of organisation for their collection. Underdeveloped countries like India have yet to learn that their taxes should be such that they are simple, easy, efficient and cheap to administer.

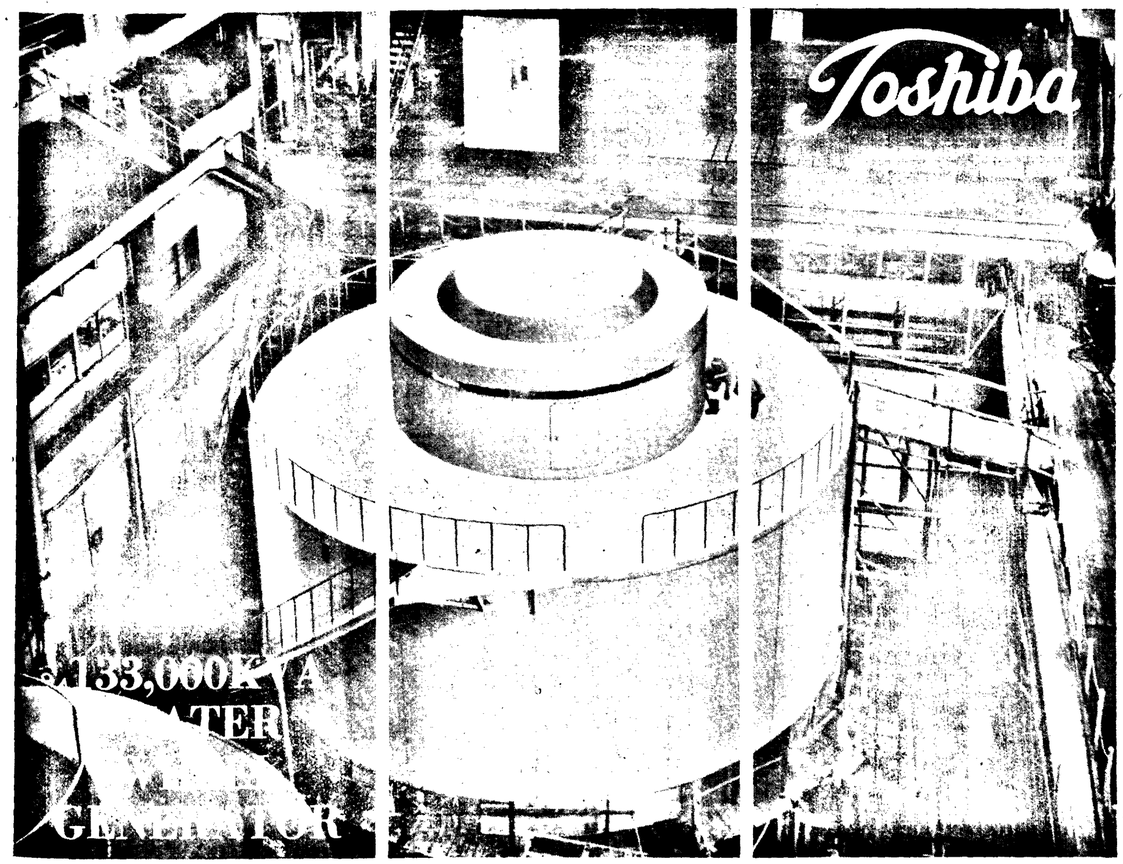
Resources for the Public Sector: A substantial amount of the public revenues raised by taxation in India is used to finance the public sector and, on account of the ideological beliefs of the present Government, the amounts thus utilised are likely to increase in the near future. Abstracting from the discussion ideological dogma in this area, it can be said that a diversion of resources through taxation from the private sector to the public sector will not in any way affect the economic development of the country, provided that such resources are invested and utilised in the public sector as efficiently as they would have been had they remained in the private sector. Unfortunately, the latter condition is often not found applicable in India. The operations of many of the public sector enterprises are far from efficient. Under such conditions, tax revenues diverted to the public sector and invested inefficiently or wastefully in it represent a maldistribution of our resources which will adversely affect the development of India.

Third Goal—Equity: The third major goal of tax policy should be to reduce the inequalities of income and wealth as between various citizens. This is the so-called redistributive or equity aim of tax policy. There can be no doubt that this goal of tax policy must be aimed at over a period of time and especially in the long run. In a democracy, there are strong political pressures towards the levelling down of inequitable or historical differences between various citizens in respect of their income, wealth and economic power. There is, indeed, often a temptation to formulate tax policy with only this goal in view; the "soak-the-rich" slogan is most attractive for politicians in a democracy. Governments of underdeveloped countries like India have yet to realise that, in the initial stages of economic development, the sacrifice of all other goals at the altar of the goal of achieving redistributive social justice or equity in taxation involves an economic policy which is most likely to slow down or to retard the development of their respective nations.

Excessive Emphasis on Equity Retards Economic Progress: In the past four years, the Government of India has continuously increased the burden of direct taxes on the richer classes and confiscated most of their income and wealth. This has been tantamount to the confiscation of private savings of individuals in the country, since, at the present high rates of direct taxation, it is wellnigh impossible for the richer classes to save at all. Individual savings in India constitute the most important source of funds for the private sector. The confiscation of personal incomes and wealth through direct taxation, in order to achieve the equity goal of taxation, is directly opposed to the more important goal of taxation, that is, to promote the incentives to save, to invest and to undertake entrepreneurial activity in the country. A tax policy which is totally equity-oriented must have severe adverse short-run economic effects. In underdeveloped nations, where the most crying need is to promote vigorous industrialisation and the most rapid economic development, the tax policies should first aim to stimulate savings, investment and entrepreneurship—the goal of achieving economic equality amongst the citizens should in the initial short-run be partially sacrificed to this aim and it should only be attempted in the very long run.

Fourth Goal—Foreign Investment and "Know-how": The fourth goal of taxation in an underdeveloped economy like India should be to attract foreign technical personnel and foreign investments for accelerating the country's industrial development. We are keen to industrialise and to develop economically at a faster rate than is possible with only our internal savings and our existing techniques of production. It is, therefore, necessary for India, at least in the earlier stages of its growth, to attract foreign technical know-how and personnel and foreign capital for establishing new industrial plants in the country. An excessive structure of personal taxation tends to discourage the flow of foreign personnel into the country. A high level of corporate taxation discourages foreign firms or individuals from investing their savings in the country. International movements of technical know-how and investments tend to flow into those countries which offer the most attractive profit-potential to foreign personnel and foreign investments. An excessive level of taxation and the fear that taxes will be raised further in the future can and does act as a severe damper to the flow of foreign personnel and capital into India.

Fifth Goal—Functional Role: The last but not the least important goal of tax policy should be to act as a tool for achieving the national economic policies. In the advanced countries of the world, tax policy is used as one of the effective economic tools for achieving the Governments' aims of maintaining a level of full employment, for controlling the trade cycle and for promoting the orderly growth of various sectors of economy. This functional approach towards tax policy has so far not been widely appreciated in many underdeveloped countries like India. The tax policies of the Government of India are neither properly integrated nor properly co-ordinated with its other economic policies. We do not have a proper long-range tax policy in the context of our national economic goals. Taxes are introduced and levied essentially in a haphazard fashion, keeping in view their immediate short-run revenue and equity effects. There is often a conflict in the principles underlying the different taxes. Some taxes even totally lack all rationale (like the introduction of wealth tax on companies in 1957 which the then Finance Minister, Mr. T. T. Krishnamachari, could not justify on any conceivable economic grounds). It



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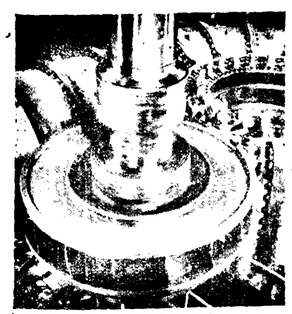
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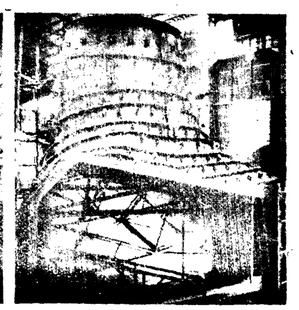
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is to be hoped that the Government will soon realise the functional role of taxation and try to integrate its tax policies with the long-run economic objectives of the country.

II

DIRECT PERSONAL TAXATION

Next the changes which have been introduced in direct personal taxation in India during the past four years can be surveyed briefly and analysed. At the beginning of the second Five-year Plan, individuals in India were subject to only one direct tax, namely, a tax on their incomes levied on a steeply progressive scale at rates which were slightly higher than those prevailing in most other countries of the world.

The Kaldor Report: In 1956, the Cambridge economist, Mr. Nicholas Kaldor, visited India for a period of only two and a half months, during which he wrote a report on *Indian Tax Reform* now known as the Kaldor Report. In this report, Mr. Kaldor recommended to the Government of India the introduction of a so-called "integrated" system of direct personal taxation, which involved the substitution of income-tax levied at very high rates by taxes levied at moderate rates on a broader base, i.e., on income, wealth, capital gains, expenditure and gifts. Between 1956 and 1958, all the different taxes recommended in the Kaldor Report were introduced in India. But the Government of India declined to implement the most important recommendation of Mr. Kaldor, that the maximum total rate of personal income-tax (including super-tax) should be reduced to 45 per cent. Indeed, it was quite unrealistic and naive for Mr. Kaldor to have expected that this recommendation of his would be accepted by the Government of India, especially as personal income-tax provided a very substantial amount by way of revenue. The maximum rate of tax on personal incomes was reduced only by a token and insignificant extent, viz., to 77 per cent. for earned incomes and 84 per cent. for unearned incomes when the other new taxes were introduced. The other direct taxes recommended by Mr. Kaldor were levied in addition to the taxation of incomes at these high rates and this resulted in creating a structure of personal taxation in India, the burden of which is far higher than the tax burden prevailing in any part of the free world.

Danger of Foreign Experts like Kaldor: Indeed, the way in which the various taxes recommended in the Kaldor Report were introduced in India clearly showed the great havoc which some foreign economists, ignorant of local conditions, can play by posing as experts to Governments of underdeveloped countries. Ironically after the new taxes were introduced, Mr. Kaldor tried to shirk his responsibility for the grave damage done to the private sector of the Indian economy, as a result of the adoption of his recommendations, by claiming, in 1958, that "he did not know the conditions in this country. Therefore, whatever he said may not be completely applicable to the conditions in this country." He appears to have been taken aback by the unfortunate fact that the Government of India paid serious heed to and introduced the new system of taxation recommended by him—a system which had been discredited and contemptuously rejected by the Governments and leading economists of all the advanced countries of the world!

Incentives Totally Sacrificed: The changes in personal taxation introduced to date during the second Five-year Plan period can be assessed in the light of the goals of taxation policy discussed earlier in this article. There can be absolutely no doubt that the new system of personal taxation provides the strongest possible disincentive to personal savings, investment and entrepreneurship in the country. Taking into account first only the taxes on income and wealth and assuming at 6 per cent. gross return on capital, it has been shown statistically by me in my other published works that there was an increase in the tax burden varying from 25 per cent. to 14 per cent. for various slabs of income and wealth for the years 1957-58 and 1958 59 as compared with the year 1956-57. The increase in the tax burden for the year 1959-60 as compared with 1956-57 varied from 40 per cent. to 28 per cent. for various slabs of income and wealth—truly a phenomenal increase in the tax burden within a period of four years! Even more tragic is the fact that, under the new system of taxation, the maximum amount which could possibly be retained by individuals after paying their taxes on income and wealth only was around Rs. 32,000 under the rates of tax for the years 1957-58 and 1958-59 and only around Rs. 26,000 under the rates of tax prescribed for the year 1959 60. These maxima were reached around the total slabs of wealth of around Rs. 15 lakhs and Rs. 10 lakhs, respectively. Beyond these slabs every increase in wealth and income was accompanied by a sharp reduction in the total amounts left in the hands of assessees after paying only the taxes on wealth and income. Indeed, a point was reached around a wealth slab of Rs. 80 lakhs in 1957-58 and 1958-59 and around the wealth slab of Rs. 42 lakhs in 1959-60 at which these taxes absorbed the entire gross incomes of assessees. Beyond these slabs, assessees had to pay their entire gross incomes *plus* portions of their capital annually in fulfilment of their income-tax and wealth tax liabilities for the privilege of working in the country. Hence a recurrent annual capital levy was introduced in India!

Savings Made Impossible: In introducing such a structure of personal taxation, the Government of India completely sacrificed the most important goal of tax policy, viz., to maintain the incentives to save, to invest and to take risks. The present system of direct personal taxation has just about killed all possibilities of a growth in personal savings and investments by literally making it impossible for the richer classes to save at all. Thus, the Government of India's *Economic Survey, 1958-59* aptly noted that "private investment has.... shown a tendency to decline and an early reversal of this trend seems unlikely." If, in spite of the crushing burden of direct taxation, the richer classes of the country still heroically undertake entrepreneurial activity in the future, it can only be explained by their sense of self-sacrifice for their nation and their zeal of promoting its industrial progress, irrespective of the cost to themselves personally.

New Taxes Yield Poor Revenues: Ironically, the new direct taxes have proved to be miserable failures from the viewpoint of revenue. The taxation of income continues to provide most of the revenue. The yield from income-tax has fluctuated approximately between Rs. 80 and 90 crores per annum during the past four years. This is many times the total revenue receipts from the new taxes.

Wealth Tax Yields Little Revenue: When the Wealth Tax Bill was introduced by Mr. T. T. Krishnamachari in 1957, it was expected to bring in Rs. 15 crores in revenue. After the Bill was amended according to the recommendations of the Select Committee of Parliament which studied the new tax measure, it was expected to yield Rs. 12.50 crores. The revised estimates of tax yields for the first year of the wealth tax, 1957-58, put the total revenue from the tax at only Rs. 9 crores. For the budget of 1958-59 the wealth tax was estimated to yield Rs. 12 crores; the revised estimates put the yield from the tax in the year at only Rs. 10 crores. As a result of the increase in the rates of wealth tax proposed in the recent budget, the yield from it is expected to be Rs. 13 crores for 1959-60. These figures include the wealth tax payable by companies, which can be assumed to account for approximately half of the total wealth tax yields given above. Hence the yield from wealth tax on individuals can be put at Rs. 4½ crores for 1957-58, at Rs. 5 crores for 1958-59 and at Rs. 6½ crores for 1959-60.

Expenditure Tax, a Miserable Failure: The expenditure tax was estimated to yield Rs. 3 crores in the first year of its operation, 1958-59. This tax was introduced by Mr. Krishnamachari for use as "a potent instrument for restraining ostentatious expenditure." It was recommended by Mr. Kaldor for this purpose, because he believed that the richer classes were not only spending their entire incomes but also portions of their capital. This belief of Mr. Kaldor has been now proved completely false. In August 1957, I had challenged this wrong assumption about the spending habits of the rich in our country. In two public lectures delivered in that month in Bombay and Poona, I had claimed: "Persons familiar with Indian conditions will readily realise that this claim about the spendthrift habits of the rich ... in the Kaldor Report is grossly exaggerated and false. If statistics were available, they would probably show that, as compared with the wealthy classes in other countries, the wealthy classes in India are made up not only of the thrifty but, in many cases, the most miserly people in the world! This will probably be borne out by the returns of the expenditure tax in the years to come.... The yield from the expenditure tax to the revenue will be negligible." My original estimates have now been proved correct. The revised estimates for 1958-59 put the yield from the expenditure tax at merely Rs. 1 crore or only one-third of what the tax was first estimated to yield. Even after the last budget proposals, the yield from the tax for the coming year, 1959-60, is estimated at only Rs. 1 crore. Official figures show that, for the calendar year 1958, expenditure tax was altogether assessed in the country to the extent of about Rs. 38 lakhs, out of which only about Rs. 6 lakhs were actually collected upto the beginning of this year. Mr. Morarji Desai has frankly admitted in his last budget speech that "the revenue from the expenditure tax has been quite disappointing this year." If he had computed accurately the administrative cost of collecting the tax, he would most probably have found it exceeded the revenue collected from this direct tax! And it is possible that even his estimate of the tax yielding Rs. 1 crore in the year may prove to be on the optimistic side when the figures of actual assessments and collections become available. Mr. Kaldor's optimistic assumption that the tax would yield many crores in revenue have been proved completely false.

Gift Tax and Capital Gains Tax Yield Disappointing Revenues: The gift tax introduced last year was estimated to yield Rs. 2 crores in the first year of its operation, 1958-59. But the revised estimates place its yield at only Rs. 1.20 crores for that year. For the coming year, 1959-60, the tax is expected to yield only Rs. 1.20 crores.

The capital gains tax has also yet to yield any sizable revenue.

Madness For Equity: It is obvious that the present structure of personal taxation in India aims at the equity goal of taxation at the sacrifice of almost all the other goals of tax policy. It avowedly aims at a quick and total liquidation of the incomes, wealth and economic power of the richer entrepreneurial classes in the country.

Foreign Capital and Personnel Discouraged: The present structure of direct personal taxation imposes a burden of tax which is higher than that prevailing in any other country of the world. It therefore acts as an important factor discouraging the flow of foreign personnel and foreign investments into the country.

Functional Role of Taxation Neglected: The structure of direct personal taxation in our country was not introduced in the context of the broad needs of economic development of the country. As mentioned earlier, the functional approach to taxation is totally lacking in India today.

III

COMPANY TAXATION

In the field of company taxation, the record of the past four years shows a total lack of any long-run policy and a continuously vacillating approach on the part of the Government resulting in considerable instability, confusion and even internal conflicts in the principles underlying the various taxes levied on companies. It was only in the last budget that the Finance Minister, Mr. Morarji Desai, at last recognised the long-overdue need for simplifying and rationalising the structure of company taxation in India.

Upto 1955, companies were subject to income-tax which was partially refundable to the shareholders in respect of the dividends received by them and to a non-refundable super-tax which was called the corporation tax. The provisions of Section 23A of the Indian Income-tax Act provided for severe penalties by way of a stiff super-tax for private companies and closely controlled public companies which failed to distribute certain statutory percentages of their post-tax profits.

New Unsound Taxes on Companies: After 1955, the rates of income-tax and corporation tax levied on companies were increased (in 1957 by Mr. Krishnamachari). A number of inequitable and unsound direct taxes were levied on companies in the country. In his budget of 1956, the then Finance Minister of the Government of India, Mr. C. D. Deshmukh, introduced the excess dividends tax and the bonus tax. The excess dividends tax was payable on a progressive scale on dividends paid by companies in excess of 6 per cent. of their paid-up capital. Even Mr. Deshmukh failed to find any convincing rationale for the introduction of this tax, except revenue considerations. The bonus tax was payable on the face value of bonus shares issued by companies, in order to capitalise their reserves or past profits. The rate of this tax was initially 12½ per cent. but it was sharply increased to 30 per cent. in 1957. The bonus tax also lacked all justification. In 1956, the then Finance Minister, Mr. T. T. Krishnamachari, even attempted harshly to grab the past accumulated profits and a portion of the current profits of companies by introducing a scheme providing for the compulsory deposit of these resources of companies. But the scheme failed badly, because of its fantastically unfair and inequitable nature. It could only operate in a diluted form for a year. In 1956, capital gains made by companies were subjected to tax. In 1957, a wealth tax payable by companies was introduced at the rate of ½ per cent. of net wealth in excess of Rs. 5 lakhs.

The excess dividends tax, the bonus tax and the wealth tax on companies were condemned as inequitable, unfair and undesirable taxes by an almost unanimous body of expert opinion of economists, tax specialists, official bodies and research organisations. Yet they were kept on the Statute Book as operative upto 1960.

New Scheme of Company Taxation: In the last budget of the Government of India, presented in February 1959, the Finance Minister took the first bold steps towards improving the structure of company taxation. It was recognised that the Government faced extraordinarily cumbersome and unwieldy administrative problems relating to the giving of refunds of income-tax paid by companies to shareholders on the dividends received by them—the so-called "grossing up" of dividends. It was proposed to abolish giving such refunds to the shareholders. The rates of income-tax and corporation tax are to be revised, so that the total rate of these taxes is to be reduced to probably around 45 per cent. of the annual gross profits of companies. The inequitable excess dividends tax and wealth tax on companies are to be abolished. Unfortunately, the bonus tax is to be continued and its incidence is proposed to be increased by withdrawing the former exemption for bonus shares issued out of share premium accounts. The scheme for compulsory deposit of profits is to be abolished. The Government has claimed that, as a result of these changes, its net revenues will only be maintained but not increased. However, this claim is open to serious doubt. It appears that the new scheme of company taxation proposed in the last budget will involve an increased burden of direct taxes on companies of around 10 per cent. over the previously prevailing level of taxation. Nevertheless, the new scheme of taxation should be welcomed in principle, as it involves the removal of two most inequitable direct taxes levied in the past on companies and it raises the distinct possibilities of a reform of company taxation in the near future on the basis of sound economic principles.

Incentives to Corporate Savings and Investments: How does the record of company taxation during the past four years measure up to the goals of taxation policy discussed earlier in this article? It must be admitted that the total net burden of direct taxes on companies in India is neither excessive nor prohibitive for generating the growth of savings, investments and entrepreneurial activity in the corporate sector of the economy. The burden of tax is comparable with that prevailing in many of the advanced countries of the world. But it is higher than the burden of corporate taxation prevailing in many other underdeveloped countries. Corporate savings and investment form an important source of funds for the growth of the private sector and are essential for industrial growth. Moreover, such savings are often invested in the most productive industrial uses, so that they act as a powerful spur to the rapid industrialisation of the country. A lower burden of direct taxation on companies would enable them to increase the amounts reinvested in their businesses.

Instability in Company Taxation: A major factor which has dampened the incentives to the growth of corporate savings, investment and entrepreneurial activity, has been the great psychological uncertainty in the minds of captains of industry and company executives about the probable future course of company taxation. As has been pointed out, the rates of the direct taxes levied on companies were raised in the past four years. Moreover, a number of different inequitable taxes like the excess dividends tax, bonus tax, capital gains tax and wealth tax were imposed in rapid succession on companies in India. There appeared to be a definite temptation on the part of successive Finance Ministers of the Government of India to introduce changes every year even in the details regarding corporate taxation—for example, the minimum statutory percentages of profits required to be distributed by companies covered by Section 23A of the Indian Income-tax Act have been altered much too often in the past four years without good reason. The sheer instability of the Government's company taxation policies had given rise to considerable apprehension, many fears and psychological upsets in the minds of those who guided corporate destinies about the probabilities of sharp and inequitable increases in the burden of company taxation, in the coming years. It is to be hoped that the first steps taken in the last budget to simplify, rationalise and stabilise the structure of corporate taxation will be followed by other desirable tax reforms which will engender confidence in the corporate sector and offer powerful incentives to corporate savings, investments and entrepreneurial activity.

Revenue Inefficiency of New Company Taxes: Company taxation policies have been distinctly revenue-oriented in the past four years. The income-tax and corporation tax have yielded the Government very large sums by way of revenue in the past. But the new taxes imposed on companies after 1955 have failed to raise large amounts by way of revenues. It is estimated that the abolition of the excess dividends tax, bonus tax, the capital gains tax, the wealth tax and the super-tax provisions of Section 23A as applicable to companies would involve a sacrifice in revenue of less than Rs. 10 crores altogether per annum. These taxes, therefore, do not serve the ends of revenue to any great or appreciable extent.

Equity in Company Taxation: On the grounds of equity, the taxation of companies separately from their shareholders who own them is justified, because companies enjoy certain privileges quite separately from their shareholders, like a distinct legal entity, powers to plough back profits to reserves after paying only company taxes which are levied at rates substantially lower than the highest rates of personal taxes, a limited liability, etc. The rate of corporate taxation should be correlated to the value of such privileges which companies enjoy as compared with sole proprietorships, partnerships and other forms of business organisations. In India, a total rate of corporate taxation of around 35 per cent. of the annual gross profits of the companies would probably satisfy the goals of equity in taxation.

Inequity, Conflict, and Confusion in New Taxes: On the other hand, equity considerations have been flouted severely in the last four years in respect of the new taxes imposed on companies. The unfair, harsh and inequitable nature of taxes like the excess dividends tax, the bonus tax and the wealth tax and the provisions of Section 23A of the Indian Income-tax Act have often been pointed out and analysed by me and other writers in the past. These taxes lack the slightest vestige of economic justification or rationale. Even the principles underlying these taxes are in conflict with one another. They had introduced a substantial measure of inequity in company taxation which it is hoped will soon be remedied.

Company Taxation and Foreign Investment: The heavy total burden of corporate taxation in India as compared with the lighter tax burden prevailing in many other underdeveloped countries did, in the past, act, upto a point, as a factor which scared away foreign capital from flowing into this country. However, foreign companies and capitalists were even more bothered and worried by the confusion and instability of the structure of company taxation as it prevailed and increased in our country after 1955. They also had fears about a sharp increase in the burden of company taxation in the coming years. It must be written to the credit of the Government of India that, during the last year, they and especially the Finance Minister, have tried to attract foreign capital into the country by trying to disabuse the minds of foreign capitalists and companies of fears about the course of our future tax policies in relation to the corporate sector.

The functional approach to corporate taxation is, however, yet to be introduced in India.

IV

INDIRECT TAXATION

In the field of indirect taxation, the Government of India has imposed a wide variety of new excise duties on various commodities and manufactured items and has increased the rates of various excise duties which were already prevailing in the country, from 1955 to 1959. The receipts from customs duties have actually shown a downward trend on account of the severe quantitative restrictions placed on imports by the Government in the past four years. The various other indirect taxes levied by the Government of India have not changed to any significant extent.

Restraining Consumption Expenditures: The record of indirect taxes can be assessed in the light of our five goals of tax policy. Indirect taxes, like excise duties, can be used as a powerful fiscal tool to hold down the consumption levels of the members of the population and to encourage them to save and invest increasing proportions of their incomes. Thus, indirect taxation should and does aim at a more rapid growth of national savings through checking consumption expenditures—this is excellent for spurring the economic development of the country.

Excessive Indirect Taxation No Good: On the other hand, some of the excise duties levied in the past have caused great damage to particular industries in the private sector, because their burden was so excessive that it could not be passed on to the consumers and so had to be borne by the manufacturers. For example, the extremely harsh excise duties imposed on the textile industry in 1956 literally wrecked the industry between 1957 and 1958. Upto 1956, the textile industry was in a flourishing condition. This tempted the then Finance Minister of the Government of India, Mr. T. T. Krishnamachari, to levy extremely heavy excise duties on it. The industry could not pass on the burden of the new excise duties to the consumers and it found itself unable to absorb it from its current profits. It entered into a period of severe depression from the end of 1956 upto the beginning of 1959. During this period, a number of textile mills was forced into liquidation and bankruptcy. Thousands of textile workers were thrown out of employment. The profits of this entire industry fell sharply.

The Government of India belatedly realised its error and had to reduce the excise duties on textiles a number of times after 1957. Even this relief in the excise duty did not immediately repair the damage done to the industry and it took months before the industry could show any signs of revival or normalcy.

Indirect taxes and especially excise duties levied in a fashion which is likely to severely damage particular industries are likely to discourage the industrialisation of the country. They can adversely affect the incentives to savings and investments by creating an uncertain and hazardous climate for industrialisation within the country. The imposition of excise duties and indirect taxes in a cavalier fashion should be avoided in future.

Revenue Potential: Indirect taxes, especially excise duties, have yielded very substantial revenues to the Government. The total receipts from Central and State excise duties rose from Rs. 145 crores in 1955 56 to Rs. 304 crores in 1958-59. Indeed, indirect taxes provide a most fruitful source of revenue, which, if properly tackled, can be used to provide most of the finance to be raised through taxation for the development of the country in the coming years.

Burden of Indirect Taxes Inequitably Low: From the equity angle, it can be argued, with justification, that the burden of indirect taxes borne by the general population in our country is too low, especially when viewed in the light of the comparative burden of direct taxation borne by a very small segment of the community. Statistics show that direct taxation takes away around 25 per cent. of the total assessed income of the few who are subject to direct taxes. On the other hand, indirect taxation accounts for only around 6 per cent. of the *per capita* income of the country and its burden is around Rs. 17 per annum per head. Even if sharp increases in indirect taxation may be condemned as unfair in normal times because the burden falls upon the poor or the masses in the country, we are now in a stage of economic development when such a course has become mandatory. Substantial increases in tax revenues are possible now only through indirect taxation. And there is nothing so unfair about the masses contributing small amounts per head by way of indirect taxation, especially if the revenues thus gathered are used for the development of the country the benefits of which will accrue primarily to the common man.

Indirect taxation is not directly correlated to foreign investment and know-how, except in so far as it affects the economic climate for industrialisation within the country. So far, the functional goal of taxation has not been stressed in the indirect taxation policy in India.

V

TAXATION FOR THE THIRD PLAN

To sum up, the course of tax policy for the future, especially during the third Five-year Plan, should be guided by the goals of taxation discussed earlier in this article. The tax policy must be primarily incentive-oriented. It must attract foreign capital and foreign know-how for the industrialisation of the country. Tax policy should be used as an important economic tool to guide the destinies of the nation to its long-term goal of becoming a major industrial power in the free world. Revenue considerations must be taken into account,

but they must not entirely dictate the course of tax policy. The goal of social redistributive justice and equity should be relegated into the background for the next few years. It has been overstressed in the past four years. There should be a long-run tax policy clearly formulated at the beginning of the third Five-year Plan. The structure of taxation likely to prevail during the Plan period must be outlined. Thereafter, changes in it should only be made if it is absolutely necessary to do so on account of substantial changes in economic conditions. Some measure of stability in our tax field is absolutely essential to encourage our countrymen to face the future and plan for it systematically with confidence. I propose to conclude this article with a few detailed suggestions for the course of tax reform in the future.

Reforms In Direct Personal Taxation: In the field of direct personal taxation, a ceiling of, say, 80 per cent. of the annual assessed income should be imposed for the total liability of income-tax and wealth tax. If the wealth tax is to be continued, the rates of income-tax (and super-tax) should be reduced. The capital gains tax and the expenditure tax should be abolished. It must be realised that, even from the short-run revenue viewpoint, we have almost reached the saturation point in direct taxation. Sharp increases in the rates of the direct taxes will not yield any sizable increases in revenue.

In order to encourage the flow of savings into the private sector, especially into investments in new and in old but expanding enterprises, the Government should give preferential treatment in taxation to entrepreneurial investments made by individuals. Thus, the dividend income received by individuals on their equity or ordinary shareholdings in various companies should be subject only to special lower rates of income-tax. Wealth invested in industrial equities may be taxed at a preferential rate of wealth tax.

Reforms in Company Taxation: In the field of company taxation, income-tax (including super-tax) should be levied on annual profits of companies at a flat rate of around 35 per cent. to 40 per cent. In order to encourage companies to plough back or reinvest their profits into their business, a rebate of, say, 20 per cent. of the normal flat rate of income-tax paid on annual profits should be granted to companies in respect of current profits ploughed back into reserves. The excess dividends tax, the bonus tax, the provisions of Section 23A of the Indian Income-tax Act and the wealth tax on companies should all be removed from the Statute Book. Depreciation allowances should be liberalised. Profits of new industrial undertakings should be given exemption from tax for a period of five years after the first year in which the companies show assessable profits. The rate of development rebate should be raised to 50 per cent. of the cost of new plant and machinery installed by companies in order to help companies to put aside finance for modernisation and automation in the future in an era of continuous inflation in capital goods, prices and costs.

Changes in Indirect Taxation: The various indirect taxes should be properly co-ordinated and integrated. The structure and burden of indirect taxes should be carefully and quickly adjusted by the Government to changes in economic conditions, especially to changes in the conditions facing particular industries the products of which are subject to the indirect taxes. Substantial reliance will have to be placed on indirect taxes to raise increased revenues for the third Five-year Plan, especially as we have reached the saturation point in respect of direct taxation. An increase in the rates of direct taxes will not now result in any substantial increases in the revenue collected. But an increase in indirect taxes could raise hundreds of crores of rupees of revenue *without adversely affecting incentives or the economic development of the country.* An increase in indirect taxation of only Rs. 2 per annum per head would yield over Rs. 380 crores of revenue during the third Five-year Plan. In the present circumstances, it is almost inevitable that the Government of India will have to administer successive doses of increases in indirect taxation to finance the third Plan.

Administrative Changes: Government must urgently overhaul the administrative machinery for the collection of taxes. The present administration is geared to the needs of collecting fewer taxes and a much smaller revenue than are now facing it. The one single step which will have the maximum possible effect in improving the quality and integrity of tax administration is a substantial rise in the salaries of the tax officials, so as to make their remuneration commensurate with their greatly increased burden of duty and responsibility. Tax policy will only be effective if it is backed by an efficient and honest administrative machinery.

Optimism for the Future: Today, there is good reason to be optimistic about the future of tax policy in our country. The new Finance Minister of the Government of India is known for his practical approach towards the handling of his portfolio. He is aware of the need for encouraging savings, investment and entrepreneurship in order to accelerate the economic progress of the nation. He is also acutely aware of the needs of the country for attracting foreign capital and technical know-how for rapid industrialisation. The Government of India appears to have realised the need for a sound tax policy based on the long-run objectives of the nation. It is confidently hoped that the next budget will include further measures and changes to improve the tax structure and policies of our country.—*All Rights Reserved.*

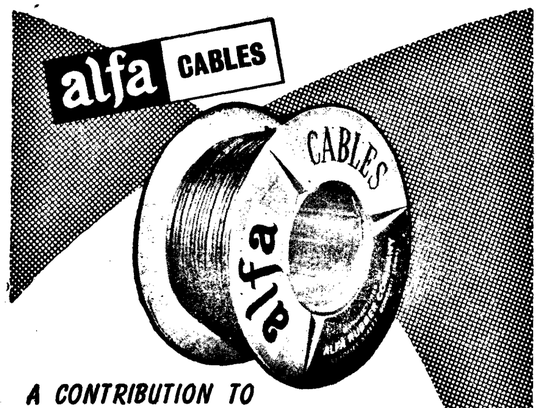
INVESTMENTS—THE SLOGAN OF PEACE

(*Concluded from page 44*)

the job of fighting the particular danger we are faced against. They need expert advice and guidance of the science and technique of that particular type of fighting. They need co-operation of all those who are competent and capable to direct that particular war. Are we doing so in this country?

Unless there is less suspicion of business men and bankers of this country, and of their counterparts abroad who are trying to help us, things will not and cannot move at the speed at which it is imperative for them to move. Unless we change our attitude towards investments and regard investments as a MUST of PEACE and PROGRESS, there cannot be any hope of appreciable improvement in the people's living conditions, though we may all swear always that that is our most cherished objective.

Investments, both internal and external, are primary to national freedom, world peace and economic advance. The sooner we and the world make it a living and inspiring slogan of human aspirations the sooner shall we be free from fear and want.—*All Rights Reserved.*



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DA-58/147

Determination Of Prices

Principles And Practices Of Tariff Commission Explained

By C. RAMASUBBAN
EX-CHAIRMAN, TARIFF COMMISSION

PRESENTED BY PUBLIC DEPARTMENT

DETERMINATION of the prices of particular commodities, whether protected or not, is one of the statutory functions of the Tariff Commission Act 1951. Enquiries relating to price fixation are undertaken by the Commission only on receipt of specific references from the Central Government. The terms of reference are not uniform and are framed suitably to the necessities of the situation which gave rise to the need for the regulation or control of the price of each commodity. The control and regulation of prices of commodities have not been statutory in all cases, and informal price control, with the consent of producers, has been in existence in quite a few cases, Government's powers in this regard being recognised under the provisions embodied in the Industries (Development and Regulation) Act 1951 as amended in 1953.

Pragmatic and social considerations have been the basis of the terms of reference in regard to price enquiries. In the case of iron and steel produced by the major producers, the Commission was requested to determine the retention prices payable to them, while the prices recoverable from consumers were laid down by the Government. Similarly, in the case of tinplate produced by the Tinplate Company of India Ltd., conversion charges for bars and rods payable to registered re-rollers and prices payable for electric furnace billets, the Commission was asked to fix only the retention prices to which the producers were eligible. In 1954, the review enquiry conducted by the Commission into the case for the continuance of protection to the antimony industry was coupled with one for determining the price of supplies of the metal made by the sole producer over a period of time to Government; the Commission then considered it necessary to lay down certain principles for regulating the price to all consumers, and has since reiterated them, with modifications where necessary, in its 1957 and 1958 reports on antimony industry.

Cement, Tyres and Locomotives

In 1953, the Commission was requested to enquire into and forward a report on the price of cement. Its recommendation, which was accepted by the Government with some modifications, was for a standard all-India ceiling price for all but five units who were allowed to charge extra. In 1957, the Commission was asked to enquire afresh into the price of cement, and its report was submitted early in 1958. Under the altered conditions of control over cement price and distribution, the Commission recommended fair ex-works retention prices for *each* unit in production, leaving the determination of a uniform consumer's price (with freight) to be done by Government.

The enquiry into the prices charged by the producers of rubber tyres and tubes which was referred to the Commission in October 1952 and completed by it in June 1955 was in the nature of a fact-finding investigation into the working of two manufacturing companies, namely, Dunlop and Firestone. The terms of reference indicated that the Commission should examine the costs, the profits, the way in which the profits had been utilised, the measure of assistance received by the companies from the Government during the war years, and, finally, determine if the prices were excessive and, if so, to what extent. The Commission's report brought to light several revealing features in the methods adopted by the tyre producing and distributing companies which constituted the industry, and provided "a typical instance of an oligopoly which, so far as prices are concerned, functions virtually like a monopoly."

The Commission's enquiry into the fair prices of locomotives and boilers produced by T.E.L.C.O. (1956) was somewhat in the nature of an adjudication (on the basis of an agreement) between Government and the Company—as paragraph 5 of the relative Government Resolution indicates—although it involved a considerable amount of costing, based on technical assessments by an expert adviser. A similar enquiry was also conducted in 1958 to determine the reasonable price payable by Associated Cement Companies Ltd. for sludge supplied by the Sindri Fertiliser factory; an existing agreement had to be taken into account for arriving at a fresh basis of additional supply.

The case relating to automobiles provides an example of an enquiry, in which, despite the specific terms of reference calling for fair ex-works and selling prices and a formula for future revisions, the Commission decided that a rigid system of price control was likely to have repercussions on the development of automobile industry, and that it would not be equitable to adopt fair prices as maximum prices. A decision of this type was possible as the enquiry took the shape of an omnibus investigation which included a historical survey, the implications of implementing phased manufacturing programmes, a scheme of protection and assistance and general principles of development.

Developmental Assistance

The case relating to zinc produced by the Metal Corporation of India is an instance of price fixation which was found necessary to implement a scheme of developmental assistance formulated to help that company to sell its product at a fair price to the steel companies, and it was, therefore, necessary to have it determined by an independent authority. The case relating to the fair ex-works and selling price of calcium carbide produced by the Birla Jute Manufacturing Company, Ltd. (1958) was referred to the Commission on a representation made by that Company that the price previously fixed by the Government did not cover its cost of production; and a revision was therefore necessary. Similarly, the case relating to the selling price of acetate yarn produced by Sirsilk Ltd. arose on representations made by that Company that the price previously fixed by the Government was uneconomical. The Commission's report on this case covered the entire field of the Company's financial structure, and included recommendations relating to its reconstruction as well as ways and means of lowering its cost of production through developmental assistance to be rendered by the State Government of Andhra Pradesh.

Of recent interest is the case relating to the fair ex-works prices as also fair selling prices of caustic soda (flakes, fused solid and lye), chlorine (gas and liquid), hydrochloric acid and bleaching powder. The reference was received by the Commission in February 1958 and its report was submitted in October 1958, but the Government's Resolution accepting the recommendations was issued only in October 1959. The part relating to bleaching powder is still under consideration. In September 1958, the Government requested the Commission to investigate into the prices charged by the paper manufacturing industry and recommend (*a*) fair ex-works prices and fair selling prices (ex-mills as also at various destinations) for different varieties of paper manufactured in India, and (*b*) fair prices which could be charged by wholesalers and retailers of paper so as to ensure that the consumer got a fair deal. The Commission submitted a comprehensive report, not only on the prices to be fixed but also on the reasons for the development of *malaise* in production patterns and in the distribution system. The report was forwarded in June 1959; the relative Government Resolution is awaited.

The latest case of price fixation handled by the Commission was the one relating to the cost structure of sugar and the fair price payable to the industry. The report was forwarded to the Government in September 1959 and is under its consideration at the time of writing.

Resilient Approach

The cases referred to in the above paragraph cover almost all those relating to price fixation handled by the Commission since it was established in 1952. Mention has not been made specifically of the enquiries conducted by it in regard to increases in the retention prices of steel arising from increases in manufacturing costs in accordance with the escalator clause incorporated in the original resolution; these form part of the whole scheme of iron and steel price control. The large and varied number of cases mentioned above indicate the extent to which the Commission has played an effective role as price fixing authority. A study of its several reports would go to show the measure of its resilient approach to price policy, its assessment of the social and economic purpose of price control and regulation, and its concern for the interests of consumers alongside a continued attempt to reconcile them with those of producers. Realising its role as a recommendatory and advisory body, the Commission has scrupulously confined the contents of its reports to the terms of reference in each case, avoiding comments on policies, except when they impinged on the healthy development of an industry or affected the well-being of the community or were antagonistic to social justice.

Most Appropriate Body

The importance of price fixation, regulation and price control has assumed considerable significance during the last few years, owing to the operation of severe quantitative restrictions on imports. Correspondingly, the weight attached by industries to the grant of tariff protection through import duties has dwindled to such an extent that few of them are now interested in seeking assistance from the Tariff Commission, except when they are in difficulties arising from the operation of administrative regulations. Fortunately for them, the Commission's protection reports have been so broad-based as to cover the whole range of developmental assistance needed in each case, and a tradition has been established whereby the Commission has never failed to make forthright recommendations in all deserving cases. Its expertise and objectivity as regards the development and regulation of industries have been established over a period of years, thanks to the mechanism employed by it for conducting its enquiries and the very capable and experienced secretariat which it possesses.

It follows, therefore, that the task of price fixation and the examination of the distribution system should, as at present, continue to be vested in the Tariff Commission which alone can discharge these functions satisfactorily, clothed as it is with the requisite statutory powers which are essential for conducting enquiries. These functions should constitute an integral part of the economic policy of every democratic government. Any action taken to control and regulate prices in which imbalances occur, partly by reason of the inevitable imposition of quantitative restrictions, and partly by the absence of the stimulus of competition, is entirely justified for ensuring social justice—the greatest good of the greatest number. And, as the factors mentioned above arise out of administrative action, it follows that the investigation into the consequential events, or forces generated, should be conducted by an independent quasi-judicial body with the necessary background, tradition, and public esteem.

Automobile Industry

It will be of interest to record here a few of the general principles which the Tariff Commission has been observing in determining the costs of commodities and fixing ex-works prices and fair selling prices. These general principles and ancillary considerations which have been taken into account are recognisable, in a fairly well defined form, in its reports and indicate a gradual process of refinement in thought and approach over a period of years. A notable instance of such refinement will be found in paragraph 20 (pages 71 to 78) of its Report on the Automobile Industry (1956) in which it has observed that:

(*a*) the fixation of fair prices as *maximum* prices in the case of an industry where there is a considerable amount of internal competition is not in accord with the realities of the situation and is likely to militate against the maintenance of stable prices and the smooth development of the industry;

(*b*) apart from the desirability or otherwise of fixing fair prices, there are several practical difficulties in determining fair prices themselves for automobiles, due to the continuous implementation of phased programmes involving progressive displacement of imported components by those of indigenous manufacture, each manufacturer placing an increasing handicap on himself by pushing forward his programme of manu-

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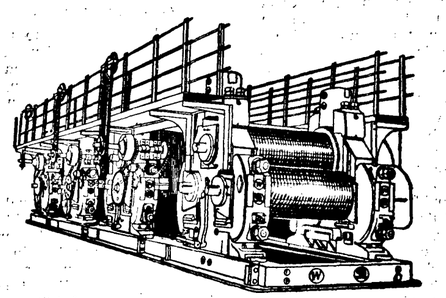

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facture and thereby increasing his costs;

(c) it was not possible to provide a cushion for expected increases in costs in the form of a contingency allowance, as increases were not uniform for all manufacturers and costs went up to varying extents;

(d) revisions in price may be required at frequent intervals and frequent revisions have an unsettling effect on trade; and

(e) when price revisions are necessary on account of significant increases in costs, they should take place expeditiously in order to avoid losses to the producer; and a suitable formula cannot be evolved to determine the price revisions needed on an escalator basis.

In the light of the foregoing analysis, the Commission concluded that, at the then existing stage of automobile manufacture, the cost structure of the industry was liable to changes of such nature and magnitude that, having regard to the trading conditions affecting different vehicles, the choice as regards the timing of price adjustments was best left to the manufacturers themselves. The Commission realised that this might lead to vehicles being sold above or below their fair prices at different times, but such deviations should not be necessarily open to objection, provided they were no more than necessary to even out costs over a period of time, and thus maintain greater stability of prices. The Government, in their Resolution dated 23rd January 1957, stated that they were broadly in agreement with the recommendations of the Commission and decided to leave the automobile manufacturers free to revise their prices from time to time according to changes in costs, subject to certain conditions providing for Government intervention where such changes were, *prima facie*, unreasonable.

Expeditious Action

As will be seen above, stress has been laid on the need for expeditious action to be taken whenever an investigation into prices is undertaken. Except in the case of the enquiry into the prices of rubber tyres and tubes—which, incidentally, was in the nature of a fact-finding enquiry into costs and profits, and had to be undertaken in the face of several initial difficulties—the Tariff Commission has invariably conducted price enquiries with the maximum speed *possible*. Those who had no idea of the magnitude of the work involved have been, on occasions, critical of the time taken by the Commission over some enquiries. It has seldom been known widely that, more often than not, industries concerned have attempted to stall enquiries by delaying the submission of memoranda or data, and have attempted to jargonise the Commission with a view to complicating or confusing issues. In all such cases, the Commission has succeeded in framing the issues clearly without getting trapped in over-simplification, debunked the jargonisation, and formulated its conclusions, all without recourse to the punitive provisions of the Tariff Commission Act, and all constituting a signal act of service rendered to the State and the community under trying and arduous conditions. Such delays as took place were, therefore, unavoidable. If there was further unaccountable delay at the Government's level in taking decisions on the Commission's Reports (as, for instance, in the case of the report [1958] on the prices of caustic soda and allied products), it was for reasons of which the Commission had no knowledge or for which it was not responsible. It needs to be only emphasised that the utmost expedition is called for—and, indeed is provided for in the Act, *vide* section 16(2)—in dealing with reports relating to price fixation, as, otherwise, the industry concerned will be in a state of suspense regarding its future, and the community would suffer if a downward revision had been called for and had not been effected.

A Misconception

It is often believed that determination of price is essentially a cost accountant's job, and that, once the cost figures are available, the rest should be easy. Such a belief is born of an inadequate comprehension of the ingredients constituting price, as also of the price structures of different commodities, only some of which rule at fair levels in relation to costs, while many are at levels which the market can bear and are yet not considered anti-social. The proposition that every industry should be straight-jacketed within a defined and controlled price structure has not yet been accepted in democratic countries, as competitive free enterprise is capable of adequate self-regulation in this regard. The choice of the commodity whose price requires to be controlled is, therefore, an administrative and economic decision. The rest of the exercise is set before a team which constitutes the price-fixing authority, with the cost accountant as the principal technical purveyor of the requisite data.

In most cases, the cost accountant will require the technical advise of a competent person who is conversant with the process of manufacture, a chemical engineer in the case of chemical products, a metallurgist in the case of metal products, an electrical engineer in the case of electrical goods, a paper technologist in the case of papers and boards and so on; it might even be necessary to ensure that these technical advisers have production and factory experience and are not endowed merely with academic qualifications. Factors relating to consumption of materials and permissible wastages therein, consumption of power and fuel, consumable stores, and stores for repairs and maintenance, the labour force necessary at various stages of manufacture, the adequacy and suitability of the equipment installed, are all matters on which the costing-*cum*-technological team will have to take decisions and arrive at acceptable cost data. It is not satisfactory merely to ensure that the sum total of expenditure on cost is agreed with the financial accounts of a producer; this, of course, is a basic requirement, but not enough completely to justify the cost structure emerging therefrom.

Economic Questions

The problem for the cost accountant, as also for the price-fixing authority, will be comparatively simple, if the commodity concerned is produced by a single unit. If, on the other hand, the commodity is produced by a number of units, the choice of 'representative' units for costing is a matter on which the authority should take a decision in the light of several factors such as size, location, efficiency, etc. Whether the costs of the more efficient units should prevail or whether the less efficient or marginal ones should be permitted to continue in business in the interest of zonal development or regional self-sufficiency, or whether the weighted averages should be calculated to arrive at some norm of the cost, so that eventually, the survival of the fittest would take place, all these are economic questions with which the authority is primarily concerned. Even after the data relating to works costs under raw materials, power and fuel, labour, establishment, repairs and maintenance, consumable stores, depreciation, overheads (administrative as well as factory) and packing charges have been collated, the price-fixing authority should scrutinise them in detail, and, with the advise of the technical staff (costing and technological), establish that no excessive expenditure is incurred under any item, as, for instance, labour and establishment, repairs and maintenance, consumable stores and overheads. It is of utmost importance that managerial incompetence is not in evidence in the scale of expenditure incurred under any of the items, and that extravagance is not provided for. That the expenditure was actually incurred is not sufficient; that it was necessary and was in fair relation to the maintenance of efficiency and quality is the basic criterion. High and unreasonable overheads have a nasty habit of spiralling into massive proportions, and, while an objective assessment by an outsider of what is fair may be construed by an *entrepreneur* as pontific impertinence, he must be disciplined into accepting it as inevitable in a statutory price investigation. The old, although silly, adage that one cannot have the cake and eat it too, holds good in this case. If an *entrepreneur* finds it difficult to be good, he should at least try hard to be careful. If he increases the price of his product to such an extent as to cause comment and complaint, and if a cost investigation is imposed on him, he has to submit to the inevitable examination of his books and the findings of the price-fixing authority who might find several of the considerations that weighed with him as being entirely irrelevant in the context of a Welfare State's concept of social justice.

Costing

Usually, price fixation relates to a future period on the basis of past costs over a year or two. The cost accountant furnishes the actual data relating to the past; projections for the future, based on assessed trends, is an exercise undertaken by the price-fixing authority. In this part of the investigation, the cost accountant has little part to play, and the technologist may be comparatively more useful, but, essentially, the work has to be undertaken by the authority in consultation with the industry or the unit concerned. Several assumptions have to be made relating to, for instance, estimated output, prices of raw materials, stores, etc., changes in labour force, establishment, etc., and changes in overheads. The cost accountant's advice relating to the variable and fixed proportions of costs of these items will be valuable; but final decisions have to be taken to arrive at realistic assessments for the future. It is only then that the price determined will constitute a fair workable basis for the period during which it is expected to hold.

Depreciation

Depreciation allowance is an item about which there has been considerable controversy. The scales permitted under Income-tax Rules would seem to be the most appropriate, as all fiscal concessions granted to industry by Government have been decided upon after taking into account the growing needs for developmental purposes. Any improvement thereon by a price-fixing authority is neither advisable nor practicable; it involves not merely a question of jurisdiction but also of competence. The factors to be considered, as also the possible far-reaching repercussions, are so numerous that representations regarding the adequacy or otherwise of depreciation allowances (and similar incentives to industry) should not be considered by a price-fixing authority, except for study and separate recommendation to the Government. One point which has been frequently raised relates to whether depreciation should be calculated and allowed on the original value of block or on replacement cost. The element of uncertainty and arbitrariness is so vast in the latter case that it is impossible to arrive at acceptable assessments. Further, the question is integrated with the equity of the assumption, inherent in the proposal, that an *entrepreneur* is entitled to recover from the community not only the entire capital cost of his original plant but also the cost of acquiring for himself and his shareholders a new and modern plant in addition to the profits earned in the past, the dividends paid out, and the amortisation (at lease in part) of the original investment which should have taken place.

Somewhat allied with this question is the one relating to allowances for rehabilitation which industry has been pressing, despite the tax concessions and incentives provided by the Government which are quite substantial. Some recent claims have been so fantastic that they constitute a negation of the assertion that the private sector in industry is capable of finding the necessary resources if opportunities for enterprise are afforded. What is most disturbing in the context of the subject matter of this article is that assertions declaiming the inadequacy of the concrete measures taken to sustain and stimulate private enterprise have gained so much momentum that they often result in stalling the smooth and quick disposal of price investigations and the restoration of normal manufacturing activity. It would seem, therefore, that such unsettling questions as those mentioned above, as also matters relating to wages of labour, profit-sharing, bonus, etc., are subject to high level examination and binding decisions are arrived at, so that the economic expansion necessary in future may be assured of smooth progress.

Fair Return

One important matter on which the Tariff Commission has taken a significant decision relates to "fair return." A concise statement of the position will be found in paragraphs 81 to 83 of its report on Fair Prices Payable to Cement Producers (1958). The question whether return should be calculated in the traditional method of the Tariff Board on the basis of a percentage on original block to which was added a percentage on working capital, or whether it should be calculated on employed capital is discussed on pages 176 and 177 (Volume I) of the Fiscal Commission Report (1949-50). A suggestion was made by that Commission that the entire problem should be subjected to detailed investigation by the Tariff Commission. Accordingly, a special study was initiated in 1953, and, on the basis of further examination and experience, it was decided to switch over to the concept of employed capital *as basis* for calculating return. It should be noted, however, that the Tariff Commission does not have a closed mind on the percentage of return permissible on employed capital—the quantum may vary according to the needs of each industry or unit. In all cases, the Commission has assured itself that the gross profits available to a unit or industry will provide sufficient funds to meet commitments under bonus and gratuity, interest on borrowed capital and debentures, dividend on preference shares, managing agents' commission and income-tax, and finally, leave a residue which would provide for a reasonable dividend to shareholders. Tested in this manner, the calculation of profit should prove to be objective, fair and reasonable. It has to be understood that the rate of return calculated as above will

(*Continued on page 76*)

REGULATION OF STOCK EXCHANGES

By P. S. NADKARNI, I.A.S.

THE Securities Contracts (Regulation) Act, which was enacted in 1956, is the first all-India measure to regulate the working of stock exchanges in India. Formerly, it was only in the State of Bombay and later in Nizam-Hyderabad, which followed the Bombay pattern, that the stock exchanges were regulated under a Statute. The Securities Contracts Control Act, 1925, enacted by the Government of Bombay, was the first attempt by Government to regulate the activities of a stock exchange. The Atlay Committee, which was appointed in 1923 to enquire into the working of the Bombay Stock Exchange, made several suggestions to improve its working and, to enable the Government of Bombay to implement these suggestions, the Securities Contracts Control Act was passed in 1925. Under this enactment, the Government of Bombay recognised and regulated the working of the Native Share and Stock Brokers' Association at Bombay and the Share and Stock Brokers' Association at Ahmedabad.

Though the stock exchanges recognised under the Act were only these two, there were other non-recognised stock exchanges both at Bombay and Ahmedabad. The working of the 1925 enactment proved that its provisions were inadequate effectively to control the manipulations and specu'ative activities on the stock exchanges in the Bombay State. Another Committee was, therefore, appointed under the chairmanship of Mr. Morison in 1936, and, on the basis of the recommendations made by this Committee, not only were the working regulations of the recognised Stock Exchanges at Bombay and Ahmedabad made more stringent but an enactment was passed in 1937, called the Forward Contracts Control Act, which gave wider powers of control to Government in respect of both the commodity markets and the stock exchanges. However, before the Act could be applied to stock exchanges, the war broke out and the activities of the stock exchanges throughout India came to be regulated under the Defence of India Rules.

Purpose of Regulation

In the light of the experience gained during this war-time control, it was thought best to regulate the stock exchanges throughout the country under an all-India legislation. Accordingly, Dr. P. J. Thomas, who was then Economic Adviser to the Government of India, was entrusted with the task of studying the working of the different stock exchanges in India and also in the U.K. and the U.S.A. and of making recommendations to Government about the effective measures necessary to regulate the stock exchanges in India. After receiving the Report of Dr. Thomas, the Government of India appointed two departmental Committees to examine his recommendations in detail and to suggest the draft of a suitable legislation. The proposals of these Committees were again examined by a committee consisting of non-officials and officials under the chairmanship of Mr. A. D. Gorwala. The recommendations of this Committee were submitted to Government in 1951. The Securities Contracts (Regulation) Act, 1956, was enacted after considering the recommendations of the Gorwala Committee.

While this measure was being piloted in Parliament, the Finance Minister made some very pertinent observations on the scope and functions of a well-organised and efficient stock exchange and the broad pattern of the scheme of the proposed enactment. He observed:

"The economic services, which a well-constituted and efficiently run securities market can render to a country with a large private sector operating under the normal incentives and impulses of private enterprise are considerable. In the first place, it is only an organised securities market which can provide sufficient marketability and price continuity for shares, so necessary for the needs of investors. Secondly, it is only such a market that can provide a reasonable measure of safety and fair dealing in the buying and selling of securities. Thirdly, through the interplay of demand and supply of securities, a properly organised Stock Exchange assists in a reasonably correct evaluation of securities in terms of their real worth. Lastly, through such evaluation of securities the Stock Exchange helps in the ordered flow and distribution of savings as between different types of competitive investments.

"These services can, however, be rendered by a securities market only if, as I have stressed, it is properly constituted and organised. Sceptics may argue that it is impossible for any securities market to function properly because of the undesirable activities of speculators and yet genuine speculation, which is based on a reasoned forecast of the real value of the investments, represented by the securities which are dealt with on the exchanges, performs a very important function. No stock exchange can operate purely on the basis of investment buying or selling, because 'pure' investors in that sense are necessarily few in number and usually possess very limited resources. They cannot provide the requisite volume or continuity of business, which alone would enable a large number of buyers and sellers to trade at all times in the exchanges, and to bring about an adjustment of the relative values of the securities in which they trade, in conformity with their real worth. It is the buying and selling of securities on a large-scale on the basis of reasoned forecasts which alone can give the necessary breadth and continuity to the market. Informed speculation, which takes a reasonable view of future prospects and thus brings about an appropriate adjustment of security values, thus helps not only in the channelling of savings into the most productive lines, but also attracts new savings for investment into particular classes of securities. Too often, unfortunately, speculation in shares and scrips is not based on any reasoned calculation of the prospects of a company, and comes very close to gambling. The basic object of stock exchange reform is, therefore, to regulate speculative activities, so that they may not degenerate into gambling; it is not the object of such reform to interfere with investment buying or selling or even with legitimate speculation as long as it conforms to the rules of the game. It is with this object in view that the Bill now before the House has been framed."

Recognition

Under the provisions of the Securities Contracts (Regulation) Act, only such stock exchanges as are recognised by Government, can deal in securities and non-recognised stock exchanges are prohibited from functioning. The Act applies to all dealings in securities whether forward or ready, though spot or across-the-counter transactions are excluded from its provisions. The Government has the right to enforce any rule or by-law on a recognised stock exchange, if such enforcement is deemed necessary in the interest of the public or trade. Government has also the right to prohibit trading in any or all securities, or to suspend the Board of Directors of any recognised stock exchange, or to withdraw the recognition granted to a stock exchange. Option business has been declared illegal and made a cognisable offence punishable by imprisonment or fine or both. In order to discourage the practice of keeping shares on blank transfers indefinitely, provision has now been made in the Act to the effect that it would be legal for the holder of any security whose name appears on the register of the company to receive and retain dividends declared on such security. Penalties are prescribed for contravening the by-laws of recognised stock exchanges, for issuing contracts by persons who are not members of a recognised stock exchange, for creating false markets in securities, etc.

Rules

The Statutory Rules framed under the Act were notified in February 1957. These Rules deal with procedural matters like the qualifications for membership of recognised stock exchanges, powers and functions of their boards of directors, the matters to be regulated under the by-laws and regulations, etc. They also prescribe the listing conditions, i.e., the conditions under which shares of joint-stock companies are permitted to be dealt with on a recognised stock exchange. The listing requirements are more or less the same as were prescribed by and observed on the Bombay Stock Exchange for many years and which also closely follow similar conditions laid down by the stock exchanges in the U.K. and the U.S.A.

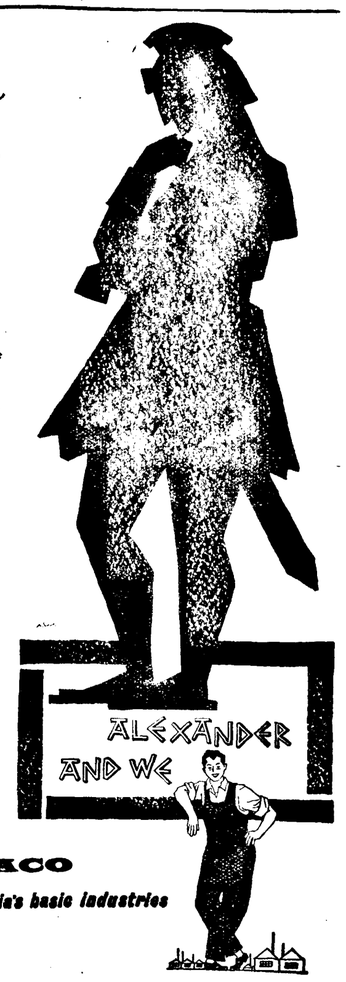
Seven Exchanges

During the two and a half years of the operation of the Act, the Government of India has recognised seven stock exchanges. These are at Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore. In all these cities, only one stock exchange has been recognised and, wherever more than one stock exchange existed, the active members of the non-recognised stock exchanges have been admitted to the recognised ones under concessional terms of membership. The constitutions of these reognised stock exchanges have been modified to conform to the policy of Government and to provide for security deposits to be paid by members thereof to ensure safety to markets and also to maintain the financial standing of the members. The trading by-laws and regu'ations of the different stock exchanges have now been standardised and procedural differences have been minimised. Officers of the Stock Exchange Division have been nominated to the boards of the recognised stock exchanges to keep in day-to-day touch with their activities, to advise them on important matters and to ensure proper enforcement of the by-laws and regulations.

Of the seven stock exchanges recognised by the Government of India, the Bombay and Calcutta Stock Exchanges are the most important ones and practically dominate the Indian investment market. Madras, Delhi and Ahmedabad Stock Exchanges have still to grow up, while the Hyderabad and Indore Stock Exchanges have comparatively little business. Detail's regarding the reorganisation of the different stock exchanges are given below:

Bombay

The Bombay Stock Exchange was established in 1875 and is a voluntary non-profit-making association. The total membership is 501, of whom 375 are active. In addition to Government (both Central and State) securities,



Aristotle had once described his pupil, Alexander the Great, as many in one : man of action, man of logic, romantic dreamer, believer in magic and so on. Like Alexander, we too have become many in one. At birth, we were christened Textile Machinery Corporation Limited, or makers of textile machinery, and over the years we have made many such machines. But we did not stop here. The 4,500 strong Texmaco, today manufactures a wide range of engineering products—cotton and jute textile machinery, industrial and locomotive boilers, pressure vessels, steel structurals, railway rolling stock, sugar mill machinery steel castings and so on. With the implementation of our new projects, now under way, we would become yet many more in one. Whatever Alexander did, he was inspired by the thought of adding fresh glory to the name of Macedon. Whatever we might do, there is a single aim that directs our activities—the proper utilisation of all our resources, to manufacture quality machinery—machinery to help India industrialise and bring prosperity to her teeming millions.

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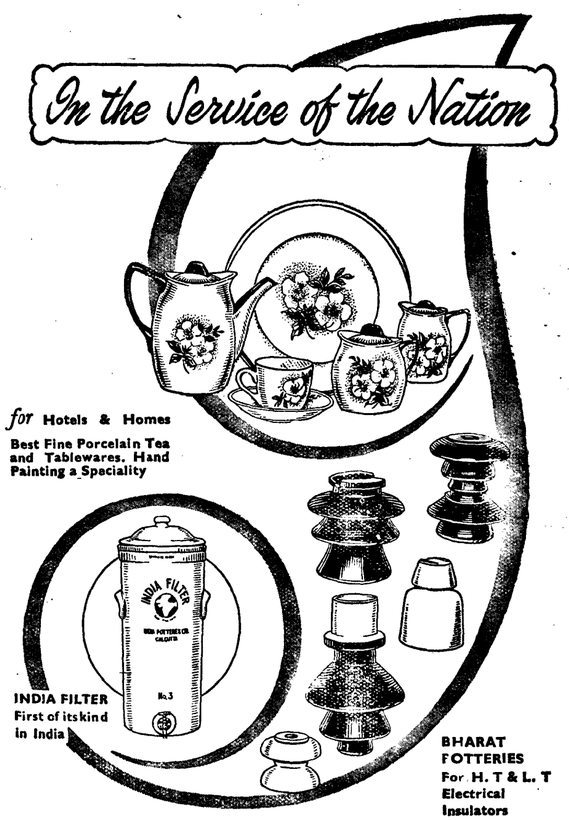

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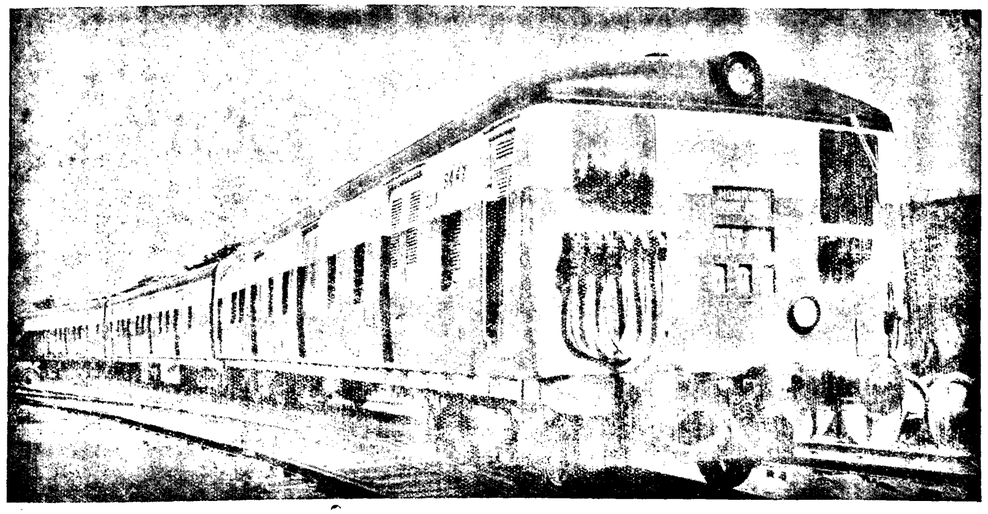

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Municipal loans, etc., which are generally traded on all the stock exchanges, the Bombay Stock Exchange has 251 ordinary shares, 95 preference shares and 12 debentures of various joint-stock companies on its list. The number of shares on the cleared (forward) list is 65. Its Clearing House is managed by the Bank of India, which delivers more than a crore of shares a year. It is one of the best managed stock exchanges in India and has a whole-time President, who is not a professional stockbroker.

The Bombay Stock Exchange (also known as the Native Share and Stock Brokers' Association) was recognised in August 1957. The active members of the Indian Stock Exchange, which was an unrecognised stock exchange functioning at Bombay, as were eligible under the Statutory Rules, were admitted to the Bombay Stock Exchange on some concessional terms. The security deposit was raised to Rs. 20,000 for all members, whether old or new. The Bombay Stock Exchange was the only exchange, which even prior to its recognition by Government under the Securities Contracts (Regulation) Act, confined its membership only to such persons who did only stock exchange business and none other. Government considered this a healthy practice and have now incorporated this condition in the Statutory Rules. Just as lawyers or doctors are not allowed to engage themselves in any other business, so also stockbrokers are not permitted to do any other trade or business.

Calcutta

The Calcutta Stock Exchange is registered under the Companies Act and was established in 1923. The nominal value of its share was Rs. 1,000, though, at one time, it was quoted around Rs. 40,000. It had a membership of 278. It has been accorded recognition in October 1957 and its shares have now been split into four, each of the nominal value of Rs. 250. The membership is now around 900. A security deposit of Rs. 20,000 has been prescribed for the members, though some minor concessions have been given in the case of existing members in this regard. In Calcutta also, such of the active members of non-recognised stock exchanges as are eligibile under the Statutory Rules to become members, have been admitted to the Calcutta Stock Exchange on concessional terms. This Stock Exchange has the highest number of securities on its list. They consist of 582 ordinary shares, 209 preference shares and 57 debentures. Till recently, the number of securities on the cleared list was nine, but now it is increased to 13. The Allahabad Bank manages the Clearing House, through which about fifty lakhs of shares are cleared every year.

Madras

The Madras Stock Exchange was established in 1923 as a private limited company but has recently been converted into a public limited company. It was recognised in October 1957. It has 37 members. A security deposit of Rs. 5,000 is prescribed for each member in addition to the share qualification. It has on its list 235 ordinary shares, 118 preference shares and 32 debentures, while the number of shares on the cleared list is 12. The Bank of India manages the Clearing House and deliveries total about 3 to 3½ lakhs shares a year.

Delhi

The Delhi Stock Exchange was established in 1947 under the Companies Act. It was accorded recognition in December 1957. It has about 92 members. The qualification for membership is the possession of two shares of the face value of Rs. 2 000 each, which is quoted in the market around Rs. 3,500. It has 150 shares on its list of which four are on the cleared list. At present, the Clearing House is run departmentally, but arrangements are being finalised for entrusting it to a bank. About 3 lakhs shares are cleared every year.

Ahmedabad

The Ahmedabad Stock Exchange was established in 1894 on the model of the Bombay Stock Exchange and has 451 members of whom about 133 are active. It was accorded recognition in September 1957. At Ahmedabad also, there were non-recognised stock exchanges and the eligible members of these have been permitted to join the recognised stock exchange. A security deposit of Rs. 5,000 has been prescribed for each member. It has securities of 98 companies on its list and 14 of them are on the cleared list. The Clearing House is managed by the Central Bank of India and the deliveries of shares amount to about a lakh a year.

Hyderabad

The Hyderabad Stock Exchange is a joint-stock company, established in 1943, and was functioning under the Hyderabad Securities Contracts Control Act, which was modelled on the Bombay Act of 1925. This Stock Exchange has been accorded recognition in September 1958. It has 57 members of whom only about 15 are active. The security deposit is Rs. 3,000. It has 23 ordinary shares and six preference shares on its list. It has as yet no shares on the cleared list.

Indore

The Indore Stock Exchange was established in 1930. It has been recognised in December 1958. It has 107 members. Only eight shares are on its trading list and the volume of business is small.

Directorate

With the completion of the recognition and reorganisation of the different stock exchanges, the preliminary work has now been completed. To ensure a proper administration of the regulatory provisions of the Act, the Government of India has now set up a Directorate of Stock Exchanges with headquarters at Bombay and branch offices at Calcutta and Delhi. The Directorate is required to keep a close watch over the activities of the stock exchanges and advise authorities whenever market shows untoward developments. On most of the active stock exchanges, members are required to submit daily statements of their transactions and pay deposits at prescribed rates whenever their total transactions exceed the limits specified by the Board. The procedure for obtaining the daily returns and the payment of deposits has now been put in order and evasion of these regulations controlled to a substantial extent. The Directorate studies these returns and the margin statements and whenever necessary, suggests action against the brokers who overtrade.

In addition to these normal activities of maintaining liaison with the stock exchanges, the Directorate ensures the proper compliance of listing requirements by the different companies whose shares are being traded on the stock exchanges or who desire their shares to be so traded. The whole aim of these listing requirements is to ensure that the investors are given all relevant information and details about the working of these companies, that those in control of the management do not manipulate the markets to the disadvantage of the investors, that new issues of capital are fairly allotted without discrimination, etc. These listing conditions also require the companies concerned to agree to transfer shares with minimum of delay, not to keep a lien on fully paid-up shares, etc., so that the negotiability of shares is not hampered or the buyers loaded with shares with liabilities attached thereto. On some of the stock exchanges, where listing requirements were introduced for the first time or where the original requirements were merely nominal, there was some misunderstanding at first that the listing requirements added unnecessarily to the restrictions that were already imposed on companies under the Companies Act, 1956. It is, however, being slowly appreciated that, whereas the Companies Act applies to all public and private companies, the listing requirements apply only to a few hundreds of companies, whose shares are being traded on the stock exchanges and that the public who seek to invest their hard-earned savings in the shares of such companies are entitled to have detailed information about their affairs and adequate protection against unfair manipulations. The Directorate has been able to intervene in several instances unofficially and by personal contacts, and ensure a fairer deal for the investors which it would not have been able to, had there been no such statutory conditions about listing of shares on stock exchanges.

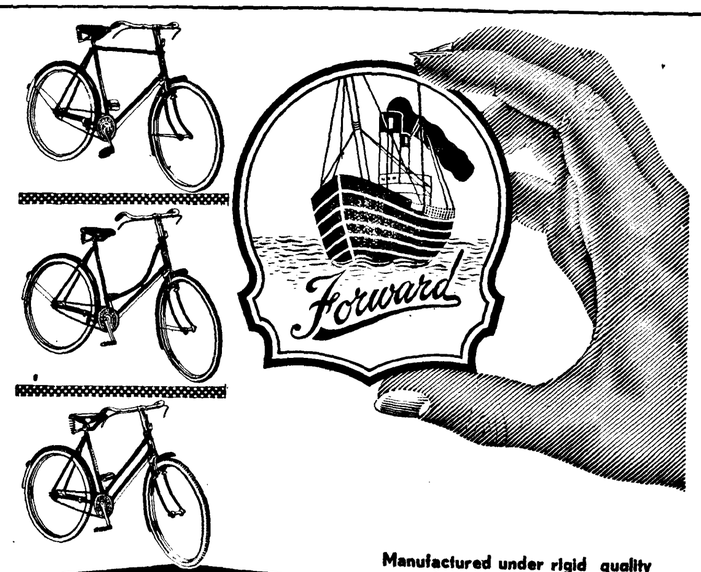
The most difficult tasks that the Directorate of Stock Exchanges will be called upon to handle are the control of kerb trading and prevention of option business. Both these problems require very careful handling and the active assistance of the stock exchange authorities. A third task that requires to be taken up, in the near future, is the licensing of brokers in areas outside those of recognised stock exchanges.—*All Rights Reserved.*

DETERMINATION OF PRICES

(*Concluded from page 73*)

vary in relation to a number of factors, an important one being the ratio of turnover to capital employed. An illustration of this is given in paragraph 15.4 of the Tariff Commission's Report on the Automobile Industry (1956).

In the foregoing paragraphs I have touched briefly on some of the problems relating to price fixation in the hope that several common misconceptions will, perhaps, be dispelled. That for ensuring healthy economic progress, commodity prices should remain steady and at a fair level, is an axiom which none can dispute. Equally undisputable is the statement that when large sections of the community nurse grievances against particular sectors of industry and trade on the ground that prices have been inflated and manipulated, it would perhaps be as wise for such sectors to ask for an investigation as it will be good for Government to institute one for the establishment of public confidence. If the investigation results in proving the existence of malpractices, the very publicity might act as a deterrent to its extension in other spheres. It is very wrong to believe, as some do, that a price investigation is always inquisitorial and harassing and is unnecessary unless it is intended to impose, on the basis of the findings, statutory control and regulation of price. It is equally wrong and even mischievous to assert that, when the State chooses to make an investigation, it is inimical to the principles of economic freedom. Most intelligent governments realise the limitations of extent of control, and are alive to the fact that there are large sectors of the economy where the intention of control can easily be completely frustrated. Enlightened administrations all over the world have thus found it necessary to generate moral forces to restrain anti-social activities or profiteering in specific spheres. The first step in that direction is to establish facts through public investigations and thereafter foster, within the spheres, the wholesome practice of self-regulation to satisfy public opinion.—*All Rights Reserved.*



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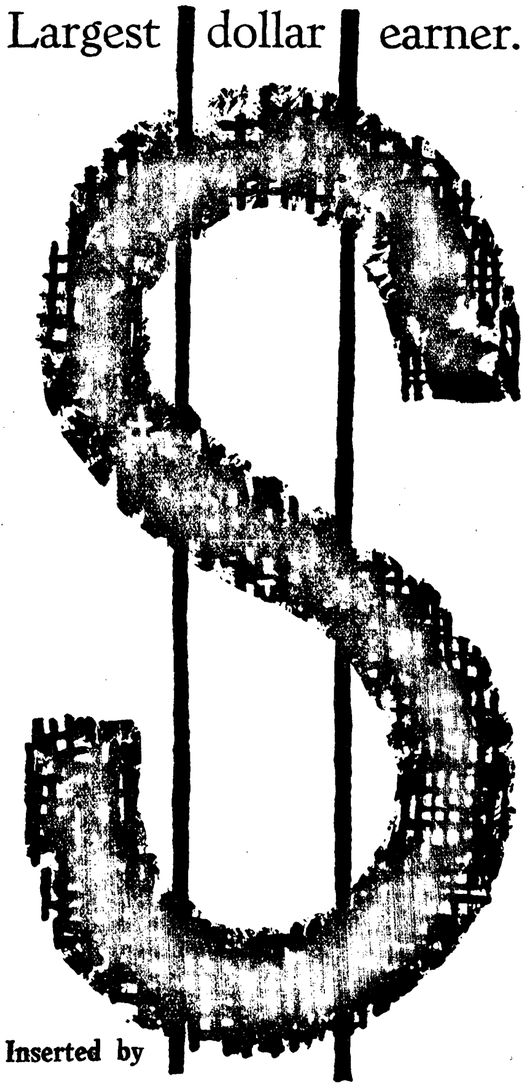

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REGULATION OF FORWARD TRADING IN COMMODITIES

By M. A. MULKY

SECRETARY, FORWARD MARKETS COMMISSION

THE Forward Contracts (Regulation) Act, 1952, under which forward trading in different commodities is at present regulated in the country, was placed on the Statute Book in December 1952. The Act is an enabling measure and its regulatory provisions, which are applied by notification to particular commodities and areas, ordinarily cover "transferrable specific delivery contracts" and "hedge" or "futures contracts." Under the Act, options are completely banned. The Act has also provided for the regulation of forward trading under the general supervision and direction of a special statutory authority, namely, the Forward Markets Commission. During the past six years since the Forward Contracts (Regulation) Act has been in force, its substantive provisions have been applied to a large number of important commodities such as cotton, raw jute and jute goods, oilseeds and oils, spices and *gur*.

The present regulation of forward trading in this country in various commodities should really be viewed against the background of past traditions. It is well known that the tradition of forward trading in India really goes back to almost 100 years in some commodities, and, prior to the Second World War, forward trading was carried on in many agricultural commodities as well as manufactured goods. Forward markets were functioning under the auspices of several associations located in different parts of the country in respect of cotton, wheat, gram, groundnut, linseed, castorseed and rapeseed, jute, spices, shellac, bullion, cotton yarn and metals, to mention a few. The Reports on the marketing of cotton, jute, etc., issued by the Agricultural Marketing Adviser to the Government of India, furnish details of the size of the operations in the forward markets in the above commodities and the nature of the contracts that were used by the trade. The voluntary basis on which trading was conducted in the pre-war period, however, failed to stand up to the impact of abnormal conditions in the commodity markets in India and the world, with the result that there were frequent crises.

Better Appreciation

The fact that, during the early years of the Second World War, the Government of India had to prohibit forward trading in most of the commodities, owing to rise in prices, indicated that, in regard to forward trading, Government could not adopt a *laissez faire* attitude. It is true that the large requirements of the war effort led to acute shortages in most of the commodities and closure of the forward markets became almost inevitable. But it is worth pointing out that, even after the war ended, as certain essential commodities were still in short supply, the prohibitory orders on forward contracts in essential commodities had to be continued under the Essential Supplies (Temporary Powers) Act, 1946. Even after making allowance for the speculative character of pre-war forward trading, there was, till 1950, very little appreciation of the functions of forward markets and particularly of the fact that forward markets can render an important economic service to the community if they were organised on proper lines and subject to proper regulation.

The first attempt at comprehensive regulation of the working of commodity exchanges in this country was made by the State of Bombay in 1947, when the Bombay Forward Contracts Control Act was enacted. The provisions of this Act were applied to cotton, oilseeds and bullion in the city of Bombay and an association for dealing in forward trading in each of these commodities was recognised. The Act vested certain regulatory powers in the State Government, but did not set up any independent body specifically for exercising them. Until the passing of the Forward Contracts (Regulation) Act in 1952, under which regulation of forward trading was introduced on an all-India scale, no other State had tried to emulate the example of Bombay. In this connection, it is pertinent to note that, though forward trading is carried on in many foreign countries, its comprehensive regulation has been undertaken only in the U.S.A., under the Commodity Exchange Act, 1936, which is administered mainly by the Secretary of Agriculture through the Commodity Exchange Authority. The Act regulates trading through "contract markets" which are more or less analogous to the recognised associations in India under the Forward Contracts (Regulation) Act.

In the early stages, the provisions of the Forward Contracts (Regulation) Act were used for continuing the ban on forward contracts in certain commodities under Section 17 of the Act, which had been imposed during the war and post-war period, to which reference has been made above, as well as for banning forward contracts in certain other commodities, e.g., raw jute. The constructive use of the provisions of the Act, i.e., by the application of Section 15, was made much later, naturally after the Forward Markets Commission, which was established in September 1953, had made the necessary reports to Government.

Functions

It may be useful to set down the functions of the Commission briefly. They are:

1. The Commission carries out exploratory studies for advising the Government, whether it would be desirable to apply the Act by notification to particular commodities and areas.

2. It receives and makes recommendations to the Government on the applications made by different associations who ask for "recognition" in respect of forward trading in different commodities and areas.

3. It keeps forward markets under constant observation, collects economic and statistical data relating to them and inspects the working of recognised associations.

4. It regulates recognised associations by giving them directions, approving or amending their articles of association and by-laws, and, in abnormal situations, even by superseding their governing bodies, requiring them to suspend their business and closing out outstanding contracts, if necessary.

5. It keeps a constant vigilance over the forward markets in the country with a view to ensuring that illegal trading, which takes place in various forms, is put down.

The Commission has so far submitted 22 reports, making detailed recommendations to the Government regarding the application of the Act and grant of recognition to associations, after investigating into the claims of 325 applicant associations for recognition, in respect of forward contracts in different commodities. So far, recognition has been granted to 23 associations to conduct forward trading in 13 commodities. The recognised associations are situated at such centres as far distant as Bhatinda in the north and Cochin and Alleppey in the south; Calcutta in the east and Rajkot in the west. The Commission has generally taken the view that a single centre for forward trading for each commodity throughout the country was not a practical proposition in a large country where transport and communication facilities were still lacking in many places and where the needs of different localities, as well as their traditional trading practices, are so diverse. When applications were invited for recognition from associations interested in a particular commodity, the Commission generally received a very large number of applications and the selection of a centre, as well as an association, had usually to be made from a number of competing centres and associations. The Commission has usually endeavoured to ensure that, where a market has been established under a recognised association in a centre, its facilities could also be utilised by the trading community in the region in which the centre was located. Unlike the practice in the pre-war period, when usually a multiplicity of associations carried on forward trading in a particular commodity in the same centre, or forward trading in the same commodity was carried on at many centres in the country, regulation under the ægis of the Forward Markets Commission has helped to reduce the number of associations as well as the centres dealing in forward trading. The policy of the Commission has been, as far as possible, to grant recognition for forward trading in similar commodities to the same association in a particular area.

Duration

Except the East India Cotton Association Ltd., Bombay, in respect of cotton and the Bombay Oilseeds Exchange Ltd., Bombay, in respect of castorseed, to which the Commission recommended the grant of recognition on a permanent basis, in view of the fact that they were already recognised under the Bombay Forward Contracts Control Act, 1947, the other associations were recommended the grant of recognition for a period of from one to three years. A shorter period of recognition was recommended for the reason that most of the associations were newly established and the Commission wanted to see how they would work, before recommending them for another term or on a permanent basis. The associations which were recognised on a short-term basis and to which permanent recognition has now been granted on the recommendation of the Commission are:

(1) The Bombay Oilseeds and Oils Exchange Ltd., Bombay, in respect of groundnut, cottonseed and linseed; (2)

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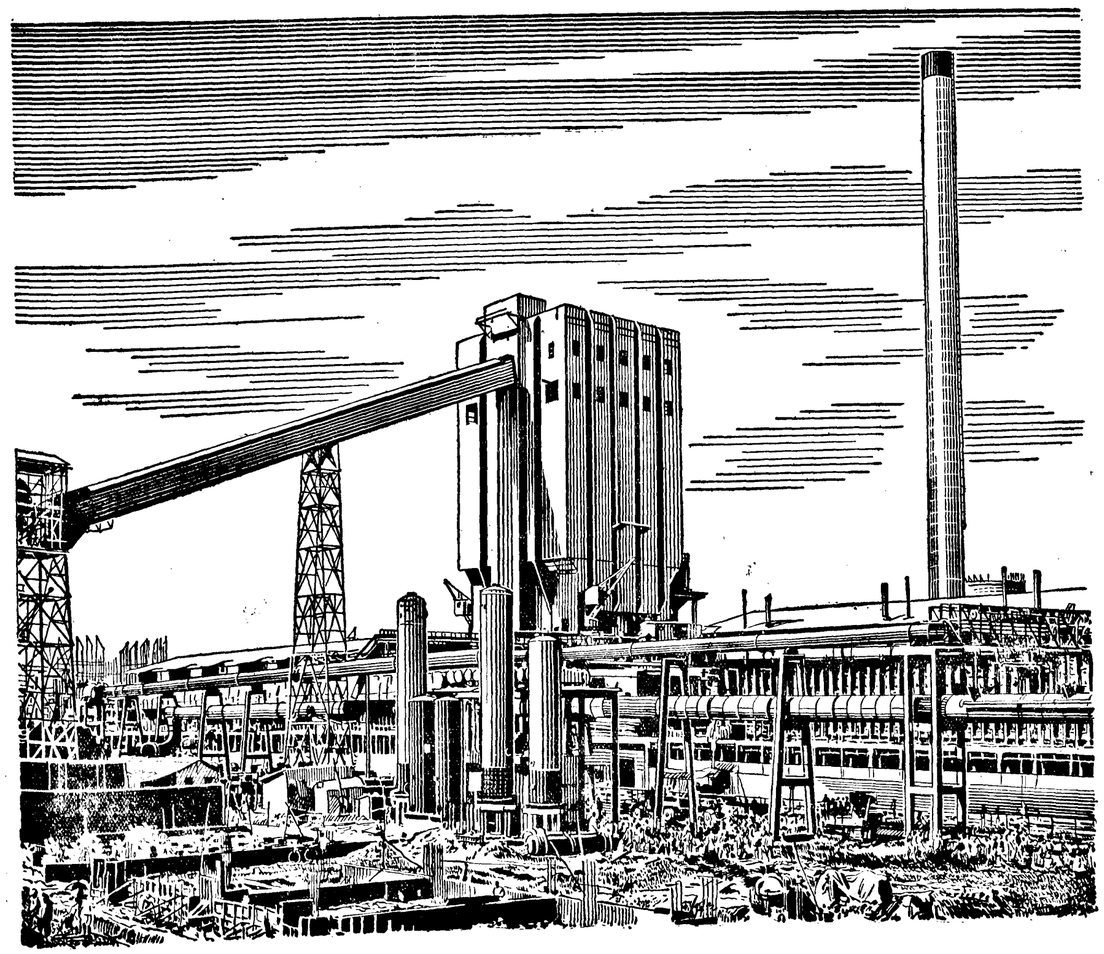

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the Saurashtra Oil and Oilseeds Association Ltd., Rajkot, in respect of groundnut and groundnut oil; (3) the Ahmedabad Seeds Merchants' Association Ltd., Ahmedabad, in respect of castorseed and cottonseed; (4) the Adoni Groundnutseeds and Oil Merchants' Association Ltd., Adoni, in respect of groundnut oil, and (5) the Madras Oilseeds and Oils Exchange Ltd., Madras, in respect of groundnut oil.

The Near Hedge

While the scheme of regulation under the Forward Contracts (Regulation) Act is that its provisions will normally apply only to "hedge" or "futures" contracts, another class of forward contracts called transferable specific delivery contracts, which have been defined in clause 2(*n*) of the Act as "specific delivery contracts which are not non-transferable specific delivery contracts" can also be brought under regulation. Transferable specific delivery contracts have been brought under regulation in respect of groundnut in Bombay City and in respect of raw jute and jute goods in Calcutta. The regulation in either case takes place through the appropriate recognised associations. Although the Act provides for the inclusion of non-transferable specific delivery contracts also in the ambit of regulation if the circumstances so warrant, so far they have not been brought under control except in the case of some foodgrains where the food situation in the country has made it necessary to confine trading to more or less ready delivery contracts, and in the case of cotton and certain minor oilseeds within the limits of Greater Bombay, where such contracts can be entered into only under the auspices of the respective recognised associations in Bombay. Under a transferable specific delivery contract, delivery takes place between the first seller and the last buyer since the contract is transferable from hand to hand, but it has to conform to the same detailed specifications in respect of quality and quantity as a non-transferable specific delivery contract.

Transferable specific delivery contracts have resemblance to futures contracts in so far as intermediate buyers and sellers are concerned, as the contracts are settled by the payment of differences between the parties in the chain. Transferable specific delivery contracts have their own special character and vary from commodity to commodity depending upon the local conditions and trade usages. Thus, for instance, transferable specific delivery contracts in jute goods have many points of difference from similar contracts in oilseeds, though the differences arise only in respect of the mode of fulfilment or of giving delivery. The transferable specific delivery contracts thus occupy an intermediate position between the non-transferable specific delivery contracts and the hedge contracts. The regulation under the Act is usually confined to transferable specific delivery contracts and hedge contracts, except where it is proved that the freedom to trade in non-transferable specific delivery contracts is likely to be abused. It will, therefore, be seen that the provisions of the Act are comprehensive enough to enable the regulation of all forward contracts.

While the Forward Markets Commission is armed with the necessary powers to regulate the forward markets, the aim of the Commission is to see that the regulation is carried on by the recognised associations themselves. The Commission stands ready to give the necessary advice. Under Section 6 of the Act, the Central Government nominates four Directors on the Boards of the recognised associations to represent itself and to represent interests not otherwise represented on the Board. These Government-nominated Directors play a useful part as they are a link between the trade and the Commission.

The Commission cannot divest itself of the responsibilities imposed on it by the Act in abnormal situations. In times when prices have shown a tendency to rise or fall sharply or when the market has been dominated by a few powerful operators, the Commission has intervened to correct the situation. The Commission's role has assumed greater importance, especially in the context of the successful implementation of the Five-year Plans and the need to keep prices under control. From the experience gained during the last six years of the regulation of forward trading in this country, the Commission has been able to develop certain techniques to deal with abnormal situations or emergencies. The measures which it can adopt singly or in combination are: (i) reducing the free limit on which no margin is paid by the members, (ii) increasing the amount of margin money payable on various slabs of open position of members, (iii) imposition of special margins payable by the longs or the shorts, as the case may be, when prices cross certain levels called marginal lines, which are fixed with reference to the position as regards supply and demand, the net open position of operators and the seasonal factors, (iv) the imposition of maximum and minimum prices for particular hedge contracts, (v) fixing of maximum limits of net open position of a member, (vi) opening of trading in hedge contracts maturing in distant months when there is a pressure on the existing contract, and (vii) closing out of the contract.

Controls A Success

The Commission has adopted some of the above measures with success. For example, the prices of commodities like groundnut, castorseed and cotton have, in the past two years, shown a tendency to rise. The imposition of special margins on contracts above "marginal lines" has helped to arrest the rise in the price level. While helping to damp down speculative fervour to a considerable degree owing to the large amounts of margin money required to be deposited, they have also not been without a healthy influence even on ready prices. Then, again, in the case of cotton, as a result of the rapid rise in the price of this commodity during the end of 1955 and the developments following this, the Commission was constrained to close out in January 1956, the outstanding contracts for February 1956 and May 1956 deliveries at the East India Cotton Association. In the case of raw jute, when prices tended to slump in 1958-59, the East India Jute and Hessian Exchange, Calcutta, with the approval of the Commission, imposed special margins on "shorts." This measure enabled raw jute prices to be sustained at a reasonable level.

With the extension of its sphere of regulation, the Commission has found that a certain class of traders carry on trading in contravention of the provisions of the Act. For example, trading in hedge contracts in commodities brought within the purview of the Act is carried on in unrecognised associations, or trading is carried on in prohibited commodities. Option trading is also carried on on the sly. Trading in commodities to which Section 15 of the Act has been applied is carried on in the "kerb," i.e., outside official hours. Another form of trading is what is alled *dabba* trading. There is also misuse of non-transferable specific delivery contracts for speculative purposes. In the early stages, the Commission drew the attention of the recognised associations and of the trade to the various aspects of illegal trading that was going on, with a view to stopping such trading. When this did not have the desired result, the Commission had to carry out raids on firms alleged to be carrying on illegal trading, through the agency of the State Governments, and the necessary prosecutions were launched later on. Many of the prosecutions have resulted in convictions. In addition to the punitive measures taken in this manner, the Commission relies also on the co-operation of the governing bodies of the recognised associations who have been requested to set up Vigilance Committees to keep a watch on illegal trading.—*All Rights Reserved.*

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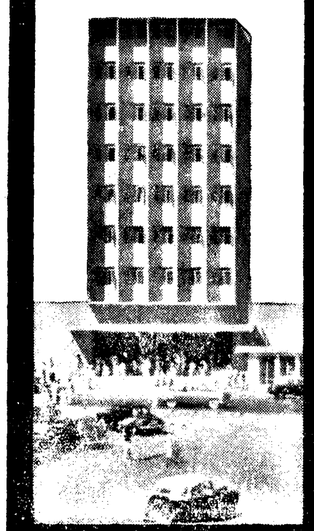

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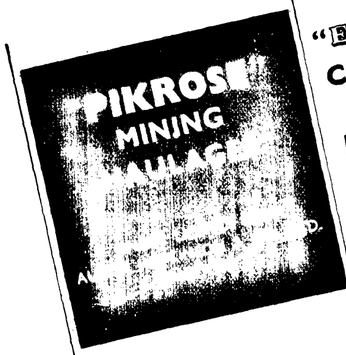

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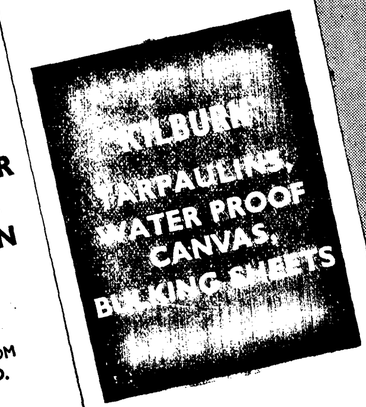

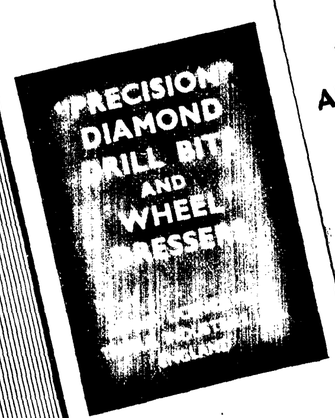

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The Changing Character Of Indian Banking

Period Of Challenge And Opportunity Lies Ahead

By G. B. KULKARNI

ECONOMIC ADVISER, STATE BANK OF INDIA

NINETEEN fifties will go down as an important landmark in India's economic history. It is in this decade that the country decided on a comprehensive economic planning with the object of securing a rapid increase in the total as well as *per capita* national income for its large and growing population. The first Five-year Plan, with a planned outlay of Rs. 2,378 crores (in the public sector), was successfully completed; the second Five-year Plan with an outlay of Rs. 4,500 crores is nearing completion and preliminary discussions are in progress for the third Five-year Plan with an expected outlay of about Rs. 10,000 crores. The direct and indirect effects of the Five-year Plans, the manner of as well as the difficulties in raising resources and in allocating them among the various schemes as well as the difficulties in implementation are reflected in such features of the banking system as (1) rapid increase in deposits; (2) slow growth in advances; (3) substantial rise in investments, and (4) decline in profits. It is in the context of these developments that the past performance of banks is to be analysed and the future lines of action are to be thought of.

Rapid Increase in Deposits

Scheduled banks' deposits which amounted to Rs. 942.1 crores in 1954 have almost doubled themselves during the last five years, standing at Rs. 1,834.7 crores at the end of November 1959. With a large second plan, with its emphasis on industrialisation and with the necessary time-lag, the effects of large domestic expenditure are being seen in the rapid increase in bank deposits. The special efforts made to spread the banking habit and to increase the number of bank branches and offices, more particularly in the rural and semi-urban areas, the increase in the number of scheduled banks as well as the receipt of counterpart funds in connection with the import of commodities under the U.S. P.L. 480 have also contributed to this rapid growth in deposits.

Slow Growth in Advances

Scheduled banks' credit, however, has not risen commensurately. Advances, including bills, which amounted to Rs. 538.4 crores in 1954, rose to Rs. 865.8 crores in 1958. They stand at present (November 1959) at Rs. 923.5 crores. Thus, while deposits have increased by Rs. 892.6 crores between 1954 and 1959, bank credit has increased only by Rs. 385.1 crores. This slow growth of advances may be due partly to the rapid growth of deposits (especially the P.L. 480 funds), partly to the foreign exchange difficulties the country has been facing in the recent past and the general as well as the selective credit controls exercised by the Reserve Bank of India.

Increase in Investments

Banks have, therefore, increased their investments in Government securities which rose from Rs. 348.0 crores in 1954 to Rs. 637.6 crores in 1958. They stand at present (November 1959) at Rs. 812.8 crores. Together with cash and balances, these assets form about 50.8 per cent. of deposits, and this enormous liquidity should have been causing some concern to banks.

The cumulative result of increased deposits and slow growth of advances, coupled with increased interest payments and establishment expenses, has been reflected in a decline in the profits of banks during the last two years. Scheduled banks' profits (total earnings minus total expenses) which amounted to about Rs. 16 crores in 1957 went down to about Rs. 13 crores in 1958. In 1959, they may, perhaps, be at about the same level, if not lower. It is important to note here that this decline in profits has come about, in spite of the increase in the number of scheduled banks and the consequent increase in their resources.

Some Lines for Future Action

One problem for banks is, therefore, to improve their operational results. One can, of course, argue that bank profits have been high in the past and banks should now be content with a lower level of profits. But banks may not be satisfied with a stagnant position. This can be done by (*a*) reducing interest rates on deposits, (*b*) curtailing establishment expenses, (*c*) putting up lending rates and bank charges and/or (*d*) by increasing advances. A reduction in the interest rates on deposits has already been attempted by means of the Inter-Bank Agreement entered into by many of the major banks of the country in October 1958. It is difficult to say how far the agreement has succeeded or will succeed in bringing down the rates of interest on deposits, each bank trying to have its own share in the growing volume of deposits. It is well known that establishment expenses, particularly salaries and allowances which account for the bulk of them, are quite rigid. The scope for reduction in this connection, therefore, seems to be very limited. In increasing lending rates and bank charges, the main difficulty is: who is to take the lead? Before an individual bank decides to increase its lending rates or bank charges, it has to take into account the possibility of loss of business when other competing banks do not increase their rates and charges simultaneously and to the same extent. Secondly, in a developing economy, credit should be as cheap as possible. Raising of lending rates by banks may, therefore, adversely affect planned efforts to increase production all round.

The main solution open to banks seems to be to increase the volume of their advances which will provide a profitable outlet for their growing resources. This should also enable banks to play their own role in the national economy which is developing rapidly. Keeping these points in view and allowing for the seasonal variations in the demand for bank credit, one can say that bank advances should ordinarily vary between 60 and 75 per cent. of deposits. The advances-deposits ratio of scheduled banks other than the State Bank of India which ranged at 68.8-76.2 per cent. in 1956 and 67.5-80.6 per cent. in 1957 came down to 60.0-72.0 per cent. in 1958 and 61.0-71.1 per cent. in 1959 (upto November). The average ratio of advances to deposits has come down from 72 per cent. in 1956 and 74 per cent. in 1957 to about 65 per cent. in 1958 and 1959. There does, therefore, appear to be some scope for increasing advances. This should, of course, be done without taking undue risks or without making bank finance available for speculative purposes or schemes of a lower priority. Agricultural production as well as industrial production has been rising of late and, with a much larger third Five-year Plan and with the bright prospects for foreign loans and assistance, it appears that production will increase further in the years to come. Banks can increase the volume of their production finance, both by increasing their advances to existing types of customers as also by taking new ones.

Finance for Agriculture

Agriculture in India accounts for about 50 per cent. of the total annual national income and supports about 70 per cent. of the country's population. Nevertheless, it is this sector of the economy where there is a wide gap between the farmers' requirements of credit and the volume of institutional finance available to them. The Rural Credit Survey Committee found that the contribution of commercial banks to rural credit was almost negligible in 1950-51. The present position in this respect is not much better. It is true that agricultural credit, especially under the conditions in which agriculture is carried on in this country, has its own problems, which make the field unsuitable for commercial banks to enter directly. But, with the emphasis on agricultural development in our planned efforts, commercial banks may find it worth their while to increase their loans to farmers. Even if direct finance to farmers cannot be stepped up considerably, there are always some special cases, which may be considered suitable for scheduled banks to finance. One such case is that of the tea industry. While tea is a plantation crop which takes a few years from the time of planting to the time when the crop is ready for sale, once the plantations begin to yield crops, it should be possible for commercial banks to provide at least the working capital needs of the industry.

There are three other directions in which commercial banks in India can increase their contribution to agricultural credit in an indirect way, namely, by means of their advances against warehouse receipts and by subscribing to and lending against the debentures of land mortgage banks. Warehousing is an essential corollary to the development of agricultural marketing and it is clear that the progress of the warehousing schemes planned by the Central Government as well as the State Governments will be considerably assisted if the banking system supports them by making its finance available against warehouse receipts and goods deposited in the licensed warehouses. There is also an urgent need for increasing the supply of long-term finance to agriculture, to which commercial banks can make their contribution by purchasing the debentures of land mortgage banks and by granting loans against these debentures so as to improve their marketability. Banks should not have much difficulty in doing this, as these debentures carry a guarantee of the State Government concerned and the terms and conditions of their issue generally compare favourably

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with those of other similar investments. It may be mentioned here that the pioneering efforts made by the State Bank of India in all these directions, namely, granting advances against warehouse receipts and purchasing and lending against the debentures of land mortgage banks have met with success and the experience obtained by the Bank has been quite encouraging. While the State Bank of India will, therefore, be increasing the supply of its finance in all these directions, the other scheduled banks should find in them a suitable outlet for a portion of their funds.

Finance for Industries

In the field of industrial finance also, there seems to be some further scope for scheduled banks. With the emphasis of the second Five-year Plan on industrialisation and with a much larger third Five-year Plan, which must also provide for a further growth of industries, it may be expected that industrial production will continuously grow during the next few years. The financial requirements of industries will obviously increase further, which the banks should be able and willing to meet. In addition to working capital, industry also needs medium-term and long-term credit, especially in a developing economy like ours where the capital market and other long-term lending institutions are not likely to be able to meet these requirements fully. Banks can supply this finance to industry either by granting them term-loans and/or by subscribing to the shares and debentures of industrial companies. It is well known that a fairly large proportion of the short-term loans granted by banks to industry is in actual practice renewed several times. While this is so, it is necessary that medium-term finance should be granted in the real sense of the term—for purposes of modernisation, reorganisation and expansion and for a sufficiently long period agreed upon to start with. In addition to the usual scrutiny of a prospective borrower's financial position, the lending bank has also to take into account the long-term prospects of the borrower as well as of the industry concerned. If medium-term finance is made available after such an examination, there is no reason why these loans should not form a fair banking risk. The granting of medium-term loans by commercial banks is being encouraged by the Reserve Bank of India under the auspices of the Refinance Corporation; but the operations of the Corporation will not be effective as long as banks are in such a highly liquid position and as long as the scope of the Corporation's business is limited to a few banks and to a few industries. It is felt that there is need for throwing the Refinance Corporation open to a larger number of banks and for a larger number of industries as well as for liberalising its terms and conditions of lending.

Finance for Small-scale Industries

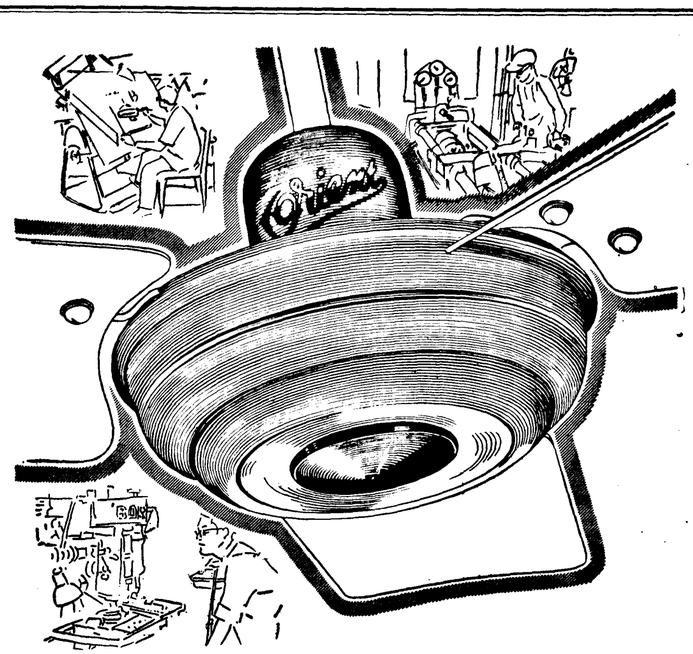
The bulk of bank finance to industry, however, benefits the larger industries. Banks' contribution to the capital requirements of small-scale industries, though growing in recent years, is still small. Small-scale industries constitute a crucial sector of the Indian economy, which for several reasons—economic, social and political—needs to be fostered and encouraged. The second Five-year Plan has rightly placed an emphasis on and provided for the development of small-scale industries and the third Five-year Plan is also likely to do the same. Shortage, as well as high cost, of credit is, however, an important impediment in the progress of these industries. It is true that the scale of operations, the nature of products and the methods of organisation of small-scale industries as well as the type of security available to them are in most cases such as to make commercial banks rather unwilling to lend to them. But financial difficulties should not obviously be allowed to arrest the progress of these industries. Banks can assist them by adopting a more sympathetic and helpful attitude to them. A distinction can always be made between one small industry and another and between one borrower and another. If necessary, the amount to be made available by a bank to small-scale industries may also be kept limited in the initial stages. It may be mentioned here that the experience gained by the State Bank of India in connection with its Pilot Scheme for financing small-scale industries put into operation at a few selected centres in 1956 was quite encouraging and, on the basis of that experience, the Bank has, since 1st January 1959, been financing small-scale industries at all its branches. The number of small-scale industries accounts has risen from 25 in 1956 to 1,219 in 1959 (September) and the credit limits sanctioned to them have risen from Rs. 10.7 lakhs to Rs. 377.6 lakhs.

It may also be mentioned here that even in a country of "big business" such as the U.S., a big bank such as the First National City Bank of New York has been lending to small business for over 31 years. The Bank's small business lending programme is an important part of its overall personal credit department, under which total outstandings now number 557,000 accounts, with a total of $331 million in unpaid balances. The net amount charged off for losses represents less than one quarter of one per cent. of the total amount of loans. The Bank's 31-year experience has been so good that terms have been stretched to 60 months, maximum amounts raised to $50,000 and the future of small business lending appears to call for a period of unprecedented growth.

The future for many small-scale industries appears to be fairly bright in this country. Banks can, therefore, consider the financial requirements of these industries favourably. It is obvious that there is need for caution in respect of these advances. But the adoption by banks of a progressive policy in this regard is sure to assist the development of small industries and at the same time enable the lending banks to add to their incomes. Now that a scheme for guaranteeing bank loans to small industries will be shortly put into operation by the Reserve Bank of India, commercial banks should come forward with a greater readiness to lend to these industries. The scope and coverage of the guarantee system which will be operated on an experimental basis for two years should be extended further, on the basis of a favourable experience. This guarantee system should also be followed in due course by the development of guarantee associations, so as to increase the willingness of banks to lend to these industries.

The need felt by banks for showing better operational results can be met by increasing their advances to the different types of existing customers as well as taking up new ones. This can be combined with an attempt to meet the financial requirements of a growing economy. To the extent to which banks follow progressive policies and liberalise their business methods, especially in favour of crucial sectors of the national economy, such as agriculture and small-scale industries, they will serve their own interest as well as the interest of the nation. That is a challenge as well as an opportunity for banks.—*All Rights Reserved.*

[Note: The views expressed in this article are the author's personal views and are not to be attributed to his official position. —ED.]



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Co-operative Sugar Factories In Maharashtra

Experience So Far Engenders Robust Confidence In Future

By G. M. LAUD

IN a well-reasoned memorandum on the third Five-year Plan, the Federation of Indian Chambers of Commerce and Industry has urged the Planning Commission to fix the target for white sugar production at three million tons by raising the installed capacity of the industry from 2.5 million tons under the second Plan to 3.5 million tons under the third. The expansion of the sugar industry of this magnitude is considered essential by it, having regard to the future rise in population and living standards and the fact that the current *per capita* consumption of 11.4 lbs. per annum is only half of what is considered desirable. Nobody has questioned the logic of this plea; but divergent views seem to prevail over the location of new units and the pattern of their organisation. Both the issues, therefore, require to be examined objectively.

Failure of North

Although the manufacture of white sugar was well developed in North India during the period of protection to the industry, it is on record that the sugar mills in Uttar Pradesh and Bihar have not, by and large, been able to build up their strength which they should have in a market sheltered from competition for over three decades. Most of these factories were set up at a time when hardly Rs. 18 lakhs were needed for installing a plant of 1,000-ton capacity as against Rs. 160 lakhs required at present. The main factor which has operated against them is the uncertain supply and excessive cost of raw material. The surveys conducted by the Indian Central Sugarcane Committee in 1948-49 showed that the cost of growing sugarcane was the lowest, i.e., Re. 1.02 per maund in Maharashtra, as compared with Re. 1.22 in Uttar Pradesh and Re. 1.49 in Bihar. Madras, including Andhra, stood close to Maharashtra. The disparity has widened during the past decade in favour of Bombay and the South where the acreage under cane has been steadily on the increase and the yield has been improving in contrast to the almost static conditions in the North. In Maharashtra particularly, the recovery of sugar is high. It follows from this that, if national investment in expansion is not to go waste, it must be directed to areas where a factory with a capital outlay of Rs. 160 lakhs would be in a position to produce sugar at a reasonable cost.

The Problem

The problem confronting the sugar industry in the North was presented to the country in the presidential address of Mr. P. Hadfield at the last annual meeting of the Indian Sugar Mills Association when he asked: "Where then will these States sell the surplus sugar" after the traditional markets of Bombay and South India are lost? This question is to be answered by the industry itself by putting its house in order, instead of suggesting that Western and Southern India should continue to subsidise its uneconomic working for an indefinite period, particularly when both the regions are in a position to meet the future growth of demand at a reasonable price albeit in relation to the current costs. If, therefore, these demand were not conceded, national planning will have no meaning and the lopsided development will aggravate the probems of the Indian sugar industry and adversely affect the welfare of the masses.

Until 1950, the industry was developed as a joint-stock enterprise, but, of late, several factories have been set up on a co-operative basis. In Maharashtra, 12 co-operative factories were in production during the *last season;* but the merits of their organisation have been challenged by the private sector. Judged by the public statements of individual manufacturers and their organisation, the main criticism is that "in the case of co-operative units, sound economic principles have been sacrificed at the altar of doctrinaire approach" and "it is a fine example of a policy thoughtlessly conceived and based on large public funds to be placed in the hands of the illiterate and inexperienced and liable to force the Government to repent in course of time." It is also argued by the private sector that it has been playing fair to the cultivator and consumer and is in a better position than the co-operative enterprise to achieve the expansion of the industry. These claims require close scrutiny.

The history of the sugar industry in Maharashtra dates back to 1920 when, following the construction of the Godavari Pravara canal, the first joint-stock sugar factory was set up at Belapur in Ahmednagar District. In the 'thirties, when the cane grower was badly squeezed by a world-wide depression, private enterprise stepped forward to acquire lands for their sugar factories from the growers on a long lease extending up to 30 years on an annual rental of Rs. 10 to Rs. 15 per acre and negotiated with the Government for an assured water-supply from the canals at a concessional rate for the lands thus secured. Thus, after reducing the peasantry to agricultural labourers on the sugar farms, the sugar industry was built up to give handsome dividends to the shareholders and a handsome remuneration to the managing agents and finance the replacement of worn-out equipment by ploughing back profits on a scale which could keep pace with the rise in the capital outlay from Rs. 18 lakhs to Rs. 1 crore. Yet, the fact remains that private enterprise, solicitous of developing the industry in Maharashtra, thought of setting up only 15 factories between 1933 and 1953, as compared with over 100 factories in the North. This is natural, because, to quote Mr. W. Jenkins, President of the Deccan Sugar Factories Association in 1953-54, "the distinguishing feature of the sugar factories in Bombay State is that, unlike their counterparts in other States, they have their own extensive farms on which they grow most of the cane crushed by them." The factories were concerned with the development of their own cane supply and had no interest in the welfare of other cane growers. But, strangely enough, within three days after Mr. Jenkins' speech, the Association represented to the Government of India that "the cane grown by sugar factories on their farms is not sufficient for their existing crushing capacity."

Exploitation

Why? The answer is to be found in the economic set-up in which private industry wished to function. Until the Government decided to encourage the formation of co-operative sugar factories, the cane grower had to put up with the widely fluctuating prices of *gur* and the resultant losses on the swings and had to be at the mercy of the factories when *gur* production was uneconomic. Thus, the private factories were enabled to secure marginal supplies at a price which they could dictate, and pay when they liked, even in the form of sugar. On an earlier occasion, they had also opposed the Government's proposal for introducing the S.I.S.M.A. formulæ, on the ground that they had their own cane supplies; but they shifted the ground at the prospect of new factories and urged the Government to leave the job to them, cordon off the cane area within a radius of 20 miles from each factory in order to ensure adequate cane supplies for their factories and for *gur* production. It is against this socio-economic background that the cane grower in the Ahmednagar district revolted against the move of private enterprise, decided to stake everything for having his own sugar factory, and the Government responded to his plea for support.

Origin

Maharashtra would have had its first co-operative sugar factory 25 years ago, if the registering authority had not then thought of co-operation exclusively confined to the "small man with small means." That factory, the Saswad Mali, was, therefore, registered as a joint-stock company while retaining the essential features of a co-operative organisation. The performance of this factory may well be compared with any joint-stock factory started at that time. The cane growers, who had resolved, in their conference presided over by Prof. D. R. Gadgil in 1945, to set up their own co-operative factories, however, continued to press their demand before the Government and, in 1950, it became possible to register a society under the Co-operative Societies Act for the manufacture of sugar. This first society, the Pravaranagar Factory, had to start with a crushing capacity of only 500 tons and was to be fed by cane grown on 766 acres by its 477 members. In less than six years, this factory raised its installed capacity to 1,200 tons and has extended its benefits to 1,347 members growing cane on 3,490 acres. It has also placed the technical know-how of cane cultivation and other facilities at the disposal of its members so as to enable them to grow cane more intensively and at a reduced cost. This has facilitated the successful operation of agricultural co-operative credit and resulted in indirectly stimulating agricultural production in the area. Even after paying to the members a higher cane price, the factory has been able to build its own financial strength. Its share capital now stands at Rs. 47.27 lakhs, of which the Government contribution is only Rs. 10 lakhs, and reserve and other funds at Rs. 18.80 lakhs, while it has built up a depreciation fund of Rs. 48.73 lakhs after replacing the small unit by a bigger one and repaying almost the whole of the loan taken from the Industrial Finance Corporation. What is more significant is that, by enabling its members to build up deposits of as much as Rs. 25 lakhs, it has demonstrated that it is possible to accelerate the pace of capital formation in this country by adopting co-perative methods and there is no need to believe that it can be had only by squeezing the worker and the primary producer. And all this has been rendered possible in respect of a class of agriculturists who have no guaranteed water-supply and had no experience of industrial management. The local leadership built up by the factory is now engaged in promoting development in other directions.

Achievement

Normally, any dispassionate observer would have taken off his hat to this factory, which has not only made a success of sugar manufacturing business under the leadership of an "illiterate and inexperienced agriculturist" guided in the matter of broad policies from outside but has also imparted to it higher values for which co-operation stands. But private enterprise dismissed its success by attributing it to "certain peculiar circumstances and uncommon market conditions." The same critic, as the spokesman of the Deccan Sugar Factories Association, also expressed the hope that the unfavourable working results in the first season of the second co-operative factory "would serve as a caution to Government." This factory (Kopargaon), in respect of which so much anxiety was expressed in 1956 by the champions of the private sector, has since then built up a share capital of Rs. 48.77 lakhs including Rs. 10 lakhs from the Government, created funds to the tune of Rs. 39.87 lakhs out of profits and attracted Rs. 19.81 lakhs as members' deposits and repaid the bulk of the I.F.C. loan. The rate paid per ton of cane to the members, exclusive of transport cost, has been progressively stepped up from Rs. 36.40 to Rs. 46.16 and the recovery has shown a marked improvement from 10.013 per cent. in the first season, 1955-56, to 11.375 per cent in 1957-58, the figure for the last season (1958-59) being a shade lower at 11.329 per cent., in line with other factories in the district on account of the short rainfall.

Obstruction

The formation of sugar co-operatives on a planned basis assumed importance under the second Five-year Plan when the Planning Commission observed that "co-operatives will be successful to the extent they render efficient service to the grower at the minimum cost" and "co-operative marketing linked with production finance and co-operative ownership of processing industries will be a useful instrument in increasing production, cutting costs and introducing a system of crop planning." The Bombay State Co-operative Bank, as the banker of the co-operative structure, and the Bombay State Co-operative Union, as its spokesman, therefore, urged the Government of Bombay to encourage the formation of sugar co-operatives with which the growing problem of land and labour could also be solved and the conflict between the grower and the manufacturer could be resolved. Unfortunately, the private sector opposed this proposal tooth and nail, by putting forward arguments to which a reference has been made earlier, and the Licensing Committee of the Government of India had to hold an inquiry. No doubt the Committee was satisfied that (1) the private factories seldom bought cane from individual agriculturists, (2) the quantity so purchased depended solely on the sugar prices, and (3) the area under cane outside the co-operative fold was sufficient to meet the additional requirements,

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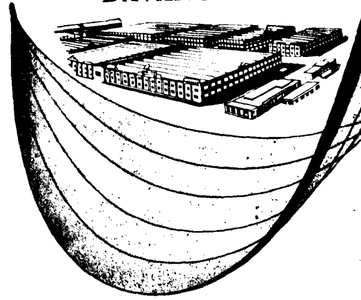

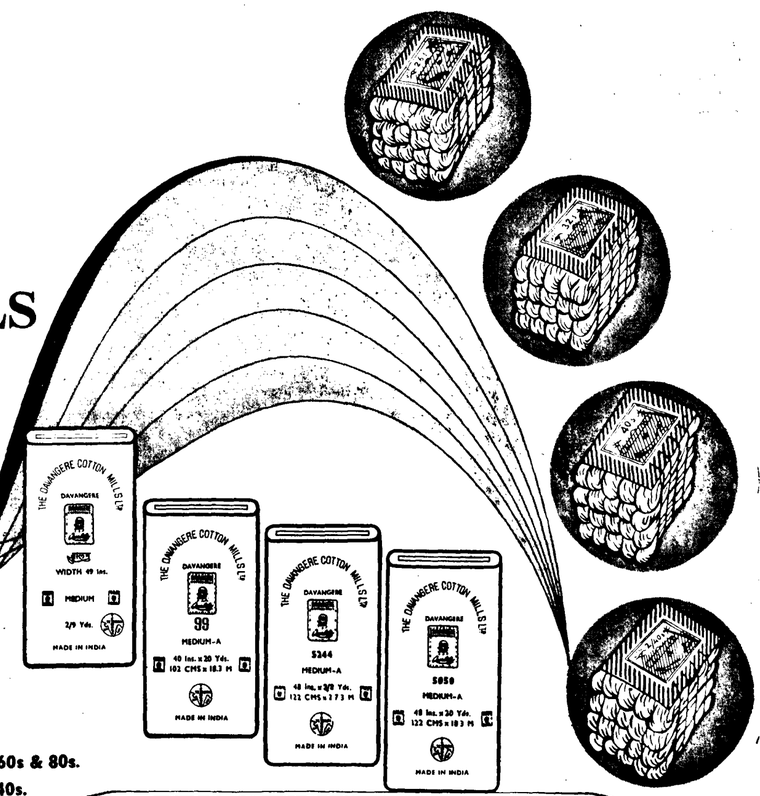

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if any, of the complaining factories; but much valuable time was lost during which the cost of the plant appreciated and foreign exchange became scarce.

Eighteen Co-operatives

Maharashtra has at present 18 societies registered with the object of manufacturing sugar from their members' cane as against 15 joint-stock factories. The achievement of the first two societies has been detailed earlier. Six factories had their first crushing in the 1957-58 season. By the time they were set up, they had to invest as much as Rs. 1 crore in fixed assets. In spite of the increase in the capital outlay and the teething troubles inevitably associated with any new project, the performance of these factories during the comparatively short period of two years is highly encouraging. Excepting the one factory, the rest were able to earn a profit in 1958-59 after paying a fair price for cane to their members, and in no case has the repayment of loans been defaulted. The other five have been required to step up their capital outlay to Rs. 1.25 crores each. Out of them, four had a trial run last season. It is, therefore, too early to pass judgment on their performance.

It may, however, be noted that the sucrose content in the cane of these factories ranges between 12.45 per cent and 15.53 per cent. This basic advantage makes one feel assured that, in spite of the higher cost of the plant and equipment, these four factories as well as the Warna, which will have the first full season's working in 1959-60, will enable them to honour their commitments to their lenders as well as members, although the pace of additional capital formation may not be as spectacular as that in the case of the second group on account of the need for a comparatively heavy provision for depreciation. Out of the rest, one factory has ordered the machinery and is expected to start production in 1961-62. In its case, the cost of fixed assets is expected to rise to Rs. 1.60 crores for each factory mainly on account of the rise in the cost of indigenous machinery to be purchased from the consortium. In this case, as well as in respect of factories to be set up hereafter, the quality of cane is high enough to assure them of a sugar recovery of 12 per cent and over. Thus, while in their case also the future is assured, the period over which they can build up their financial strength will necessarily be longer.

Criticisms Answered

Criticism against co-operative sugar factories in Maharashtra, as can be seen from the statements of the Deccan Sugar Factories Association, an organisation of joint-stock enterprise, is based on four points, namely, (*a*) cane supply areas of different factories have intermixed and, consequently, there has been a colossal waste of transport and avoidable strain on roads, (*b*) the co-operative factories enjoy 100 per cent profit as against only 48.5 per cent in the case of joint-stock companies, (*c*) by placing public funds at the disposal of illiterate and inexperienced agriculturists, State capitalism is being promoted through the co-operative sector, and (*d*) the private sector would have done the job more efficiently. These arguments demand detailed scrutiny.

The production of sugarcane in Maharashtra has been steadily on the increase during the past decade and, in spite of the additional demand for cane of 13 sugar co-operatives, no joint-stock factory has so far experienced a shortage of cane supply even after working to capacity. During the 1958-59 season, hardly 37 per cent of the cane production was processed into sugar and it has been on record that the functioning of a co-operative sugar factory has been followed by a steady increase in production per acre as well as in sugar recovery. The area of each co-operative sugar factory is clearly defined for the purpose of membership, while, as has been pointed out earlier, joint-stock factories depend almost exclusively on their own estates. It is, therefore, not understood how the cane supply areas of different factories have been intermixed. Yet, it is claimed that there is vast scope for expansion of the industry in the private sector.

Taxation

As regards taxation, it needs to be appreciated that, in Bombay State, there is no agricultural income-tax. Consequently, it has been possible for joint-stock factories in Maharashtra to take, for the purpose of income-tax, the statutory cane price payable for gate delivery as the cost of raw material, treat the difference between the theoretical price of cane and the actual cost as agricultural income exempted from taxation and pay tax only on the profit earned from the manufacture of sugar. A co-operative factory arrives at the surplus after meeting the expenses of sugar manufacture and fixes the cane price actually payable to its members. This enables it to pay a price higher than even the statutory price fixed by the Government and leaves "profit" barely enough to pay a modest reward to capital. If an allowance on account of the depreciation of equipment and other concessions were to be allowed as provided under the Income-tax Act, no co-operative factory will be liable to pay the tax even if it were applied for the initial period. The concession of tax relief is, therefore, for the time being of academic interest.

Indeed, as Mr. P. Hadfield observed at the last meeting of the Indian Sugar Mills' Association, "so long as co-operative factories are repaying the loan capital, they do not constitute any particular threat to the other units." His worry is "what will happen after five or six years." He and his colleagues may be assured that the existing factories will then have a better earning capacity and it should be possible for them to give better benefits to the workers by accepting them as partners in the co-operative enterprise if they are not subjected to income-tax. The fact remains that co-operation has no profit motive and is prompted by mutualistic aims and this makes it eligible for exemption from income-tax on the surplus earned at the cost of its own membership.

Growers' Right

The last two arguments require a closer examination in the light of the organisation, management and control of co-operative factories. Before dealing with them, it needs to be appreciated that political independence has conferred on the *common man* two fundamental freedoms, namely, (1) the right to protect his living standards against any forced reduction and to secure his due share in the benefits from increased economic activity, and (2) the right to choose the party and its leaders to govern the country in a manner which can enable him to achieve the first objective. In the past, the nation's economic development depended on capital formation achieved by denying a fair share to the producer, including the worker. To the common man, this meant concentration of wealth in the hands of a few and his own exploitation. He is confident that economic development can be achieved without exploitation and the formation of capital can be better encouraged by diffusion of wealth. The one way to achieve this is ruthless expropriation of the sources of private profit to the State; the other way is to introduce State capitalism. In either case, it would mean negation of democracy. The country has, therefore, accepted the third force—Co-operation, which can transform the social structure by preventing concentration of economic power and authority by democratic means and common ownership of the means of production and by providing incentives for economic enterprise in the form of production for use and not for profit.

In Co-operation one notices the opportunity to the masses for personal initiative the lack of which is one of the greatest dangers of the modern world and to the State to achieve the noble objectives laid down in the Constitution. As a result, co-operation is being called upon to play a vital role in carrying out economic and social policies of the State, and the State has become its partner for achieving the common purpose. Because in the initial stage, co-operatives are organisations of the weak, inexperienced and ignorant people, they are being made structurally capable of doing what they are expected and called upon to do so that they can, over a period, become strong allies of the State for building economic democracy. To the extent social purpose demands State aid and control, both are to be justified. By virtue of structure, organisation and the principles for which it stands, co-operation may have received a better stimulant from the State; but it is on record that even the private sector, relying on profit motive, has been given large doses of State control and aid to the extent considered capable of responding to the requirements of social objectives. It has, in fact, accepted the nominees of the State on its management boards, in order to supplement its ability and knowledge as well as resources. What is wrong then, if co-operation adopts the same technique, in order to make itself competent for conducting healthy and public spirited economic activity?

Security

A co-operative sugar factory is set up by a group of cane growers who have discovered that the uncertainty of profit stemming from wide fluctuations in *gur* prices has impaired their operational efficiency and reduced their living standards, while the bulk of the profit is in sugar manufacture. Since they are not capable of organising the sugar factory individually, they pool their resources and accept the co-operative form of organisation the fruits of which they have been reaping in respect of agricultural credit for well over 50 years. The main requirements of a factory are plant and equipment, an assured supply of cane and finance for processing it into sugar. Most of them have to depend on water-supply which might be available after the needs of the privately managed factories are met by Government and, consequently, their output is not exceptionally high. In order to secure adequate cane for the factory, the need for having 3,000 to 4,000 acres of land under the command of their factory of 1,000-ton capacity is appreciated. To secure it, about 1,000 cane growers are attracted to the project as its members. They undertake to invest capital on the basis of Rs. 1,000 per acre, finance their own cultivation and accept the risk of guaranteed cane supply. To allege, therefore, that their stake is only of Rs. 10 lakhs in capital investment of Rs. 1 crore and a half is to twist the facts. True, because they are poor, they are allowed to pay the full value of each share in instalments in the same manner in which a joint-stock company does; but no factory is registered without a minimum subscription of Rs. 10 lakhs.

Banker Knows Better

After the producer members and their societies subscribe Rs. 10 lakhs (in view of the rise in capital outlay, the minimum subscription has been raised to Rs. 20 lakhs), the Government contributes an equal amount. Over a period, the producer members are expected to pay the balance and to contribute, in addition, Rs. 5 per ton of sugarcane supplied each year to the factory as non-refundable deposit in order to finance the repayment of borrowings. On the strength of this capital which serves as a margin, the Industrial Finance Corporation sanctions loans upto Rs. 65 lakhs repayable in 12 to 15 instalments against the security of fixed assets and the guarantee of the Centre and the State. More recently, in view of the rise in the prices of fixed assets, the Corporation has agreed to lend up to Rs. 75 lakhs, provided the amount does not exceed 60 per cent of value of the mortgaged assets. Any deficit in the capital resources is met by borrowing from the bankers. The critics have not explained how this method of financing differs in any way from their own, except in respect of Government guarantee to the Corporation. No reason has been given by the Corporation for imposing this condition; but it is on record that no sugar co-operative has defaulted its instalment. A grievance is also nursed against Government guarantee for a banker's loan; but is it to be suggested that the State has not responded to this requirement of the private sector? In fact, the State has, even in the case of a sugar factory in the private sector. There is also a feeling that bank finance is liberally made available to sugar co-operatives. To that the only answer is the banker knows the worth of his client better.

The Difference

The structure of management and control of a sugar co-operative is not materially different from that of its counterpart in the joint-stock sector. In both the cases, the general body is supreme, with this difference that, in a joint-stock company, the voting rights are concentrated by means of shareholding and proxies and the annual meeting is concerned only with the *post mortem* examination, whereas, in a co-operative, each member present has only one vote and the meeting discusses not only the past performance but the future also by examining the budget for the next year. Can there be a better fair-play and democratic method of ensuring superior control over the affairs of the factory?

Subject to the control of the general body, the Board of Directors of each factory conducts its affairs. The Board is usually composed of 19 Directors—10 representing producer members and one their societies, two nominees of the State Government, one each of the Registrar and the financing bank, one or two on behalf of the Industrial Finance Corporation, the Managing Director of the factory and one expert to be co-opted with the prior approval of the Registrar and the financing bank. The first Board is nominated by the Registrar, in consultation with the promoters and the bank, and holds office for three years—a period associated with formation, erection and first season—but, thereafter, elected Directors take office. The Chairman normally, and the Vice-Chairman, necessarily, are from amongst the producer directors. The Government nominees are the Joint Registrar in

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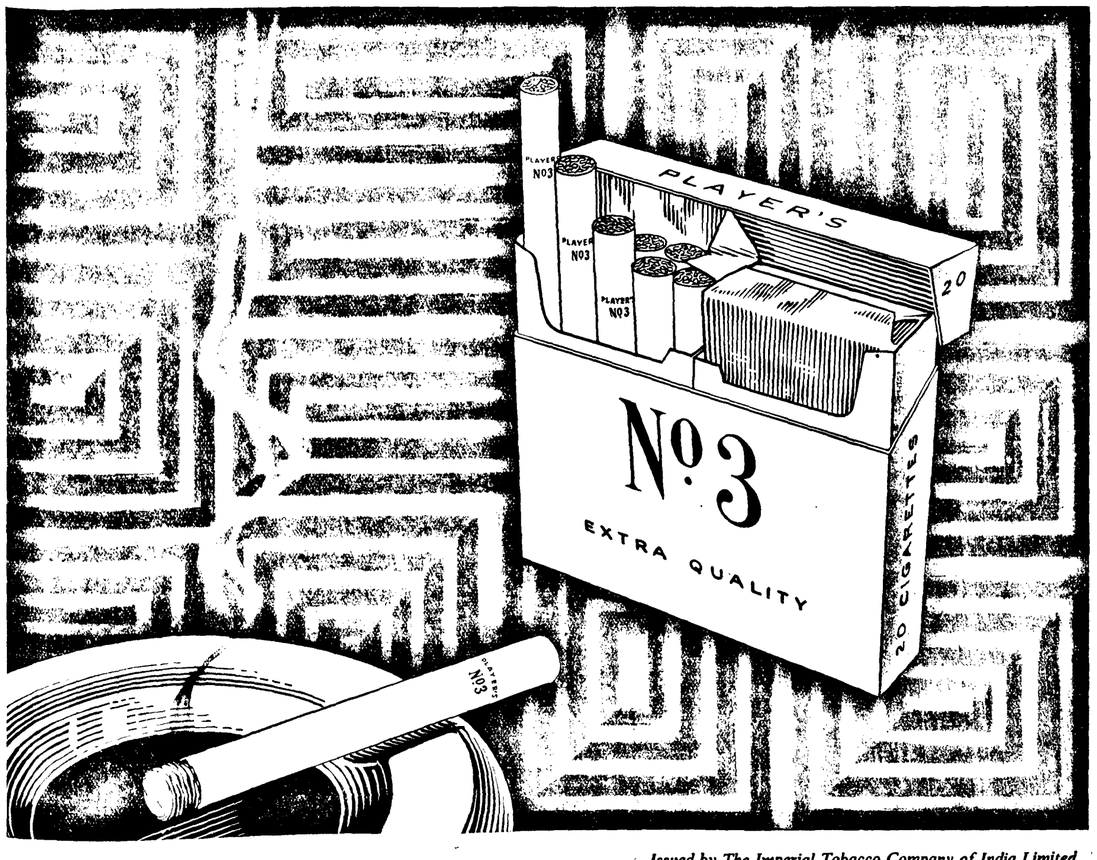

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charge of the sugar co-operatives and the Executive Engineer. The former guides the management in tackling day-to-day problems of policy execution; the latter advises on engineering matters such as civil works and water-supply schemes. The Registrar's nominee is Deputy Registrar for Sugar Factories in each division. He watches the management at work, gets the accounts of the factory audited and sees that the defects are rectified. In all matters of policies, there is mutual consultation between the Board of Directors, the Joint Registrar and the financing bank.

It will be noted from this that, while the democracy is enabled to function within the factory, proper safeguards have been provided to ensure that it is strong and efficient. The by-laws provide that Government nominees have a right to appeal against a majority decision of the Board and that the appointment, suspension, removal or dismissal of the Managing Director, who is the chief executive authority, will be subject to the prior approval of the Government. To those who are scared at the prospect of the colossal investment being placed in the hands of "inexperienced and illiterate" farmers, this should have been an effective answer; but, simultaneously, the bogey of State capitalism has been raised. In actual practice, the occasions for an appeal are exceedingly few and the Government consults the non-official opinion before deciding the issue. The Ministerial Committee selects a panel of Managing Directors after inviting applications by a public advertisement and interviewing the candidates and the Board is free to choose one of them.

Federation

The co-operative sugar factories have formed their federation, which provides technical guidance and advice on management problems, arranges for supplies of stores and spares by means of collective bargaining and renders, in addition, the services which are available to an enterprise in the private sector from its Chamber of Commerce. On the committee of this Federation are represented, besides the representatives of each factory, the Joint Registrar, the State Co-operative Bank and the Industrial Finance Corporation. The participation of all the agencies associated with the industry has ensured co-ordination of policies in different spheres, effective planning and orderly development. To decide higher issues of policies, the State Government has set up a Ministerial Committee composed of Ministers for Finance, Co-operation and Agriculture. In the deliberations of this Committee are associated the Chairman of the Sugar Factories' Federation and the State Co-operative Bank. The partnership thus operates in a perfect harmony at all levels, the decisions are agreed ones and never foisted and the official interference is no more than what has been already accepted by the private sector. Indeed, one fails to understand how and where State Capitalism has been generated, as alleged, in sugar co-operatives.

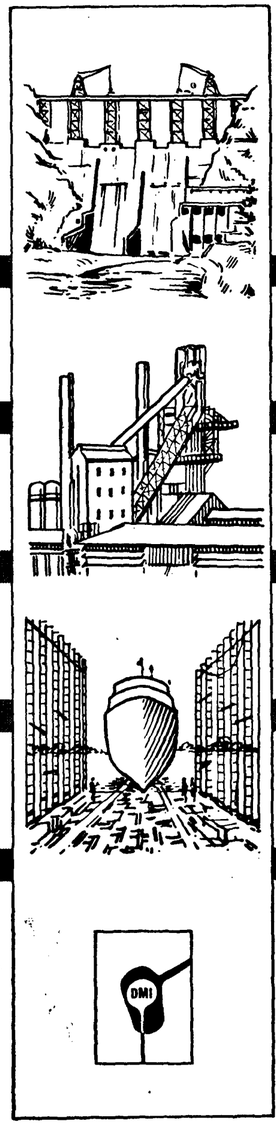
In retrospect, three distinctive features of the development of the sugar industry in Maharashtra are in evidence. First, free enterprise has not shown any enterprise, beyond setting up only 15 factories, in promoting the economic welfare of the area around the factories, stimulating the sugar production so as to wipe out the deficit of the State in sugar supply and attacking manufacturing costs by making proper use of waste and by-products. Secondly, the co-operative sugar factories have demonstrated that they can organise the cane production of their members more efficiently by providing extension services, wherewithals and more remunerative prices and have contributed to the social and economic development of the area by building up leadership from within, corporate and individual savings, and social service as well as by stimulating the establishment of ancillary industries. Thirdly, by making a success of business, they have proved that the primary producer can be assured of a better reward for his labour, there can be a diffusion of wealth and the benefits of economic development can be shared by the largest number. They are now thinking in terms of collectively setting up factories for using molasses and bagasse and giving the factory workers a share in their profit. And yet, only two factories are more than five years old, six had their first full crushing season last year and five will have it in the current year.

Co-operation, the Only Answer

Looking ahead, one sees a vast scope for the development of the industry in Maharashtra. Even at present, large tracts in Kolhapur, Sholapur, Satara, Poona, Nasik and Ahmednagar districts have been growing cane of a quality which does not present problems associated with the heavy capital investment of Rs. 1.60 crores for setting up a sugar factory. The new irrigation schemes offer further potentialities for expanding cane cultivation in the region. There are tracts in Marathwada where also cane can be cultivated at an economic cost. The existing units in the private sector have grown to a size beyond which their further expansion will be subjected to the law of diminishing returns, apart from presenting problems arising from the growing conflict between the cane producer and sugar manufacturer. It is, therefore, logical that the future expansion of the industry must be reserved for the co-operative sector.

More Care Needed

In building up the future business even in the co-operative sector, however, there is no scope for sentiment or political aspirations, since the stake will hereafter be heavier than at any time in the past. Planning has, therefore, to be more meticulous. In selecting the area for each factory, care will have to be taken to ensure the adequacy of cane supply capable of giving a sugar recovery of at least 11.7 per cent. Secondly, a democratic organisation requires effective safeguards. The past has indicated the spheres in which the reforms are desirable. Even in the existing factories, there is considerable scope for raising the managerial and technical efficiency. Problems such as the rights and obligations of members, the relationship of the Managing Director with his Board, and a joint marketing organisation are yet to be tackled. They have not, because the time was short; but their solution cannot be delayed. Indeed, the criticism of the private sector should make these factories conscious of their weaknesses and the need for overcoming them. But is is equally true that the primary producer has demonstrated his ability to face with courage the reverses from which he periodically suffers. One has, therefore, robust confidence in his collective effort to make a success of his factory, if necessary by temporarily sacrificing a few rupees per ton of cane, in order to ensure that lasting benefits accrue to him and his sons by making a success of the business on which he proposes to embark, even though it means heavier investment and adjustment of individual likes and dislikes to collective judgment. That is co-operation in action.—*All Rights Reserved.*



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SMALL Savings is a movement which has caught popular imagination with an unprecedented impact. It is not merely a matter of economics but of emotions, not merely of finance but of the finer points in human nature which commands the conscience to rise to its greatest heights—that is what the people of the country and particularly of the Bombay State, the rich and the poor alike, have been doing, bending as readily as a branch to a breeze, to the call for an intensified campaign made by the leaders of the country, from the President, Prime Minister, Chief Ministers downwards. While the warmth of their inspiration has served as a stimulant to the movement, there are two essential reasons why the appeal of small savings is so attractive to the people.

The first is that it gives top priority to the purpose of patriotism by giving the smallest man with the most meagre means the opportunity of the pride that he too is playing a part in the battle for the economic emancipation of the country and secondly, the comfort of the assurance that while serving the homeland, he is not neglecting the home. With the capital, the investor helps the Plan and its projects for the welfare of the people and with the interest he derives on it, he helps his own family.

Comparison with Others

I have found from my study of Small Savings schemes in different foreign countries that, though they may have started much earlier than ours—some of them are seventy-five to hundred years old—in none of them did I find the same emphasis on national service, in none of them that large variety of alternatives in scrips, in none of them so high an interest, as in ours. Yet the number of small savers in other countries is much larger proportionately than in India. In America, there are three savers out of every five; in the U.K., two out of every three; in Japan, one out of every three, but, in India, there are three savers out of every 200 of the population so far. But we need not be unduly depressed because the small savings movement, as we know it today, started in our country for the first time only in 1945. If there is not a larger number of investors, it is entirely due to the fact that, as yet, an approach has not been made to them. From experience, we have found that, whenever and wherever an approach is made and the people are made to understand the purpose and advantages of the scheme, they come forward to invest, no matter whatever walk of life they hail from or whatever their economic condition.

They require to be explained that small savings helps the resources of the Plan. In order to increase the expenditure on the 10,000 and odd schemes in the second Five-year Plan of the country, there must be a corresponding increase in the resources.

The Target

The resources for the Plan are made up from deficit financing (Rs. 1,200 crores), foreign aid (Rs. 800 crores), taxes old and new (Rs. 800 crores), loans (Rs. 700 crores), small savings (Rs. 500 crores), railway profits and other revenues (Rs. 400 crores).

The Plan requires Rs. 720 crores every year for five years for capital formation on its constructional projects like roads, buildings, power and irrigation projects, factories, etc. The fulfilment of these schemes alone guarantees the additional employment of eight million persons in non-agricultural pursuits and an increase of 25 per cent. in the national income reached at the end of the first Five-year Plan.

Out of this Rs. 700 crores and odd required annually, about Rs. 600 crores are being found from foreign aid, open market borrowing and deficit financing, referred to above. It still leaves a gap of Rs. 100 crores per year. It is this gap that small savings help to fill.

In the first Five-year Plan, against the target of Rs. 225 crores, Rs. 241 crores were collected net. If, therefore, during the earlier years of the scheme, the response was well over a hundred per cent. in net collections, there is no reason why we should not be able to reach the target of Rs. 500 crores set for the second Five-year Plan. True, it is more than double that of the first Plan, true that prices have risen to some extent and living costs have gone up. But I still maintain that these considerations should not affect the saving or sustaining capacity of the people.

The gross collections both in the country as a whole and in the States individually indicate that the people have the money to save, as otherwise they would not be able to invest in the first place. The decrease in the withdrawals shows the stability of the people to sustain the investment. Taking only last year as an illustration, as much Rs. 265 crores gross were invested in the country and Rs. 61 crores gross in the Bombay State.

It is true that much was withdrawn in the course of the year and that the net all-India savings came to about Rs. 80 crores and of Bombay State, about Rs. 24 crores, or as much as 92 per cent. of its net target.

Gross and Net

But the reasons for this difference between gross and net collections were not necessarily due to the economic condition of the people. The principal reason for the withdrawals is that, since 1957, the 12-year National Plan Savings Certificates have started maturing on the completion of their twelve years' course; so investors have started encashing, because, even if they retain their certificates beyond that time, they do not realise any more interest than what is due to them at the end of twleve years. In Bombay State, last year alone, we have calculated that over 50 per cent. of the certificates were encashed at maturity, which incidentally also proves the sustaining capacity of the people.

The second reason is that, in the middle of 1957, the Finance Minister put up the rates of interest as a result of which people who had invested at a lesser rate of interest naturally, withdrew the amount and reinvested the same at the higher rate, thereby inflating the gross while the net remained stationary.

The third reason is the heavy withdrawal in post office savings bank accounts which provides the facility of withdrawals twice a week and, after all, operates more or less like a put-and-draw bank account. But it is not on P.O.S.B. accounts that the net savings either of the country or the State depends, because 83 per cent. of the country's net savings and 93 per cent. of the Bombay State's net savings came from sale of certificates, either the 12-year, 10-year or the cash annuities, none of which can be withdrawn in less than one year.

The fourth reason is premature withdrawals. Sometimes, quite naturally, people require ready cash for some contingency or other. So they withdraw the amount they may have invested or part thereof. But, by doing so, they do not realise that they damage the national cause as well as break the continuity of the accumulation of their interest. Sometimes, even if they do, they cannot help it. In order to help such people, a new facility in the shape of hypothecation has been provided for them, whereby they can pledge their certificates either with the Reserve Bank, State Bank, any scheduled bank, co-operative bank or society and obtain a loan for the short period ready money is required. At least in Bombay State, the difference between gross and net collections has perceptibly fallen since the introduction of this facility.

Scheme of Operation

The scheme is operated in a four-fold manner. At the Centre, the Finance Minister of India is in charge, assisted by the Deputy Finance Minister. There is also the National Savings Organisation at the level of the Government of India, headed by the National Savings Commissioner with his head office at Nagpur. He is assisted by various Regional National Savings Officers in each State, who in turn have under them their Deputies, Assistant National Savings Officers who supervise over a number of districts and District Organisers who look after each district of the State.

At the Bombay State level, the Chief Minister is in charge, assisted by the Parliamentary Secretary in charge of the campaign and the day-to-day organisational matters. The Directorate of Small Savings of the State has two Directors—the Finance Secretary and the Joint Director who is the Director of Publicity, then there is the Small Savings Officer with an establishment. In the districts, there is a Deputy or Assistant Director looking after a group of districts and a supervisor or two in each district. District Collectors and their officers also help greatly in the organisation of the campaign.

The third appendage of the scheme is the army of agents who derive a commission of 1¼ per cent. on the Twelve-Years and ½ per cent. on the Ten Years Certificates. There are between 55,000 and 60,000 agents in the country today, of whom over 20,000 are in the Bombay State alone. These agents, last year, earned an aggregate commission of Rs. 45 lakhs of which more than 50 per cent. was secured by agents of the Bombay State. Anybody who is a major can become an agent in any of its several categories, which comprise at present at least a dozen varieties, which, however, is shortly to be rationalised into just one. Government servants holding posts of clerks or cashier, *talathis*, *patwaris*, circle inspectors, *gram sevaks*, teachers, etc., can all become agents. But more than half the number of Bombay State's agents are non-officials.

The fourth angle of operation and the most important is through the people's own participation, indeed, but also their organisation. This is given scope by the setting-up of various Advisory Committees, right from the National and State levels, down to the divisions, districts, blocks, talukas, cities and in some places even village levels. Till recently, the Women's Organisation also played a very leading part in the set-up, but, lately, it has been abolished and merged into the main organisation. But women continue to play a very important role in fostering the promotion of small savings.

Good Response

The response to small savings is all round, because the scheme is free from any controversy or misunderstanding of any sort and therefore does not suffer from criticism which has bogged the progress of many a scheme. Even members professing different political creeds have willingly invested and also assisted in the promotion of the scheme. Its other great advantage is that there is no form of compulsion. It is entirely voluntary. The people come forward of their own accord to invest the moment they are explained. The poorest are not behindhand in the contribution of their mite for this great national building activity.

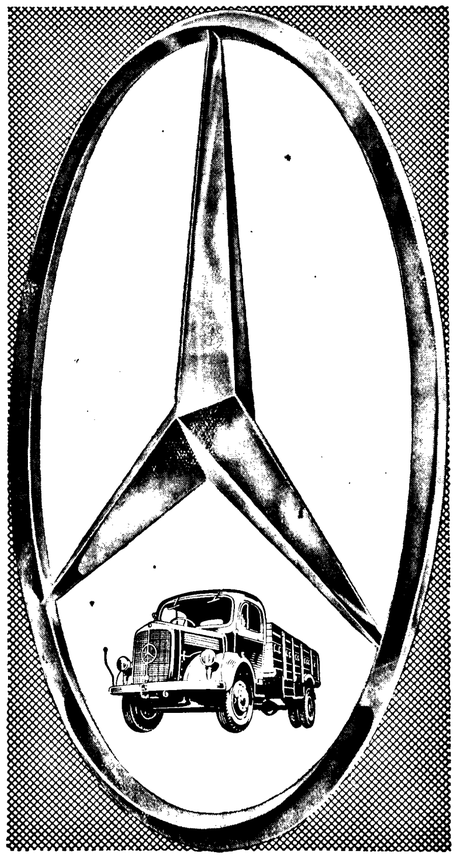
It is our endeavour to reach the message of Small Savings to every nook and corner of the country and State and to every class of people, from the high-ups to the Harijans, from the academicians to the agriculturists, from the principals to the pupils, from managers to menials, from the big boss to the small shopkeeper—indeed, no category is left, no individual or institution denied the opportunity of serving his country and the interest of his family.

But, though this may be our aspiration, we have not been able to reach, I think, even half the populace in our own vast State—although we are leading all our sister States—let alone in the country. If, in spite of that, the country can achieve 80 per cent. of its target and the Bombay State over 92 per cent., no one can maintain that the targets fixed are unrealistic. If we can still further improve our organisation and still further intensify our campaign, we should be easily able to exceed the target both at all-India as well as at the State levels.

Share of Rural Areas

A very revealing thing in the effort of the Bombay State last year is that at least 50 per cent. of the collections came from the agricultural classes, without counting those amounts credited to the cities which may have come from agricultural incomes. Out of the Rs. 24 crores net collected last year, Rs. 7½ crores came from Bombay City, an outright urban collection. We allowed for another liberal Rs. 3½ crores from other urban areas of the State,

The Star that hauls a fortune



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leaving more than 50 per cent. as the conservative estimate of collections from agricultural areas.

This should be sufficient to dispel the notion that small savings come —or should come—from the richer or well-to-do classes who desire to avail themselves of the exemption from income-tax and other taxes on the interest derived. While the incentive is certainly provided, the limit of investment in each scrip is restricted, for example, to Rs. 25,000 in the case of the Twelve Years and Ten Years Certificates, though by investing to the maximum in all the certificates and accounts under the Small Savings Scheme, an individual investor can invest upto Rs. 1.11 lakhs or upto Rs. 4.22 lakhs for his entire family on the basis of 4½ members in the family.

While we certainly encourage the income-tax assessee to invest as much as he can, it requires to be remembered that, after all, in the entire country, there are only halt per cent. of the population which is assessed to income-tax—or barely 10 lakhs. Even if they were to assess their every rupee—not that they are going to do so—we would still be far removed from reaching the amount required on the capital formation of the country. Hence small savings for the small man.

No Pressure on Savers

It has been alleged sometimes that people invest in small savings out of pressure brought upon them or just to please and oblige someone for the time being and that the first opportunity is taken to withdraw the amount. It has also been suggested that the bulk of the collections take place in March, that is, in the last month in the financial year, on the understanding that the investors can withdraw the amount in April.

Both contentions are not correct. In the first place, as I have pointed out earlier, the majority of the net collections in the country as a whole and the Bombay State take place through sale of certificates which cannot be deducted before the lapse of at least 12 months. The only way in which moneys invested in March can be withdrawn in April would be by investing in post office savings bank accounts which admits of withdrawals twice a week. Last year, Rs. 60 crores out of the country's Rs. 70 crores net collections (without counting interest on P.O.S.B. accounts) and Rs. 20.38 crores out of Bombay State's Rs. 21.63 crores (without interest) came through sale of certificates.

Moreover, in the Bombay State, Rs. 13.60 crores gross were collected in March and April 1959 and, during the same period, only Rs. 6.33 crores were withdrawn, leaving a net balance of savings of Rs. 7.27 crores on 1st May 1959, counting all scrips of small savings including even the post office savings bank accounts.

For the country as a whole, the investment in March was nearly Rs. 35.19 crores and in April, nearly Rs. 23.57 crores—certainly not such a big difference—and the net collections left by the beginning of May 1959, if both the months are counted, would be Rs. 19.32 crores. As a matter of fact, some of the highest collections are recorded in April and May. For example, in April alone, Bombay State's net collection was Rs. 1,72,50,000.

This year—1959-60—in spite of widespread elemental calamities, we in the Bombay State have succeeded in collecting over Rs. 12.10 crores upto the end of October—nearly three crores better than during the corresponding period last year, normally a slack period in any year.

It has been sometimes suggested that there is collusion between agent and investor and coercion from officials. How little substance there is in this contention can be shown by the fact that the distress sale of certificates, that is, certificates which are encashed immediately or soon after one year, is only 2.50 per cent. of the total amount of withdrawals in the State. Had there been any element of coercion, the distress sale of certificates would have been much greater.

Bombay Leads Others

The Bombay State has always played a most leading part in the promotion of small savings. In the period of the first Five-year Plan, this State collected a net amount of Rs. 62½ crores, with Uttar Pradesh and West Bengal, second and third, with Rs. 39.49 and Rs. 38.58 crores, respectively. We have kept up this position in the career of the second Five-year Plan up-to-date which I am stating as a matter of fact, not as a matter of any provincial pride. Last year, Bombay State's share of the entire net collections in the country came to as much as 30 per cent. while, in the first half of this year, it is 45 per cent. so far. Only four out of the eighteen States have shown an improvement over their performance during the first half of the year. As pointed out earlier, Bombay State has been one of the outstanding States. Last year, while Bombay came first with a net collection of Rs. 24 crores, the next best was West Bengal with Rs. 9 crores and third, Uttar Pradesh with Rs. 8 crores net.

But, while this performance may give us some measure of satisfaction, it would by no means justify any complacency on our part. The Bombay State has a target of Rs. 26 crores net annually. It has collected Rs. 56 crores in the first three years as against its proportionate aggregate target of Rs. 78 crores, leaving a deficit in our collection of Rs. 22 crores. So because we collected less in more time, we will have to do more in less time, that is, in the remaining two years of the Plan, if we aspire to reach our target of Rs. 130 crores by the end of 1960-61. Only if we achieve that will we be entitled to receive back Rs. 85 crores as the State's share, according to the agreed formula of 66 per cent. or two-thirds of whatever the State collects being returned to the State for the promotion of its own schemes.

Training for Agents

In order to intensify consciousness, to impart training, and to generate enthusiasm among the agents and the masses, the State has devised the scheme of organising *shibirs* or training camps for agents. They became so popular since their inception last year in the various divisions of the State that, from this year, we have been having them in every district.

At these *shibirs* promises are also taken from agents and investors of how much they will collect. Among the outstanding in such promises this year has been South Satara, Rs. 31½ lakhs, Bhavnagar Rs. 30 lakhs, Kutch, Rs. 24½ lakhs and so on. I have yet to have an experience when any of these promises have not been fulfilled. The Government of India have been so much impressed with this scheme that they have recommended the scheme to all other States.

"At these *shibirs*, full scope is also given to the agents to put before us the difficulties experienced by them in the field and numerous suggestions made by them at the special group discussions are adopted at the open session which follows. Many of them are decided there and then; matters pertaining to policy but dealt with by the State are decided within a week or a fortnight at Bombay while those requiring the concurrence of the Government of India either in the Ministry of Finance or in the Ministry of Communications (Post and Telegraphs *Department) are taken up at Delhi* without delay. Our experience has been that the Government of India largely sees eye to eye with our recommendations, though sometimes one would wish that the implementation does not take so long as it does.

In order to encourage the districts to enter into a healthy competition with each other, the State awards shields and trophies to the districts which exceed their net target year by year. It is very revealing to note that, whereas in 1957-58, only two districts just exceeded their target and as many as eleven districts could not even collect upto 30 per cent., in 1958-59, as many as eighteen districts exceeded their targets of whom four exceeded 200 per cent. the first, Bhir District in Marathwada, the region where till yesterday there was no knowledge, let alone consciousness of small savings, doing as much as 256 per cent. Not one district was less than 40 per cent. and only three districts were 50 per cent.

What is noteworthy is that the districts which do proportionately the best are not necessarily the well-off districts, but those economically not so well-off. A striking example is that of Dangs, 100 per cent. inhabited by Adivasis, which was one of the two districts to exceed the target in the year before last and one of the four to exceed 200 per cent. last year. Another similar record is that of Sabarkantha.

We are able to create this welcome for small savings by the attention that is required to be made to the facilities demanded by the people. If we want their co-operation even in a scheme which may be for their benefit, we must be prepared to give as many facilities and conveniences as possible, removing the difficulties both at time of investment and at encashment.

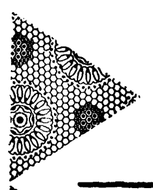
A Handicap

In this connection, we used to have frequent complaints about the lack of co-operation from the post offices. The crux of the trouble is that out of the 55,000 post offices in the country, only 15,000 are authorised for small savings work, of which 2,000 are in the Bombay State.

In the villages in particular, both the agent and the investor have to walk long distances to get the money invested, because the branch post office is not authorised to do small savings work and the sub-post office may be many miles away. In order to overcome such and many other difficulties, we have regular monthly conferences with the Postmaster Generals in Bombay, Nagpur and Hyderabad where the Regional National Savings Officer of the Government of India also remains present.

Many difficulties, including the one mentioned above, have been ironed out as a result of such meetings. Routine difficulties are solved at the periodical co-ordination meetings which are held after the conclusion of some of the *shibirs* in the districts.

We have also succeeded in impressing upon the postal authorities the importance of courtesy to agents and investors by their staff, a thorough knowledge of the rules, wasting the minimum time of the agents and investors, opening special booths where there is too great a rush, handing over the certificate as soon as possible after the receipt of the amount to be invested, if not at least to give immediately a *kutcha* receipt either to agent or investor, and not to insist too much on an



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absolute identity of signatures of the investor over a period of twelve years, when complexions change, signatures are bound to, and generally do, cause the least possible botheration to the agent or investor.

Important Facilities Provided

The removal of the identity slip had caused great difficulty and dampened the enthusiasm of the workers, especially in the cities. As a result of repeated representations, the identity slip has again been restored with the application form of the N.P.S.Cs.

Many firms had represented that, since there was no limit on the investment of provident funds in the Twelve Years Certificates, there should also be none on such investments in Treasury Savings Deposits. The limit was upto Rs. 50,000. The limit has now been removed and any amount even in this scrip from provident funds can be invested.

Hypothecation facilities which have been partly responsible for the drop in the difference between gross and net savings, as pointed out earlier, was suffering from the handicap of being subject to a transfer fee. Many investors complained of this additional burden. We have, therefore, had this transfer fee also done away with.

In one of the scrips—the 15 Years Cash Annuity Certificate, which yields a monthly return of 3½ per cent., together with a bit of the capital for 15 years—the lowest amount that could be invested was Rs. 3,325 yielding Rs. 25 per month.

We have had that amount reduced to Rs. 1,300, yielding a monthly Rs. 10, as a result of many requests we received from would-be investors interested in the scheme.

One of the glaring defects in the application forms, now also available in regional languages as a result of a move made by the State, was that there was no clause to name the heir of the applicant for the certificate in the event of the death of the holder. After repeated representations, a central legislation has at last been passed to insert a nomination clause in the form which would be effective even for those who already hold the certificates and not just for the new investors.

The numerous different kinds of agencies which were causing so much confusion is now being rationalised and standardised and now there will be one for individuals and one for institutions.

The agents, who have to fill in three receipts for every investment in original, will now be able to use carbon papers for the other two just as in money orders.

Indian nationals residing abroad who could not hitherto take certificates purchased by them abroad, can now do so on a formal application made to the Reserve Bank.

Commission to agents will be provided in post offices in future instead of from the R.N.S.O's office which used to give them a lot of trouble and cause delay. The time for collecting the commission has been extended from three to four months. Commission can even be obtained by post at the agent's risk.

District Collectors are being issued with imprest accounts of Rs. 1,000, in order to enable them to buy stamps for distribution to the agents who may not have the cash to purchase them, the agents having to account for the sales within a month.

Postal booths would be opened in places where special drives are organised or at factories or educational and other institutions on particular days.

In order to foster the habit of thrift and also the consciousness of national service, a scheme of forming Small Savings groups has been started. There are two lakhs of such groups in the U.K., with a total membership of 80 lakhs. In Ahmedabad, the pay roll scheme based on this idea is beginning to give very rich dividends.

As a further incentive to the districts, the Government has decided to give lump-sum grants to assist popular schemes in those districts which exceed 150 per cent. of their net collections.

On the recommendation of the State, the Finance Ministry has also been pleased to accept the idea of introducing the Premium Bond Scheme on the model of the U.K. scheme where, last year, they realised £239 million from it and gave out Rs. 8 million only in prizes. It is not a lottery because the money invested is not lost, even if the number, which will be put in the draw every month, is not lucky. On the contrary, even if the number of the particular bond wins, it will be put in the draw again the next month.

In order to induce the investor to keep his money invested even after the period of maturity, the State has proposed that a flat rate of 3½ per cent. interest from the thirteenth year should be allowed to the investor.

At present, certificates are sold only at post offices and nowhere else. Arrangements are now being made to permit their sales in future at institutions and at other places also.

These are some of the important facilities provided and proposed. It only remains to be desired that the time lag between the passage of legislation and the implementation so far as the Government of India is concerned, may be reduced to the minimum, so that, soon after the announcement of a scheme or a facility, people are not kept in suspense about its fulfilment for too long, as sometimes that leads to disappointment and even disillusionment.

Publicity

On the publicity side, some Rs. 10 lakhs are spent in the country, of which Rs. 2.50 lakhs are allotted to the State Government, which, supplementing its own, works out the publicity budget in the neighbourhood of Rs. 4.50 lakhs. Publicity is the most important item in the campaign of small savings and we have concentrated on all types of it—by the spoken and the written word, by visual aid, etc.

Every division and district has been provided with a special electrically controlled automatic exhibition unit in regional languages for display at various places and occasions, nearly a dozen new films have been prepared on various aspects of small savings and given to the districts, lakhs of copies of pamphlets, booklets, folders, have been distributed, transport facilities provided to agents and officers, dramas, *kalapathaks*, mock speeches performed to drive home the message of small savings and so on.

Lest it may be felt that the collection expenses in the campaign are too heavy, I may point out that, in the Bombay State, including the cost of Government staff at all levels, they were only about Rs. 7 lakhs last year. In relation to the net collection of nearly Rs. 24 crores in that year, the collection expenses work out to less than 29 nP per Rs. 100—or less than 0.29 per cent.!

This, then, is the sum and substance, the ideal and intention, the purpose and persuasion of the Small Savings Scheme in which every Indian should therefore:

Save the most that he can
In all the ways he can
At all the times he can
In all the scrips he can
As long as ever he can
To help the Plan the best he can.

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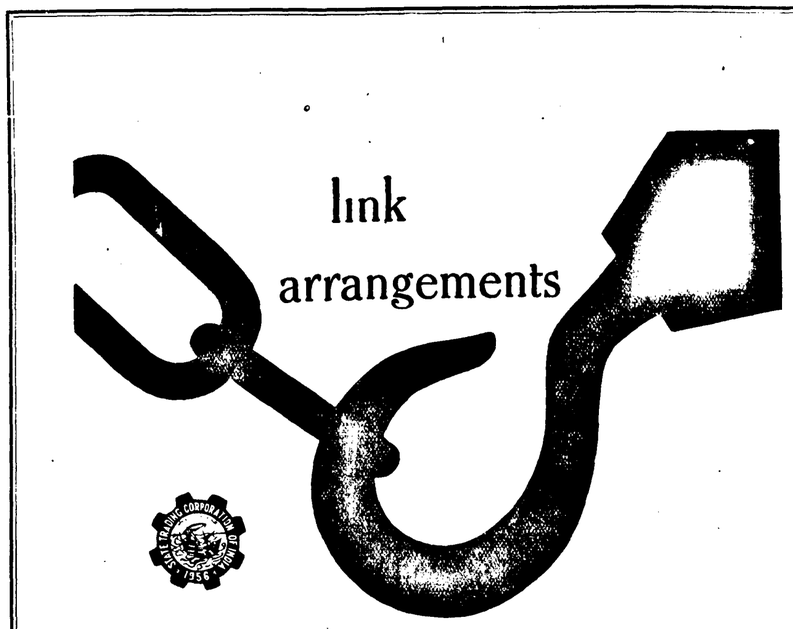

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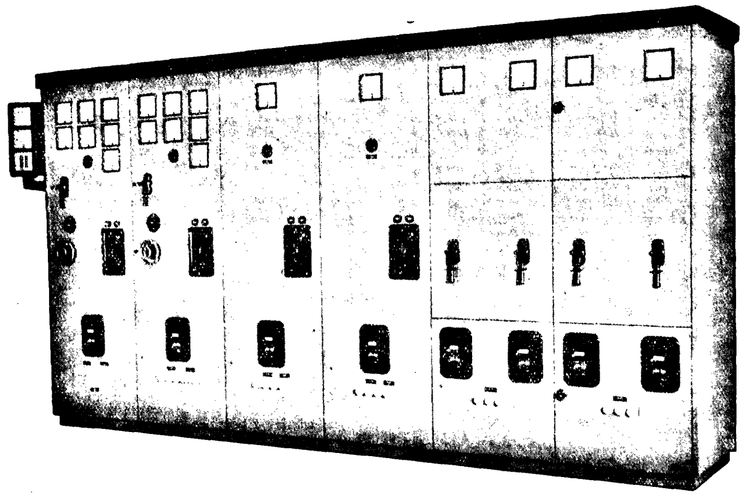

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Planting—A Growth Industry In Strait Jacket

Lack Of Understanding, The Main Cause

By A Special Correspondent

ONE of the most significant developments of the past half century in India's economy is the rising importance of certain introduced crops. Despite the slow but steady industrialisation of the country during the last fifty years, 73 per cent. of India's population is dependent on agriculture, and plantation crops are the principal product of our export trade. In 1910, when India was less industrialised than it is today, plantation crops ranked eleventh among the major items of export. During the next 45 years, plantation crops climbed to first place and has held it during the past five years, accounting for anything from 22 to 30 per cent. of the value of the total export trade.

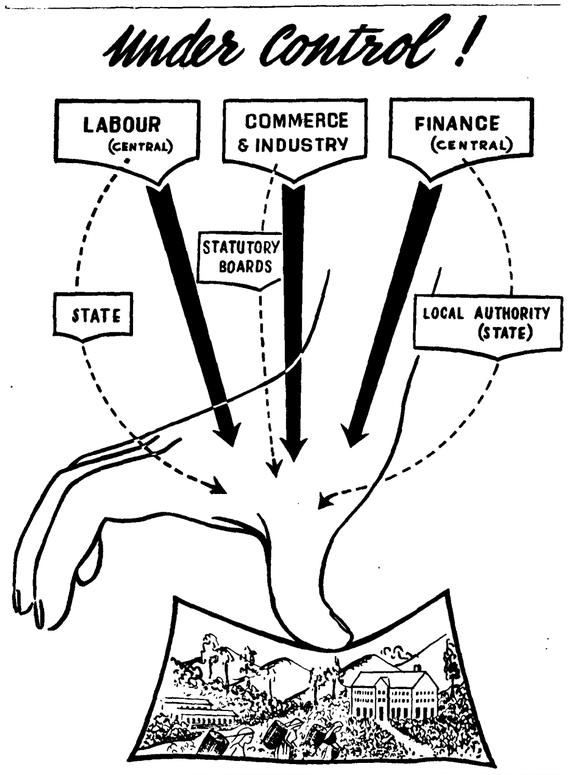
For several centuries, the staple of Westward trade for Eastern countries has been certain tropical produce and it was natural that colonial enterprise should have found an outlet in the production of crops in demand for this trade. What is significant is that an industry which was born with the beginning of the colonial era in India should provide independent India with the most substantial support for its economic growth. Yet, it is the one area of the economic scene about which the Government, the public and even a large segment of the Indian business world has but very faint and scrappy understanding. The reason for this lack of public awareness is obvious. Plantations, as developed in India, were confined to three introduced crops and they were grown only in selected suitable areas. Eighty per cent. of the tea grown is in Assam and upper West Bengal and nearly 20 per cent. in the South along the two sides of the Western Hill ranges. Coffee and rubber are confined to these hill areas in Southwest India. An even more important reason for public indifference to this industry was due to the fact that the industry originated with and was led and controlled by non-Indian enterprise. Planting was almost wholly British owned and managed till about twenty years ago. This accounts for the non-development of an Indian attitude or understanding of the industry of any considerable depth or extent. It also explains the curious oversight by which the first and second Five-year Plans dismissed this whole area of consequential enterprise with less than five sentences.

Antagonism

A proper understanding of our lack of understanding of this industry is essential, if sound and productive policy is to be shaped, whether within the ambit of the Plans or in the exercise of control for which responsibility has been assumed by the Government. The golden era of plantation development was when India was a land of opportunity—not of control. The lustiest period of expansion in tea and coffee was from the beginning of the third quarter of the last century to the end of the first quarter of this century. The produce of the plantation industry, depending as it does on international trade, suffered most grievously by the world depression of the 'thirties. With that economic restrictions began to operate as harshly as limitations voluntarily imposed such as regulatory agreements. Taking 1935 as the dividing line, it is possible to see how little of expansion there has been in the area under planting in India. (See graph on page 100.)

Along with the agitation against British rule in India, there naturally developed an antagonism towards British-controlled enterprises among which the oldest and most substantial was planting. This antagonism, coupled with the fact that very few in public life knew anything about the industry, formed the core of the immediate post-independent attitude which generated the plethora of enactments and regulations for the control, supervision and direction of the planting industry in India.

There is no limit to the kinds of crops that could be grown under the plantation system but for the purpose of this article the industry referred to covers tea, coffee and rubber, the organised plantation crops of India. We may divide all forms of controls into two broad categories, namely, those that are



regulatory, prohibitional or exactive which are imposed by Statute or rules and those that leave the exercise of a particular discretion in each individual case to the Government. For instance, the presentation of a quota by any intending exporter of tea is a part of the control mechanism. Once the tea presented for export is accompanied by the necessary quota certificates, the tea can be exported without the exercise of any discretion by the officials concerned. The absorption of the tea exported, however, depends on the creation of a market for it and for which market promotion is a necessary prelude. If a part of the price paid for the tea is collected for the purpose of financing market promotional activities, by normal logic, those whose money has been collected and for whose tea a market has to be created or promoted, should have decided how and in what manner that money should be spent. The second form of control vests that discretion in the hands of the Government. However unjustified or irksome a regulatory or prohibitive control may be, it is generally possible to conform to them, because, once its expressed conditions are satisfied, the purpose of the action can be fulfilled, provided the control is not intended to thwart the very purpose for which the enterprise exists. In discretionary control, the area is vague; the distance of the authority exercising it from the business which is dependent on that exercise, the understanding of that authority and its functional efficiency, all matter. If such controls proliferate and reach out to strangulate the vital functions of an industry, then the controls and the form of their exercise must be a matter for serious consideration.

In the creation of a Welfare Society, with its strong bias in favour of labour, it is natural that, by law and executive authority, those responsible for the welfare of labour should insist on certain conditions of service and standards of amenities. In an economy which is under a regime of planned expansion, it is understandable why there should be order of priority, targets of fulfilment and demarcated areas of operation. Similarly, within a scheme of State enterprise and social service, there is likely to be ever-increasing exactions from the fruits of established industries. The formation and operation of corporate enterprise is a part of economic activities and its control is therefore part of the larger objective of regulation and direction of resources and the prevention of abuses. While each form of regulation and control is justified, their combined weight is something that escapes the consideration of each particular agency charged with separate responsibilities.

Co-ordinated approach to the same industry by all the authorities concerned with different aspects of regulation or control is, therefore, a prerequisite to the successful exercise of control and the functioning of that industry. It is one of the most sustained complaints from the plantation industry that, while the Labour Ministry has been eager to advance the cause of labour by increased wages, bonus and amenities and working conditions, the Finance Ministry has been equally devoted to the exaction of the maximum revenue from the industry. Their counterparts in the States have resorted to similar measures on their own. In this competition, fought over a diminishing margin of plantation surplus, each Ministry or Department goes its own way.

In 1947, the Central Labour Ministry called its first Plantation Tripartite Conference, at which wages of workers and certain allowances were raised, although it was only a few months earlier the workers had received a wage increase by direct action. By 1951-52, State Governments were announcing minimum wages which contained further increases in wages. There were subsequent increases by agreement or discussion directly between workers and the managements, but now the Central Government has, again, taken the initiative with the proposal to establish a Wage Board for plantations. In the matter of taxes, the Central imposition of increasing export and excise duties or cesses was added to by taxes on transaction or movement in the States. If the Central income-tax was levied on a part of the industry's income, another was levied, on the balance, by the State. While the industry might legitimately complain and possibly obtain a hearing and even a concession now and then, the real and extensive impact of Government control emanates from another direction.

Commodity Boards

The controls which come closest to affecting the day-to-day life of the industry and condition its outlook and attitude to the future are those which reserve powers for initiative, for prohibition, and restriction in the hands of the Government. The Tea Board, constituted under the Statute passed by the Union Parliament in 1953, and the Coffee and Rubber Acts, passed in 1954, provide the powers and the instruments for the exercise of such control. The composition of these Boards and the manner in which the interests most vitally concerned with the working of these Boards are represented on them are matters which have greatly agitated growers in the past five or six years. Very often the defects in the function of discretionary control are too readily attributed to the lack of effective grower representation on the Boards. But this is probably a partial view and even if representation of producers were altered to meet grower objections, the residue of powers left with the Government and its faulty or defective exercise can create the same problems.

The defects in the method of grower representation on the Boards are more relevant in a discussion relating to the efficient functioning of the Boards, in the areas where

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they are left free to function, but, even here, the area within which they may operate can be circumscribed or conditioned by the exercise of the Government's discretionary controls.

In the pioneering days of the planting industry, the producer faced only the problems of resources and markets, all other aspects being amenable to his control. This gave him, according to his judgment and ability, considerable scope for initiative and enterprise. Today, apart from the far more difficult task of assembling the necessary resources and running an obstacle race for permits and sanctions and meeting the heavy liabilities incumbent on an employer of labour, he has so many elements of effective management outside his reach that he no longer exercises his full managerial functions. While a going estate may be bought or an existing one may be expanded, there is very little of initiative or unobstructed opportunity to open a new plantation. The reason for this lies in the fact while a man of enterprise and initiative may get over all his initial hurdles, he still has to live with a vast area of uncertainties over which he has no control.

Tea Cess

The first statutory body for a particular industry to come into being in India was the Tea Cess Committee of 1903. It is necessary to know something about the purpose of this Committee and its constitution to understand what basic changes have occurred in the Boards which are the present-day successors of the original tea, coffee and rubber committees. The Tea Cess Committee was constituted as a statutory agency for the collection and administration of a cess from the industry for a specific purpose, namely, the promotion of tea's market here and abroad. The Committee was composed entirely of the representatives of the producers of tea who also administered the fund for the purpose for which it was collected as stated in the Tea Cess Act. The Government made the levy for a specific purpose as provided for in the Act and handed over the proceeds, minus the actual cost of collection, to the Committee.

With the amendments to the Plantation Acts in 1953 and 1954, there was brought about not only an increase in the functions of the Boards or a dilution of representation but a wholesale departure from two of the principles underlying the original Statute. One related to the utilisation of the cess levied and the other to the responsibility for fulfilling the purpose of the Committee vested in those who represented the industry. The present Plantation Acts admit no specific obligation to make what is raised by the cess available to the Board or the Board the complete authority for the fulfilment of the functions laid down under the Act. Although several functions have been added to the Board's list, effective power lay elsewhere far from the secretariats or memberships of the Board.

There has been a complete metamorphosis in the attitude, performance standards and the morale of the Boards as a result of these changes. The several interests, not always mutually compatible ones, prevented effective leadership to flow from the Boards. Their chairmen, appointed by the Central Government and subject to its service rules and hierarchical influences and invariably lacking an intimate understanding of the problems they were dealing with, accepted directions from the Government or awaited them for normal functioning. The rhythm of performance became progressively adjusted to that of the Central Government secretariat with the additional time-lag for consultation with and sanction and direction of the Centre. The inexperience of Board Chairman of the particular industry he was concerned with, was compounded by the equal inexperience, in addition to remoteness, of the officials in the Central Secretariat who had the final say on matters vitally affecting the industry. The natural desire of the representatives of the industry not to give offence by outspoken criticisms, coupled with the defects in their representations made to the Government, made a healthy climate of critical approach impossible in Board affairs. The progressive build-up of a problem and the reasons therefor are ignored, until a major crisis draws pointed attention to the Board affairs. Having been partly responsible for most of the decisions, the Government officials concerned cannot very well sit in critical judgment over their own handiwork. It would, of course, be wrong to lay too great a blame on the bureaucracy of the Central Government which came to be saddled with the responsibility of control over a remote and strange industry, which, to them, exists only in the files.

Outcome

By the very nature of this tenuous relationship which exists between the producers and the Boards, between the Boards and the Government, and between the Government and the industry's leadership, creative outlook, a comprehending knowledge of the industry and a quality and tempo of performance in keeping with the overall requirements of a living and healthy industry have become impossible of achievement. Add to these the slow processing of executive decisions, procedural bottlenecks, widely dispersed authority, remoteness of the central point of control, frequent changes in officials and the loading of them with innumerable responsibilities among which the planting industry forms a small part, and we get a picture which is not too hopeful for the future of the industry.

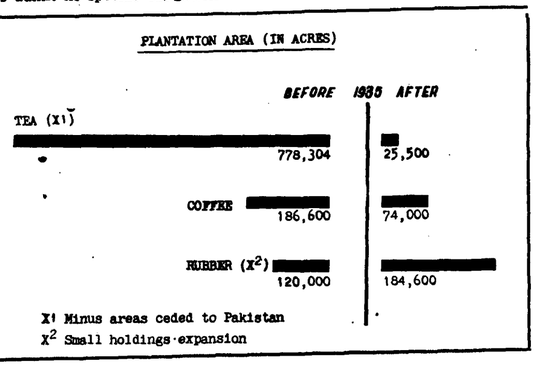
One fundamental rule about control which cannot be ignored with safety is that the authority exercising it should be clearly identifiable to those who are or whose affairs are controlled. The Government is too large and complex an organisation to be identified as the authority of control except in the legal sense. This diffusion of authority, its dispersal among unidentified seats of power, their unaccountability to those whose affairs they control, their frequent permutations and transmutations in the Secretariat, all combine to frustrate and deaden initiative and bold leadership coming from either within the industry or from within the Government.

Tailor-made Example

To illustrate the point, here is a tailor-made example available from the recent experience of the industry. The Tea Cess Committee came into existence to promote the market for tea and, despite all the organisational changes, the primary function of the Tea Board continues to be market promotion. For carrying out its external campaigns, it agreed with other producing countries to set up in 1935 the International Tea Market Expansion Board in London. For 18 years this Board functioned and on the governing body India had 42 out of a total of 81 votes. These votes on behalf of India were exercisable by the Government's Trade Commissioner in London. In 1952, the Government of India abruptly withdrew from the Board, without warning to the other participants in the Board, without intimation to the Indian Central Tea Board and without intimation to the industry. It was never found out why we withdrew; why in this manner; what was wrong with the Board; whether the Government representative on it had really carried out his responsibilities; what was the effect of this step and whether the national interests or the interests of the industry were better served by the withdrawal. Today, propaganda which should properly be the business of the industry to supervise and for professionals to conduct is a responsibility wholly assumed by the Government. Instead of leaving this highly complex and technical matter to those whose interests are directly entwined with it and who would be better able to judge the real worth of performance by the experts, it is being judged and disposed of by the Government.

It is obvious that the best means of control is that which is self-imposed, or exercised closest to the subject of control. Within the ambit of well-defined objectives the industry should be allowed to control its own affairs and the Government's area of control should be marginal where it can thwart any action by the industry contrary to the provisions of the Act by which it is controlled or against the common weal. But control is the exercise of power and the appetite for it grows with exercise.—*All Rights Reserved.*

PLANTATION AREA (IN ACRES)



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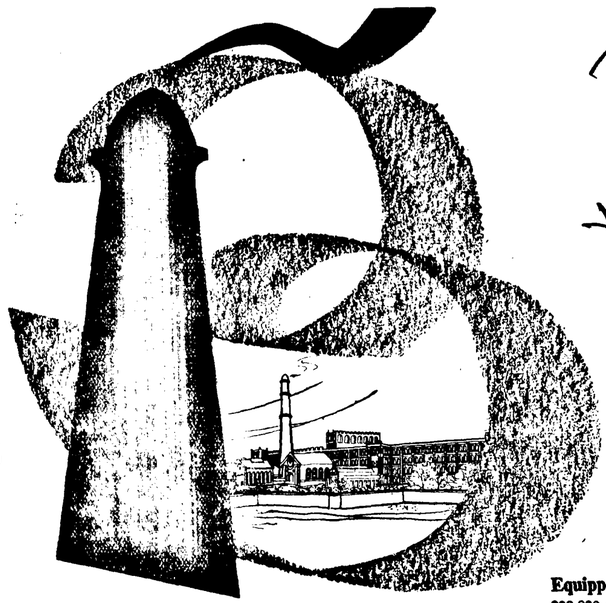
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CHINA'S TEEMING MILLIONS

Demographic Danger Spot?

By Prof. S. CHANDRASEKHAR

DIRECTOR, INDIAN INSTITUTE FOR POPULATION STUDIES, MADRAS

BABIES are now arriving in Communist China at the rate of some 55,000 a day. And the population of China has been increasing by more than 20,000,000 a year during the last three years. At this rate, in a few years to come China's population will be increasing every year by more than two Australias, and in a dozen years China may have added to her numbers the population of a United States of America!

In the past, a serious quantitative analysis of China's population problem in relation to her economic development was a hazardous, if not an impossible, undertaking, for no one knew for certain the size and composition of China's population. This was because China, unlike most civilised countries, had never had scientific, decennial censuses or complete and continuous vital registration. There were as many estimates and "guestimates" of China's total population and birth and death rates as there were writers on China.

But this guessing game came to an end when the Communist Government conducted her first, modern, nation-wide, scientific census in 1953-54 and disclosed to the world that the total population of Mainland China, as of 15th June 1953, was around 583 million.

Communist Statistics

At the very outset, one is faced with the question of the validity and worth of Communist statistics. Statistics under Communism have definite strategic value and they are not readily divulged nor are they abundant when given out. This does not mean that the Government does not have them, for no large-scale economic or social planning is possible without dependable statistics. But the Government does not always choose to make them available to the public, and, when they do, there is always the suspicion that the officially published statistics may not reflect the true state of affairs.

What about Chinese population statistics? A major objective of my rather extensive travels in China at the end of 1958 was to study China's population problems and policies and evaluate their population statistics. I met numerous economists, statisticians, medical workers and other officials connected with the census and Statistical Bureau and the Ministry of Health, had many long and lively discussions with them, and obtained considerable data. Therefore, the figures presented here are factual in the sense they are official. While Chinese population statistics have not reached the degree of accuracy one is accustomed to in advanced countries, I believe they are fairly reliable and certainly cannot be dismissed as totally invalid.

As observed already, the 1953 census revealed that the total population of Mainland China was 583 million. This census result was a surprising one even to the Communist Government, since all earlier figures had underestimated the total population of China by at least 100 million. If this census figure of 583 million is correct, as I believe it is within a reasonable margin, it follows that all previous academic analyses of China's economic and demographic position were misleading, as they were based on the assumption that the population was around 450 million.

In January 1952, the Vital Registration Law was passed by which all births, deaths and marriages in every community in the far-flung realm of Communist China are registered. In pre-"liberation" China, several attempts, by and large unsuccessful, were made to register births and deaths, but the area never exceeded a village or a town or at best a province. During the last century, whatever Government ruled China was fully absorbed both in fighting a running civil war and in trying to hold on to power against waves of recurrent foreign aggression. In addition, China has always been beset by such calamities as floods and droughts and consequent famines and epidemics. And no one, therefore, gave serious thought to such constructive activities as a decennial census and regular vital registration.

I asked Mr. Pai Chien-hua, the 1953 Census Director, how accurate the present vital statistical returns were. He assured me that they were nearly 100 per cent. accurate, though there were no doubt a few omissions confined to the distant border regions. I enquired into the matter at every city, town and village I visited and I learnt that births, deaths and marriages were being regularly registered. Those who know the old China may find it difficult to believe this. But knowing as we do that even minor domestic disagreements between a husband and wife come to the notice of the street committees, I believe it would be difficult for such important events as births and deaths to escape the knowledge of the authorities.

Marriage Law

As for marriage, in April 1950 the new Marriage Law was passed. The law has numerous provisions but only a few are relevant here. They are the compulsory premarital medical examination of the prospective couple to ensure that they have no serious physiological defect or disease, and the raising of the age of consent from 18 to 20 for males and from 16 to 18 for females. There is, of course, free and individual choice of one's mate, but the marriage must be approved by the local people's government and the police. These permits may cause certain bureaucratic delays, unless the bride and groom are acceptable to the party. And, of course, all marriages are registered. By and large, the Marriage Law in China has been brought up to date and in consonance with practice in such advanced Communist countries as Soviet Russia.

Every community now maintains a kind of Population Register for election and other purposes. This record keeps track of arrivals and departures in the community. The country also has an internal travel permit system.

As a result of these innovations of a nation-wide census, regular vital statistics, the registration of all marriages and the record of internal migration, a certain basic population data have become available.

What is the demographic picture of China today? China's population was estimated at 540 million in 1949 on the basis of the 1953 census. Today (1959), the number has increased to about 680 million. The annual rate of increase has risen from 2 per cent. in 1950 to 3.5 per cent. last year.

The birth rate has declined slightly from 37 in 1952 to 34 per 1,000 in 1959. The death rate has registered an impressive decline from 18 in 1952 to 11 per 1,000 in 1959.

In general, all over Asia, the birth rates of the cities are lower than those of the rural areas. But the situation in China appears to be different. The birth and death rates for a dozen Chinese cities over the decade are available. To take only two large cities, Peking and Shanghai, while the birth rate in the nation's capital has increased from 38 in 1953 to 42 in 1958, in Shanghai the birth rate has increased from 40 in 1953 to 45.7 in 1958. The birth rates in other Chinese cities are definitely higher than the birth rates in rural China.

Death Rates

As for the death rates, the decline appears to follow the national trend. In Shanghai, the death rate has come down from 10 in 1953 to 5.9 in 1958. Peking has also registered a decline from 11 in 1953 to 7.1 in 1958. These low death rates are impressive and reflect the enormous public health and sanitary work that the new regime has undertaken—from destroying flies and rats to the provision of a protected water-supply.

The infant death rate is the number of infants who die under twelve months of age per 1,000 live births in a year. This rate is generally admitted as a sensitive index of the total cultural *milieu* of a community. It not only conveys a picture of public health and sanitation but also of the level of medical aid, nutrition and mother-craft. The infant mortality rates in 1958 were around 100 in rural and 32 in urban areas. But the rates in cities like Canton, Peking and Shanghai have fallen from over 100 to 25, 35.1 and 31, respectively, in 1956—a remarkable decline and comparable more to American and European cities than to Asian cities.

And last is the expectation of life at birth. The official figure given to me in 1958 was 54. This is a flattering figure, nearer to the expectation of life at birth in Japan where it was 66 in 1955 than to that of India which was less than 40 in 1951.

Under certain assumptions about birth and death rates and immigration and emigration, China's population growth can be projected. If we asume that the present relatively stable conditions may continue without any major war or internal revolt, famine or epidemic, it is possible for China to reach the one thousand million mark within about three decades. Many in this generation will be alive to witness the phenomenon of a single nation with a billion people.

Standard of Living

Today, the level of living, as I could see in many parts of the country, is very low. It is certainly not high in comparison with Japan, Hong Kong or Singapore or certain segments of population in India and Ceylon. If the elite of contemporary China, consisting of party officials, members of the defence services and industrial workers are excluded, the levels of living of the overwhelming majority of the people are very poor.

The masses subsist on rice, cabbage, sweet potato and a little pork, but there appears to be no starvation. As for clothing, almost the entire population goes about in the drab, blue, unpressed cotton boiler suits, but the coolie in rags has, by and large, disappeared. As everyone is forced to share the available housing, there is no one actually shelterless, but the majority have substandard housing even by Asian standards. The rural housing has not changed since pre-"liberation" days. The urban industrial workers —the new proletariat—are the only group which has any kind of decent housing but even their neat cubyholes are crowded.

Communist-oriented education and basic medical aid are beginning to spread over the country. There is considerable emphasis on technological studies such as engineering for the talented and confirmed Communist youth. China is still handicapped by an insufficient number of trained doctors and ancillary medical personnel, well-equipped hospitals and a matching pharmaceutical industry. But the country is making the most of cheap indigenous medicine, and traditional herbalists, who are no longer considered quacks, have been pressed into service.

The Communist leaders are only too conscious of the country's low levels of living. While the nation's propaganda is geared to the cry that China must and will soon surpass Great Britain in the production of almost everything, her leaders are aware that the level of living in China is decidedly lower than that of Japan and her industrialisation even less than that of India.

Birth Control

When the Chinese economy continued to be plagued with shortages of food, fibre and fuel, and the public health programme began to result in even greater population increases, the Government finally decided to adopt a policy of population control. A great debate on birth control was launched—one of those officially sponsored debates where the outcome was already decided in favour of the Government's policy. To silence orthodox Marxists and ideological critics, no less a man than Liu Shao-Chi, the party theoretician and pamphleteer, now President of the State, convened a conference on birth control. The movement was started in right earnest with drums and fanfare.

When Premier Chou En-lai visited India in November 1956, one of his first requests in New Delhi was for information on India's experience in family planning. Throughout 1957, the Government waged a determined campaign. In March 1957, Madam Li, the Central Health Minister, complained before the National People's Congress, "We have not taken up enough propaganda on the question of birth control which affects the health of women and children, the education of children and the prosperity of the nation."

"An ideal family," every newspaper, poster, journal and loudspeaker affirmed, "should have three or four children in a planned manner." The Government's propaganda was that the benefits of family planning were as many as the benefits of the Communist Party!

Family planning exhibitions and technical guidance centres were opened in many Chinese towns and villages to explain the official policy of population control. Newspapers and magazine articles, radio talks,

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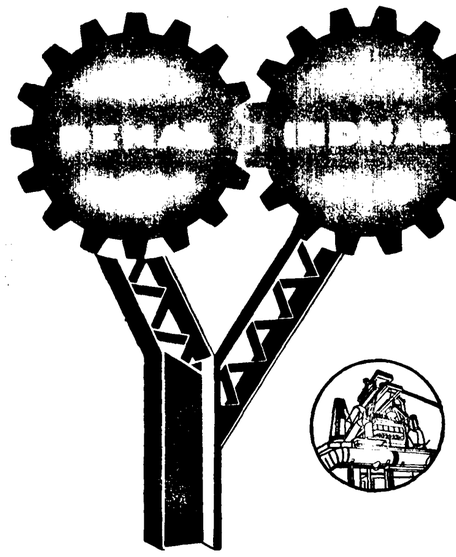

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stationary and travelling exhibitions, official instructors and singing guides were pressed into service all over the country to hammer away on the need for limiting the size of families, the advantages to be derived from doing so and the means of effecting it.

The realism of the diagrams in these exhibitions was startling to many a visitor to China during this period, though it was difficult to ascertain the reactions of the Chinese men and women. Complete and intimate details were shown in what amounted to animated diagrams; and anything which was not clear was explained by the formidable women guides without any prudery or squeamishness. The authorities were not leaving anything to chance. The stark realism which left nothing to the imagination had a simple objective. Even the most illiterate peasant and the least intelligent worker went away from the exhibition knowing exactly what to do to prevent a large family.

Sudden Change in Policy

However, when I visited China in the winter of 1958, the birth control policy had been reversed. The exhibitions were closed down and the films withdrawn.

The campaign had been called off for purely psychological reasons. The feeling had gained ground that a nation-wide birth control drive would lend support to the view that Peking was incapable of delivering the goods—to invite, in other words, a vote of no confidence in Communism. And so, in true Communist fashion, there had been a sudden and complete reversal of policy. Everybody pointed out to me that the world outside had misunderstood their birth control campaign, that the campaign had not been directed to reduce the population but for the protection of the health of China's mothers.

All this does not mean that birth control advice and contraceptives are no longer available today in China. If birth control has no place in China from the economic and ideological points of view, it does have a place from the health point of view.

I received the most authoritative statement on this from the Vice-Minister for Health, Mr. Wu Yun-fu, when I asked him about the country's official policy on family planning.

"There seems to be some misunderstanding on this question abroad ever since the campaign was called off at the beginning of the year," he said. "We don't call it family planning or birth control or planned parenthood. These terms as used in capitalist countries have an entirely different connotation. We call it in China *planned births*."

"How does this term differ from other terms we used in India and other countries?" I asked.

"By planned births we mean giving birth in a planned way."

"This looks to me like a distinction without a difference," I said.

"No, no. There is a difference. Planned births are for the sake of the mother's health. Too many births have a bad effect on work, production and study."

The Minister went on to explain that too many pregnancies involved a woman's absence from factory or farm, and this interfered with the nation's production. Besides, too many children in a family would not leave any leisure for the mother, or for that matter for the father. As Communist China encourages everybody to study intensively during leisure hours, a large family is a handicap.

"We don't propagate contraception, for contraception is not the end of our policy. Two births may be considered too few and six children may not be considered too many. The Government has not laid any restriction on the number of children a couple can have. They may and should have as many children as they can, so long as the health of the mother is not impaired," the Minister continued.

"Can a mother resort to contraception on economic grounds, that is, for reasons of poverty?" I asked.

"But there is no poverty today, thanks to our co-operatives and communes. All children are taken care of. So there is no question of poverty being a reason for controlling the size of the family."

What is likely to be the result of this meandering population policy? The vigorous promotion of public health, the provision of maternal and child health services, free medical aid and other allied measures are contributing to a gradual but definite decline in the death rate of all age groups. The ambivalent birth control policy is not helping to reduce the present high birth rate, resulting in large additions to the population. When this result is examined in the light of China's young age composition and the universality of marriage, the potentialities for the future growth of her population are enormous—granting, of course, that other factors like political stability and international peace remain the same.

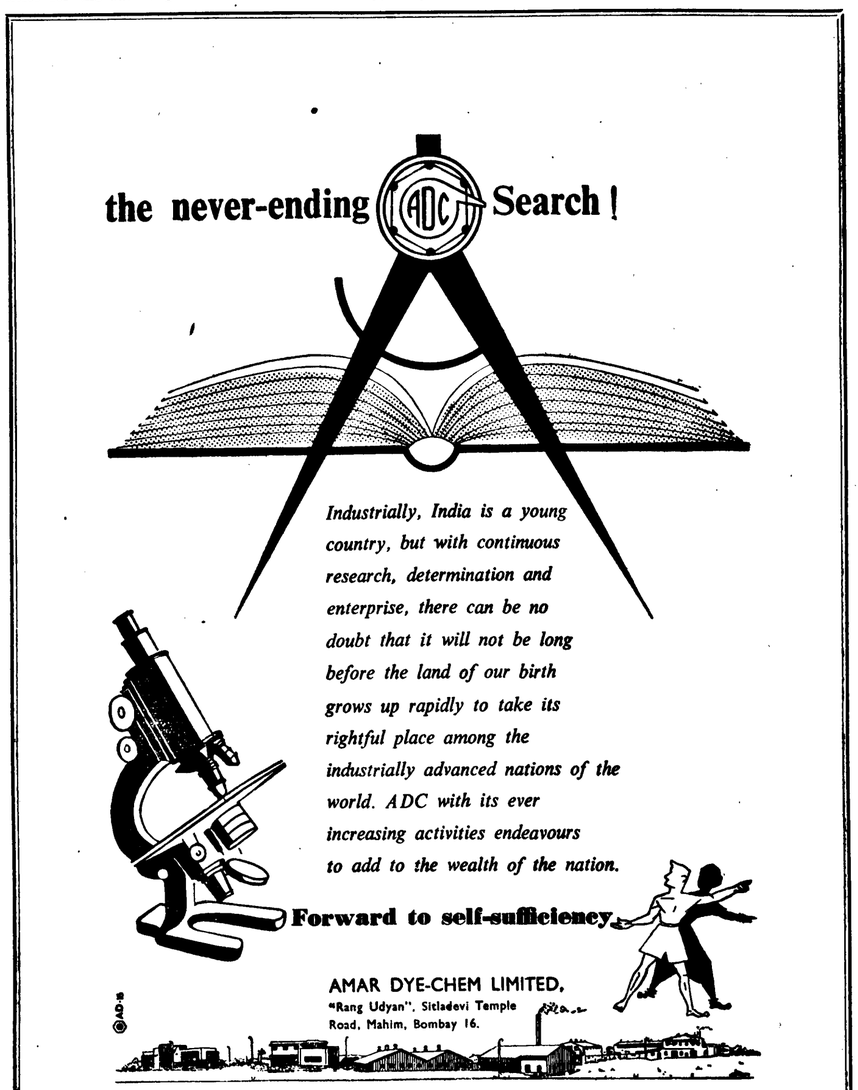
Huge Population: Asset or Liability?

In a democracy, a large population is a liability in an underdeveloped country. This is so because the increase in national output is swallowed by the annual sizable additions to the population, leaving no perceptible rise in the level of living. That is, one has to run fast to stand still. This situation calls for a greater development effort than is normally possible, because there is no large surplus over current consumption and because of the consequent low rate of capital formation.

But, in China, the huge population may be an asset in the sense that people are expendable in a totalitarian economy. Under Communism, there are no free trade unions with their innumerable demands for wage increases, etc. There is no free choice of occupations, as the labour force is directed to work on projects of agricultural, industrial or military value as the Government decides. Consumer goods are out and guns replace butter.

The creation of a sizable defence force—army, navy and air services and the ancillary personnel—demands people of a particular age group with adequate training, necessary skills and modern equipment and weapons, which China can provide in about a quarter of a century. A large army, for instance, is possible only where there is a large population from which men of a particular age group and the necessary physical condition can be drawn. With centralised planning, complete control over the nation's material and human resources, and mass regimentation, China can in time create a formidable military machine.

Does this necessarily mean that a strong and unified China, rapidly industrialised and mechanised and with a growing fighting force, will be a source of aggression in the future? This is a difficult question to answer, for it depends on the scale of values and priorities that China will set before herself. However, China's mounting population numbers cannot but cause concern to her neighbours when we remember both China's lack of emigration outlets and the aggressive and expansionist nature of her Communist ideology. It is in this sense that China is likely to become a demographic danger spot in Asia.—*All Rights Reserved.*



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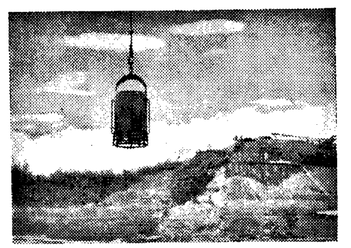

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THE CHALLENGE OF PRODUCTIVITY

Management Techniques and Practices in India Badly in Need of Modernisation

By Dr. R. L. MITCHELL, Ph. D., A.M.I.C.E., A.M.I.MECH. E., A.M.I.E.E.
I.L.O. PRODUCTIVITY MISSION

PRODUCTIVITY is one of the fashionable words of the age in India. In the name of Productivity, politicians and trades union leaders make speeches, business men attend conferences and seminars, and all are eager to join the growing band of globe-trotters tripping lightly abroad to study the ways of industry in the more highly developed countries. But the observer who tours Indian factories will not find all this interest reflected in practical work for productivity improvement going on in the shops and at the benches. Now and again, he will come across a factory where the calibre of management, the machines, the working methods and the quality of the finished product will stand comparison with those in Europe, but these are beacons of light beckoning on the great majority of the factories, where the impact of modern methods has still to be felt.

There is general agreement that, for the nation as a whole, only higher productivity holds the key to progress and prosperity. The lessons from other countries are too clear to brook argument. It is no accident that the nations with the highest productivity have also the highest standards of living, full employment and high wages. In India, there is urgent need for more production, more of almost everything, but, if the increase is obtained by proportionate increases in investment, more machinery, materials and labour, little will be gained. It is necessary to achieve increases in output which are disproportionate to the increases in resources employed, for productivity to go up. But improvements of this type cannot be attained on a national level, by Government edict or central pronouncements. They can only be made separately in the individual factories by the managements and workers concerned, and only as a result of determined, continuous work directed by management skill of higher order. While the economy is sheltered and profits can be made without the degree of competition which exists in the more industrialised nations, or losses passed on to the consumers, there will not be the compelling urge to continual improvement that characterises industrial operations in the developed countries. Productivity improvement will move slowly until the pressure of events forces the pace.

Three Means

There are three main avenues to higher productivity, the first of them being the path of research. It is the scientist working in his laboratory who ultimately influences productivity most, by developing new energy sources, new materials, new machines and processes which will enable industry to do with ease tomorrow what is impossible or done only with difficulty today. One has only to consider the tremendous changes which have followed the development of plastics, to take only one example, to realise the influence of the laboratory. There is no obvious limit to the increases in productivity which science can achieve, but research is extremely costly, the benefits take a long time to accrue, and there is no certainty that any particular investment in research is going to pay dividends.

The second route lies through increased capital investment, in new and improved machinery. If a man can make ten pieces a day, a machine can be found which will make a hundred in the same time. Again, the process is costly, and again, there is no obvious limit to the increases which can be achieved, but, unlike the path of pure science, the results are available more speedily, soon after the new machines have been installed and coaxed into successful operation. This way is one which is being frequently followed in India today: almost every week a new factory springs up, equipped with the latest and best machinery. If these factories occasionally do not develop the levels of productivity of which they are capable, the fault lies not with the machinery but with the skill with which the machines are managed.

The third way, and the one which is of most immediate interest, lies through better management, seeking not to increase the resources used, to acquire more buildings or machinery but to make the best possible use of the resources already available in the enterprise. Improvements made this way are cheap, and the benefits accrue immediately, but, unlike the other two methods, there is a limit to what can be achieved. In the better run factories, productivity improvements of the order of 30-40 per cent, may be as much as can be obtained, and it will be exceptional to attain increases greater than 250-300 per cent. With the conditions which obtain in the majority of factories today, an overall improvement of 100 per cent, within a few years should be obtainable by adopting the management techniques and practices of the more developed countries, adapted to the special needs of India.

A Common Misconception

It is frequently said that "the trouble with Indian industry is that the workers won't work." When I hear this I remember two factories which I visited in Calcutta, not half a mile apart. In one, the workers are paid about Rs. 270 a month, and every year output goes up, costs come down, and the company has been able to reduce its selling prices several times while still making satisfactory profits. In the other, the workers get Rs. 70 a month, output is stagnant, costs are rising and the company barely pays its way. Yet the workers look remarkably similar: they have the same names, live in the same areas, brothers, sons and fathers working some in one factory and some in the other. Is it that the workers won't work, or that the management don't manage?

Good labour relations, too, are primarily the product of wise, stable and fair management policies, pursued persistently in the face of setbacks over a period of years. To be sure, sound policies can fail in the face of intractability on the part of the unions, but, *in the long run*, such cases are rare, and not even the most responsible body of workers or trade union can succeed in establishing good relations with a management whose policies are not both fair and consistent.

In Britain, as in many other countries, there has taken place, in the last fifty years, what is now called the Managerial Revolution, and the observer can find many parallels between the state of affairs in Indian industry today and that which obtained in the earlier stages of this change there. Fifty years ago, the chief qualification for attaining the management of a company was to be the right man's son, or to marry the right man's daughter. It was assumed that every man of a certain class could manage, just as it was assumed that every woman could cook; but experience teaches that neither of these generalisations is true. For equipment the new manager had his old school tie, and for training, the grand tour of Europe. Science had nothing to do with industry, machines were dirty things fit only for mechanics, workers did as they were ordered or were sacked, and every manager believed that he himself had nothing to learn about managing and innovations were all right for other people.

A Skilled Profession

But the pressure of competition, and the rapidly accelerating technical development of industry have gradually altered all that. Management is now recognised as a profession, having skills which can be taught and must be learnt. The young recruit to the ranks of management today is probably a technical graduate, and will, in any case, have been selected carefully for his qualities as a leader. Besides his academic training in managing things—bricks and mortar, steel and drawings, motors and materials—he will probably have had some basic training in managing people, which is an activity which will take up more than half his time at the beginning of his career, and even more as he rises up the ladder. His early months in the factory—it may be as long as two years—will probably be spent in overalls on the shop floor, working with his hands with the tools and machinery of the various departments of the factory, and passing through the technical, control and clerical departments. Unless he has joined a very small company indeed, he will soon become familiar with the processes of Work Study and Production Control, both from the point of view of the workers and of those whose job it is to control the operations of the factory by these means.

Above all, he knows that the knowledge and skill which are adequate to manage the factory today will not suffice for the factory of tomorrow, and all his working life he will go on seeking new methods and new management practices. But he will not have much time to spare for courses and conferences which are not of immediate use to him. When he gets a fresh idea, or learns a new method, he will put it into practice in his department, and modify it until it works for him successfully.

This is a far cry indeed from the pattern of management in the early years of the century. I suggest that it is the goal towards which Indian industry has to move to make full and competitive use of the rapid industrialisation through which the country is passing. For, in the long run, it is the skill of management which will be of paramount importance in increasing productivity and achieving prosperity, not the machines or the materials. The Government has its part to play, in framing import rules and taxation policies, and in drafting labour legislation, but the Government by itself cannot increase productivity. It can only create the climate in which individual managements have to work. The workers, too, by their co-operation or their conservatism, can speed or retard progress, but they cannot by themselves increase productivity. The positive moves forward have all to come from the initiative of management.

War On Waste

The quest for higher productivity through better management is nothing more than a war on waste of all kinds, although the particular waste which excites most comment among managements is the prodigal use of labour. Although there are not comprehensive comparative statistics to prove exactly how much labour is used in India as compared with that used in the more industrially developed countries, there is enough evidence from those companies which are able to make direct comparisons with the operations of their overseas collaborators to suggest that, in general, in manufacturing industry, five men are used in India for every one in Europe. This is an average figure, and subject to quite wide variation in individual plants: in some of the more capital-intensive or machine-controlled factories the ratio may be as low as two or even one and a half to one, but in others with which comparison has been made ratios of seven and eight to one are common. It is not unusual to find that the ratio on the productive operations—the actual manufacture—is of the order of two to one, but the overall figure frequently suffers from the very much higher volume of indirect workers carried in Indian factories, to cope with the moving, handling, storage, despatch, cleaning and clerical operations. In non-manufacturing, labour-intensive operations such as building, earth-moving, road-making and so on, ratios of 12-15 to one are common.

In considering this disparity between the use of labour in India and elsewhere, the differences in wage levels has to be borne in mind. The worker in Europe may well be paid about Rs. 500 a month, or Rs. 600 in Britain, so, even with the much lower rates obtaining in India, the labour costs per article may equal or even exceed the European costs, if steps are not taken to increase labour productivity. The first Indian Productivity Team reported, after seeing a factory in America where steel drums were made by workers earning Rs. 11 an hour, that, at such a rate, the labour cost per barrel was only 36 nP in the U.S., while for similar drums made in India by workers paid at 50 nP an hour, the labour cost per barrel was Re. 1.25, because the output per worker was so low.

(*Continued on page 108*)

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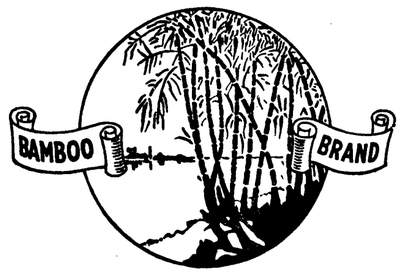

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PRODUCTIVITY

(*Concluded from page 106*)

Just what can be done to remedy this state of affairs has been amply demonstrated at the Hindustan Machine Tools, among other places. There, when production commenced, it was found that about five workers were being used for every one employed in the Swiss factories of the collaborating firm. Over the years, the ratio has been reduced by skilled management to around two to one. At the same time, as output has expanded, it has been possible successively to reduce the selling price of the products. Nor is this the only example: there are more like it in the radio and light engineering industries.

The manager or industrial engineer seeking to raise labour productivity will think first of applying Method Study to the manufacturing operations to improve the methods of working, develop tools, jigs and handling devices to make the work easier and lessen the difficulties of the worker. There is no department or branch of manufacture to which the techniques of method study cannot be successfully applied, from sales office routines through plant layout and materials handling methods, right down to the individual operations performed by each worker on his own job.

Bonus System Defective

When Method Study has been practised throughout the works, it will be well to turn to work measurement and to develop fair incentive schemes based on it. Incentives can be a most valuable aid to good management, but never a substitute for it. A scheme which pays bonus only once a year is unlikely to induce an employee to do anything more strenuous than remain in employment until the day of the payout. To be fully successful, the scheme must provide for payment of the bonus often—so often that the employee can remember all of the period to which the bonus relates and find in his own performance the reasons why the bonus is up or down. The incentive will not be effective at all as an inducement to greater effort if the bonus is based on some index which the individual worker cannot affect, and see that he affects. For instance, the effect which the individual worker can have on profits is remote indeed: I have even known managing directors to complain that they themselves have precious little effect by the time the accountants have done. So, too, when the bonus is based on the output of a large group, for, here again, it is difficult for the individual worker to realise how his own efforts can affect the target. The best incentive schemes are individual schemes, but, on the frequent occasions, when these are not possible or not desirable, the groups should be kept small, and bonus be paid often.

Absenteeism

Several firms in India have attempted by means of suitably framed bonus schemes to combat the high incidence of absenteeism. Although the schemes seemed to meet with some initial success, none within the writer's knowledge have made any lasting impression on this problem. The reason seems to be that the social pulls which induce absenteeism—the marriage ceremonies and family events and so on—are stronger than the worker's desire for money. Indeed, some firms have found that the introduction of incentive payments with consequent bigger wage packets has resulted in higher absenteeism, and this is a factor to be borne in mind when considering such schemes. The situation is likely to persist, until it becomes socially necessary for the worker to acquire goods, for which he needs more money.

A somewhat analogous situation obtained in Britain after the last world war. There was a large body of older workers who had bought their houses, furnished them, and educated their children, on wages of around £3 per week. After the war, as a result of inflation, they were being paid £7 and £8 per week, and they found they didn't need it to live on. The situation was different, of course, for the younger worker, who had his way to make at inflated prices, but the older worker decided he preferred fishing when the sun shone, and didn't want to work overtime at any time. This state of affairs was called post-war apathy—but it disappeared as soon as the first television station was opened. It then became socially necessary for the worker to have a television set, for his neighbour had one. So he went back to work to earn the money to pay the instalments. And no sooner had he done this than it became fashionable to have a set with a large screen, instead of the 9-inch screens with which the original sets were fitted. So another set had to be bought, and so on. The post-war apathy turned out to be merely the lack of social pulls to acquire things which could be had for money.

However, labour productivity, important though it is, is not by any means the only way of cutting down waste. Frequently, it is not so important as material utilisation. There are many products for which the make-up of costs may show as little as 10-15 per cent. as the cost of labour, while materials may account for 55-60 per cent. Here an attack on waste of materials is likely to be more rewarding than seeking to improve the output of labour. A simple check can speedily reveal the scope for improvement. If the weight of raw materials of all forms coming into the factory in the course of a year is determined from the purchase ledger or stores records and compared with the weight of saleable goods despatched during the year, the difference will show the extent of the process losses, either as scrap and faulty work, or as material removed in the course of manufacture. In some metal working plants in India, the yield is as low as 40 per cent. If the material costs account for around 50 per cent. of the total costs, and the overall yield is below 85 per cent., it is certain that there is scope for better material utilisation. An analysis of the losses will show whether the need is for the introduction of Quality Control procedures or whether improvements must be sought by design changes which permit less wasteful manufacture.

Often, too, keeping the machines turning is more important than increasing labour productivity. If a man costs 50 nP an hour, and the machine he is tending costs Rs. 5 an hour to run, it will be better to overload the machine with men, so that it need never stop, even if a man has to leave his workplace for any reason. One factory making bolts and screws has nine machines in the charge of each man, and had been experimenting to increase the number in his charge to ten and eleven. But, if a man was absent, the output of the factory that day was down by 20 per cent. a loss which could not be made good, and the reduced volume of output so altered the spread of overheads as to nullify any benefits obtainable by increases in labour productivity. After trying several types of incentive scheme to combat absenteeism, the company finally decided that the most important thing was to carry a large enough reserve of trained operators to ensure that the machines were never idle.

So the drive for higher productivity is a war on waste conducted on many fronts. The challenge is to make better use of the nation's resources of manpower, materials and equipment, and it is a challenge directly to management, on whose skill, initiative, and wisdom the future progress of industry will depend.—*All Rights Reserved.*

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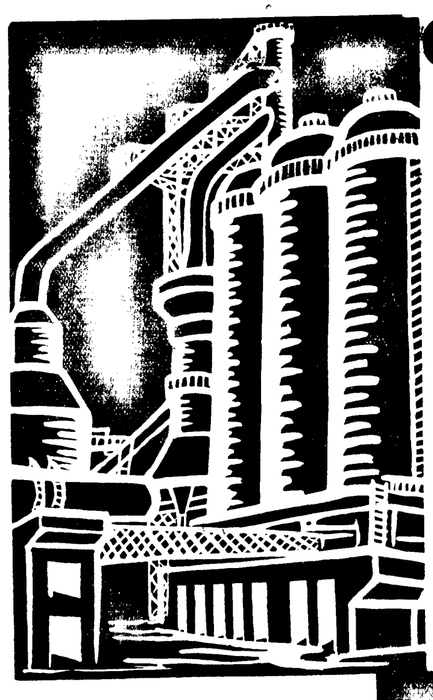

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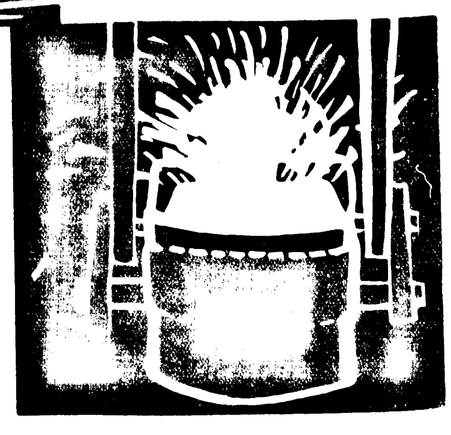

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Some Aspects Of Collective Bargaining

Effects Of Trade Unionism

By Dr. J. N. MONGIA, M.A., LL.B., Ph.D.
UNIVERSITY OF PUNJAB

WHILE living in a period when collective bargaining is very much in the news, it is quite pertinent to view this industrial decision-making process in one of two ways. More often than not, we are inclined to look upon collective bargaining as a development of our own age. It is equally possible that we may regard the union-management dealings as something of long standing, a conventional means of establishing employer-employee relationships, a process synonymous with unionism itself and thus extending its historical roots back into those same years that gave rise to organisations of labourers.

As a matter of fact, both views are correct in their own way. Collective bargaining is both old and new inasmuch as it is of recent development, yet occurring in a fashion strikingly similar to the customs of a century or two ago. It is, however, considered indisputable that the term belongs to our own century. It originated in England, in the writings of Beatrice Webb, in 1891. "This term, collective bargaining, is not often employed in common speech in the United States, but is gradually coming into use among employers and employees in Great Britain. It evidently describes quite accurately the practice by which the employers and employees in conference, from time to time, agree upon the terms under which labour shall be performed." (Quoted in *Collective Bargaining* by N. W. Chamberlain.) It should be noticed that collective bargaining referred to here involved agreement by employers and union on "general" terms, under which employees would consent to work. In the early days of the last century, however, such terms were usually confined to little more than a scale of wage rates, but by 1900, the term had become considerably wide. "The essence of collective bargaining," says Phelps, is "dispute settlement—the resolution of conflicting views into a workable compromise." Such a brief definition gives little hint of the tremendous range of methods which may be employed to persuade an opponent to agree. It is collective bargaining, for example, to win a point through tact and politeness at the conference table. It is also collective bargaining to take over an employer's plant, threaten violence to non-union workmen who try to return to their jobs. In between, may come an infinite variety of tactics designed to impress, persuade, influence, bluff, startle, frighten, or force the other party into agreement. No current issue of employee-employer relations raises more questions of policy, public and private, than the permissible limits of union and employer action in the settlement of disputes. (*Introduction to Labour Economics*, page 298.)

Need for Collective Bargaining

The need for labour organisations arises primarily out of the nature of the labour market. Most labour markets are so imperfect that, without collective action by workers, employers would tend to dominate the market and there is every possibility of exploitation. It would not be out of place, here, to throw a little more light on "exploitation." This is a word that is widely used in labour discussions but is seldom defined. Recently two possible definitions of labour exploitation have been proposed. According to one, labour is exploited whenever it is being paid less than the wage rate that would prevail if the labour market were a perfect market.

A second definition of labour exploitation includes the nature of the market for the employer's product. According to this definition, if the market for the employer's product is imperfect and, consequently, his selling price is higher than it would be if his product market were a perfect market, the consumers of the product may be exploited. However, it seems preferable to refer to the latter condition as consumer exploitation and to define labour exploitation only in terms of the labour market.

On the basis of such a definition, it is evident that there is considerable possibility of labour exploitation in view of the imperfections in the labour market. The existence of such possibilities for exploitation is the primary justification for labour unions. It is also the chief justification for minimum wage laws.

It will also be of some interest to distinguish the collective bargaining of today from union-management relations of the past. The former differs not only in its bilateral character as opposed to the earlier unilateral imposition of terms but also in its incidence, its systematisation, its continuity and its acceptance. Today, collective bargaining blankets under its coverage almost half of industrial workers, and its expansion continues, even into new fields such as white-collar workers, professional employees, etc. As though there are widespread variations in the procedure adopted to achieve the desired end, there are certain dominant patterns which are common to all the practices, e.g., periodic negotiations for general terms, embodied in written agreements, and a separately organised system for settling day-to-day difficulties. That collective bargaining is becoming more and more entrenched is partly due to the fact that, among managements, the need for collective dealing in employee relationships is now accepted simply on grounds of efficiency, if for no other reason, and bargaining through representatives freely selected by employees has been accepted by some, though not all, as a feasible and desirable method of meeting that need.

Result of Labour Growth

The difference between the old and the present industrial relations may be traced, in some degree, to changes within the labour movement itself which has expanded its sphere of organisation and influence from a few small sectors of a youthful economy to every major industrial area of a much more extensive economy. It has developed highly effective institutions which integrate, locally, regionally and nationally, the efforts of its members and which are capable of being used offensively and defensively, politically and economically. The labour organisation has also accumulated property and funds which give its institutions a stability not based solely upon membership adherence. Thus, it will seem that the expansion and continuity of collective bargaining are due, in large part, to the expansion and continuity of the labour movement.

At the same time, there are also causes external to unionism which help to explain the present strength of the labour movement itself, as well as of the collective bargaining movement dependent upon it. One of them is the increased size of the industrial units of these days. Where a single plant or a company brings together hundreds or even thousands of workers, the individual must make himself heard through representatives or consent to be completely submerged in such bigness. As opposed to the previous practices, when unionism was often regarded as a challenge to the freedom of action of the individual worker, there has been, now, a growing recognition that it is often only through associations that the worker attains a degree of control over his own affairs. This belief is now reflected in legislative protection for the collective bargaining process.

Also, our attitude towards collective bargaining has been conditioned by the increased helplessness of the individual worker in the face of economic disaster. Ease of replacement of the worker increases competition for jobs in times of unemployment and reduces the fearful and the dependent to positions of subservience, as they seek to retain their single means of livelihood—their wage-paying jobs—on any terms. Under such conditions, some protection and a greater measure of security are afforded by common rules jointly negotiated. Thus, changes in the economy itself, chiefly specialisation and concentration in production, have established a fertile soil for the growth of collective bargaining. No wonder that our changing economy has emphasised the need for collective bargaining and our evolving democracy has approved the means. "Collective bargaining," to quote Chamberlain, "developing over a span of 150 years, is a constituent ingredient of this process of social change through organisation. Our historical sojourn should demonstrate that, in this respect, it is as much a part of the growth of the economy as, for example, the corporation and the trust.... Nor should we assume that its development in this process of social ferment is at an end. As our economy and its institutional members undergo further change, so too will the system of collective bargaining."

Nature of Collective Bargaining

It is a well-known fact that unions have a variety of interests and may function in a number of ways. The economic programme of a great majority of unions, however, has generally been directed towards raising labour standards including improvement in wages, hours, working conditions, etc., and towards achieving some control over jobs within the union's jurisdiction. Job control and protection may take the form of working rules that affect output or of rules with regard to hiring, firing, lay off and promotion, so that workers are less exposed to arbitrary actions by management. Employers, however, have, generally, relinquished only some of their authority and control over labour matters after labour unions have threatened to use economic pressure to achieve the union's objectives. It may be noticed that collective bargaining is not just a device for the unionists to improve their economic position. "... Collective bargaining and its accompanying rule-making and regulations, may mean, to the unionists, something real in addition to better wages, hours and working conditions. For it means a new 'government in industry,' 'democracy in industry' ... participation in the government of one's industry may have the same appeal as participation in political affairs. The demand for recognition and collective bargaining is not a demand for economic ends alone (*Economics of Labour*, Vol. III, by Millis and Montgomery.)

Usually, it is quite difficult to define the nature of a thing as it often leads to sterile arguments. However, there are two elements which can be distinguished in collective bargaining, namely, collective action and representative negotiation. The former is the action or the threat to use action collectively by the workers and is the power by which the workers' representatives may gain some of their objectives, such as higher labour standards and job control, including protection from injustices on the job.

Collective action is important, because the bargaining power of a labour representative is only as strong as the political or the economic power of the group that he is representing. Regarding the group's economic power, it largely depends upon the economic injury that the combination of workers can inflict upon the employer by refusing to work for him, by inducing other workers not to work for him, by refusing to buy his products and by causing other persons not to buy from him. In threatening to injure an employer in the labour market by a strike and in the product market by a boycott, a labour group is, of course, operating through demand and supply. It is natural enough that the effectiveness of its collective action would depend primarily upon how indispensable to the employer were the withdrawn labour supply and product demand. It is mainly on account of this that collective action by a relatively large group, or a large portion of a skilled group, is generally necessary for the achievement of the objectives of the labour organisation.

Expert Help

Regarding representative negotiation, the advantages to labour that flow from it are fairly obvious. Not only does it permit the workers to hire a specialist in bargaining whose experience gives him a wide knowledge of the labour market, the industry, and conditions in other firms, but such an expert representative is the employee of the workers' organisation and not of the employing firm. Consequently, he is independent in the sense that the employing firm with which he is bargaining has no control over his job, his salary, or his advancement. At the same time, representative negotiation is also important, rather necessary, where the numbers of persons concerned is so large that it would be impracticable to meet *en masse*.

While discussing the nature of collective bargaining, it may not, perhaps, be out of place to distinguish between co-operation and collective bargaining. The relationship between the two is best established, if we consider the former as representing joint decision-making in matters of admittedly common interest, while collective bargaining consists of joint decision-making in matters of admittedly divergent interest. In both kinds of decision-making, there is (1) recognition by each of the other's interest, (2) a continuity of relationship, (3) joint participation in the decision-making process, and (4) the contemplation of some kind of agreement. The difference between the two lies in the fact that, despite the continuing existence of areas of divergent interest (as, for example, distribution of the firm's revenues as wages and profits) which are the subject-matter for bargaining, the parties have accepted certain areas in which common interest is considered to predominate. Before such co-operation can take place, it is, therefore, necessary for each party to become convinced that, in some defined areas, interests are in fact common and that it is not simply being made a tool of the other's divergent interests.

The Different Theories

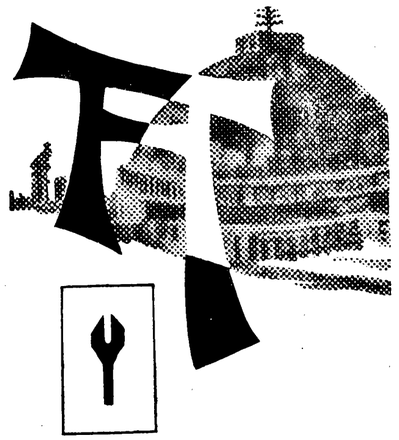
It is possible to reduce the theory of the nature of the bargaining process to three parts, which, while not necessarily conflicting, every such different emphasis that they suggest divergent answers to union-management problems. These are that collective bargaining is (1) a means of contracting for the sale of labour, (2) a form of industrial government, and (3) a method of management. It is proposed to study each of these in turn.

The first theory, that is, the Marketing Theory looks upon collective bargaining as a means of contracting for the sale of labour. It is an exchange relationship. Its justification is its assurance of some voice on the part of organised workers in the terms of sale.

The second theory, the Governmental Theory, views collective bargaining (C.B., in short, henceforth in this article) as a constitutional system in industry. The contractual nature of the bargaining relationship is admitted, but the contract is viewed as a "constitution" on the basis of which is reared an industrial government for the plant or the company or the industry. The industrial constitution is written by the joint conference of union and management representatives convened periodically. The principal function of the constitution (or trade agreement) is to "set up organs of Government, define and limit them, provide agencies for making, executing, and interpreting laws for the industry, and means for their enforcement." (William M. Leiserson, *Constitutional Government in American Industries.*)

As opposed to the exchange relationship underlying the Marketing Theory, the Governmental Theory emphasises the political relationship between the contracting parties. Indeed, it is this emphasis on an exclusive government within a single bargaining unit which suggests the ethical principle underlying the governmental approach to collective bargaining. That ethical principle may be stated as the sharing of industrial sovereignty and has two facets. First, it involves a sharing by management with the union of power over those who are governed, that is, the employees. And, secondly, it involves a joint defence of the autonomy of the government established to exercise such power, a defence primarily against interference by the State. Both of them stem from a desire to control one's own affairs. It is, however, only in recent years that this antipathy to outside interference has been modified to the extent of permitting a more widespread participation by Government-nominated conciliators in negotiations which threaten to break down, even though the conciliators have no authority to impose a settlement. So, under this approach, the parties jointly assert an autonomy over their group affairs. While sharing sovereignty over internal matters, they defend that sovereignty from external interference.

The third theory, the Management Theory, regards C.B. as a method of business management. It emphasises the functional relationship. It likens the system of union-management relations to the constitutional form well known in modern States. It should be noticed that this approach to the bargaining process does not assert that C.B. is coincidental with management function; it merely regards it as a method of management, a method whose area of application extends



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only to those matters in which the unions have secured a voice. It holds that just as decisions of hiring, firing, lay off, recall, discipline, wages, hours, promotion, methods of production and so on, were matters of management prior to the advent of the union, they remain decisions involving the managerial function after the union has gained some part in their making. Whereas the Governmental Theory asserts a sharing of sovereignty, the Managerial Theory simply poses a sharing of management. The ethical principle underlying this conception of the bargaining process holds that those who are integral to the conduct of an enterprise should have a voice in decisions of concern to them. It may be called the principle of mutuality. This principle of mutuality does not, however, compel argument before action can be taken. It constitutes no injunctive process operating against continuity of the business. It requiries only discussion in good faith with an intention to reach agreement if at all possible. If no agreement can be arrived at, solution must come, under existing institutional arrangements, through a contest of economic power.

Not Contradictory

But, as suggested already, it would be erroneous to consider these approaches as sharply distinguished from each other, since there is a good deal of relationship between them. To some degree, they represent stages of development of the bargaining process itself. It is well known that the early negotiations were a matter of simple contract for the sale of labour. This character dominated till the prevailing circumstances, in the first part of this century, led to the elaboration of the Governmental Theory. The management approach was foreshadowed by the union-management co-operation programmes after the First World War. Thus, in a way, it can be stated that the development of the theories of the nature of C.B. mirrors the evolution of the bargaining process.

To some extent, these apparently divergent approaches to collective bargaining represent differing conceptions as to what the bargaining process ought to be. As such, the express normative judgments. There are, for example, those who sincerely believe that the contract system of negotiations provides the greatest freedom of relationships. Still, there are others who accept the governmental system as establishing laws and order in industry. And, then, there are those who regard the management system as suggesting a means of integrating the union with the business along lines of business organisation principles which are cogential to the thinking of company officials and accomplishing, at the same time, the objectives of the unions. It should be clearly understood, however, that the motive for accepting any of these theories does not affect their validity or invalidity.

The utility of differentiating these three conceptions of the nature of C.B. may be questioned. In answer, it may be pointed out that this differentiation of problems is not entirely futile, since, in the examination of problems of industrial relations, these three approaches will be found to serve as useful tools of analysis, suggesting different possible solutions to the same problems. Moreover, they provide guides in the study of union-management relationships. Whereas the Marketing Theory points to a study of the law of contract and principles of a price-oriented economic system as fruitfully applicable to bargaining systems, the Governmental Theory suggests a study of government, political party relationships, and the nature of authority as most pertinent to the bargaining process; the Managerial Theory, in turn, focusses attention on the study of business processes and industrial organisations as a means of getting to the roots of the problems of collective bargaining.

The Bargaining Process

When C.B. is successful, it usually results in a collective agreement between the workers' combination and the employer or employers. Unsuccessful bargaining may mean a strike or simply a continuation of the *status quo*. Agreements arrived at through C.B. are also called 'trade' or 'joint' agreements and are generally reduced to writing. These signed agreements may cover many varied matters such as wages, hours, overtime rates, working conditions, seniority provisions, machinery for the settlement of grievances, etc., and systems of dismissal wages or unemployment benefits and so on. Indeed, there are thousands of such trade agreements in existence. Nevertheless, it need not be forgotten that collective labour agreements are not contracts in the strict legal sense. In fact, they impose no obligation upon the employer to furnish jobs to the workers nor upon the workers to furnish labour for the employer. Rather, they are merely statements signed by the two parties, setting forth the terms and conditions of employment in case workers are hired by the employer whom the agreement covers. The main purpose, it may be pointed out, of such agreements is to prevent strikes and wage discrimination or wage under-cutting during the life of the agreement.

At the same time, it is always a keen desire of the unions to make the coverage of their trade agreements extend throughout the whole area of competitive production. The object is to equalise labour costs by applying the union scale and working conditions to all employers selling the same class of products in the same market. For local market industries, like buildings construction, etc., the competitive area is practically confined to the city and its environs. But for other industries, the market may be regional or national.

It may also be noted, in passing, that the focal point for C.B. is the "standard" or "union" rate of hourly wages. During a period of sharply declining business, the downward pressure is likely to have the greatest effect upon prices in highly competitive markets and particularly in those markets where the demand side enjoys a dominant position. Consequently, in such circumstances, the chief task of the union is to prevent the under-cutting of wage scales and to enforce uniform, standard rates as the minimum for the services of their members. However, the difficulty that the unionists face in achieving price uniformity for labour lies in the fact that the workers have individual differences among their own ranks. For these reasons and others, labour costs cannot be measured by wage rates or standardised by wage uniformity. As a consequence, the unions must attempt to standardise working conditions, hours of work and individual outputs, if they (unions) were to equalise competitive costs so that all employers will pay the same price for equal service throughout the competitive area. That is one of the reasons why unions adopt numerous working rules. Usually, these rules seek to restrict the economic freedom of employers and employees with, presumably, the avowed object of the betterment of the whole group of workers in the industry. It is usual for employers to complain, in this connection, that the union working rules limit the workers' freedom of action, but it is usually their restricting effects upon his own acts that displease the employers.

Quality of Output

At this stage, it would be of some interest to point out that the "standard" or the "union" wage rate for a certain kind of work is a minimum, not a maximum price. Unions certainly do not object, if it is possible for the workers to receive more than the wage rate set forth in the agreement, provided the worker does not speed up output. In other words, an employee on an hourly basis can receive additional compensation for the high quality of his services but not for a greater quantity of output per hour, because such extra output might really mean that he was selling his services at a rate below the union scale and may thus cause other competing employers also to speed up their operations in order to maintain competitive equality. Consequently, the employer puts in earnest efforts to obtain as much in output as possible for his money and the union, in its turn, strives to see to it that output per worker is not increased without a proportionate increase in wages. It is, however, often observed that, even under non-union conditions, workers resist the speed up and try to standardise their output.

The Union Tactics

The union tactics are the methods adopted by the unions to achieve the desired end. These tactics consist of strikes, picketing, boycotts, newspaper and other propaganda, strategic moves in employer-employee negotiations, member rallies, and political action. Union tactics highlight conflict; they normally indicate the brewing of some trouble. They are usually countered by employer tactics of equal variety and determination to the dismay (or amusement?) of the by-standards.

When persuasion fails, it may become necessary for the union to threaten to use its economic power, in order to overcome the opposition of an employer to its demands. Though there are many ways open to the union, the ultimate reliance in dealing with the employer is usually upon a strike. A strike has been defined as a "temporary stoppage of work by a group of employees, in order to express a grievance or to enforce a demand." This definition of a strike, however, raises an important issue, since it is not acceptable to many people especially employers. It implies that the employees have not given up their jobs but have merely temporarily suspended working at them. According to this theory, therefore, the employee on strike is still in full possession of all job rights including his seniority, etc. But, what if the employer has replaced the striking employees with non-strikers who are willing to accept the rates of pay and conditions of work which are in dispute?

The purpose of a strike, evidently, is to convince the employer that it is to his self-interest to accede to the demands of the union; to cause him to realise that it is more costly to oppose than to accept the Union's demands. Essentially, a strike is intended to curtail employer's operations by reducing his labour supply and by creating barriers to the recruiting of new employees. This, coupled with other losses such as the loss of steady customers because of the stoppage of work and the loss due to idle equipment, etc., inflicts a serious blow on the employer, much to the satisfaction of the striking employees. The strike is a very flexible weapon. It is also a very powerful one and is, therefore, hedged about with legal restrictions and managerial reciprocity.

It may be of some interest to mention the different varieties of strikes. Though there will be differences of opinion, the following types are considered as eligible for listing:

(1) the organised slow-down, (2) the strike vote, (3) the informal stay away, (4) the formal stay away for union business reasons, (5) the protest stoppage for a definite term, (6) the formal work stoppage for an indefinite term, and (7) the general strike. Though all of them are important in their own way, what the statistics of strikes show usually, is the number of formal work stoppages for an indefinite term.

A complement of the strike (trade unionisms major weapon) is the boycott which is the refusal to buy from firms which the union disapproves. The boycott has a long and chequered history and its use is not confined to organised labour alone. It is a standard business weapon, used to kill off competition, and the final resource of the consumer, always the forgotten man in the economic world.

Boycotts, as practised by the organised labour and designed to curtail temporarily the product market of the employer, may be either primary or secondary in character. The primary boycott is the withdrawal of patronage from the firms with which there is a labour dispute. It means that a union asks its own members and the members of other labour organisations and all friends and sympathisers to refrain from buying from an employer of whom it does not approve. On the other hand, the secondary boycott involves the boycotting of employers and others who deal with the offending employer. A special type of secondary boycott and one much deplored by employers, is the "hot goods" boycott—which means the refusal of the union men to work on materials produced with non-union labour. It is called "secondary," since it is directed against an employer with whom there is no dispute and constitutes an interference with his business and operations which may be quite substantial. Whereas the primary boycott has been seldom held illegal, since it is often completely ineffective, the secondary boycott has frequently been held illegal.

Picketing

Picketing, another important tool of the unionists, is a reflection of the union theory of the strike, the theory that the employees on strike retain their jobs and job rights during a temporary suspension of work. The function of picketing is to protect the job rights from non-strikers and to ensure that the suspension of work is reflected in a corresponding suspension of activity by the employer. In other words, it is to make sure that the employer's place of business is shut down tight and that the production of goods and services and their delivery to customers is stopped.

The purpose of picketing is to give publicity to both the existence of a labour dispute and the workers' grievances. Picketing is the key to strike success. If it is effective, the odds are that the strike will be won. If it is unsuccessful, there is every likelihood of the strike being lost.

Picketing, it may be emphasised, is an economic device and generally occurs on public property near the employer's premises. In line with other forms of union pressure, the varieties of picketing vary from the peaceful to the most violent means and may be identified as any one or many of the following types:

(1) strolling, (2) accosting, following, and residential picketing, (3) obstructing, (4) mass picketing and (5) sit-down strikes.

Although all these varieties are intended for the same purpose, their effects are different and a variety of issues are raised by each one of them.

Effects of Collective Bargaining

There has been an oft-repeated assertion by the unionists that, in securing better wages, hours, and working conditions, they are improving the lot of working men, generally, and that the non-unionists and the anti-unionists in large measures share the gains. On this point, there is a difference of opinion between the economists of an earlier time and those of the present day. It will become clear upon analysis, however, that the effect of higher wages secured for some, by union effort, upon the wages of others, is a mixed one, for forces are set in action, some of which have one tendency, others a contrary one. In so far as the non-union men are admitted to and work in organised plants, they usually reap the full benefit of any improvement secured by union effort, for they work the same hours and receive substantially the same wages paid to the union men. Moreover, the workers in non-union plants in an industry with an active unionism may also secure gains, for, if the non-union employers pay too low wages and maintain too long hours, the task of union organisers will be made easy. At the same time, union standards may be extended to the benefit of other workers under the Government's "fair wages" clauses, for "fair wage" is frequently interpreted as union rate. And finally, in the absence of "fair wages" clauses, the union wage undoubtedly plays a part in determining what is fair wage for workers hired in non-union establishments in the partly organised industries.

But, where the closed shop is maintained, employers may agree to hire only union members or they may seek to exclude unionists from their shops. A closed shop may, therefore, be closed either to non-unionists or to union members. What is commonly called the "closed shop" is really a strictly union shop, and the so-called "open shop" may actually be open only to non-union workers. Where a closed shop is maintained, the non-union workman is excluded and under the preferential shop, he is handicapped in securing and retaining employment.

Attention may also be paid to the off-made statement that the primary end result of union efforts is to secure differential advantages especially in respect to wages, for union members. Criticism of the standardisation of wages is seldom advanced, but there is much criticism of unjustified differentials. Unionism may thus result in an uneconomic distribution and use of a nation's resources, but it should also be added that such conditions may exist without unionism and may even be corrected by it. Without control through collective bargaining or through law, sweated wages and sweated industries are not highly exceptional and they frequently persist indefinitely unless control is exercised. It would appear, therefore, that collective bargaining has almost as frequently reduced negative differentials by bringing wages in an industry up to an acceptable level as it has resulted in uneconomic differentials. In any case, the fact of unjustified differentials secured does not necessarily argue against collective bargaining.

Pros and Cons of Unions

The effects of union effort on the general level of Wages constitute another very important aspect of the problem of collective bargaining. That the union effort affects the wages of its members as well as of non-unionists is hardly disputed. But the impact which unions have been presumed to have upon wages, in particular, and the economy, in general, has been regarded with disfavour by a great many economists, even though they may disagree as to the nature of the impact. Some have believed that the unions' efforts, while springing from good intentions, have been misguided, since certain natural laws or persistent forces will always undo what the unions attempt. Others have argued that, while unions may succeed in certain of their aims, the long-run results will prove their folly. (Wages may be raised and maintained, for example, but the result will be be hard-core unemployment). Still other economists have asserted that a particular union may win and hold economic advantages for its own members but only at the expense of

(*Continued on page 124*)

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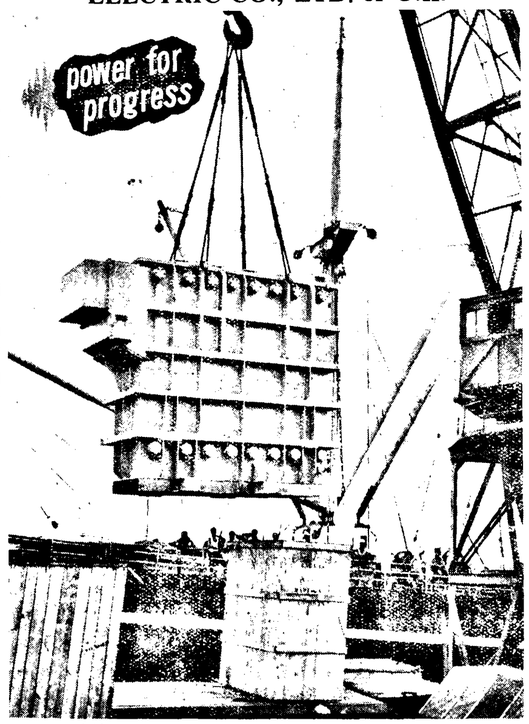

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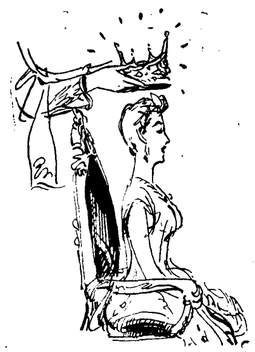

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Labour Participation in Management

Compulsory Enforcement By Law Undesirable

By Prof. P. C. JAIN
UNIVERSITY OF ALLAHABAD

THE real merit of workers' participation in management is not that it is a remedy against class conflict, which forms the basis of the Marxist doctrine, or that it improves the welfare of labour. Its merit lies in the fact that it enables labour to put in its best effort to increase production and productivity. It is only when workers feel that industry belongs to them as much as to the management that they work hard to increase output and to reduce the costs of production per unit of output. Really speaking, the managers, secretaries, managing agents and managing directors are owners of a concern only to the extent to which they hold shares in it. They are as much the servants of the company as the labourers, but they enjoy all the administrative power and prestige while labour does not. Labour participation in management is calculated to remove this serious defect in modern industrial organisation.

But, all the same, once it is successfully introduced, labour participation in management reduces industrial strife and improves the facilities available to labour while at the same time reducing the costs of production and increasing the competitive power of industry. The important thing in labour participation in management, as in schemes of profit-sharing, bonus for labour and the like, is the "break-even point" after which, as a result of additional outlay on schemes to ameliorate the condition of labour, "the company is compensated at a rate of increasing returns." The significant thing is that, "when both parties are satisfied with a particular scheme, the break-even point is neither too high nor too low and is usually easily attained." When an overall view is taken, labour participation in management effectively helps in the "creation of industrial democracy" which, as India's second Five-year Plan rightly emphasises, "is a prerequisite for the establishment of a socialist society."

Joint Consultation

Although there has been joint consultation in Indian industry in one form or another for quite sometime, it was placed on a formal basis by the Industrial Disputes Act, 1947, which provided for the setting up of works committees. It is unfortunate that such works committees have not yet been set up in all the undertakings which have been required under the law to constitute them. Besides, works committees have not worked satisfactorily either because the management have not taken them seriously and have deputed persons to attend them on their behalf, who could not take any decisions or promise any definite action, or because the trade unions have considered them as rival organisations and have not taken genuine interest in their functioning.

According to the Government's point of view, with the formulation of India's second Five-year Plan, the need for workers' participation in management acquired a new importance. Consequently, the Government sent a Study Group abroad in 1956 to study the working of labour participation in management in some European countries. Early in 1957, it submitted its report recommending that labour participation in management should be fully encouraged in India and the necessary legislation should be passed for this purpose. According to the Study Group, "Legislation may help to create the proper climate and the necessary sense of obligation. There is something to be said for taking the horse to the water, even though we cannot force it to drink." The 15th session of the Indian Labour Conference, which considered the report of the Study Group, however, came to the conclusion that the matter should be left to the volition of employers and employees and no legislation should be passed for a period of at least two years and that no compulsion should be used to enforce it by law at the present moment. A tripartite sub-committee of the Indian Labour Conference and subsequently a seminar on labour-management co-operation, which was held in New Delhi early in 1958, clarified many issues and laid down the type of machinery which is best suited for this purpose. The tripartite sub-committee compiled a list of the 50 undertakings, in the private and public sectors, where the scheme was to be introduced in the first instance and also approved of a "draft agreement" to be entered into by management and trade unions.

Management Councils

The important recommendations of the seminar were that "joint management councils" should consist of not more than twelve members (with equal representation of management and labour) in the case of big undertakings and not less than six members in the case of small undertakings, with four members constituting the quorum. The joint council was expected to "exercise supervisory, advisory and administrative functions on matters concerning safety, welfare, etc., though the ultimate responsibility should rest with management" and, what is still more important, "the unanimous decisions of the Council should be implemented without any delay. If they are not implemented in time, reasons should be given for the delay."

A comprehensive scheme of joint consultation and workers' participation in management has been working for quite sometime in the Tata Iron and Steel Company Ltd. and the Indian Aluminium Company Ltd. and, as a result of the agreement reached at the 15th session of the Indian Labour Conference, the scheme of labour participation in management has so far (November 1959) been introduced in some twenty undertakings and more than a dozen other undertakings are trying to introduce it. But the progress of the voluntary scheme has been far from satisfactory and some have, therefore, demanded that the scheme should now be compulsorily enforced by law, as the period of two years has already passed. But it would be a mistake to enforce the scheme of labour participation in management in India by law. In the first place, as experience in the U.K. has amply demonstrated, in order to be successful the machinery of joint consultation and participation has to be "in-built." "This means that such consultation is not merely a matter of bringing together two parties, workers on the one side and the employer or his representatives on the other. Jointness has to be there all along the line" and what is much more important it has to be worked in the proper spirit. Compulsory enforcement by law would defeat its own purpose by killing the spirit of co-operation and, in any case, it would not ensure that the organisation would be "in-built." Secondly, as experience in France, Belgium, West Germany and elsewhere has shown in recent years, legal enforcement of labour participation in management results in rigidity in employee-employer relations and does not result in improving industrial relations, increasing the output and productivity. Finally, there were some especial conditions in European countries which made it necessary to pass legislation. "Apart from the general French preference for codification, for reducing to writing and in precise language whatever is intended to be done, account must be taken of the strong syndicalist tradition which the French workers have inherited." In France, West Germany and elsewhere in Europe the need for legislation arose because of the serious dislocation caused by the Second World War. In India, there is no such emergency and we should avoid resort to law for the introduction of schemes of labour participation in management. The period of two years is not sufficient and a longer period should be allowed for the voluntary enforcement of such schemes. The success which the code of industrial discipline has achieved shows that the voluntary basis would show satisfactory results.

Not True of Employers

It is wrong to argue that employers in India have deliberately avoided introducing schemes of workers' participation in management. This might be true of some "misguided" employers, but it certainly is not true of employers as a whole. There are some special difficulties in India which should be removed to enable workers' participation in management to be extended and to work more smoothly. In order that such schemes might succeed, there should be "a genuine desire on the part of both management and employees to work together." This means that labourers and labour leaders should realise the positive advantages of joint consultation and participation in management and should take to it in the right spirit. This would be possible only if they consider strike as a weapon of last resort, as it actually is, rather than use it at the first opportunity or even when it can be avoided.

So far as employers are concerned, they should not consider the machinery of joint consultation and participation as a mere nuisance to be tolerated but as something positive to be looked forward to in maintaining harmonious relations in industry. There has been a long tradition of such mutual co-operation in the U.K., which partly explains the success of labour participation in management in that country. By all the methods at their disposal, the Government, the different employers' associations and the trade union federations should make efforts to popularise it.

Another vital consideration is that of the organisation and strength of the two parties. The employers in India are well organised. But the same cannot be said about labour. A weak trade union organisation is a great hindrance to the introduction of schemes of workers' participation in management in this country. As Mr. V. V. Giri rightly pointed out in a recent speech at Ranikhet (in U.P.), it is a necessary prerequisite of the successful introduction of schemes of labour participation in management that there should be a strong trade union organisation "ready and willing to take a responsible view of the matter" and, what is still more important, the trade unions should have a full complement of technical experts who understand the working of industry and who are in "a position to evaluate scientifically the demands of workers and are ready and willing to discuss, on equal terms, with technical advisers of employers" the various problems which arise.

Trade Union

Although a strong trade union organisation is necessary for the success of joint consultation, it does not mean that we should wait till it is possible to have "one strong trade union for each unit." The beginning of labour participation in management will have to be made on the basis of representatives selected by whatever trade unions already exist, but what is needed is that the Government, the labour leaders and others interested in this problem should constantly bear in mind that there is a close connection between a strong trade union organisation and successful labour participation in management, as experience in the U.K. and other European countries has amply demonstrated. It would be futile to expect schemes of workers' participation in management to be fully successful, unless the trade union organisation in India is placed on a sound footing.

Some other important conditions for the success of labour participation schemes, as has been shown in India and abroad and is also borne out by the case study of labour-management relations at the Tata Iron and Steel Company (published in 1957) and the Indian Aluminium Works at Belur (published in 1958) undertaken at the instance of the Ministry of Labour and Employment, are that (i) there should be labour participation in management at all levels—departmental, works and the company level—in order to make it really effective; (ii) the emphasis should be shifted from welfare to production considerations to enable the joint consultation machinery to do its job properly; and (iii) the duties, rights and functions of the different tiers of the machinery should be clearly and precisely laid down in order to avoid confusion and to prevent the employers and employees from becoming apathetic or hostile.

A Sound Principle

It is a sound principle that labour participation in management should be "founded upon the habit of informal consultation within the ranks of management and between all levels of management and employees." It would really not serve much purpose if the employers and employees came together formally in a "joint management committee" and discussed some common problems. The discussion of problems of mutual interest should take place

(Continued on page 116)

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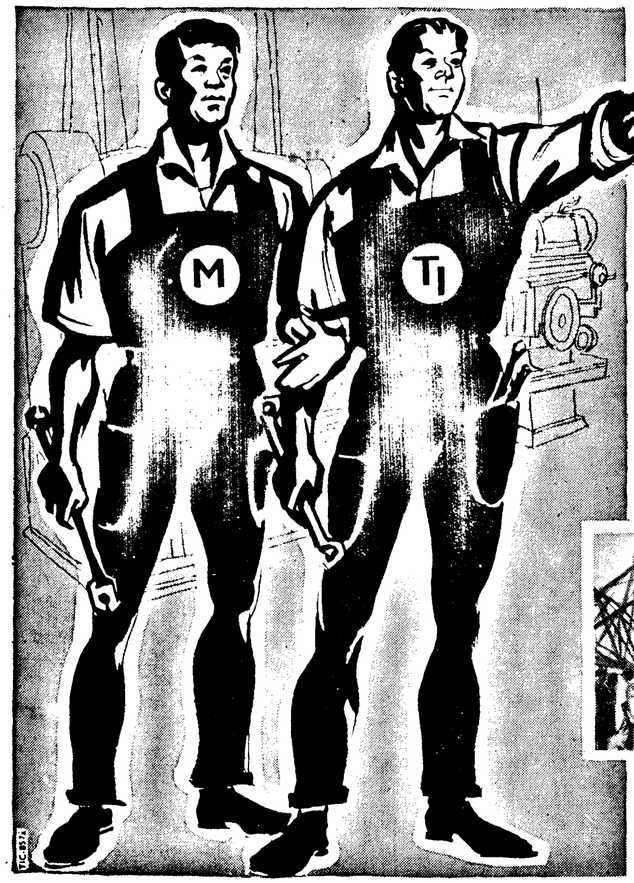

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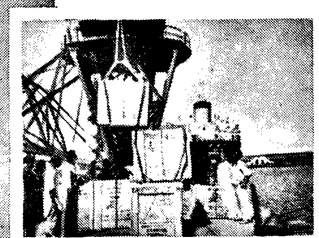

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POPULATION CENSUS AND ECONOMIC PLANNING

By MAHESH CHAND
ALLAHABAD UNIVERSITY

WITHIN the next fifteen months, we shall be completing another nation-wide counting of heads—a population census. As in the past, it shall be held through honorary enumerators, mainly Government administrative staff. We now have a permanent Census Act and a permanent Registrar General, and there is visible a greater effort to use the coming census not only to collect the usual demographic data but also such data as are important for purposes of economic development and planning. It is realised at ministerial levels that census data should be such as would help the study of problems of a sociological and economic character. It is likely that some ministers may expect light even on *per capita* efficiency and productivity, on how the productive group has been changing and on how the occupation pattern is altering. Some of them have spoken in general terms and said that there is a primary need for a clear picture of the country's resources like land, irrigation, human and animal power as also of the potentiality of the improvement measures that had to be adopted by the farmer for increasing the output. So we expect that the coming census is very likely to be used to serve the ends of economic planning as far as possible.

The mobilisation of census for planning data is, however, subject to certain limitations. Bearing in mind the capacity of the masses to respond and the fact that enumeration is through honorary workers, questions involving complex concepts cannot be asked. The questions have to be simple and the questionnaire very brief. Besides, new concepts and definitions cannot be introduced in a large measure, as that would affect the comparability of the data with allied data collected in previous censuses. There is another limitation arising out of possible biases and response errors. A knowledge of the magnitude of biases to be expected on various census questions and of the response errors connected with these biases will enable one to decide what questions may be retained for a census, what should be set aside for sample surveys and what questions should be dropped altogether. Unfortunately, not much information is available in this respect and the decision to include or leave out a question has to be taken on the basis of qualitative arguments.

Industrial Classification

We are on the threshold of a large-scale programme of industrialisation, though it does not mean only large-scale industrialisation. It is, therefore, necessary that we must know how the workers are engaged and the non-workers dependent on different types of occupations and industries. We must also know the activities of persons who are not workers. We may also look out for information on industrial classification of households, if we believe that, in India, the household is still by far the prevalent unit of work and living.

The other important aspect connected with planning that may be studied through the medium of the census data is that of migration and urbanisation. A few simple questions about the place of birth, nature of the place of birth and duration of residence can enable us to throw useful cross-section light at the national and regional stages.

Yet another field relates to housing conditions in the country. Many a socio-economic survey which were financed by the Research Programmes Committee studied the housing problem recently. The topic has been the basis of many a doctorate degree. But there has been no nation-wide study of a few selected broad aspects of the housing problem so far.

We know that, notwithstanding the long-period industrialisation bias of our Five-year Plans, at least for the next two Five-year Plans agricultural production shall have to be given the first priority. In absolute terms, it has been given a priority in both the first and the second Plans, but its relative position was deliberately put lower. The recent trouble on the food front has, once, again, brought the importance of agriculture to the fore. There are being tried through the States, important institutional changes in the agricultural sector. Not only rights in land but also the nature of farming—private, corporate or co-operative—are on the anvil. The key to many aspects of these two involves a knowledge of the distribution of land rights and size of the cultivated holdings subdivided by whether they are held from Government or private sources and whether the basis is rent in money or kind, or crop-sharing. We know that there are the land records kept by the *Lekhpals* in many States, but, the experience in regard to correction of these records before consolidation leads one to think of the desirability of a simultaneous nation-wide census of rights and holdings.

Household Industry

Similarly, one can suggest an all-India census of households by household industries. A household industry may well be defined as an industry carried on at home. There is some sense in making some extension of the scope in the case of rural household industries. It might, for example, be allowed that a household industry in a village may be located anywhere in the village and not necessarily at home. Such an extended scope shall no doubt lead to the inclusion of certain cases, such as engine-driven flour-*chakki* and dyeing and printing of works at place of work without a similar—and perhaps justified—treatment for urban households.

An attempt may also be made, while recording household industries, to enumerate the number of workers engaged in each household industry and cultivation. The workers may be subdivided into hired workers and family workers; and the latter may be further subdivided into male and female workers. It may also be asked whether these workers are engaged in "household industry only," "cultivation only" or in "both."

Effort can also be made to find out the temporal location of household industries by asking the months—or at least the number of months for which the household industry is carried on.

If economic planning is to be decentralised, such data on household as those mentioned above, namely, those relating to household cultivation and industry, land tenure, land acreage, workers and temporal location, can be preserved village-wise and prove very useful to the planners.

We think that what is indicated above is the maximum which can be attempted. There was a suggestion sometime back that we may ask how many whole-time whole-season workers hired during the last (*a*) *kharif* and (*b*) *rabi* crops and how much of a cultivator's cultivated area was outside the village, but that would be going too much beyond the enumerator's capacity. Even as it is, the items suggested are not easy to cover. There are conceptual and interpretation difficulties also. This is illustrated by what is said below.

Who is a Worker?

We have suggested a division of persons into workers and non-workers. What is the definition of a "worker"? All that consus-gods may, perhaps, like to say is that a person who is working may be working as a cultivator, as an agricultural labourer, at a household industry or may be doing any other work; that work means regular work, that is, of more than one hour per day throughout the greater part of the working season: that work implies employment for at least fifteen days in the *month* just preceding the day of enumeration: that work means productive work other than household duties: that a person who has been offered work but has not actually joined it, a beggar, a pensioner and one who merely receives rent, dividend, royalties are to be treated as non-workers. But will it be just to regard an apprentice-trainee without wages as "worker"? Will it be economically meaningful to classify a public or social service worker (who is engaged actively in public service activity) or a political worker (who is actively furthering the political activity of his party) as "worker"? What is productive work? Is the criterion of "productive" not satisfied if an adult woman does not engage herself in work such as rice-pounding for sale or wages, or in domestic services for wages, or minding cattle, or selling firewood or making *and* selling cowdung cakes or grass and if she engages herself in spinning and weaving for consumption in the household? If engaging oneself in agricultural production for home-consumption is "working," should not production of yarn and cloth at home for home-consumption also mean "working"? Economically speaking, a person belonging to the latter category is a worker, while social service workers and political workers are not workers, unless they be paid for that work; otherwise, pensioners, unearned income receivers and beggars could also become workers if only they could show that they are doing public service or political service.

Non-workers

It will not be sufficient to know the non-workers. We must further classify them so as to find out (i) how many of them are not employed and are seeking work for the first time and (ii) how many of them were employed previously and are seeking employment again. Other categories of non-workers may be convicts (including inmates of penal, mental and charitable institutions), students, disabled by age (infant) or illness, unpaid household female members, unearned income-receivers, and others.

Occupation and Industry

To take another example of conceptual difficulties. While occupation should be determined from the nature of work, what should be the criterion for "industry"? Should it be by technical unit, operational unit, enterprise or establishment? *Prima facie*, the problem should not arise at the enumeration stage, as the enumerator may be instructed to write in detail the nature of work, nature of industry, profession, trade or service and the name of establishment. Care should be exercised at the tabulation level, though efficiency then would depend on the description given by the enumerator on the individual slip.

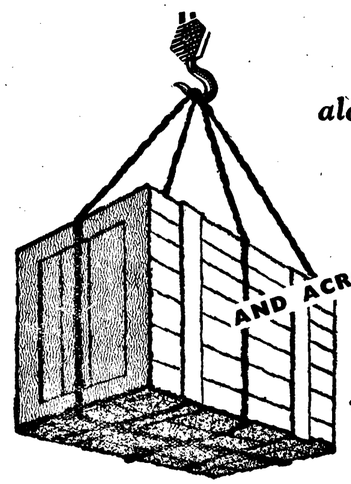
Incidentally the 1951 way of having eight livelihood categories is sure to be given up, but there is a controversy whether we should use the International Standard Industrial Classification or the Indian Census Economic Classification or the Standard Industrial Classification? Presumably, the second classification shall be used for the 1961 census as well, which means that there shall be international comparability only in regard to the main (nine) Divisions. The Indian Census Economic Classification implies classification of an individual by the predominance of his economic activity and not by the classification of the establishment in which he works. If we are going to use this classification, it is high-time that the Central Statistical Organisation takes immediate steps to stop the use of Standard Industrial Classification for tabulation of data collected under the Factories Act and the Employment Market Information Scheme.—*All Rights Reserved.*

LABOUR PARTICIPATION IN MANAGEMENT

(*Concluded from page 114*)

at all levels. The seminar on labour-management co-operation was quite specific in pointing out that subsidiary departmental joint councils might be set up where there are more than one department in a unit and a "central joint council" may be set up for a group of undertakings under the same *management*.

The weakness of labour participation in management in Indian industry is that so far only joint management councils have been set up but no central joint councils. Only Tatas, who had "joint departmental councils" and "joint works council" in the past, have, with the setting up of the "joint consultative council of management" in January 1959 completed the three-tier structure of joint councils. It is only when workers have a voice not only in the day-to-day running of an undertaking but in its overall policy that they can have the feeling of oneness with the management which is so vital for increased effort to increase production and productivity. But it is by now an established principle that, although the members of such joint councils should receive full information about the working of the concern and should be consulted on all matters concerning labour, confidential information about costs of production, patents and other rights, etc., which determine the competitive power of the concern (it would do much damage if such information is made public) and matters which fall under the purview of collective bargaining, and as such come under the jurisdiction of trade unions so far as workers are concerned, should be kept outside the purview of the joint councils. In the beginning, the chief purpose of joint councils in Europe was advisory but soon it was found that they did not prove effective, unless some administrative power was given to them. The joint departmental councils and the central councils in Indian industry will have to be given some administrative powers to make them really effective.—*All Rights Reserved.*



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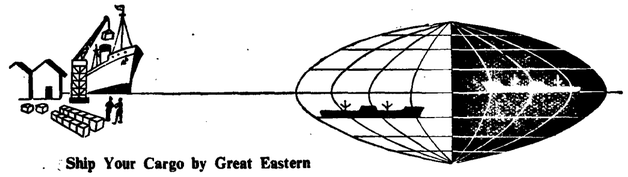

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Business And Education—New Dimensions

What American Experience Teaches Us

By PROF. C. R. WHITTLESEY
UNIVERSITY OF PENNSYLVANIA

THE discussion that follows is inspired by a number of instances which have come to my attention during my brief stay of a few months in Bombay as a visiting professor. The first one was a newspaper story on the possibility of Indian students being given an opportunity to observe the operation of American factories and businesses from the inside by taking jobs with them for short periods of time. This practice is quite common in my country, the United States of America, and it would be an excellent idea to extend it to students of other countries. Nevertheless, I could not help wondering whether similar opportunities were currently being offered on any substantial scale to Indian students by Indian industries. The second item was a conversation I recently had with a frustrated and disillusioned young man, on the difficulty experienced by a graduate with a Bachelor's or a Master's degree in finding a decent opening in business, or of rising by merit even if he does succeed in getting a job. Finally, I have been struck by the relatively small number of direct contacts, as compared with my country, which I have been able to observe between businessmen and members of the faculties of colleges and universities.

Significance

Observations more or less like these would have been common enough in the United States a generation or so ago. What I propose to do is describe a number of developments which have taken place in recent years indicating the type of solutions we have been devising for the sorts of problems disclosed by the foregoing instances. In some of these developments, I have had a personal hand. I mention them not for this reason but because I am persuaded that they are significant in and of themselves. I am further convinced that they suggest patterns that may be useful here in India as it proceeds further along the paths of economic development.

The programme of Field Fellowships in Industry had its beginnings just over twenty years ago. The origin is not uninteresting. You will recall that this was late in the distressed decade of the 'thirties. Businessmen and educators, a good many of them, were rather edgy towards one another. The prolonged depression was regarded, on the one side, as reflecting discreditably on the leadership of American business. On the other side, college professors with their active participation in New Deal legislation were looked upon as unduly socialistic, if not downright subversive.

An Idea Born

One evening I found myself seated at dinner with a vice-president of the Du Pont Company whom I had known previously. It was not long before we were exchanging unpleasantries and commencing to feel distinctly irritated. Suddenly, we realised that this was hardly a civilised way to behave, and stopped to ask ourselves what might be done to improve attitudes between teachers and businessmen. The outcome of the next hour's conversation was the basic outline of a plan whereby teachers of economics and related subjects would be enabled to spend a summer viewing the operation of American business from the inside.

A vice-president of General Motors was brought into the project, further discussions were undertaken, and the following summer the initial appointment was made. The man appointed, a junior member of the Economics Department of Princeton University, spent ten weeks with General Motors and one of its subsidiaries. That autumn the four of us met at luncheon to review the experiment. In the course of the meeting, it came out that, although the young man had found the summer extremely interesting and valuable, he had been sheltered from view of a strike incident in one of the plants, apparently for fear that it might present corporate activities in a somewhat uncomplimentary light.

I shall not forget the chagrin of the General Motors' vice-president when the Du Pont executive remarked with a certain air of superiority: "That couldn't have happened in our organisation." Nor shall I forget the grimness with which the General Motors' man replied. "And it won't happen again in ours." So far as I know it never did. The following summer one of the young men on the Field Fellowship programme actually sat in, ostensibly as a member of the management team, on bargaining negotiations between the General Motors Corporation and Union representatives.

Experiment Succeeds

A half dozen appointments were made the second year but then the war led to curtailment of the experiment and finally to its suspension. After the war, the programme was revived, greatly expanded, and placed under the direction of a body known as The Foundation of Economic Education. (Initially, it had been administered through the Personnel Departments of Du Pont and General Motors.) As many as fifty or sixty appointments have been made in a single summer. All types of corporations, numbering in the hundreds, have participated as have colleges and universities from all over the country. A further indication of the success of the experiment has been its emulation by a number of companies which inaugurated similar programmes of their own. The Du Pont Company, for example, has tried inviting groups of fifteen or twenty teachers of introductory courses in economics, including the authors of a number of widely used textbooks.

The first "graduate" of the programme is today Professor of Public Finance at Princeton. One from the second group is Dean of the oldest collegiate school of business in the United States. Others are scattered from one end of the country to the other. A few have been lost to the teaching profession, as in the case of one who is now vice-president of a large commercial bank in the Middle West.

A different sort of programme is illustrated by the Advisory Committee associated with the Finance Department of one of the university schools of business. This was organised a half dozen years ago as an outgrowth of contacts established in connection with a research project investigating certain aspects of the securities market. The Committee includes only nine members but is made up of top officials (presidents, vice-presidents, treasurers) of major companies in the securities, insurance, banking, railway, and automobile industries. All-day sessions of the Committee are held once a year. A typical meeting would include a review of curricular problems and research progress and plans and an exchange of views on the current economic situation. A friendly, informal atmosphere prevails, there is a free, two-way exchange of ideas, and attendance and participation are excellent.

Boost to Morale

Accomplishments include clarification of views on curricular and teaching methods as well as concrete assistance in connection with research undertakings. There have been by-product returns of a more personal nature. Perhaps, the most important benefits are of an intangible sort, a certain boost to morale among the faculty, heightened regard of each group for the other as individuals, and respect for what each is doing and trying to do as contributing members of society.

A third type of undertaking between businesses and institutions of higher education consists of a variety of teaching programmes. A few examples will illustrate the range. First of all, there are the specialised courses of study, usually pitched at the junior or intermediate executive level, for people in particular lines of business. These are ordinarily conducted jointly by industry representatives and professors, and held on some college or university campus.

The most famous such project is the Graduate School of Banking, organised in the 'thirties and held each summer at Rutgers University. The student body is drawn from commercial banks all over the country. Attendance is for intensive two-week periods on three successive summers and students are required to prepare theses. The privilege of attendance is eagerly sought and admission is strictly regulated. A total of between six and seven hundred people attend each year.

The success of this particular venture has been the inspiration for starting others. Comparable schools for commercial bankers have been established in other parts of the country. Somewhat similar schools have been organised for other business groups, including the investment bankers, mortgage bankers, and life insurance investment officers. All are affiliated in one way or another with a college or university.

A second type of educational programme is designed to provide training, often in the form of "refresher courses," for executives. In contrast to the programmes just described, these are administered solely by the institutions offering them. The nature of the various programmes shows wide variation. Some run for as long as a year, some for three months, and some for two weeks or perhaps less. The shorter programmes are usually planned to run through two or three consecutive summers. The content of subject matter, requirements for completion of the prescribed work, and selection of students differ widely. Executive training programmes of this general sort have been offered by the business and engineering schools of many leading institutions including Chicago, Columbia, Harvard, Pennsylvania, M.I.T., and Purdue.

An Unusual Type

A third, and most unusual, type of project is the so-called Humanities Programme offered at the University of Pennsylvania for executives of the Bell Telephone Company. What makes this programme unique is that the course of studies is confined exclusively to liberal subjects. The emphasis is on literature, philosophy, art, history, and the like. Nothing that could be construed as vocational or technical is allowed. Even economic theory is banned!

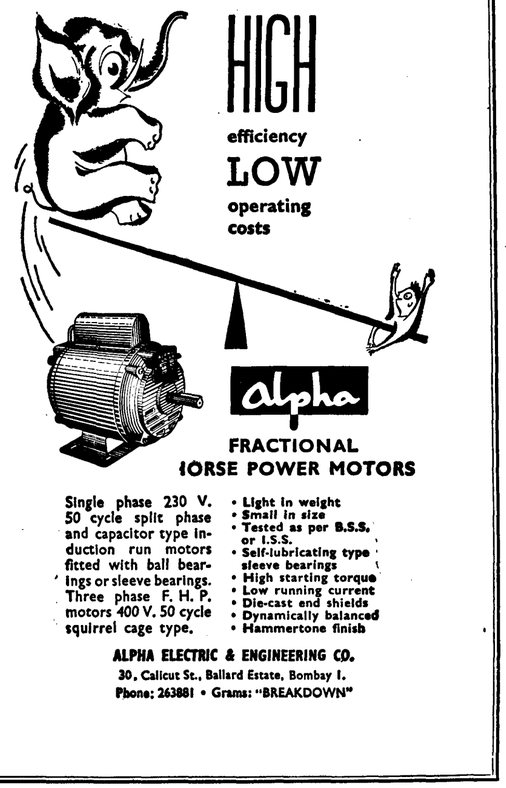
Men participating in the programme are chosen from the higher brackets of management where the expectation is that, some day, they will qualify for the highest positions in the company. They are paid their full salary *plus* moving and living allowances for themselves and families. The appointment is for one academic year. Time is still too short to show whether intensive study of the Humanities will be vindicated as the best way of preparing business executives for positions of highest administrative responsibility. Nevertheless, the very fact that the Company has seen fit to continue so ambitious and costly a programme is a strong indication that it is regarded as at least promising. And, surely, the fact that such an experiment should be undertaken at all is a remarkable expression of the respect and esteem in which higher education, and not only higher education in applied or technical subjects, is held by practical business men in the United States.

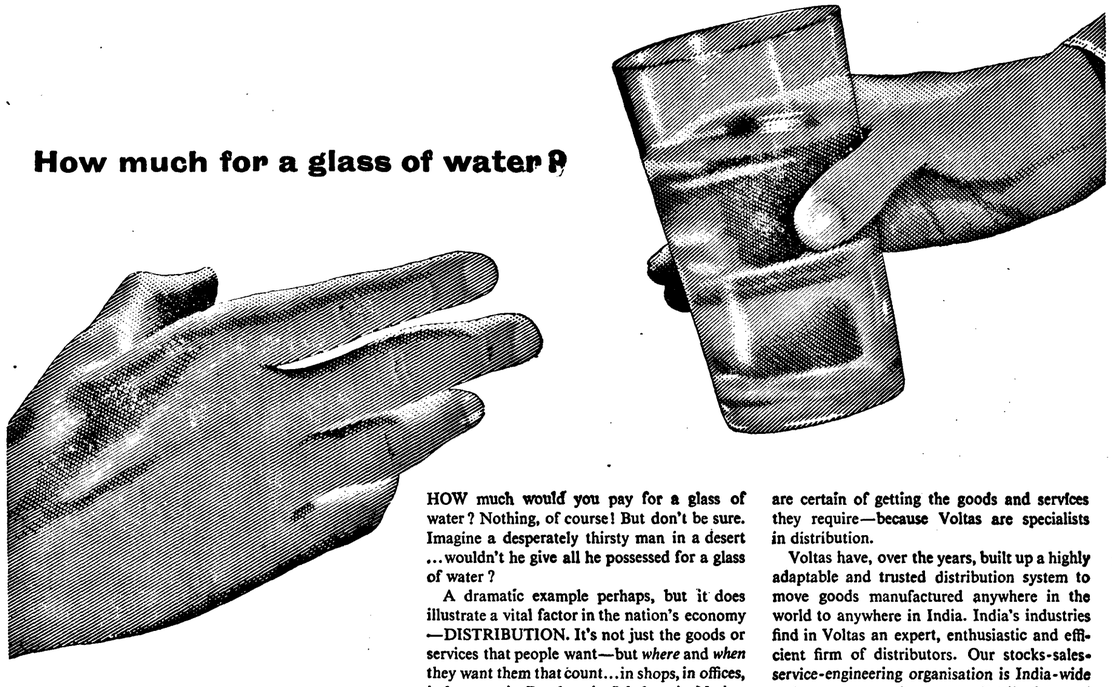
The foregoing are among the more distinctive ways in which closer relations are developing between business and higher education but many other examples could also be cited. Business men have long participated in the administration of universities through membership on boards of trustees and in a variety of *alumni* activities. As individuals, they share heavily in "*Alumni* Giving," whereby the great majority of colleges and universities have added materially to their financial resources.

Two-way Character

Closer relations are of a two-way character: there is also increasing participation in business by educators. Professors frequently serve as consultants in such fields as engineering, chemistry, personnel management, and economics. Sometimes, these connections are temporary but often they are on a permanent, though part-time, salaried basis. And the consultant typically reports to and negotiates directly with the top officials of the corporation, not with someone at an inferior or clerical level. To a limited extent, educators have come to appear on corporate boards of directors, though these are more likely to be presidents or deans than men from the professorial ranks.

Corporations have become important suppliers of financial assistance to institutions of higher education, quite apart from the notable benefactions provided by the various foundations. Many corporations





now offer scholarships to children of employees at institutions of the students' choosing. A programme of "merit scholarships" has been made available to outstanding students on a nation-wide basis. Many institutions received grants of money with which to provide scholarships for deserving students, the scholarship often bearing the name of the corporation making the grant. Not infrequently named professorships are set up in the same way.

Research fellowships of this sort are particularly common at the post-graduate level. An interesting incident occurred in connection with one such fellowship at my university shortly before I left home. The terms of the grant, which had been in force for some years, provided that the recipient should be an American citizen. The University officials initiated negotiations with the donor corporation to have the terms modified, so that the award could be given other than to an American, the reason being that easily the best qualified student was from abroad. Who was this able foreign student? A young man from India!

Donations

Corporations contribute substantial sums each year in support of research projects and sometimes for other purposes. Gifts are likely to bear some relation to the donor corporation's particular interests. Thus, an insurance company may aid medical research or a chemical company, research in chemistry or physics. But the undertakings are ordinarily free and independent. There is a strong tradition against undertaking projects in the results of which the donor has a direct pecuniary interest. Universities are not inclined to become, or even to appear to become, service organs for big business. So far as I have ever observed, the closer contacts between business and education have entailed no loss of independence whatever.

Corporate giving to educational institutions assumes various guises. A number of corporations, for example, have adopted the policy of contributing moderate sums to the *alma mater* of any of its top executives. The reasoning is that the costs of education are never fully covered by tuition charges. Since the corporation has benefited from the education received by its prineipal officers when young, the corporation can appropriately demonstrate its appreciation by providing what might be looked upon as a deferred reimbursement for the costs of that education which were borne earlier by the institution.

What has been said can be summarised by observing that there is a world of business and a world of higher education. Each is inhabited by men of goodwill, and possibly by a few whose will is not as good as it should be. By and large, they have similar hopes, aspirations, virtues, and vices.

These two worlds have tended to be divided by lack of understanding, doubt, and suspicion. The breach that separates is being bridged in my country by methods like those described above. Across that bridge is flowing an increasing volume of traffic. The movement includes a flow of men: of students to business and of executives to the colleages and universities. It includes a flow of services and ideas. Educators carry expert knowledge to the business world and return with a touch of realism that adds not only to their effectiveness as teachers but also to the understanding and sympathy with which they view the problems of the world outside the classroom. Across the bridge, also, business men travel to bring their counsel and advice on a variety of matters significant to higher learning. And, finally, across the bridge flows a mounting tide of financial support, for the world of education is learning that the reverse of the ancient scriptures is also true, and that where a man's heart is, there will his treasure be also.

Times Have Changed

The men who came to power in the course of America's industrial revolution were practical men, men who had risen through the ranks, sometimes by methods which would be regarded today as ruthless and even unscrupulous. Harriman, Vanderbilt, Rockefeller, Carnegie, Ford, Firestone—none of these were university trained men. For their part, colleges and universities were concerned with educating men for the professions, especially the ministry, and not for business. It was natural for these practical business men and for the public generally to look upon the School of Hard Knocks, the University of Experience, as the proper training ground for business, and to regard the educated man as visionary and impractical. The universities, in turn, felt no close bond with the hurly-burly world of business.

Time has changed all this. The sons and grandsons of Rockefeller, Harriman, Ford, Firestone and the rest did and do go to college. Increasingly, colleges and universities have come to draw to them young men of superior intellectual and leadership ability. Business corporations learned, some of them the hard way, that to shut themselves off from this reservoir of administrative potential was to starve themselves of future executives.

Distinct Gain to Business

Today, the major administrative posts in American business are populated, to an overwhelming degree, by college and university trained men. For the most part, they are not the sons or nephews of the founders. Rather, they are educated men for whom the avenues of promotion were open on the basis of merit as measured by performance. Many of these men worked their way through colleges, and achievement in college paved the way for subsequent success in business.

It is inevitable that such a situation should generate a very different atmosphere from that which existed earlier. On the one side is gratitude and respect of the business man toward his *alma mater*, the "fostering mother" who helped to set his foot on the ladder of advancement. On the other is pride and satisfaction in the achievements of her sons.

The great transformation in attitudes between business and higher education has taken place in hardly more than a generation. I have witnessed a remarkable shift within my own academic lifetime. If I am not mistaken, India stands in this, as in various other respects, where the United States stood a generation ago. If I am again not mistaken, a generation hence India will stand much closer to where we stand now —in this as in various other respects.

Some of the projects which I have mentioned may be out of reach in India because of cost. Others are unsuited at the present stage of development or for other reasons. What is not precluded on grounds of cost or anything else is a constructive approach based on mutual respect, respect of each for the other's abilities, intentions, and goodwill. An improvement in attitude would cost little but would yield much in terms of building a stronger economy and a society which is more stable, more wholesome, and happier for all.—*All Rights Reserved.*

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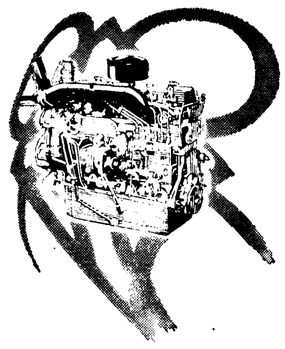

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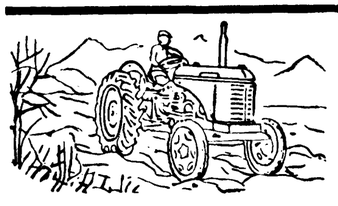

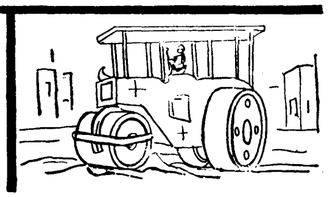

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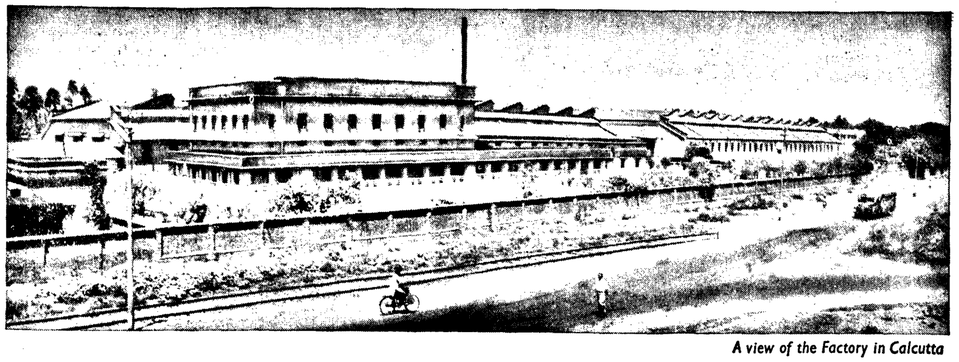

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ECONOMIC TRENDS IN BRITAIN

A Year of Resumption—Mr. Butler's Target Hit

By Our Own Correspondent

LONDON, *12th December*

THE economic clock, which had stopped in 1957 and 1958, began to tick again this year. The production indices turned up sharply in the spring and have continued to move steadily in the right direction, so that the latest figures available give a level of output 9 per cent. higher than a year ago. This is over three times the average rate of progress which the country has made since the war. The following table shows how production stagnated last year and how it improved this year quarter by quarter:

Index of Production seasonally adjusted

	1959	1958
Last quarter ...	107.7	107.3
Second quarter ...	110.3	105.3
Third quarter ...	113.0	105.3
October ...	115.0	105.0

The Chancellor of the Exchequer, reviewing the state of the economy a few weeks ago, said that he saw the position as: "world production rising, world trade rising and our own exports going up with the total. Competition keen and prices improved. At home, rising output, together with near stable prices, gave us a magnificent chance to continue expansion without inflation. But, if we try to push up incomes from wages and salaries and profits faster than the growth in total output, we shall throw away this chance ... the upshot is within our own control."

A Qualification

Needless to say incomes from whatever sources in 1959 did not rise as fast as production, but they had, of course, been rising a good deal faster in the years before. In the first half of 1959 income from employment in the U.K. was 3 per cent. higher than the year before. The corresponding figure for 1958 was 5 per cent., in 1957, it had been 6 per cent. and in 1956 10 per cent. Those were the years of inflation. The average increase in incomes was more than the average increase in production since the war.

Incomes from *profits* in the first half of this year rose more rapidly than those from employment compared with the year earlier, when, however, profits had been unduly depressed. If we make a comparison covering two years, then we find that profit incomes over the two years have risen by about 9 per cent., while income from employment has risen 8 per cent. This is part of the explanation of the steady upward swing in the prices of stock exchange securities.

Prices

Prices have been remarkably steady this year, indeed wholesale prices have hardly moved since early last year and retail prices this autumn stand at only about ½ per cent. higher than they stood a year ago. Here, again, there has been a negligible change over the past eighteen months overall. The home population does not quite appreciate this position, because, while food prices have been dropping over this period, the prices of manufactured goods have been rising and it is this which has prompted the Chancellor's drive to reduce prices.

With production rising and prices steady, retail trade has improved in every quarter of this year. In the first quarter, it was 4 per cent. over the level of the previous year; in each of the next two quarters it was 5 per cent. up and in October it was 3 per cent. up on the previous year Christmas spending this year is expected to reach record levels. The Chancellor sees all this in terms of a steady planned rise in the standard of living. He has referred approvingly to his predecessor (Mr. Butler) who, in 1954, said that the country could hope to double its standard of living in the next twenty-five years. Mr. Amory's arithmetic, aided by actuarial expertise, calculated from this an annual rise in the standard of living of 2.8 per cent. per annum. Now, in the five years from 1953 to 1958, the average rise was 2.7 per cent. per annum. Mr. Amory estimates that, in 1959, it will be rather better than 2.8 per cent. per annum. So overall he thinks that the country is at Mr. Butler's target. But there are not found wanting those who say that this rate of progress is no better than before the war and that, with all the technicological advances which this country has experienced, the sights of the economy should be raised substantially higher.

Trade

Turning to overseas trade, we find again a so far unbroken record of progress. The following table shows the balance of payments position over the twelve months to the mid-year. Although since that time figures of visible trade are available, there is no data on invisible trade to bring the picture more up to date.

(In million £s)

Quarter	Imports f.o.b.	Exports f.o.b.	Invisible surplus	Nett. surplus
1958 .. 3	845	838	81[6]	74
4	857	890	28	88
1959 .. 1	[r]860	848	47	35
2	[p]867	902	72	107

It will be noticed that, over the year, there was a surplus on visible trade alone of £28 million (m. for short) and overall of £25 m. This surplus on visible trade has been already commented on as unprecedented in British mercantile history this century. If we project this picture up to date using the available figures for visible trade, we find, with the last two months of September and October, the improvement has continued strongly marked. Thus, while for the first eight months of the calendar year 1959 *exports* rose in value by 3 per cent. each month on average, in the months of September and October, exports rose in value by 10 per cent. in each month or at a rate of about £20 m. per month and mainly to the valuable markets of North America and Western Europe.

Terms of Trade

Imports, which for the first eight months of the year were running about 5 per cent. in value over their level of a year earlier, had, in the months of September and October, risen to a level 9 per cent. over that of a year earlier, a figure corresponding to £29 m. per month. So that, while over the first eight months of the year imports had been rising relative to exports, in the last two months noted, although they had increased even more rapidly, they had been outdistanced by the improvement in exports. Even re-exports have shared in this boom and in the months of September and October were running about 20 per cent. above their level a year earlier, an improvement worth over £2 m. per month. These value figures are real in the sense that the terms of trade have hardly shifted, although, in the month of October, they turned about 1 per cent. against this country. Thus, while in 1958, import prices stood at 90 per cent. of the level of export prices (taking 1954 as the base year), the first quarter of this year showed no change, the second quarter saw a drop—in this country's favour—of 1 per cent., the third quarter saw the index rise again to 90 per cent. and in October to 91 per cent. It is, indeed, to be expected that this movement of the terms of trade against this country will continue.

The year 1959 will also be notable as the year in which Britain, her export achievements confronted by the excluding pressures of the Common Market, was able to salvage from Europe the European Free Trade Association which ensured for British exporters freedom of competition in a market of 90 million people.

Reserves

The gold reserves at the end of November stood at £1,062 m. after two successive drops from the end of September figure of £1,173 m., the high point for the year 1959, but little higher than the level of £1,144 m. at which they stood in November 1958. But such a simple comparison is misleading, for, in the first half of this year, the British Treasury repaid to the International Monetary Fund £232 m. which they had borrowed two years before and at the end of the summer they repaid £91 m. to the Export-Import Bank borrowed about the same time. Thus, this year international loans have been repaid to a total of £323 m., without which the gold reserves would at the end of November have stood at £1,385 m. or at about £240 m. above their November 1958 level. That is the measure of the progress made.

Convertibility

With the tide of trade flowing so strongly in Britain's favour, the Conservative Government has pursued its policy towards economic freedom and abolished nearly all the remaining restrictions on imports, above all the restrictions on imports from North America. Quotas are thus nearly done away with, although tariffs, of course, remain. Similarly, on the currency front a further step was taken towards full convertibility for the pound when the restrictions on travel allowances were removed, leaving the only remaining restrictions on capital movements. For practicable purposes, the pound is almost as convertible as any other currency.

An evidence of the growing strength of Britain's financial position is furnished by the Government's decision not to make annual payment of the principal and interest due on the U.S.'s and Canadian post-war loans and not to renew its "standby" agreement with the International Monetary Fund. The Government has now decided to make full payment on 31st December of the principal and interest due on the two loans which together amount to $184.1 million. Under its financial agreements with the two countries (6th March, 1957), the U.K. is free to defer upto seven annual payments of both principal and interest on the loans, if it thinks that such postponement is necessary for foreign exchange reasons. One deferment was availed of in December 1957. But payment in full was resumed in December 1958, reflecting the increasing strength of the U.K.'s external position. For the same reasons, the U.K. is making a full payment at the end of 1959.

Even more significant is Britain's decision not to renew its "standby" agreement with the I.M.F., which expired on 21st December 1959. It may be recalled that arrangements for an immediate drawing of $561.47 million and a standy credit of $738.5 million with the I.M.F. were made by the British Government in December 1956 when the country's gold and dollar reserves needed additional support. Since then, the standby agreement had been renewed twice, once in 1957 and again in 1958. Further $200 million of the original drawing of I.M.F. has been repaid. With the abandonment of the standby credit, only $361.47 million is still outstanding with the I.M.F. This is due to be repaid in monthly instalments during the next two years. In reply to a question in Parliament, the Chancellor of the Exchequer, Mr. D. Heathcoat Amory, stated that "in view of the improvement in our external position," he did not consider it necessary to seek the renewal of the standby agreement. Following the decision to pay the instalments due on the U.S. and Canadian loans, the gold and dollar reserves, as at the end of December 1959, will doubtless register a fall over the previous month, but, as against this, there has been a significant rise in Britain's second line of defence, namely, its capacity to borrow from the I.M.F., the world's short-term lender.

Equities

So we come finally to that universally followed index of Stock Exchange quoted equities in which history was made a few weeks ago, when the *Financial Times* index recorded a level which exactly doubled the low point reached at the end of February 1958. To be able to double the value of a portfolio in twenty months—months free of any spectacular crisis or boom—is extraordinary. Yet the rise has been near steady in the whole period, though there was a brief setback at the beginning of this year, since when the rise has been from 213 to 310, a gain of some 50 per cent. Of course, the election result giving a further five years' lease of life to a Government returned to preserve the present economic structure of the country was the prerequisite to the final astonishing upsurge. It remains for 1960 to reveal how the economy will in fact live up to the expectations which the stock market operators have put on it.—*All Rights Reserved.*

RECENT PRICE TRENDS AND MONETARY FACTORS

(*Concluded from page 60*)

little more attention could be given to increasing output, more particularly on the consumer goods side—whether this is done through the public sector or the private one—the scope for deficit financing in 1961-66 appears to be larger than not only what it has been under the second Plan but also than what is being thought of at the moment. What exactly is the safety limit for deficit financing may be a matter for further consideration, but it can be very much larger than is generally discussed. This would mean that the size of the Plan could be slightly larger than what it could otherwise have been if deficit financing were limited in volume. The third implication is that, since the rise in prices is perhaps traceable to non-monetary factors, principally, administrative inefficiency and organisational imperfection, such as, for instance, inadequate provision for transport of goods, improper distribution facilities and so on, greater attention should be paid in the third Plan period to the non-monetary factors if the rise in prices is to be controlled.—*All Rights Reserved.*

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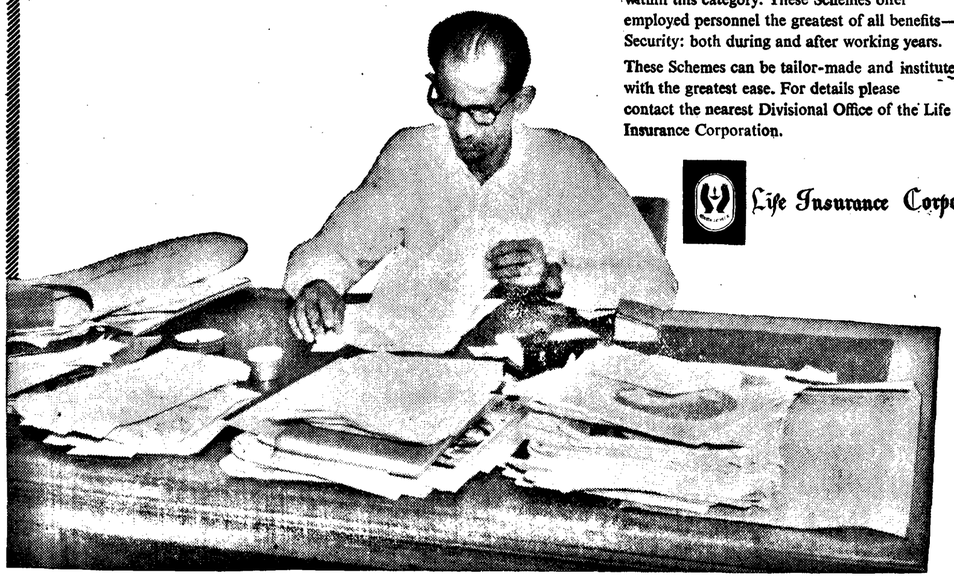

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SOME ASPECTS OF COLLECTIVE BARGAINING

(*Concluded from page 112*)

unorganised or less well-organised workers.

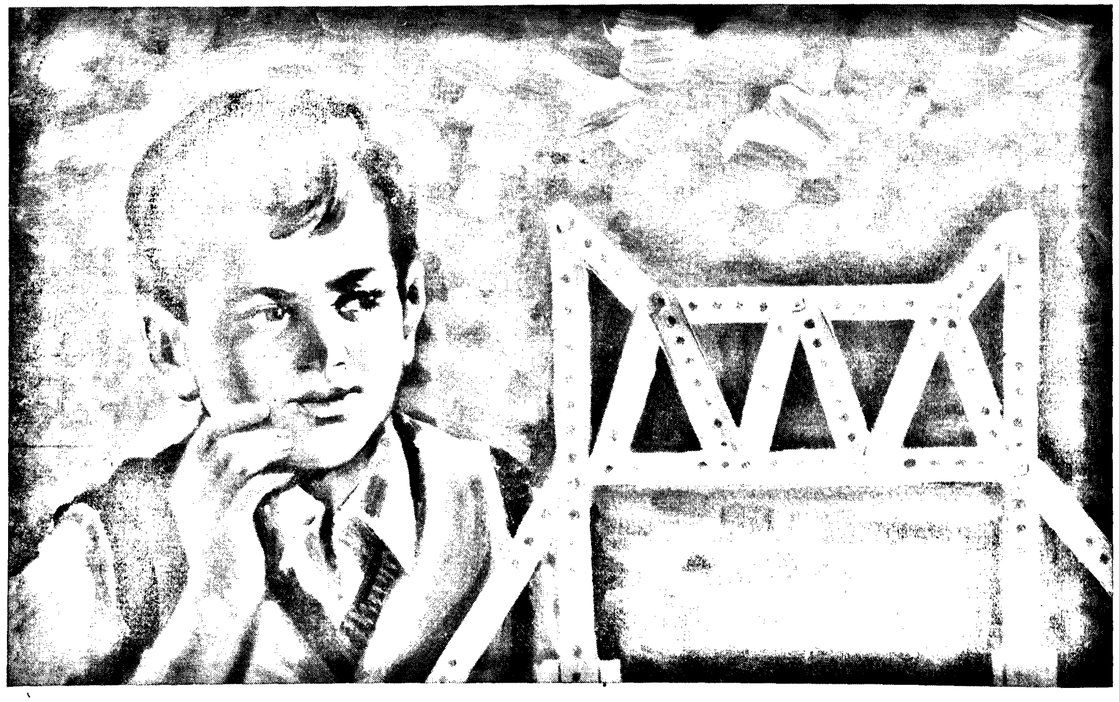
By and large, the most favourable view of union action that economists have been able to agree upon is that, because of short-run frictions in the economic systems, some employers, if left to their own discretion, might exploit their workers and collective bargaining is worthwhile to the extent—but only to the extent—it can remove such exploitation. It should be added, however, that many who have adopted such a limited view of economic desirability of collective bargaining recognise its non-economic merits, such as redress of disciplinary grievances.

The exploitation of individuals and groups that undoubtedly occurs can be reduced or eliminated, and the lag between actual and "natural" wages, when industrial progress is being made, can be reduced or taken up, if wages and hours are standardised and appropriately readjusted from time to time. This possibility is important in connection with the total of wages. Moreover, it is possible that, as a result of better level of living gained or largely sought, the growth of population resulting from a high birth rate will be retarded to the advantage of labour, whose productivity is enhanced with a smaller labour supply. Better living should, in turn, reflect itself in greater efficiency.

Spurs Efficiency

The general level of wages depends primarily upon the value product of labour. Great strides have been made in solving the problems of production but the opportunities lying beyond are equally great. For the most part, to embrace these opportunities is the responsibility of management. Nevertheless, to some extent it is also the responsibility of labour. What role have the unions played in this connection? Some of the gains in production that may accompany unionisation are the reduced turnover of labour. But it is also true to say that the necessity resulting from union pressure has often been a spur to better management and better routine. Nevertheless, there is the generally current opinion that unions are more of a hindrance than a help in the way of progress. That there are numerous union practices that involve waste and inefficiency is indisputable, as can be seen in their frequent opposition to piece-work. So may the greater security of tenure of jobs accompanying unionisation and also the psychology of the organised group. Further, the limitations upon hiring and discharge may, and frequently do, stand in the way of the most productive allocation of labour and its most efficient use. The mobility of labour is also reduced when unionism enters or becomes general.

Attention may also be paid to the influences of labour unionism on the size of the national income through its effect on the allocation of resources. To the extent labour union activity eliminates sweating, its results are beneficial. Even if workers are forced out of the hitherto sweated industries, the national income is increased by their transference to other industries. Similarly, the reduction of unjustified differentials between occupational groups within an industry is also beneficial. On the other hand, the creation of uneconomic wage differentials reduces the national income and the general maintenance of unduly high wages also decreases the size by forcing workers into unemployment. At the same time, it is also recognised that the society definitely gains, when the joint settlement of grievances increases total output by improving morale and reducing the number of work stoppages. The use of grievance machinery may also serve as an education in industrial democracy for both the workers and foremen. The unions may even assume some responsibility for supervision of the work, the elimination of waste, and increases in operating efficiency under schemes for union-management co-operation. And all this is definitely in the interest of all the sections of the society.—*All Rights Reserved.*



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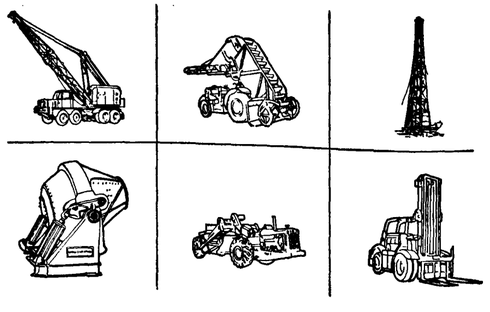

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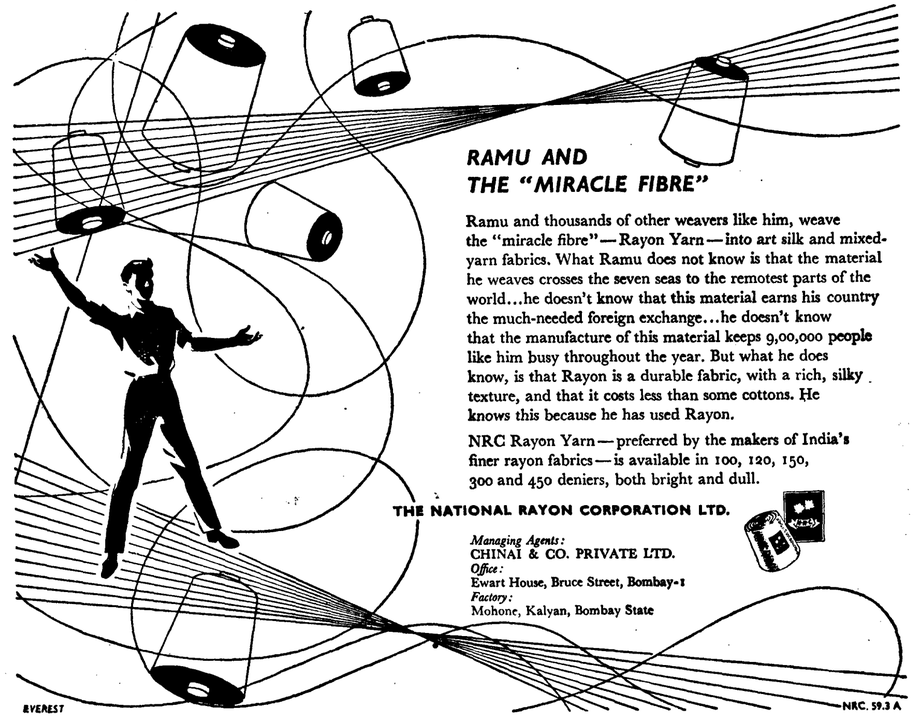

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PROSPECTS OF SELF-SUFFICIENCY IN PLASTICS

By Dr. G. R. KULKARNI

HEAD OF POLYETHYLENE DEVELOPMENT, NATIONAL CARBON CO. (INDIA) LTD.

FOR a country like India, where the tempo of industrialisation is moving fast, self-sufficiency is the keynote of healthy growth, progress, prosperity and success. The plastics industry in India is a post-war development. Since its inception around 1948, it has expanded at a reasonable rate and it is estimated that approximately 10,000 tons of plastics were consumed during 1958. By the end of the second Five-year Plan, the annual consumption is expected to rise to 13,000 tons. Planning for plastics during the third Five-year Plan is already under way and it is anticipated that a fivefold increase in consumption during this Plan period should not be out of reach. With this rapid expansion, it becomes imperative for the plastics industry to achieve an overall self-sufficiency, so that it would not impose a prolonged burden on our limited foreign exchange resources and that its growth would not be maimed due to large dependence on external suppliers.

The imports of synthetic resins and plastics amounted to Rs. 2.80 crores during 1954-55; Rs. 3.3 crores during 1955-56; Rs. 5.0 crores during 1957-58 and Rs. 3.4 crores during 1958-59. That a processing industry, with a probable capital investment of about Rs. 16 crores and employing about 20,000 workers, should depend on imports to such a large extent is not a healthy sign. Recognising this, the Government of India has started issuing licences for the indigenous manufacture of resins and processing equipment. However, so far, except for polyethylene, phenol formaldehyde polystyrene, cellophane and to a certain extent urea formaldehyde, converters still have to depend on imports of resins. It is, however, anticipated that, in the near future, the plastic industry will be adequately supplied with indigenous polyvinyl chloride resin. But self-sufficiency in plastics does not simply mean self-sufficiency in raw material requirements. Availability of proper resins in adequate quantities is, of course, of fundamental importance. But no less important are the availability of basic raw materials for the manufacture of resins, modern manufacturing and fabricating equipment and accessories, trained technicians capable of shouldering manufacturing and fabricating responsibilities and facilities for applied research to assist develop new applications for plastics. The present-day plastic industry, however, does not enjoy self-sufficiency in any of these aspects.

On the other hand, the future outlook for self-sufficiency appears quite encouraging, particularly because the status of basic raw material availability is improving, and further because the industry as well as the Government have recognised the basic problems involved and are striving to achieve the goal of self-sufficiency.

Basic Raw Materials

Industrial alcohol, benzene, phenol, formaldehyde, urea, chlorine, calcium carbide, cotton linters and sulphuric acid are the major basic raw materials which constitute the core around which indigenous production of the important plastics could be undertaken.

Industrial alcohol, the most important basic raw material, is available in abundance from sugar molasses. It is estimated by a Government committee that, by 1960-61, Indian distilleries will have a capacity to produce 45 million gallons of alcohol. A plant for production of polyethylene from alcohol is already under stream. The second one has reached an advanced stage of completion. Polystyrene manufacture, which, at present, solely depends on the import of styrene monomer, can be made self-sufficient to a large extent, provided benzene is made available at a reasonable cost, the ethylene requirements being contributed from the industrial alcohol. Acetic acid required in the manufacture of cellulose acetate and cellulose acetate butyrate can be manufactured from industrial alcohol. Even in the manufacture of polyvinyl chloride, alcohol could be used as a starting material for the production of the vinyl-chloride monomer. Thus, industrial alcohol is an unique raw material for the development of plastics industry in India and fortunately, its abundant availability makes the future prospects for self-sufficiency in certain plastics look promising.

For the time being, the main sources of benzene are the coke oven plants associated with the steel industry. However, at present, the majority of the coke oven plants do not recover the coal-tar chemicals. Consequently, the present production of benzene is only about 800,000 gallons per annum. This is, however, expected to rise to about 2 million gallons per annum when the West Bengal Government coke ovens go into production and the expansion scheme of Messrs. Tata Iron and Steel Company Ltd., is completed. Further, the steel plants in the public sector are envisaged to be in production by 1960-61, when the total benzene production would be about 7 million gallons per annum. The current price of benzene is, however, too high to allow manufacture of styrene at a reasonable cost. It is to be hoped that, with the increase in production of benzene, its price would correspondingly decrease and that, if need be, the Government would guarantee an economic price level to enable the production of styrene and phenol. Furthermore, within a reasonable period, should India strike oil and gas, we can look forward to a new and cheap source for benzene.

From the foregoing account, it appears that the polystyrene industry will suffer from the need of imports of styrene at least for a few more years.

Although phenol formaldehyde and urea formaldehyde are being produced in the country for some time in the past, they have been almost entirely dependent upon imports of phenol or cresol and formaldehyde. Phenol can be manufactured from benzene available from the coke oven plants, as dis-

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cussed above. However, sustaining a manufacturing unit on an economic level, purely on the requirements of phenol by the plastics industry, presently amounting to about 600 tons annually, appears a far cry. This would be equally true if phenol were to be manufactured solely to meet its demands either by the pharmaceutical or by the intermediates industry. Taking this into consideration, the Government of India has decided to produce phenol in a centralised Intermediate Plant so as to satisfy the consolidated requirements of the above three industries. Translation of these plans into practice is, however, likely to be delayed by the acute shortage of foreign exchange. It is, therefore, feared that the phenol formaldehyde industry will not achieve self-sufficiency for some time to come and that it will be forced to depend on imports of phenol.

What is said of phenol is almost equally true of formaldehyde, the basic raw material needed in the manufacture of phenol formaldehyde and urea formaldehyde resins. Formaldehyde is manufactured by the oxidation of methanol, which in turn is synthesised from producer gas. Sewage gases are another source of methanol. The present formaldehyde requirements of the plastics industry, amounting to about 800 tons per annum, are too meagre to justify establishment of an economic synthetic methanol plant. As a matter of fact, it is reported that such a plant, with a production capacity of about 60 tons per day, purchased from Germany by the Sindri Fertilisers is lying idle, for this very reason. The possibility of tapping sewage gases as a source of methanol does exist, but it is doubtful whether this is the propitious time to start it. It is anticipated that with the increase in consumption of phenol formaldehyde and urea formaldehyde resins, a stage would soon be reached when the existing synthetic methanol plant at Sindri could be commissioned for operation, although, initially, it may be necessary to export an appreciable portion of the production so as to operate the unit economically and at full capacity.

Urea is a by-product at Sindri Fertilisers and is produced, in bulk, mainly for agricultural purposes. Being a fertiliser, it is reasonably priced. Although, at present, its quality may not be adequate for the requirements of the plastics industry, this difficulty is not insurmountable. It is because of this that urea formaldehyde is anticipated to be comparatively more self-sufficient than phenol formaldehyde.

Calcium carbide, as a source of acetylene, and chlorine are the basic raw materials required for the manufacture of polyvinyl chloride resins. The alkali industry in India is very large and produces, at present, about 10,000 tons of caustic soda per annum, most of it by electrolytic process, yielding simultaneously an equivalent quantity of chlorine. The present consumption of chlorine for various purposes is limited. This leaves an excessive surplus of supplies which pose a challenging problem for disposal. Hence, the indigenous manufacture of polyvinyl chloride would be greeted as yet another channel for the disposal of this surplus chlorine.

As mentioned earlier, industrial alcohol could be used as a starting raw material for the manufacture of polyvinyl chloride. However, from technical and probably economic points of view, acetylene forms a superior starting material. Calcium carbide being the best source of acetylene, self-sufficiency in polyvinyl chloride resins will directly depend upon self-sufficiency in the manufacture of calcium carbide. High quality lime, low ash containing carbon and plenty of cheap power are the basic requirements of a healthy calcium carbide manufacturing unit. India is lacking in all these three respects. Despite these facts, the proposed polyvinyl chloride plant in Bombay is anticipated to manufacture calcium carbide as a source of acetylene. Because of this, it may be said that this industry will be self-sufficient in the sense that the resin would be manufactured from indigenously available raw materials.

Cotton linters could be extracted from cotton seeds and should be available in plentiful. Although the quality of such linters may leave room for improvement, this should not form a major threat for self-sufficiency. Sulphuric acid, of course, is manufactured in India and should be available in sufficient quantity and requisite quality.

Processing Equipment

As vital parts of the processing industry, the indigenous availability of necessary equipment and auxiliaries becomes as significant in the battle to achieve self-sufficiency, as that of resins themselves. Normally, thermosetting resins are processed by compression moulding, whereas thermoplastic resins are processed by extrusion, injection moulding, blow moulding, calendering, vacuum forming and slush moulding. The last two processes are comparatively new and have not been adopted to any appreciable extent by Indian converters.

It is estimated that, at present, there are about 250 compression presses, with a total pressing capacity of more than 13,000 tons; 450 injection moulding machines with a total capacity of 1,000 ozs.; and about 80 extrusion machines totalling to a capacity of 160 inches.

At the rate of 15 lb./oz./shift, the injection moulding machines have a maximum processing capacity of about 13.5 million pounds per annum on a three-shift basis. Similarly, 160 inches of extrusion capacity can consume about 16.8 million pounds per year on a round-the-clock operation basis. A similar analysis of the compression moulding capacity reveals that, on three-shift basis, a maximum of 7.5 million pounds could be compressed per annum.

By 1961, it is anticipated that about 25 million pounds of thermoplastic resins, consisting of 14 million pounds of polyethylene, 6 million pounds of polystyrene and 5 million pounds of polyvinyl chloride, would be available for processing from indigenous sources. It appears, therefore, that there will be just sufficient machine capacity at full load to process these thermoplastics. The annual consumption of thermosetting resins is expected to rise to about 4 million pounds by 1961. This will be just sufficient to keep the compression presses occupied for two shifts, leaving an additional shift of operation available for processing further quantities of resins.

Most of the equipment in operation at present is old, however, and needs either complete or partial replacement, thus necessitating a continuous stream of imports to maintain satisfactory operation.

So far, except for hand-operated injection and blow moulding machines and polyethylene lay-flat tube extruders with a maximum size of 2½", none of the machinery required by the plastics industry is manufactured indigenously. Brimco Plastic Machinery Corporation, Bombay, are mainly responsible for producing the above referred extruders. It is understood that, in the near future, they would be introducing small automatic injection moulding machines and extrud-

(Continued on page 136)

from the seed...

In the steel blaze of noon,
men of the earth 'drag the sun upon their backs',
toiling in the furrowed fields.

For a tomorrow, when the seed will burst to plant, flower and fruit.

For the fruits of tomorrow then, the striving, the effort,
For a world that offers a little more—
a little less of the care, a little more of the joy.

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HOUSING PROBLEM IN URBAN AREAS

Private Initiative Requires To Be Stimulated

By M. R. SACHDEV, I.C.S.

IN the context of the rising population and the prices prevailing generally, the housing problem in the urban areas of the country is one of great magnitude and complexity—both from the qualitative points of view. A survey of housing conditions in the country which is to be conducted along with the 1961 census, would help determine the precise extent of the problem, but even broad estimates of quantitative shortage make it clear that, during the decade 1951-61, 8.9 million new houses would be required in the urban areas, while only 3 million houses would have been constructed by the public authorities and private individuals and associations. Thus, at the end of the second Five-year Plan in 1961, there is likely to be a shortage of over 5 million houses in the urban areas. Qualitatively also, the position is hardly any better; in fact it is much worse, inasmuch as most of the houses in the urban areas, particularly for the lower income groups, are sub standard in respect of living space, lighting, ventilation and other essential amenities. According to the 1951 census, there were 120 households in every 100 houses of a typical Indian town. A sample survey conducted in 1953-54 indicated that, in the four major cities of the country (Bombay, Calcutta, Delhi and Madras), 67 per cent. of the households were occupying one room each, 19 per cent. two rooms, 5 per cent. three rooms, and the remaining 9 per cent. four rooms or more.

Reasons

The reasons leading to this situation are well known. The percentage increase of urban population in India in the last three censuses has been estimated at 21, 32 and 54, respectively. The heavy shifts of population from the rural areas reflected in these figures have occurred on account of the lack of adequate employment opportunities in villages and the growth of industry and business in towns with the attraction of relatively high wages and various kinds of amenities. The Second World War accelerated the growth of urban population by the setting up of a number of war production plants. The labour population engaged in them did not, as a rule, go back to the villages when these plants ceased to operate. The partition of the country in 1947 led to a very heavy influx of displaced persons, large numbers of whom tried to settle in the urban areas. The emphasis on industrial development since Independence—an inescapable requirement in the context of our economy—has also led to rapid urbanisation and will continue to do so for quite some time to come. The supply of houses could not possibly keep pace with such a rapid increase in urban population of the country. In fact, private enterprise, which had been the primary source of building activity in the past, tended to shrink on account of the scarcity and high price of building materials (which has been increasing almost continuously since the last war), as also due to non-availability of building sites at reasonable prices. Pressure on the existing accommodation, therefore, has been progressively on the increase, leading to evils of overcrowding, insanitary conditions, deterioration of housing estates and a variety of malpractices in relations between landlords and tenants.

The prevailing prices of land, building materials and labour costs make it clear beyond doubt that private enterprise cannot find it possible to provide reasonable housing accommodation to persons in the lower income groups, on rents which the latter can afford to pay. The economic rent of even a one-room house (with a veranda, kitchen, bath and w.c.' of modest standards and specifications works out to about Rs. 30 p.m. whereas the income of 50 per cent. of our households does not exceed Rs. 100 p.m. On the basis that house rent payable by a household should not ordinarily exceed 10 per cent. of its income, it is only those with an income of Rs. 300 and above which can really afford to pay this rent. The number of such households in our urban areas does not exceed 10 per cent. It is obvious, therefore, that, in these circumstances, a Welfare State cannot confine its role in this field to planning and regulation alone; the State has to step in to fill the gap, and assist the construction of houses for persons in the low-income groups as a part of its own functions. The first Five-year Plan rightly observed that "this would involve a large measure of assistance which may take the form of subsidies on a generous scale and loans on a somewhat low rate of interest." In pursuance of this policy, the Government of India have already introduced a number of housing schemes for the urban areas, viz., the Subsidised Housing Scheme for Industrial Workers, the Low Income Group Housing Scheme, the Slum Clearance Scheme and the Middle Income Group Housing Scheme. A provision of Rs. 38.5 crores was made for housing in the first Five-year Plan; in the second Plan, it has been stepped up to Rs. 120 crores. The provision is obviously much too meagre in relation to the magnitude of the problem; but in a developing economy like ours, this has naturally to be determined after taking into account the competing claims of other development programmes. In view, however, of the deterioration in the housing situation, it will be essential to accord a much higher priority to housing in the third and subsequent Five-year Plans than has been possible so far.

Magnitude

While the responsibility for the housing of persons with incomes below Rs. 300 per month may have to be shared by the State in an increasing measure as explained in the preceding paragraph, it is observed that private enterprise has not been able to provide reasonable housing accommodation even to those members of the community who can afford to pay the economic rent, namely, persons whose income exceeds Rs. 300 p.m. Apart from the scarcity of building materials, high land prices and a general scarcity of developed plots at reasonable prices have been very important reasons for the slow progress in the field of housing. It is necessary to deal with this problem by undertaking acquisition and development of land on a very large scale so that the private sector can play an effective role in increasing the stock of housing in the country. If we were to contemplate the construction of, say, 4 million houses during the third Plan (against the estimated shortage of over 5 million houses at the end of the second Plan), the requirement of land for the purpose would work out to about 2.5 lakh acres, including roads, parks, playgrounds and community facilities such as schools, hospitals and shopping centres, etc. The investment required for the acquisition and development of 2.5 lakhs acres of land for 4 million houses would be of order of about Rs. 600 crores. It is hardly to be expected that a provision of this magnitude could find a place in the third Plan. Nevertheless, it helps to emphasize the necessity as well as the urgency of action to be taken by the State Governments to acquire and develop land for house-building purposes, on as large a scale as the present resources of the country would permit.

Co-ordinated Programme

A properly planned and co-ordinated programme of acquisition and development of land could be utilised by the State Governments not only as an instrument for increasing the stock of housing but also in a number of other ways.

First, it can be utilised to stabilise land prices. If properly developed plots in adequate numbers can be released to the prospective house-builders at sustained and regular intervals, something substantial will have been done to eliminate two of the worst features of urbanisation, namely, speculation in land and spiralling rents.

Secondly, it can be utilised to set right the imbalance that has come about during the last few decades, between the extent and the quality of urbanisation. This can be done by the provision, to an adequate measure of housing, and of the utilities and community facilities which go with it, so as to result in the removal of insanitation, overcrowding and slum conditions.

Thirdly, it can be utilised to bring into being new housing colonies with population drawn from every walk of life, self-sufficient in all vital matters and sustained and nourished by its composite character.

Lastly, it can be utilised as a potent instrument for the planned and rational growth of entire neighbourhoods, in keeping with a well-thought-out policy of land use and urbanisation.

Small Towns

Whether this policy should be towards increasing the size of the already bloated city, or whether it should be directed towards developing the smaller towns, will depend upon the economics of development in each case. It will have to be examined whether the capital and operating cost of development, both in monetary and non-monetary terms, in the smaller towns is less than that in the bigger cities and the metropolitan areas. Cost apart, the development of the smaller towns, which such a programme would make possible, will act as a counter-magnet to arrest the influx into the bigger cities which is aggravating still further the serious problems there. If, therefore, the thinking is to slow down the growth of an existing city and to go in for satellite townships or counter-magnets, a programme of this nature would offer an opportunity to take the first step to further that thought and to give it concrete form and direction. If with the development of land in the smaller towns or in the vicinity of bigger cities, can be associated a deliberate policy of emphasis, expenditure and incentive in favour of locating new small and medium-scale industries there, a significant step will have been taken in organising the economy and prosperity of an entire area.

It is clear, therefore, that any programme of large-scale acquisition and development of land will have to be operated by the State Governments after a careful consideration of the possibilities that it opens up, and the decision to select a particular area for acquisition and/or development, at a reasonable cost, will have to take into account the complex of the impulses which are inherent in planning on an integrated and long-term basis.

It is important that all new housing and development are conceived in relationship to a sound neighbourhood layout and that they are integrated within the overall Master Plan for the entire area. Where the Master Plans are not yet ready, the operations should conform to the general ideas of what the development of that area and land-use are likely to be during the next few years.

Essential Factors

In selecting land for acquisition and/or development, due consideration will have to be given, amongst others, to the following factors:

1. *physical features*, such as the topography, natural drainage, protection from floods; sub-soil water-table;

2. *soil*, its bearing capacity and character;

3. possibility of providing *essential services* such as water-supply, sewerage, electricity and transport services at reasonable cost;

4. *communications*, i.e., the road and transport pattern for the area;

5. *population trends*; in the area; and

6. *proximity of population to work*, and opportunities for employment in and around the land to be developed.

Careful thought will have to be given to such matters as sub-division controls; land use and coverage, size and shape of plots, elimination of noise, smoke and traffic hazards; and landscaping. The average *density*, to which a neighbourhood should be developed, will have to be determined in the light of broad planning considerations which, amongst other things, should take into account the desirability of providing housing for different types of households, which are representative of the cross-section of the entire community. This will also avoid the monotony of uniform houses over a large area and the segregation of the population into separate and distinct compartments. Wherever necessary, layout plans prepared for the areas selected for acquisition and/or development should provide for land for the community facilities such as parks; playgrounds and recreational amenities; educational and cultural facilities; dispensaries and health facilities; shopping and commercial centres; post and telegraph offices; and police and fire stations.

Fixing the Price

Another important point to be taken into consideration in this regard would be the fixation of the price at which plots of land should

be sold to prospective house-builders. Plots meant for commercial or commercial-*cum*-residence purposes or for sale to persons in the higher income groups should obviously be sold through public auction or open tenders. The profits so derived could be utilised for reducing the sale price of plots meant for persons in the lower income groups. This should enable Government to provide house sites at a reasonable cost to those in the lower income groups. Care would, of course, also have to be taken that not more than one plot is sold to any one person. It may also be desirable to give out the plots on a leasehold basis rather than freehold; to make provisions to ensure that houses do come up within a reasonable time, to discourage speculation and to prevent misuse of the land.

In order to make a beginning and to enable the State Governments to go in for bulk acquisition and development of land for sale to prospective house-builders at reasonable or no-profit-no-loss prices, it is proposed to allow them during the remaining months of the current Plan to commit themselves to an expenditure of Rs. 15 crores. Central assistance will, it is hoped, be much higher in the third Plan and, it is expected that, with building plots at reasonable rates becoming available in the near future, house-building activity will be stimulated in a very marked manner. Indeed, the private sector can come into its own and resume its old role under which it provided the bulk of the housing needed by the community.

Rent Control

Legislative measures like rent control tend to discourage building activity and thought will also have to be given to remove this hurdle in the way of house-building activity by the private sector. At the same time, Government will have to protect the tenants from exorbitant rents and unnecessary harassment. To some extent, a balance could be achieved by exempting new constructions from the purview of rent control legislation, as has already been done by a number of States.

Taxation

More than rent control, the heavy incidence of taxation, it is said, has a depressing effect on Housing. Some of the taxes which directly affect housebuilding activity are: municipal taxes, levied by the local bodies; urban immovable property tax, levied by State Governments; and income-tax, wealth tax, estate duty, sales tax and excise duty on building materials levied by the Central Government. The Taxation Enquiry Commission which was set up in 1953 to examine, *inter alia*, the suitability of the existing taxation policy with reference to developmental programmes of Government (which should include "Housing") did not, however, recommend any far-reaching changes in the existing level of taxation on house properties. They, on the contrary, observed that the demand for houses being as strong as it is, the house-building industry needed no special "stimulus": this, they thought, was borne out by the high rents earned in respect of new buildings.

The fact, however, is that houses are not coming up in the private sector in adequate numbers, in spite of the strong demand. The Commission did not even recommend any deduction on account of depreciation in calculating the net return from house properties for purposes of assessing income-tax, under Section 9 of the Indian Income-tax Act. They observed that residential buildings had a fairly long life, and their rate of wear and tear was quite low. The grant of an allowance for depreciation would mean a good deal of trouble to both the assessees and the Income-tax Department in proving the value of old buildings and in maintaining a record of the depreciation allowed.

Depreciation

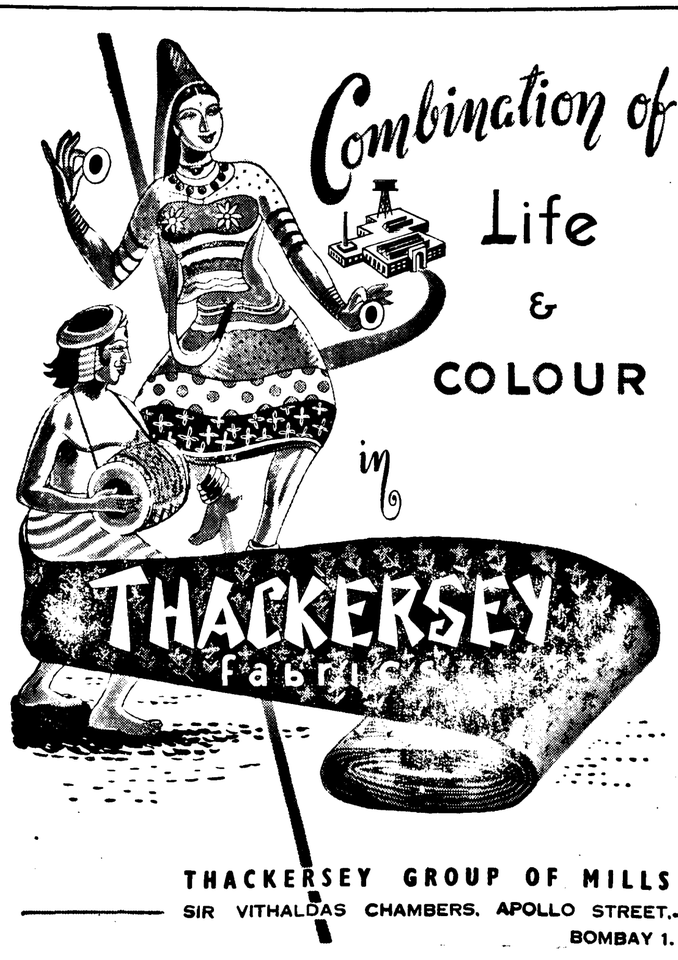
A depreciation allowance is, however, already admissible in respect of commercial or business premises under Section 10 of the Income-tax Act. There seems, therefore, to be a case for granting a suitable depreciation allowance even in the case of house properties under Section 9 of the Act, in view of the obvious necessity for making all possible efforts to bridge the ever-increasing gap between supply and demand—particularly in respect of houses meant for the comparatively lower income groups, e.g., those whose cost does not exceed, say, Rs. 15,000. On the whole, therefore, a more detailed study than has been made so far is needed to determine the incidence of taxation on housing, keeping in view that one cannot, in the same breath, plead both for a lowering of this incidence and expect a greater allocation for housing from the total available resources for the third Plan. It is clear, however, that, if the present incidence of taxation on housing is acting as a positive deterrent, steps will have to be devised to set right this maladjustment during the period of the third Plan.

Given a policy of cheap land sites, private capital should and will flow in greater measure into the field of housing. A softening of the the rigours of the present restrictions, like rent control and taxation policies will result in an increasing number of houses being built in the country and correcting the imbalance that exists in the matter of housing today.—*All Rights Reserved.*

OUR FOOD SITUATION

(*Concluded from page 54*)

The foodgrains price problem in India, like the wider agricultural prices problem in India, is, primarily, a problem of undue regional, seasonal and cyclical price variations. Official interventions in trade are a poor answer to them. The corrective to the first (as the example of cotton and groundnut have shown) is integration of the local, the regional and the national markets, through grading the product and provision of better storage, credit and transport facilities. The corrective to the second (as the example of cotton has shown) is to add to the holding power of the producer through providing better storage and credit facilities. This may also need a quasi-public agency to take off the market (without supplanting private trade) the marginal surpluses at harvest times and a controlled release of them between harvests. Cyclical price variations are a more difficult problem, as it is linked up with international economic forces to admit of purely national solutions.—*All Rights Reserved.*



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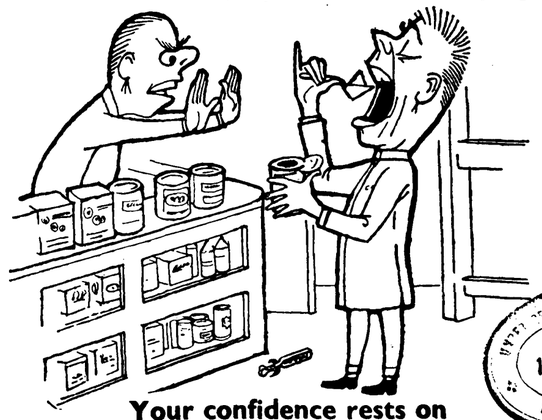

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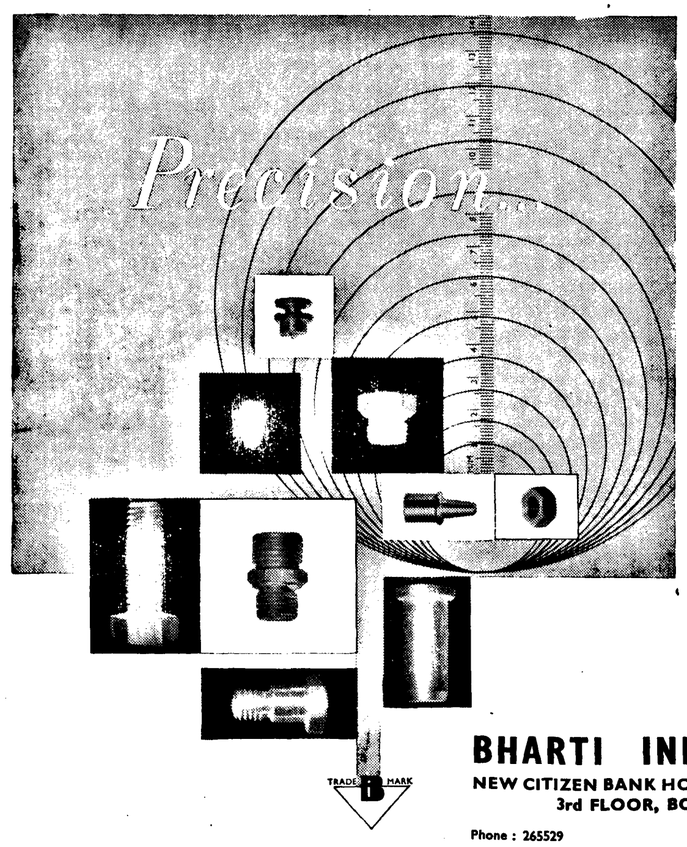

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Tax Exemption For Income From Trust Property

Prerequisites For Securing It

By S. SRINIVASAN, B.A., F.C.A.

THE scheme of the Indian Income-tax Act is that "anything which can properly be described as income, is taxable under the Act unless expressly exempted", *vide* the decision of the Privy Council in Gopal Saran Narain Singh *vs. C.I.T.* 1935 I.T.R. 237, 242.

Section 4(3) of the Income-tax Act gives the category of incomes which are not inclusive in the total income of the persons receiving them. There are quite a big list of items in that category. The first item in it gives exemption, under certain circumstances, to the income derived from property held under trust or other legal obligations for religious or charitable purposes.

It is necessary to trace the legislative history of this sub-section, in order to get the proper background while studying this article. The sub-section at present stands as follows:

"Any income, profits or gains falling within the following classes shall not be included in the total income of the person receiving them:

(i) Subject to the provisions of clause (c) of sub-section (1) of Section 16, any income derived from property held under trust or other legal obligation wholly for religious or charitable purposes, in so far as such income is applied or accumulated for application to such religious or charitable purposes as relate to anything done within the taxable territories, and in the case of property so held in part only for such purposes, the income applied or finally set apart for application thereto:

Provided that such income shall be included in the total income—

(a) if it is applied to religious or charitable purposes without the taxable territories, but in the following cases, namely:—

(i) where the property is held under trust or other legal obligation created before the commencement of the Indian Income-tax (Amendment) Act, 1953 (25 of 1953), and the income therefrom is applied to such purposes without the taxable territories; and

(ii) where the property is held under trust or other legal obligation created after such commencement, and the income therefrom is applied without the taxable territories to charitable purposes which tend to promote international welfare in which India is interested,

the Central Board of Revenue may, by general or special order, direct that it shall not be included in the total income;

(b) in the case of income derived from business carried on on behalf of a religious or charitable institution, unless the income is applied wholly for the purposes of the institution and either—

(i) the business is carried on in the course of the actual carrying out of a primary purpose of the institution, or

(ii) the work in connection with the business is mainly carried on by beneficiaries of the institution;

(c) if it is applied to purposes other than religious or charitable purposes or ceases to be accumulated or set apart for application thereto in which case it shall be deemed to be the income of the year in which it is so applied or ceases to be so accumulated or set apart."

The present clause (i) of the sub-section was substituted for the following two clauses by the Income-tax (Amendment) Act 1953 with effect from 1st April 1952:

"(i) any income derived from property held under trust or other legal obligation wholly for religious or charitable purposes, and, in the case of property so held in part only for such purposes, the income applied, or finally set apart for application, thereto.

*(ia) Any income derived from business carried on on behalf of a religious or charitable institution when the income is applied solely to the purposes of the institution and—

(a) the business is carried on in the course of the carrying out of a primary purpose of the institution, or

(b) the work in connection with the business is mainly carried on by beneficiaries of the institution."

After referring to the wide significance of the word "property," the Ayers Committee observed: "if, however, any limitation is desired, we suggest ... that business carried on by the trustees of a religious or charitable trust should be exempt only when the business activities are in themselves the primary purpose of the charity or when the work in connection with the business is mainly carried on by the beneficiaries." But the courts held that clause (ia) was not an exception to clause (i) and that these two clauses are independent provisions and so it is open to a trust carrying on a business to claim exemption under clause (i). In that event, the limiting conditions prescribed in clause (ia) do not apply. Clause (ia) was held to apply only to such religious or charitable institutions as are not held under "trust or other legal obligation" but carry on business either in the course of carrying out a primary purpose of the institutions or carry on business by the beneficiaries of the institutions and the income derived from which business is applied solely to the purpose of the institutions. In this view of the matter, clause (ia) was treated to be an additional item in the category of exceptions providing immunity for a certain kind of business which in the view of the legislature had not already been provided for. The legislature apparently misfired in not bringing out their intention properly when they inserted clause (ia). The Varadachari Committee recommended that, in order to remove all ambiguity in the matter, it is better to make clause (ia) as a proviso to the clause (i). Consequently, the amendment was made in 1953 with effect from 1st April 1952 making the clause (ia) as a proviso to clause (i). The other changes which are made in the section are not considered here, as they are not very important nor relevant for the discussion taken up in this article. An attempt has been made in the following paragraphs to find out as to how far the amendment made in 1953 has altered the position of law which was prevailing before the amendment.

When Parliament converted the former Section 4 (3)(ia) as a proviso to Section 4 (3)(i), they made only two changes in the wording of the Section 4 (3)(ia). The first is that "wholly" is substituted in the place of "solely." Secondly, the word "actual" has been added before the phrase "carrying out." In all other material respects, the old wording is found retained in the proviso.

Now, the substantive clause of Section 4 (3)(i) deals with a certain income. The proviso's function normally should be to take out of the substantive enactment some income which would have otherwise been covered by the substantive enactment and deal with it. So, the proviso when it begins with the phrase, *"such income"* begins all right as a proviso. Then we come to clause (a); it says that *"such income"* will be included in total income, if something prohibited is done with it. Then let us take up clause (c) of the proviso; it says that *"such income"* will be included in total income, if something prohibited is done with it. These two clauses satisfy the tests of a proviso. Let us now take clause (b). What does it deal with? It does not at all deal with *"such income."* What it states is that, *in the case of* a certain income, certain conditions are to be satisfied if *such income* should not be included in the total income. If clause (b) should be a proviso, it should deal with only *such income* as is mentioned by the opening words of the proviso. Clause (b) does not do that. It altogether deals with a different subject matter. While the words *"such income"* in the beginning of the proviso, have relation to the income derived from property held under trust or other legal obligation mentioned in the substantive portion of the section, the clause (b) of the proviso relates to *the case of income derived from business carried on on behalf of a religious or charitable institution.* The later types of income need not necessarily arise out of property held under trust or legal obligation. If that be the case, then clause (b) of the proviso to Section 4 (3)(i) is in effect a substantive enactment in the garb of a proviso. The ratio of the case of *Kamamchand Premchand* (31 I.T.R. 1) of the Bombay High Court is on all fours with what is stated above.

If the above view is correct, then the position in law is not altered by the amendment and all the previous case laws are valid.

The second view is that clause (b) of the proviso is only a proviso and not a substantive enactment. The substantive clause of the section makes its obligatory that what is held under trust or other legal obligations must be property. Now, property can be held in trust or other legal obligation by a small body consisting of three or four trustees, or by a big institution which is of the nature of a public body. There is a clear distinction between a simple trust and a public body of the nature of a big institution.

The House of Lords in the case of *Minister of National Revenue* vs. *Trusts and Guarantee Company Ltd.*, 1940 A.C. 138, said that "it is by no means easy to give a definition of the word 'institution' that will cover every use of it. Its meaning must always depend upon the context in which it is found. It seems plain, for instance, from the context in which it is found in the sub-section in question that the word is intended to connote something more than

*This clause (ia) was inserted by section 4 of the Indian Income-tax (Amendment) Act, 1939, on the basis of the recommendation by the Ayers Committee.

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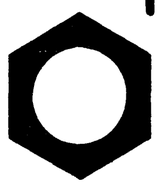

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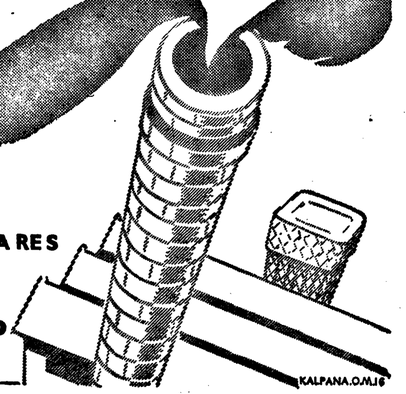

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a mere trust." In the case of *Mayor etc., of Manchester* vs. *McAdam*, Lord Macnaughten observed:

"It is a little difficult to define the meaning of the term 'institution' in the modern acceptation of the word. It means, I suppose, an undertaking formed to promote some defined purpose, having in view generally the instructions or education of the public. It is the body (so to speak) called into existence to translate the purpose as conceived in the mind of the founders into a living and active principle."

The following are some examples of institutions:

Arya Samaj, the Anjuman-i-Himayat-i-Islam, the Brahmo Samaj, the Dev Samaj, and the All-India Spinners' Association.

In view of this, clause (b) of the proviso excepts out of the income falling under the substantive clause only that income which is derived from business carried on on behalf of a religious or charitable *institution* and not of a simple religious or charitable trust. So if a business is settled for charitable purposes on a small body of trustees, this proviso has probably no application to it.

The next point to be considered regarding clause (b) of the proviso, if it is treated as a proviso, is whether income derived from business can be accumulated. The Allahabad High Court, in the case of *Radhaswami Satsang Sabha* (25 I.T.R. 472) held that "applied" does not necessarily mean "spent" in Section 4 (3)(ia). Even if income is earmarked and allocated for the purposes of the institution, it may be deemed to have been applied for the purposes of the institution. The Bombay High Court, on the other hand, when they decided *Breach Candy's case* (27 I.T.R. 279), took into consideration the absence in Section 4 (3)(ia) of phrases like "accumulated for application" and "finally set apart." So they held that income must be fully spent, in order to get exemption under Section 4 (3)(ia). The absence of a particular phrase *does not take away* the meaning of the words that are there in the section. The dictionary meaning of the word "applied" is not "spent." So the view of the Bombay High Court requires reconsideration. Anyway, the amendment has strengthened the view of the Allahabad High Court only and not that of the Bombay High Court. In both the clauses (*a*) and (b), the the legislature has used the phrase "is applied," and has not used the phrase "accumulated for application" or "finally set apart." In this context, "applied" gives the meaning of "administered" or "devoted." One may argue that in clause (b) the word "wholly" is present after the phrase "is applied," and that it is not so in clause (*a*). As stated earlier, that does not and cannot attribute any different meaning to the word "applied." What the legislature desired by using "wholly" is that the *entire* income, the *full* income should be devoted to the charitable or religious purposes of the institution and no part of it should be devoted *either during the current year or at any future date* to achieve purposes which are not the objects of the institution. It does not mean that the income cannot be retained and used for the charitable or religious objects for which the institution is formed.

In other words, the income of the business cannot be used to acquire any other business or property. The income should retain the character of income and should not be converted into property or corpus. If that is allowed, then a charitable institution can go on developing its business activities by exploring new avenues. If they do that, they are not applying the income of the business to the purposes of the institution; they are then converting the income into corpus property. The legislature does not want to allow it. For example, if you settle a managing agency business on trust in a charitable institution the income derived from that business should be used for the charitable or religious objects of the institution and not to acquire a second managing agency business or a selling agency business or immovable properties or securities.

Now one more point is left. That is about the phrase "on behalf of" in clause (b) of the proviso. This phrase brings out clearly the intention of the legislature. In the first place, the clause (b) applies only to the income derived from business. Secondly, the business should be that of a charitable or religious institution and not that of a simple trust. Thirdly, the business should be carried on on behalf of the institution and not by the institution itself. The first two points are already dealt with. The importance of the third point lies in this. An institution as explained earlier is a big public body. The object or purpose of the institution should be charitable or religious. If the object is anything else, then, the whole substratum is gone. Carrying on a business by the institution cannot be its purpose or object. So the institution cannot of its own accord start a business. But it may so happen that somebody, finding that the institution is running well, may come forward and transfer his business to the institution, so that the income derived from that business may be utilised by the institution for its charitable purposes. In such a case, the institution itself cannot carry on the business. It may appoint a separate body of persons to carry on that business and utilise the income derived from it for its objects. There may not be one business. Many persons may transfer their businesses like this. Separate bodies have to be appointed by the institution to run such businesses. The proviso, to my mind, envisages such types of institutions. That is why sub-clause (i) is enacted in that proviso that the actual carrying out of the objects of the institution should be achieved by the carrying on of the business. The funds of the institution cannot be used to meet the losses of a losing business.

Taking all the above into consideration, it appears that, if a business is settled upon a simple trust, with the object of utilising the income derived from such business to charitable purposes, then the income derived from such business will be exempt from tax under Section 4 (3)(i) of the Income-tax Act.—*All Rights Reserved.*

PLASTICS INDUSTRY

(*Concluded from page 128*)

ers for processing polyvinyl chloride. Further, it is also learnt that a leading plastics converter in Bombay has plans to commence the manufacture of small capacity injection moulding machines, compression presses and extruders, in collaboration with a foreign manufacturer of longstanding repute.

The above schemes will be able to meet the machinery requirements of the plastics industry to a certain extent. However, the range of machinery and accessories required for the plastics industry are vast. Each specialised conversion technique requires a specially designed and fabricated unit. Each size of product to be made requires machine of a particular size and capacity. Each new product to be developed requires a new die or a mould, and each fresh design to be produced needs a new embossing roller. Production of each type of these machineries and accessories is a specialised field, demanding services of trained personnel with vast experience. Hence, though the present enthusiasm shown towards indigenous machinery manufacture is a healthy sign, it would be wrong to presume that self-sufficiency is around the corner.

Furthermore, by 1965, the annual consumption of thermoplastics is anticipated to increase to about 60-70 million pounds, for processing which additional machinery capacity would be needed. A part of this requirement, no doubt, would be satisfied by indigenous manufacturers. Nevertheless, specialised and large-size machinery will have to be imported. Similarly, imports of compression presses with high pressing capacities will also be essential.

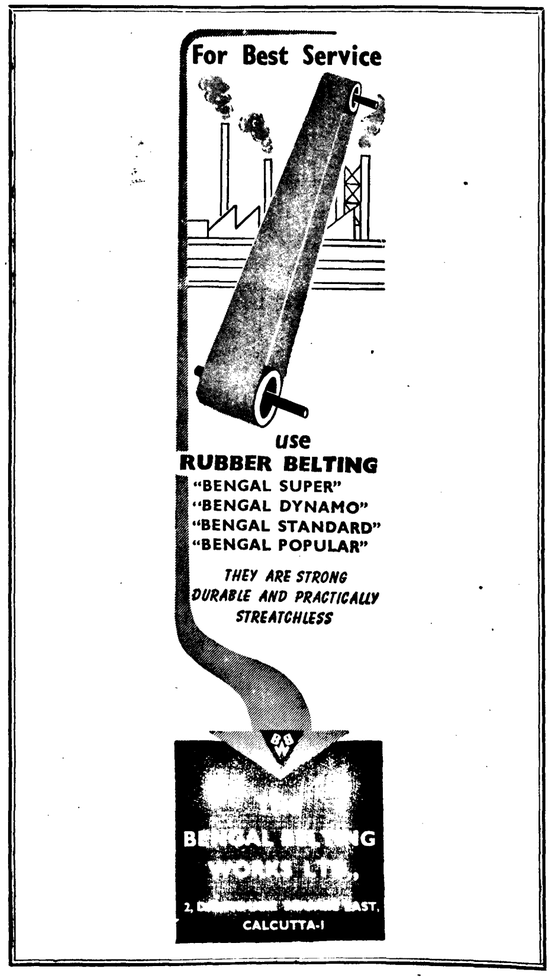
One more significant aspect of the plastics industry is the manufacture of moulds and dies. At present, the tool-room capacity available for such mould making is far too short of requirements. Several plastic moulders and some engineering workshops have established tool-room facilities for this purpose. There is, however, a limitation on the size and quality of moulds that could be made in these tool-rooms. Need, therefore, exists either for the importation of necessary moulds or to establish an adequate tool-room capable of handling the mould requirements of the plastics industry. In view of this, the Government of India is considering the possibility of establishing a Central Tool-room.

As discussed above, the consumption of plastics in India is fast increasing, thereby necessitating the installation of additional machine capacity. In order to guide this expanding market on proper lines and towards further progress and prosperity, it is necessary to entrust it to the hands of trained personnel. At present, there is a great paucity of such personnel at all levels of management, production, sales and development. This is because, so far, this aspect has failed to elicit due interest both from technical institutions and plastics processors. Creation of theoretical as well as practical training facilities, through co-operation between technical institutions and plastics industry is, therefore, essential, without which achievement of self-sufficiency by way of technical personnel requirements would be a far cry.

Testing and Research

The plastics industry is currently suffering from lack of requisite testing facilities, which are so very important in ascertaining the supply of quality products to consumers. So also there are no research facilities available for the solution of a variety of problems likely to be encountered in the development of proper plastics end-products for various applications and in the recommendation of their proper mode of use. It is, therefore, necessary to initiate a central testing and research laboratory for plastics, capable of undertaking practical research and testing of resins and their products.

Summarising, it could be said that, presently, the Indian plastics industry, in general, is far short of self-sufficiency in most of its aspects. There is a healthy realisation of this situation and attempts are being made to overcome this shortcoming in every possible way.—*All Rights Reserved.*



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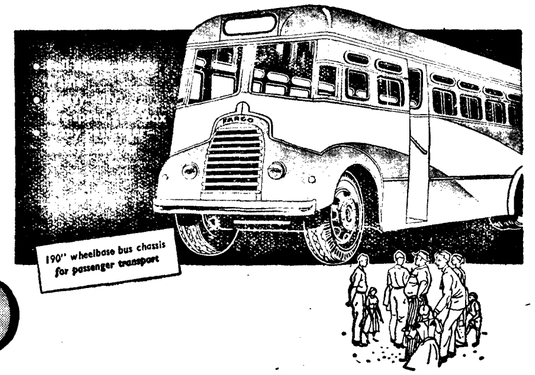

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* * *

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FREE ENTERPRISE SERVES THE SMALL MAN

JUTE INDUSTRY'S RECOVERY REMARKABLE

Difficult Days Still Ahead

By R. P. GOENKA

THE recovery that has occured in the fortunes of the Indian jute industry in the last two years is remarkable, even of an industry that has known spectacular ups and downs in its century of existence. For the first time since control was lifted, producers and investors are confident that the industry will be able to hold its own in a fiercely competitive world market. This change in sentiment is reflected in the phenomenal rise in prices of jute shares. The Reserve Bank's index number of variable dividend industrial securities records a rise in jute shares from 59 in March 1958 to 98.4 for the week ended 10th October 1959. (Base 1952-53=100.) For one of the most speculative sections of the Calcutta Stock Exchange, with banks reluctant to make advances against them, jute shares have regained the favour of genuine investors and are eagerly sought after. Nearly every mill on the river is making what may be described as reasonably good profits.

Judging from the present trend of share prices, whatever reservations there may be about the long-term prospects, investors appear confident that, in the immediate future, the industry will be able to maintain and even improve on the performance recorded above.

The factors that have brought about this transformation may be enumerated:

1. Full availability of raw jute, with the attainment of quantitative self-sufficiency.
2. Modernisation of spinning and preparing machinery.
3. Rationalisation through integration of production units.

Raw Material

Among these, raw jute has the pride of place, because about 50 per cent. of the selling price of jute goods represents the cost of raw material. Since partition, when the manufacturing units were separated from the principal source of raw material, efforts have been made to increase indigenous jute cultivation, so that dependence on Pakistan may be eliminated. As a result, import of raw jute from Pakistan has declined from about 75 per cent. of India's requirements immediately after partition to a mere 5 per cent. last year. The 1958 production of 5.20 million bales makes it almost certain that the second Plan target of 5.54 million bales will be attained. Even now, quantitative self-sufficiency has been attained in the sense that the Indian crop, including mesta, is adequate for mill consumption. But, qualitatively, there is need for improvement. Pakistan cuttings are still needed for mixing with Indian jute to reduce batching cost. At the same time, the overall output is large enough to leave an exportable surplus, without which prices are likely to fall to uneconomic levels. It has, therefore, been urged on the Government that Pakistan cuttings should be licensed for import and that, at the same time, at least the same quantity of Indian jute should be exported, thus both minimising net expenditure of foreign exchange and enabling Indian sacking to face competition.

Reorganisation

The second factor reponsible for the change in outlook for the industry is the progress in modernisation. About 60 per cent. of mills have been modernised so far, in regard to their preparing and spinning departments. The finance for the purpose has come partly from their own resources and partly from loans from the National Industrial Development Corporation, amounting to about Rs. 4½ crores. Another 20 per cent. of the industry is in process of modernisation and the whole industry is likely to complete modernisation by the end of the third Five-year Plan. New carding, preparing and spinning machinery to cover approximately 21,000 looms has yet to be installed, at an estimated cost of Rs. 10.5 crores.

Rationalisation, as distinct from modernisation of plant and equipment, refers particularly to the transfer of production and labour from uneconomic to more efficient units. Several manufacturing units have closed down, but this has not affected the total output of the industry. This has been achieved in a number of ways. In some cases, the units closed down belonged to companies with more than one mill. In these cases, the closure has been effected in order to concentrate production as economically as possible, the production of the closed unit being transferred to others under the same management.

No Smooth Sailing

More important than an analysis of the factors that have contributed to the recovery of the jute industry is the question whether the present phase of prosperity can reasonably be expected to continue in the long term. Whatever the outcome, this much is certain, that it is not going to be all smooth sailing. A hard struggle lies ahead and the industry will have to draw on the endurance, experience, resilience and resourcefulness that enabled it to weather the storms that it encountered during the past hundred years.

The industry, at present, exports something like 80 per cent. of its output. Even when full allowance is made for the potentialities of the expanding home market, it will still remain basically an export industry, whose prosperity is inseparably linked up with the extent to which it can stand up to the growing competition in the world market, keep the export market we have and maintain prices at levels which will be attractive to foreign buyers. But, unfortunately, prices of jute goods have been maintained at levels that offer powerful incentives to foreign consumers to switch to alternative sources of supply or to resort to substitutes such as multi-wall paper bags and bulk handling.

Keen Competition

The high and unstable prices in the past greatly accelerated the shift in the U.S.A. from hessian bags to paper bags and from packing in containers to bulk handling and led to a similar shift away from sacking in Australia and Cuba. They also encouraged consuming countries to set up their own jute mills, in spite of the disadvantages of having to depend on imported raw material. Since 1953, prices have moved down to more reasonable levels, but jute goods exports from India have regained very little of the lost ground. Nearly 80 per cent. of the burlap imported by the U.S.A. goes into the manufacture of bags and about one-third of the bags are used for carrying animal feed. In the last six years, although the deliveries of commercial feed in the U.S.A. increased by 14 per cent., consumption of burlap bags for packing the feed increased by only 5½ per cent. In the same period, paper bag consumption has increased 34 per cent. Bulk handling, which used to account for only 2 per cent. of all commercial feed deliveries in 1953, had grown to over 25 per cent. of the deliveries by 1958.

From a long-term point of view, there could be no doubt that the most formidable threat to the future of the Indian jute industry comes from the young, vigorous and rapidly growing jute manufacturing industry across the border. We have to pause and think over this particular problem. Perhaps, if we unseal some more looms and import jute cuttings from Pakistan to cover the extra production that may be the answer for our protection from our keen competitors by making their expansion less attractive.

On balance, there appears to be no justification for alarm or despair. The Indian jute industry is not going to fade away into extinction in the face of Pakistan competition. But let us make no mistake about it. The struggle will be hard and the going will be rough. It is necessary, even from now, to take stock of the situation and prepare for the future.

The prime requisite seems to be for more aggressive salesmanship than has been displayed hitherto. Besides using every agency of propaganda and publicity to drive home the superiority of jute as a heavy duty packaging material, intensive market research would reveal the special requirements of consumers in different areas and mills could then try to adapt production techniques to such regional preferences. There is still a tendency, which is a hangover from the days of monopoly, for mills to confine themselves to standardised conventional constructions, unload their products on to shippers or the futures market, leaving consumers to make the best of what they can get. In the future, mills will have to establish a far closer and more direct relationship with overseas users of jute goods and will have to be more responsive to changing needs and tastes.

Speciality Goods

There is almost unlimited scope for diversification of the industry's products and the development of specialities. The American market has shown itself particularly responsive to diversification of production, but only a small section of the industry has thought it worthwhile to invest time and money in the development of speciality goods. Cotton bagging, which earns Rs. 1.7 crores a year, was developed in the early 'twenties. Jute mats and carpets, first produced in the 'thirties, earn Rs. 20 lakhs or so, wide hessian for carpet backing, first produced five years ago, is already earning Rs. 4 crores a year and the demand is still increasing. In 1958, special types of fabrics accounted for only a little more than 5 per cent. by weight, of India's exports, but possibilities here are immense. It is unfortunate that the industry's one really bold venture, the project for the development of jute and asphalt lining for irrigation canals, has not yet had the success it deserves. There is scope for the development of a substantial export trade in jute yarn, which has not received much attention uptil now and the Continental mills have enjoyed practically a monopoly of this product.

Another problem to which attention may be given is that, without having any effective machinery for export, Pakistan is getting the choice to book sales ahead of India. It is said that shippers have the option to deliver to overseas buyers either from the Indian or Pakistani mills. Such options naturally are not helpful for Indian export trade.

Recently, the State Trading Corporation has taken an active part in the export of jute goods, in spite of some objections from the exporters. It is true this organisation has helped to increase the export in many countries, but, in some cases, business could have been organised in a better way if left to private hands. This does not mean that they are not doing a good job to book the export of jute goods.

Domestic Consumption

One of the brightest features of the outlook is the growing home market. This is one important respect in which the industry has an edge over its Pakistan rival. The Indian economy is growing, both in agriculture as well as industry, and the internal offtake of jute goods may confidently be expected to increase correspondingly. Apart from the new uses and speciality products which can hope to attract an increasing volume of demand within the country, foodgrains, sugar, cement, fertilisers, chemicals and hosts of other products will require containers on an ever-increasing scale and jute which has proved its worth all over the world can expect to provide the packaging material of which such containers will be made.

On the whole, the century-old industry on the Hooghly is not yet finished. There is plenty of life in it yet. The jute industry, we may be sure, will rise to the occasion and meet the challenge and will eventually win through, but it will be a hard struggle and will call for courage, patience and enterprise. As for the working results of jute companies, it seems likely that the present tendency for such companies to enter into other lines of production in addition to jute manufacture, and quite distinct from it, will gather strength.—*All Rights Reserved.*

An American firm, Belton Bagging Co., has been granted permission to establish a jute mill in East Pakistan. The firm will manufacture bagging from jute cuttings. About 80 per cent. of the total capital required will be invested by the firm and the remaining 20 per cent. by Pakistanis. The Pakistan Industrial Credit and Investment Corporation has underwritten the entire share capital which may be passed on to the local investors. The Pakistan Government, it is reported, has taken this measure, because of the current "shyness" of local capital to flow into the jute industry. But greater consideration was given to the project, because it would largely solve the problem of cuttings which are finding very few buyers in foreign markets.

With the sharp decline in Indian offtake, cuttings price had shown a downward trend and is at present ruling very low. The 18-month short-term plan drawn up by the Government of Pakistan, with the collaboration of the P.I.C.I.C., laid special emphasis on the expansion of loomage in order to increase the consumption of jute cuttings. Recently, some jute mills were also officially advised to utilise export bonus vouchers in expansion of capacity.

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Statutory & Other Reserves (As on 30-6-1959) -	Rs.	17,33,220
Deposits exceed (As on 31-8-1959) -	Rs.	13,00,00,000
Total Working Funds exceed - - - - -	Rs.	15,00,00,000

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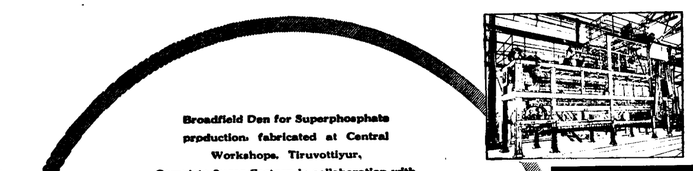

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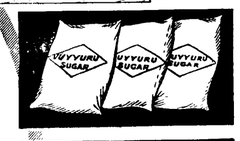

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PLANTATIONS IN SOUTH INDIA

Problems And Prospects

By W. WILSON MAYNE
PRESIDENT, UNITED PLANTERS' ASSOCIATION OF SOUTHERN INDIA

THE plantation industry occupies a very special place in the economy of India, but, for a variety of reasons, there has been a widespread lack of understanding of its problems. In the first place, it owes its origin to British enterprise and has been regarded as the characteristic exploitative activity of a colonial economy. It was natural that, with the attainment of independence and in the light of the economic predilections of India's leadership, the industry should have been regarded with some suspicion. The emphasis was placed on the drain on the country's wealth by the export of primary produce and profit rather than on the development of unutilised resources and the provision of employment opportunities.

The circumstances and nature of the industry have been the subject of almost complete ignorance from the purely geographical fact that plantations have been developed in the less accessible parts of the country. Few people outside the workers and staff of the industry had first-hand knowledge of its nature and second-hand knowledge was often highly coloured and grossly inaccurate. The fact that the plantation areas were in the hills infested with wild animals and often malarious, where roads were few and the normal amenities of long settled communities virtually absent, discouraged first-hand investigation. It was easy for the occasional exceptional lurid story to become the accepted picture of normal life on plantations.

Gainful Transformation

The truth is that the plantation industry has transformed vast areas of the Western Ghats from potential wealth to actual production, so that they now contribute some Rs. 50 crores worth of goods to the economy. A typical example is the High Range in North Travancore which, eighty years ago, had a population of a few hundred backward tribesmen and made minute contributions of jungle produce to the local markets on its outer flanks. Now, eighty years later, it supports a population not far short of 80,000 people and produces some 23,000,000 lbs. of tea worth some five crores of rupees. Its requirements give employment to many thousands in the transport, plywood, fertiliser and pesticides industries outside its boundaries. Similar developments have marked other planting districts from Kanyakumari to North Mysore where the pioneers opened up estates of coffee, tea and rubber.

The special feature of this development was the combination of capital and organising ability with the human resources of underemployed landless agricultural workers of the plains of Southern India. It would never have happened without this conjunction, because the successful development of the plantation crops required considerable capital and many workers. The capital requirement depended on the fact that plantation crops—coffee, tea and rubber—do not begin to produce marketable crops for several years after they are planted and, in the meantime, money has to be spent to clear the land, plant the crops and tend them until they begin to produce. The numerous workers were required, because all these operations depended on manual labour, and large-scale operations were essential, since the value of the produce per acre was relatively small.

Essentially Agricultural

Because of the nature of plantation organisation and the place of tea and coffee in India's export trade and of rubber as a raw material for industry, the affairs of plantations came to be included within the sphere of the Ministry of Industries and Commerce. While there can be little complaint about the solicitude shown by the Ministry, the connection with it has undoubtedly had unfortunate effects on public appreciation of the industry's problems. There has been a regrettable tendency to consider plantations as "industrial" undertakings and to make comparisons with conditions in manufacturing industry when matters affecting employment, wages, conditions of service, labour amenities and taxation are concerned. The truth of the matter is, of course, that plantations are agricultural undertakings and their problems are, apart from the complications arising from their size, comparable with those of other agricultural pursuits where labour is employed for wages.

The tendency to expect plantations to approach more and more closely to the norms of industrial employment in its relations with labour presents a very serious problem to the industry. As a labour-intensive industry, labour costs make up a very large proportion of the total cost of production. It is true that *per capita* wages in plantations have always been low when compared with those in manufacturing industry. Such a comparison is a false one, since the circumstances are so different. If the comparison is made with wages paid in other agricultural undertakings, the record of plantations assumes an entirely different aspect. Compared with the agricultural workers—the class from which plantation workers are wholly drawn—the plantation worker is a member of a privileged class. The common assumption that, until recently, the workers on tea, coffee and rubber estates were sweated labour on starvation wages is wholly untrue.

Raising Living Standards

No one, least of all the employers in the industry, would deny that the standard of living is a low one and that efforts to raise it are a major requirement. But this is a national problem, not a problem specific to plantations, and, in fact, progress so far has gone farther on estates than in any neighbouring rural areas. It is very noticeable that official circles are very conscious of the immense difficulties in raising living standards when they are thinking of the country at large, but show great facility in promoting legislation to pass on such tasks to private employers and invoking penal provisions, if the progress is not according to official desires. The conference on Housing in early November gave a clear and concrete instance of this kind of double standard.

The path to a rising living standard is through increase in productivity and the more efficient use of resources. In a highly organised undertaking with a substantial labour force, there are two ways to increased productivity—improvements in technology which raise output without increase in manpower, and improvements in work output. The first is a responsibility of management, the second is a responsibility of the worker. The ability of the plantation industry to pay current wage levels and provide the amenities and fringe benefits imposed by legislation has depended entirely on improvements in technology. The investment of the plantation industry in research has increased production in tea, coffee and rubber to an extent unparalleled in any other agricultural industry in India and has presented the worker with an opportunity to increase his income by harvesting larger crops. If tea, coffee and rubber crops had remained at their pre-war levels, the present wage levels could not have been met.

It is fair to say that the workers engaged in harvesting crops have generally accepted the opportunity offered them, but, when there is maintenance work to be done, workers have not responded to increased wages and amenities with any improvements in work output. Absenteeism is high, attempts to set tasks which will take the average worker more than four or five hours are resisted and irresponsibility in carrying out allotted work is widespread. The situation has been aggravated by the breakdown of work supervision which formerly depended on the *kangany* system and by the excessive limitations placed on disciplinary action by legislation. There is probably no country in the world where it is more difficult to get rid of an unsatisfactory worker or where the unions are more ready to jump to the defence of the proven idler or incompetent. No one begrudges the worker reasonable protection against injustice or victimisation, but there is a limit beyond which the machinery for protection interferes with the general good.

Constant Pressure

The industry is under constant pressure to engage more and more workers and any reduction in the numbers employed which might reasonably follow technological improvements is fiercely resisted, more often than not with the fullest official approval. While the employer recognises the intractable problem of finding employment for an expanding population, the expansion of plantation labour forces without a substantial increase in output per worker can only perpetuate low living standards. In the present context, this may be inevitable in India, but it is unreasonable to blame the employer for a situation that is not of his creation. The gross value of the output per worker in the South Indian tea industry rarely exceeds Rs. 2,000 and out of this everything has to be met. There is little scope for any appreciable rise in the worker's cash income, unless this figure can be substantially raised.

Expansion

The possibilities of any substantial increase in crop levels with the existing bushes and trees are limited. Further increases can only be obtained with considerable investment in replanting or in replacing old stands by new ones, using improved seed or other planting material. Present-day costs of planting are such as to discourage new investment in plantations since the likelihood of earning a reasonable return on the capital in the light of all the uncertainties of agricultural enterprise is very small. It is significant that it is many years since one has heard of a new planting company floated to develop an entirely new estate. There remains only the ploughing back of earnings to replant or replace existing stands and this is made increasingly unattractive by the inability to retain adequate earnings for internal financing.

There is a widely held belief in official and other circles that plantations make enormous profits and therefore they can well afford the heavy taxation, and the enormous statutory liabilities for housing, medical services, education and general welfare imposed upon them. This belief is quite erroneous, though its origin is simple enough, and rests on a lack of understanding of the way in which plantations grow. In manufacturing industry, growth usually requires a substantial capital investment for any increase in capacity. This means that, if such expansion is to be financed out of earnings, it may be a long time before adequate resources can be accumulated. The more attractive alternative, if prospects look good, is to raise fresh capital for development. This increased capital will naturally attract its share of any increase in profits.

Fiscal Defects

Growth in plantations normally follows a different pattern, because increase in capacity can develop continuously by the addition of small areas of new planting which can be financed out of earnings. Profits are plouged back and this process may continue year after year, so that the productive capacity is substantially increased without any increase in issued capital. The shareholders or owners have forgone the distribution of a portion of the profits, in order to increase the earning capacity of their properties. Such companies may increase their issued capital by issuing bonus shares to their shareholders, but it is not essential that this be done. If it is not, then the dividends which are paid on issued capital, appear very high, because the additional investment from past earnings is not taken into account in arriving at the rate of dividend. The real capital invested is much greater than the issued capital and this increase in capital represents the fruits of restraint in the earlier distribution of earnings and upon which the shareholder has the right to receive a return.

Ignorance

The failure to recognise this peculiar feature of the financing of plantation growth is a major obstacle to the development of an official policy which will enable the industry to play its full part in the expansion of India's economy. Unless taxation policy is adjusted to leave much larger resources in the hands of plantation managements development will be seriously impeded, if not halted altogether. It is not difficult for the expert to find signs of neglect which, while not immediately damaging to production, will eventually lead to decline if the industry cannot find adequate funds. Unfortunately—or perhaps fortunately—such decline with perennial crops like tea and rubber and to lesser extent, coffee is almost as slow a process as the laborious building up of high levels of productivity. This makes it particularly difficult to bring the very real dangers home to those who control policy but whose ignorance of the process of production is almost complete.

It is easy to say, as has been said by one State Finance Minister, that the industry should go to the public for funds, instead of relying on internal financing. He did not, however, indicate how the plantation industry could be made attractive to the private investor for whose money it would have to appeal. The fact is that, with the weight of taxation on crop receipts, the opportunities for increasing agricultural income-tax, and the burden of social responsibility laid on the industry, plantations offer no attraction to the private investor. To the initiated this is obvious from the general level of plantation share values, as compared with growing industrial equities.

Basically, the problems reduce themselves to one problem; a combination of burdens, social and financial, imposed upon plantations by Government action which is heavier than can be borne if the industry is to develop to its full potentiality in the service of the country's economy. There are, of course, problems of labour relations, market development, prices and so on, but these the industry will face, as it has faced them in the past. They are of a different order altogether from the impositions of an acquisitive State, which, whatever it may say, gives the impression that it claims the monopoly of knowledge, ability and power to build the country's economy.

Outlook

Against this background, it is difficult to speak of prospects, and yet, the planter is resilient and like all who are close to the fundamental rhythms of the soil, the weather and the growth and development of living things, he cherishes hopes. When one writes of prospects for the planting industry, it is the possibilities that the forward-looking planter can see, not the probabilities that can be realised in the present financial straight-jacket, that are uppermost in his mind. Moreover, while it is easy to speak for the whole industry when its problems are under consideration, any estimate of its prospects is of a much more individual nature.

The South Indian plantation industry has certain basic advantages. The Western Ghats and their foothills afford a range of conditions favourable to all the principal perennial tropical crops with the possible exceptions of cocoa and cloves. On the whole, the management systems developed over the past century or so have conserved soil resources reasonably well, so that there are very considerable areas which have continued in sound economic production for upwards of a century or more. Labour has become accustomed to the variety of cultural and harvesting methods that the crops require. There are resources of managerial skill of a high order. All these represent invaluable national assets.

It is probable that a considerable acreage under tea, coffee and rubber is producing not far short of the maximum crops attainable with the existing stands. Total production could be increased if the standards of management on the highest yielding properties were extended more widely. Even so, limits may be placed by lack of adequate working capital for the purchase of fertilisers and plant protection materials or resources for the necessary factory extensions which, in the case of tea, are essential to deal with larger crops.

Research

Research work carried out on plantation crops offers the most tantalising prospects for new plantings or replantings in the form of improved varieties or strains. Moreover, such plantings can be laid out with modern requirements of disease control, more efficient use of labour and possibly some degree of mechanisation in view. More progress has been made in rubber and coffee than in tea in planting or replanting with new strains. In the case of coffee, the search for improved coffee types initiated by Dr. Coleman, then Mysore Director of Agriculture, thirty years ago, has given the industry valuable new material of which the progressive coffee planter has been taking advantage in recent years. Nevertheless, only the fringe of the problem has been touched.

In rubber, the use of improved material has also made some progress, using selected bud wood from Ceylon and Malaya and the country's need for rubber demands that this development should be accelerated. Progress in tea has been slower, but the little that has been done gives a glimpse of the most attractive possibilities. It has become clear that the major determinant of quality in any given environment is the bush from which the leaf is taken. Even in localities not renowned for outstanding quality, it has been found that there are bushes from which tea of higher quality can be made. These discoveries are of outstanding importance in a world market where, in spite of a total production tending to forge ahead of total consumption, there is always a market for high quality tea.

In all these crops, there is always in the background a spectre of overproduction. Memories of the Great Depression of the 'thirties are all too vivid. Nevertheless, at present, there seems little need for serious fears. As far as rubber is concerned, the situation is simple—India is not producing enough to meet its own requirements and valuable foreign exchange has to be diverted to purchase imports. There is no doubt that a more generous approach to the Indian rubber producing industry since the war would have accelerated the rate of increase in internal rubber production. It is to be hoped that this aspect of the situation will be prominently kept in mind during the current review of rubber prices.

Plenty To Go Round

The world tea market in which Indian tea earns so much foreign exchange is undoubtedly near the point of balance and small changes in production and consumption have often disproportionately large effects on prices. Nevertheless, there is always room for quality and, if there is real encouragement for the production of quality teas and a vigorous drive for increasing internal consumption as well as sound publicity abroad, the industry has little to fear. The world coffee situation is perhaps the darkest spot in the plantation economy, and India must look mainly to internal consumption for the prosperity of the industry, although here, too, there will always be an export market for the highest qualities.

The urgency of the country's need for foreign exchange has tended to some apprehensions that expanding internal consumption may be undesirable. This is far from the case; both tea and coffee offer most suitable commodities for assisting in the control of inflation, which is the inseparable accompaniment of the expanding economy to which the Government of India is so rightly committed. The Government need have no fear that the export earnings of tea and coffee will suffer, if the fullest encouragement is given to internal consumption. It is an axiom of commerce, that no export industry is so secure as that which rests on a sound and vigorous internal market.

Contingent Prospects

There is no doubt that the plantation industry has prospects, but it must be emphasised that these are contingent prospects—contingent on the solution of its most pressing problems. Some of the problems are within the scope of the industry's own initiative, ability and drive, but there is one outside its control which can only be solved by a realistic and understanding taxation policy.—*All Rights Reserved.*

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T-A-59

Soap Industry Makes Steady Progress

Prospects For It In The Third Plan

By A Special Correspondent

WHEN a nation is struggling to transform its way of life, to industrialise itself within the space of a few years, it is natural that the major share of public attention should be given to the products of heavy industry. Steel plants and power stations, motor cars, locomotives and aircraft—these are the eye-catching products of modern India. But, while we all give full and ready credit to these important industries, we must not overlook the progress of the more modest part of industry: the production of consumer goods. In their own way, consumer goods also contribute to the nation's growth and development—indeed, their special function is to demonstrate that development to the "man in the street," who may never see a steel plant but will certainly be aware of a new brand of soap or toothpaste.

It is right, therefore, that we should examine the soap industry, which is one of India's leading consumer goods industries, to get a picture of its present state and its prospects for future growth. The soap industry has been well established for a good many years, and its products are particularly important in a hot country like India, where personal cleanliness is highly regarded. In the last decade, it has continued to make good progress and almost every year has shown a satisfactory, though not always spectacular, increase in total production, with a special emphasis on the growth of the better-quality products. It is true that there have been occasional shortages of certain soap-making oils, and also of caustic soda, especially in 1959, but the general picture is one of steady increase in production at all levels, and consumption in all areas.

Two Sectors

The soap industry in this country consists of two parts, normally known as the organised sector and the cottage sector. This terminology is not altogether a suitable way of describing the differences between the two parts, but the organised sector comprises all factories using power-driven machinery and registered with the Government *plus* a few non-power units, while the cottage sector contains all other factories, some of whom produce much larger quantities of soap than many of the units in the organised sector. Now, regular production figures are available for the organised units, but very little is known officially about the production in the cottage sector, as these factories pay no excise duty, unless their production exceeds 200 tons a year. No figures are, therefore, issued or even collected in respect of their output.

Nevertheless, some detailed private research has been done in this field, and the reliable results show an unexpectedly high figure for production in the cottage sector, which now appears to produce more than twice the tonnage of the organised sector. This represents a great advance on all previously accepted figures, and it is now clear that earlier estimates have greatly underestimated the strength of the cottage sector. The following figures (for the cottage sector) are based on an extremely wide survey recently carried out, and the figures are certainly not overestimates—if anything, they err on the side of caution. The figures for the organised sector are official figures.

(In tons)

	1956	1958
Organised sector ..	110,000	123,000
Cottage ,, ..	220,000	267,000
	330,000	390,000

Both parts of the soap industry are, therefore, strong, growing, and firmly based. The organised sector contains some 90 units, though not all of these are actually in production; while the cottage sector contains over 3,000 units, scattered throughout the length and breadth of India. Naturally there is a concentration of these small factories in those areas where oilseeds are most plentiful—for example, the Punjab, U.P., and Gujerat each have an annual production of over 40,000 tons of soap, while Andhra, another large State, only produces 8,000 to 10,000 tons each year.

Special Position

The cottage sector has both advantages and disadvantages which are inherent in its special position. Almost all the soap it produces is free of excise duty, since for non-power units no excise is payable on the first 200 tons produced per year, about Rs. 60 per ton on the next 200 tons, and about Rs. 105 per ton thereafter. Since most small units do not exceed 200 tons, very little excise is collected, and indeed it would be difficult to enforce a widespread levy. The larger manufacturers in the organised sector, however, whose exemption is 125 tons of washing soap and 50 tons of toilet soap, are obliged to pay excise on almost all their production—the rates being from Rs. 105 to Rs. 122 per ton for washing soap, and Rs. 280 per ton for toilet soap.

In addition, the wage bill of the small manufacturer must be extremely low, and, as he has his own local trade contacts, the cost of distributing his products is also small. All these aspects help to keep down the prices of cottage sector soaps, although, in some areas, the price is disproportionately high; further, the small manufacturer is able to make use of small "parcels" of local oils, often unfamiliar ones, which are cheap but by their very smallness would be of little help to a larger factory.

The products of the cottage sector are mostly of low quality, being what are known as "filled" soaps—in which the total fatty matter is reduced, the difference being made up with fillers which contribute little in washing power. Furthermore, not only does their oil mostly come from inefficient crushers, who leave a lot of valuable oil in the cake, but also their own primitive soap-making equipment gives rise to a complete loss of glycerine. This is a very valuable by-product which can be recovered with the right equipment, and which commands a good sale within the country and also as an export commodity.

Therefore, while there is no doubt that cottage sector production fulfils an extremely useful function in providing a certain quality of soap which is suitable for many less-developed areas, it is liable to cause an expensive waste of the nation's resources. One is forced to ask oneself whether the Government's present method of assisting the cottage sector, by largely freeing it from excise duty, should not be replaced by a system which would encourage better utilisation of raw materials. If this were done, it would encourage initiative and growth among small manufacturers, for the present excise policy, in fact, helps to perpetuate the marketing of an inferior product, and hinders efficient development.

Problems of Organised Sector

The organised sector, too, has its problems. One might define the function of the organised units as threefold:

(a) to continue to offer goods of the highest quality, which will raise the standards of both the public and the small manufacturer;

(b) by pursuing an active policy of publicity, to spread awareness and interest in hygiene and cleanliness;

(c) to keep their prices as low as possible.

Starting with quality, it is true to say that many Indian soaps set a high standard. There has been a steady increase in the number of ingredients that can now be produced locally instead of being imported, but there is still a big need for the essential oils and aromatic chemicals which, skilfully compounded, provide the subtle perfumes that attract us so much. These ingredients are being developed, and their ready availability at the required quality standard should be a matter of only a few years. So, although not all the products of the organised sector are of uniformly high quality, we can feel that a good standard generally is maintained. However, new ideas and developments must be pursued continually, and it is to be hoped that it will eventually become possible for more new soap-making plant to be obtained, even if some of it has to be imported. As elsewhere, so with the soap industry—new plant makes possible not only better products, but also greater efficiency in working.

Creating Soap Habit

The second responsibility which we have attributed to the larger manufacturers is that of spreading the message of cleanliness and hygiene. We are probably all aware of soap advertising, which frequently emerges before us in a very forceful manner; we may even wonder if it is necessary for such obviously well-known products to be shouted about so often. The point we have to understand here is that, though we as individuals may use large quantities of soap, and may be fully aware of the wide range of products available, there are crores of people who are in quite a different position. The *per capita* consumption of soap in India is steadily going up, but it is still one of the lowest in the world. Here are some figures:

(Lbs. per person per year)

U.S.A.	29.5
U.K.	23.3
France	17.4
Mexico	8.2
Malaya	7.9
Turkey	6.1
Iraq	4.3
Indonesia	3.7
Ceylon	3.6
Nigeria	3.3
India	2.2
Pakistan	1.1

Obviously this figure of 2.2 lbs. per year is only an average, and many people use a far larger quantity than this. It is estimated that the figure for the urban population is about 6 lbs. per person, and for the rural population about 1.25 lbs. this should make it clear that not only the rural population contains great scope for increased soap consumption, but also the urban population. Indeed, since in towns and cities the need for personal hygiene and the awareness of personal appearance are both much greater, it is probable that individual consumption will continue to grow faster among town-dwellers.

Are the larger soap manufacturers doing their utmost to carry the message of hygiene and cleanliness to everyone in the country? Within the limitations imposed on them by outside circumstances, they probably are—house-to-house propaganda is not unknown in the larger towns, and vans carry large quantities of soap to the most remote areas. Indeed, there are even a few manufacturers in the cottage sector too who are operating their own vans and spreading their area of operation—a welcome sign of initiative and enterprise. One of the difficulties is the limited number of methods by which actual advertising messages can reach the consumers; with literacy still at a fairly low level, the total newspaper and magazine circulation does not exceed 14 million, and there are only a little over 3,000 cinemas through which advertising films can be shown. The other well-known forms of advertising, such as radio and television, do not yet exist in India. Nevertheless, in the years to come, there will no doubt be a massive growth in advertising media, and it is up to the large manufacturers to foster this growth.

The Question of Capacity

The official capacity of all the factories in the organised sector is just over 250,000 tons, whereas their total production in 1958 was only 123,000 tons. But the figure of 250,000 tons includes a number of factories which have never been in operation, or factories whose plant is unworkable or highly uneconomic; the real figure of worthwhile capacity is probably less than 200,000 tons, and Government should endeavour to obtain accurate information on this score. In addition, some factories have progressively improved their efficiency since the time when these maxima were fixed, and could easily produce more than their theoretical capacities without installing extra equipment. It would not be right for an artificial limitation on production to prevent the consumer from buying the product of his choice, for the public will always benefit most when the most popular products are in free supply. It will be seen, therefore, that if the active expansion of the soap market is to continue at the required rate, these capacity ceilings should be removed so that the more efficient factories may not be penalised.

The third duty of the large companies is to keep the cost of their products as low as possible, and this gives rise to some questions for the future. Soap is made mostly from oils and fats, and these are extremely expensive in India. It is, therefore, important that the availability of oils should increase rapidly, in order to bring the prices down; in fact, there is every possibility that demand will continue to grow more rapidly than availability, and that prices will rise still further.

With total soap production in 1958 at about 390,000 tons, the amount of oil consumed was about 190,000 tons. The oils are of various kinds, of which groundnut oil, coconut oil and palm oil are three of the most important. All the groundnut oil is produced in India, but it is necessary to import the palm oil and

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some of the coconut oil (which is, of course, used for many other products besides soap). So it is certainly time that India began the cultivation of the oil palm, and stepped up its production of coconut oil, which has been virtually static for the last five years. We should remember that many other industries are competing for the same oils which go into soap and that the total demand is steadily growing. It is estimated that the tonnage of oil required for soap alone will grow by 40 per cent. every five years and that twenty years from now the total annual requirement of oils and fats for all products will have increased from about 1.8 million tons to 6.3 million tons.

This is a big problem, and its solution does not lie in the hands of the soap industry. Nevertheless, once the problem is officially recognised, it should be possible for Government to take the steps necessary to fill this impending shortage. If there is a continuous drive for increased acreage for oilseeds, backed by a strong research programme for better yields and increased resistance to disease, this problem can be solved.

Future Prospects

If the problems outlined above can be overcome, then the soap industry seems set for continued steady expansion. As the figures of comparative soap consumption in other countries have shown, India has some way to go before catching up with neighbouring countries like Malaya or Indonesia. We might think that the present *per capita* consumption of soap in Malaya (7.9 lbs.) is a figure which India may aim to equal in, say, 25 years' time —even then there will be room for steady growth thereafter.

It has been calculated that the expenditure elasticity for soap is 1.75—that is to say, for every 1 per cent. rise in total national expenditure, there will be a rise of expenditure on soap of 1.75 per cent. If this is projected across the estimated increases in population and national income for the coming years, it can be seen that the soap market is likely to assume the following proportions:

	Tons
1961 (end of second Plan) ..	450,000
1966 („ „ third „) ..	620,000
1971 („ „ fourth „) ..	870,000
1976 („ „ fifth „) ..	1,220,000

If these figures seem too high, it should be realised that the figure for 1976 only means a *per capita* consumption of 5.5 lbs. for 500 million people—still well below the 1958 figure for Malaya.

How do these figures compare with official estimates? No firm plans have yet been made known, but it is believed that the Planning Commission has in mind a rate of growth similar to that indicated above—about 33 per cent. every five years, as compared with about 40 per cent. in the figures shown here. The most important point, however, is the starting figure, for, if a wrong assessment is made of present consumption, then the error will become increasingly large with each successive Plan. If, for example, the Planning Commission assume that the present production of the cottage sector is only the same as that of the organised sector, then their projections would be approximately as follows:

	Tons
End of second Plan ..	300,000
„ „ third „ ..	400,000
„ „ fourth „ ..	533,000
„ „ fifth „ ..	710,000

These figures are only hypothetical, but it can be clearly seen that they would lead to serious errors, for the differences between these two sets of figures are not mere matters for statisticians—they are important to producers and consumers alike. If something on the lines of these lower figures is, for one reason or another, taken as being a correct assessment, and yet the market continues to expand at the predicted higher rate, then the shortage of raw materials will become even more acute than we have indicated above. This shortage will inevitably affect all oil-using industries, including the edible industry —it will, therefore, touch almost everyone in the country. That is why it is important for the official estimates to be based on correct figures of consumption now, which means that more exact knowledge must be obtained concerning the production of the cottage sector. As we have seen, the cottage sector is, in fact, more than twice as strong as the organised sector.

There is, therefore, a strong case for Government to make a thorough examination of soap production at all levels, in order to ensure that correct figures are known. Alternatively, all reliable estimates made by individual sources should be carefully examined. This need not mean that prying into the private affairs of soap manufacturers would be necessary, but only that a thorough and impartial survey should be made.

A World-wide Revolution

So far, we have only discussed soap, the compound of oils and fats and caustic soda. However, in the last twenty years, there has been a revolution going on all over the world, in which a new product has been taking the place of traditional soap. This new product is, of course, the non-soapy detergent, or NSD, made mostly from a petroleum base. In some countries, NSDs are now in almost sole control of the clothes-washing market, and hard soap has virtually disappeared. In the U.S.A., for example, NSDs now comprise more than 70 per cent. of the entire "detergents" market (including soap powders, toilet soaps, etc.). And, everywhere in the world, the share held by NSDs is going up fast.

India already has two NSD plants, and more will undoubtedly be erected in the coming years, as the habit of using these amazingly effective powders becomes more and more widespread. It will take many years before the traditional methods of washing clothes give way entirely to the new methods, but the ease, simplicity and increased effectiveness of NSDs will eventually impress themselves on all busy housewives.

The performance of an NSD is so remarkable that 4 lbs. of good hard soap are needed to wash as many clothes at the same standard of whiteness as one lb. of NSD will give—therefore, for every ton of NSD produced, two and a half tons of oil is released for other purposes. It is impossible to say how fast the NSD market will grow in India, but it is quite possible that, by the end of the third Plan, the total sale may reach 10,000 tons. This would release 25,000 tons of oil—by no means a negligible figure. As soon as the NSD market reaches sizable proportions, it will be possible for all the raw materials to be produced inside India, and the industry will then be self-supporting.

The silent revolution that is sweeping the world has already started to touch India, and we can be sure that exciting changes in the washing field lie ahead. The soap and detergents industry is eagerly awaiting them, and, for the busy housewife, there is even more to look forward to, as home washing becomes an easier and more pleasant task.—*All Rights Reserved.*

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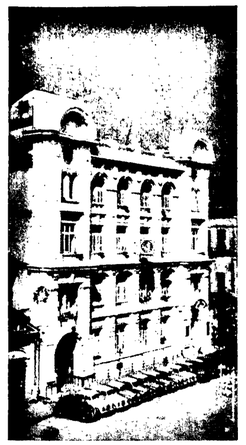

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Rubber Manufacturing Industry

Its Progress, Prospects and Position

By A Special Correspondent

THE rubber manufacturing industry established its foundations in India less than 25 years ago and is now one of the well organised industries of the country. Two things are favourable for its growth. The industry possesses an indigenous source of natural rubber and it has a growing home market, especially in the fast developing road transport system.

The industry is playing a significant role in our national economy by providing direct employment to over 28,000 persons and by making available, mainly for domestic consumption, a wide range of rubber goods valued at Rs. 68 crores a year. The remarkable feature of the industry is its size and variety. There are some 300 small manufacturing units, 30 medium-size factories and 19 large-scale establishments. Of the large factories, the Dunlop Sahaganj factory ranks as Asia's largest rubber manufacturing enterprise.

According to products manufactured, the industry can be divided into six groups: (1) tyres and tubes; (2) rubber footwear; (3) mechanical and other industrial rubber products; (4) latex foam sponge; (5) rubber covered cables and (6) dipped rubber goods and moulded articles. The table of comparative production figures of a few selected items at the bottom of the page will give an idea of the progress of the industry in recent years.

Importance of the Tyre Industry

The manufacture of tyres and tubes is the mainstay of the Indian rubber manufacturing industry, accounting as it does for about 68 per cent. of the total raw rubber consumption. The progress of the tyre section of the industry, in turn, depends on the development of the country's automobile industry and road transport. In India, the number of motor vehicles per 1 lakh of population is about 89. This is admittedly low in comparison to other developed countries such as the U.S.A., Canada, and Great Britain, where the proportion is 37,998; 25,236; and 9,595 motor vehicles, respectively, per 1 lakh population. At present, there are some 500,000 motor vehicles in the country and their number is expected to increase by over 50 per cent. in another three years. By 1960-61, India's automobile industry is also expected to have an annual production capacity of some 57,000 cars and trucks and 11,000 motor cycles and scooters. In terms of demand for tyres as original equipment and replacement, this will be a great responsibility for the tyre industry.

Demand for Tyres

In 1958, India produced slightly over 1 million automobile tyres. Despite production to full capacity, the demand for tyres and tubes could not be fully met during that year by indigenous production alone. Import licences to the value of nearly Rs. 2 crores had, therefore, to be granted to manufacturers to meet the excess demand. The position continued to be the same in 1959 and the State Trading Corporation was obliged to make arrangements for the import of certain sizes of truck-bus tyres and tubes which are reported to be in short supply.

By 1960-61, India's demand for automobile tyres is expected to reach 1.62 million a year. In order to bridge this growing gap between demand and production, the Government of India sanctioned, sometime back, four schemes for raising indigenous production. Of them, two were for the expansion of the existing units of Dunlop at Sahaganj and Firestone at Bombay. These are now nearing completion. The other two schemes were for the establishment of new tyre factories, one at Madras and another at Bombay. The Madras factory has already been established at Ambattur by Dunlop, which is their second tyre factory in India. The Ambattur factory went into production in February 1959. The Bombay factory, known as Ceat Tyres of India Ltd., is a joint venture of Tatas and Ceat Gomma S.P.A., Italy. It is now under construction and is expected to commence production shortly.

In addition, the Government of India recently sanctioned two more schemes for the establishment of new factories. Of them, one, Premier Tyres Ltd., is proposed to be set up at Cochin in Kerala State and an official announcement about the second factory is awaited.

Besides, automobiles, bicycles, bullock carts, tractors, earthmoving machines and aeroplanes require pneumatic tyres and tubes.

Bicycles are becoming increasingly popular as personal transport. At present, one out of every 80 persons uses a bicycle and this may rise to one for every 58 persons by 1960-61. By then, the demand for bicycles is expected to increase to about two million a year. Bicycle tyre production in 1958 was about 8.26 million; in 1960-61 this may rise to 16 million a year.

Bullock carts play a vital role in our transport economy. There are about 10 million of them in our country, serving, for the most part, the feeder traffic generated from our farms, factories and commercial establishments. But their use is restricted by two disadvantages. The vehicles are slow in their movement and their iron-tyred wheels damage road surfaces. The conversion to pneumatic tyres will at once raise the speed and efficiency of bullock carts considerably.

In terms of demand for tyres, there is unlimited scope for the tyre industry.

Next in importance to tyres is the rubber footwear industry, which consumes about 15 per cent. of the total rubber consumed by the entire rubber manufacturing industry. In the last one decade, the manufacture of rubber footwear has been growing rapidly and at present it is one of our valuable export products. The 1958 annual report of the U.K. Natural Rubber Development Board has forecast a steadily expanding outlet for rubber in footwear and it is reasonable to predict that the footwear industry will have not only a bright future in export markets but also greater demand within the country as the standard of living advances and people become more conscious of personal hygiene.

Industrial Products

In 1951, when India launched on a series of Five-year Plans for the development of agriculture, multi-purpose river valley projects and heavy industries, the demand for specialised industrial rubber products greatly increased. Till 1952, most of the industrial rubber products were imported, causing a heavy drain on the country's foreign exchange resources. Indigenous manufacture of vee belts, transmission and conveyor belting and hoses commenced in 1952. Since then the volume of production has been steadily increasing but demand is still far ahead of supply. The manufacturers in this field have applied to Government for permission to expand their existing production capacities.

Next to belting and hoses, the demand is strongest for latex foam rubber. Latex foam cushioning material are widely used in the home, transport, hospitals, hotels and restaurants, cinemas, theatres and auditoriums.

Problems of Raw Material

Against this background of growing demand for rubber products, the problems of the industry deserve consideration. Foremost among them is the inadequate supply of natural rubber, the vital raw material of the industry.

The table below will give an idea of indigenous production of natural rubber and total raw rubber consumption by the industry:

Year	Production (in tons)	Consumption (in tons)
1951	17,148	29,431
1956	23,444	31,405
1957	22,767	34,797
1958	24,327	38,008

In 1951, the gap between production and consumption was about 30 per cent.; in 1958 this gap was over 56 per cent. India imported in 1958 some 14,000 tons of raw rubber representing 37 per cent. of her total consumption. According to the Rubber Board, the raw rubber requirements of the manufacturing industry in 1959 will be about 44,000 tons and by 1961 this is expected to increase to 55,000 tons. At current prices, imports of rubber to make up the anticipated shortfall in 1961 will cost about Rs. 11 crores.

Although attempts are being made to increase the output by a Government subsidised scheme for replanting 70,000 acres in ten years with high yielding seeds, it has not made much headway, as only about 6,500 acres could be replanted in the last two years (1957 and 1958) against the target of 14,000 acres for those two years. Meanwhile, rubber growers are urging for an upward revision of raw rubber prices on the plea that their production costs have greatly increased. Until about a few months before, the Indian controlled price of raw rubber was higher than the world rubber price. This had been a great handicap for the rubber manufacturing industry in its programmes of expansion. Already the manufacturing industry is burdened to pay the difference between the indigenous controlled price and the landed cost of imported rubber, with the result, the cost of manufacture of rubber goods has been consistently increasing and particularly the small units in the industry are finding it difficult to stay in business.

The question of determining raw rubber prices has now been referred to the Tariff Commission.

Synthetic Rubber

The increasing rise in the price of imported natural rubber is also compelling the manufacturing industry to rely greatly on synthetic rubber.

The use ratio of synthetic rubber to natural rubber has been growing in the last three years. India imported 9,677 tons of synthetic rubber in 1957 which is about 28 per cent. of her total rubber consumption. Meanwhile, it is reported that Government have approved of a scheme for the establishment of a Rs. 15-crore synthetic rubber plant at Bareilly. The plant which will have an initial capacity of 20,000 tons of synthetic rubber is expected to commence production by 1962.

Efforts are also being made to explore the possibility of extending rubber cultivation in the Kanya-Kumari District and in Andaman and Nicobar islands.

Other important raw materials like carbon black, sulphur, antioxidants, and rubber chemicals are now mostly imported. Recently, the Government of India invited foreign experts to explore the possibility of setting up a carbon black plant in this country. It has also been announced that a corporation would soon be formed in the public sector to exploit the iron pyrites resources in Amjor (Bihar) with a view to manufacturing sulphur.

The Government has also granted a licence to Imperial Chemical Industries (India) Private Ltd., to set up a plant at Rishra (West Bengal) for the manufacture of diverse types of organic accelerators, antioxidants and retarders required by the rubber industry. The plant is

(Continued on page 180)

Annual Production of Selected Rubber Goods

Name of Product	1951	1955	1956	1957	1958
Tyres—					
(a) Automobiles .. (thousands)	870.0	882.0	938.4	990.0	1,005.6
(b) Bicycle .. .. (thousands)	3,940.8	5,748.0	6,320.4	7,152.0	8,259.6
(c) Tractor .. .. .. (Nos.)	..	26,136.0	26,208.0	32,148.0	32,148.0
(d) Aero .. .. .. (Nos.)	2,472.0	4,404.0	3,660.0	4,476.0	2,328.0
(e) Animal-drawn vehicle .. (Nos.)	18,984.0	30,144.0	28,032.0	46,644.0	42,072.0
(f) Off-the-road .. .. (Nos.)	..	1,812.0	2,112.0	1,932.0	3,288.0
Footwear .. .. .. (lakh pairs)	230.4	349.2	361.2	369.6	367.2
Fan belts .. .. .. (thousands)	298.8	655.2	724.8	652.8	666.0
Industrial vee belts .. (thousands)	..	146.4	266.4	451.2	546.0
Rubber ply transmission and conveyor belting .. .. .. (Tons)	..	1,032.0	1,656.0	1,536.0	1,908.0
Latex foam sponge .. (thousand lbs.)	471.6	1,470.0	1,777.2	1,956.0	2,226.0
Dipped rubber goods—toys, balloons, nipples, valves, teats, etc. .. (lakh dozen)	110.4	229.2	260.4	198.0	242.4
Radiator hoses .. .. (thousands)	220.8	189.6	248.4	171.6	168.0
Vacuum brake hoses .. (thousands)	352.8	808.8	552.0	657.6	602.4
Other type of rubber hoses . (thousand feet)	3,474.0	5,734.8	6,603.6	7,981.2	9,217.2
Ebonite rods, sheets, tubes (thousand lbs.)	199.2	130.8	210.0	240.0	234.0
Waterproofed fabrics .. (thousand yards)	1,576.8	2,119.2	2,574.0	3,076.8	3,236.4
Rubber components for railway fittings .. .. (thousands)	748.8	1,539.6	1,656.0	1,762.8	1,350.0
Rubber and plastic insulated cables and flexibles .. .. (lakh yards)	411.6	861.6	1,056.0	1,038.0	1,287.6

Source : *Monthly Statistics of the Production of Selected Industries of India.*

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Bicycle Industry Makes Phenomenal Progress

Attainment of Self-sufficiency Near

By N. K. AIYER

IN the post-independence era of industrial development in India, the bicycle industry, in the light engineering section, appears to have made phenomenal progress. For this achievement the reasons are many. Some of the factors are an ideal climate, a tremendous increase in demand, Governmental support by tariff protection, curtailment of imports and the dexterity and quick adaptability of Indian labour to master technicalities of machine production. Most important of all seems to be the ready willingness, spontaneous co-operation and the liberal terms on which foreign collaboration came forward. Two of the universally well-known British bicycle manufacturers, Hercules and Raleighs, offered in 1949 to join hands with reputed Indian industrialists to help establish the industry in this country. They agreed to share their technical knowledge and know-how and threw open their domestic factories for training of Indian engineers. That was the beginning of the manufacture of quality bicycles of approved standards and specifications in this country.

Although bicycle and its accessories making took shape as early as 1938, the firms that founded them had to face many difficulties, as a consequence of the Second World War. Essential imported raw materials became unavailable and technical knowledge was lacking. Moreover, in the post-war years, there was a marked preference for foreign-made goods and a prejudice against the indigenous product.

Firmly Established

In countries like the United Kingdom and Japan, where the bicycle industry had made great strides, the pattern of manufacture was for certain ancillary units to make and supply essential component parts for assembly to all the major manufacturers, who themselves were content to make frames, forks, mudguards, etc., with their own trade marks and brand names. As opposed to this, the one underlying principle on which licences were granted to large-scale manufacturers in India in 1949 was that they were themselves to make all the component parts for incorporation in their cycles, within a specified number of years. Of course, this policy has since undergone many changes and now the emphasis and encouragement, as we all know, is on the small-scalers who make only a few parts but not of high quality yet. In the interim ten years between 1949 and 1959, some damage has been done to the pioneer big-scale manufacturers. They had made elaborate plans to make all the parts themselves and sunk heavy amounts in capital outlay of plant and machinery for the purpose of self-sufficiency. It does, however, reflect credit on these manufactures that, in spite of all the changing vicissitudes and handicaps, they have helped to establish the industry firmly and distributed a fair return to their shareholders by judicious and capable management.

It is, perhaps, only in the bicycle industry, amongst all the light engineering industries in India, that there are three groups of manufacturers, the large, the medium and the small. The so-called medium-scale manufacturers have designated this nomenclature for themselves, although the Government still classify them as large-scalers. They have neither the volume of the big-scalers nor enjoy the present-day preference for the small-scalers. They are nevertheless a useful adjunct of the industry, as some of them have individually sufficient finances, business acumen and specialised experience of the trade to enable them to produce certain quality parts.

Capacity

At present, the approved and licensed list of bicycle manufacturers comprises the big four with an annual rated total capacity of 900,000 bicycles. They are Hind Cycles, Sen-Raleigh Industries, Atlas Cycles and T.I. Cycles of India, regionally well distributed at Bombay, Calcutta, Delhi and Madras, with a licensed capacity of 200,000 each and T.I. Cycles with 300,000 cycles per year. The so-called medium group consists of 22 units (of which four are not functioning), with a total annual rated capacity of 748,000 cycles ranging from 15,000 to 60,000 each. They are situated four each at Calcutta and Delhi, three at Ludhiana, two each at Gauhati and Lucknow and one each at Agra, Faridabad, Modinagar, Patna, Rajpura, Rampur and Varanasi. The registered small-scalers, numbering 80, have been scheduled to possess an annual rated capacity of 381,500 cycles, each ranging from 2,500 to 12,000 cycles. They are distributed State-wise, with Punjab leading with 17 units, Delhi 12, Bengal and Uttar Pradesh nine each, Rajasthan six, Andhra, Bombay and Madras five each, Madhya Pradesh four, Bihar three, Mysore and Orissa two each and Kerala one. Besides these, there are numerous other unregistered units spread all over the country, principally in the Punjab, who make a fairly large quantity of original but sometimes imitation parts, on cottage-industry basis.

Against this total installed annual capacity of two million per annum, it is estimated that, during the current year January to December 1959, the number of cycles produced would reach one million. There is thus a shortfall of about 50 per cent. between the installed annual capacity and the actual output for the current year. A part of the idle capacity of the plant of at least two of the major manufacturers could have been better utilised to produce a larger volume but for the fact that import of certain essential raw materials was restricted, due to shortage of foreign exchange.

Scope for Growth

On a rough estimate of the Tariff Board in 1953, the bicycles on the the roads in India were expected to reach about four million in 1960, with the likelihood of the number rising to seven million within the next few years. In countries where bicycles are very popular, like Sweden and Denmark, the ownership is about 500 per 1,000 of population; in the United Kingdom and France this is about 230; in Japan it is 110; even in Ceylon it is 40. In India, the figure, which used to be 3 per 1,000 in the pre-independence era, has now risen to 11 per 1,000.

The cycle is a swift means of transport. It is a useful individualistic mode of conveyance and costs little for its upkeep. With increasing industrial development, laying down of a network of new interior roadways connecting with the main arterial highways, and the rise in the purchasing power of the vast population of India, there is bound to be a growing demand for bicycles at least during the next decade. The establishment of co-operatives both in the public and private sectors of business, the extension of credit facilities by certain enterprising indigenous banks, and the emergence of private financiers offering hire-purchase facilities, all these will no doubt help to swell the ranks of bicycle users.

Moreover, the present-day users of bicycles in this country are steadily going up numerically. In addition to more and more Government employees, including the telegraph and telephone messengers, the electricity outdoor workers, the postal delivery peons and the police patrol men using the cycle as an essential means of transport, others like factory and field workers, office boys, domestic servants, milkmen, grocerymen, fruit and vegetable sellers, newspaper vendors, school-going children, and a large number of white-collared office staff have all resorted to and depend on bicycles for their daily errands.

One of the brilliant ex-Ministers of the Central Cabinet, during his tenure of office in the Ministry of Commerce and Industry, had made a thorough and deep study of this particular industry and expressed himself thus: "The cycle is a poor man's conveyance and is used by the workers and not by the aristocracy. A time will come, when in relation to the vast population of the country, at least ten per cent. of them must use this vehicle." If ever even a portion of this guess comes true, it may be possible to visualise a bright future for this essential industry.

Foreign Exchange Saved

Before the import of complete cycles from foreign sources was banned by Government legislation, as a result of tariff enquiry, to protect and develop the Indian industry, the average c.i.f. value of the British makes was about Rs. 100 each. The large-scale manufacturers started with a per pack value of essential imported components at Rs. 80 per cycle in 1952, which, within a short span of seven years, has been progressively cut down to Rs. 4.50. The small-scale manufacturers will get a per pack value of Rs. 10 during 1959. This shows the tremendous strides that have been made by these pioneers in India in their manufacturing programmes and how expeditiously they have achieved spectacular success.

Besides certain essential components like B.B. axles, raw materials such as cold-rolled steel strips, bright hexagonal steel bars and free cutting steel have yet to be imported. Nickel anodes and consumable items like plating salts and some chemicals have also got to come from foreign countries. In order to save foreign exchange further, one or two of the more progressive major manufacturers have planned shortly to manufacture some of the intricate and costly essential components, now being imported, and to procure locally the other items, so that their model cycles will soon be cent per cent Indian. As and when any of the steel mills in India are able to produce the right type of all steel items to the correct specification and cater to this industry, the import of these items may also be eliminated, but that is not likely to happen in the immediate future. As for nickel, Canada has the world monopoly and there is no other source producing this essential brightening metal.

In all, the value of imports allowed, inclusive of components, steel items and chemicals, at present works out to about Rs. 30 per cycle. There is thus a difference in c.i.f. value contents of about Rs. 70 per cycle between the previously imported complete ones and the present-day indigenous makes. In one single year alone, namely, during 1959, on the estimated output of one million bicycles, there is thus a foreign exchange saving equivalent to about Rs. 7 crores. If there is such a large annual saving by establishing one industry like the bicycle, it could well be visualised what colossal savings would ultimately result to India's foreign exchange budget, when all other essential industries have been established in this country.

Market for Spare Parts

Apart from the mounting demand for manufactured components of complete cycles, there exists a huge market for spare parts, not only for fast-wearing friction parts but for others as well. These are for the replacement market to be put on to those cycles which are already on the roads in India, currently estimated at four million. Many of them imported, as well as Indian-made, have long been in use and major repairs and replacement of parts are necessary to put them back into working shape. Regular and methodical service after sales is a rare phenomenon as far as cycles are concerned. To cater to this market alone is a colossal task.

Instead of the small-scale producers attempting to make a number of components of not approved quality, it would be better if each one were to specialise in one article of approved quality and standard. There is a heavy responsibility attached to them to improve the quality of their products and find consumer acceptance. The Government, besides giving them financial help, should also infuse into them quality control consciousness.

As a highly respected and knowledgable person in the cycle selling business in Madras remarked a few years ago, from the factories, each and every machine has to be brought to the individual cyclist to serve his transport needs. This is the vital function of the distributing trade and, although the distributors' part may not appear spectacular, they are like the canals that take the life-giving water from the reservoirs to the consumers or like the electric transmission lines that take the electrical energy from the mighty power-houses to the users. The distributors form an essential part of this business and some of the early comers in this field are mainly responsible for popularising this mode of transport in India.

Traders

During the period preceding independence, import was the only source of supply and there were four or five hundred importers, mainly situated in the seaport towns. They had their own trade channels for distributing their stocks, either through sub-dealers or stockists in the interior who came and bought supplies from their shop windows. They themselves covered the needs of the markets in their locations and in the immediate neighbourhoods. The port dealers had not only to finance their own imports, but also to subsidise temporary financial accommodation to their sub-dealers and small interior stockists. The margin of profit

to these distributors, though attractive for some years, gradually shrunk and at one time they had to be content with the sale proceeds of their imported packing cases. But many of them continued in the trade undaunted, as they had the vision, the foresight and the supreme confidence in the products they handled. Some well-known British makes are already being manufactured in large quantities in this country and many of these distributors continue their business dealings with the leading Indian makers and enjoy a good turnover on reasonable margins of profit.

With the establishment of the industry in India, the pattern of the distributing trade has also undergone changes to some extent. Many new-comers had entered the field immediately after the cessation of hostilities, as then the margins of profit on imported bicycles were very attractive and there was quick and easy money to be made. Some of them soon burnt their boats and retraced their steps, when the margins fell and costs mounted up, as a result of tariff protection and imposition of heavier import duty. But the earlier traders whose faith was unshaken by such temporary setbacks continued and expanded their activities by opening up branches of their own in the interior towns. New dealers sprung up in unrepresented areas. Almost all of them got encouragement by way of allotment of quotas, from the large-scale indigenous manufacturers, as mutually they respected and recognised each other's merit and the worthy contributions both had made towards building up of this essential industry. On a modest scale, the number of cycle dealers and distributors, both big and small, number about 1,500 to 2,000 covering all vantage points in the country.

Employment

The establishment of bicycle industry in India has offered employment opportunities to about as many as ten thousand factory workers. To this number if the innumerable men engaged on cottage-industry basis and all the personnel employed by the wholesalers, retailers and traders in the various distributing outlets are added, the total manpower dependent upon this one industry alone will amount to more than half a lakh. Considering that a majority of this number has come into it within about a decade, the results are fairly satisfactory.

The manufacture of cycle parts of a good and lasting quality is a high precision job, requiring costly and most modern type of machinery. All these involve heavy capital expenditure. Some of the major manufacturers have acquired, at enormous cost, almost all the latest designed plant and machinery, with a view to attaining self-sufficiency. The gross block of fixed assets of the four major manufacturers, including plant, machinery and buildings, aggregates about Rs. 7 crores. In addition, they have to invest in raw materials to cover at least three months' requirements and also find adequate funds to meet large current operating expenses. In all, the entire bicycle industry carries a heavy investment. The industry, as also the trade in general, contributes annually quite substantial sums towards Central revenues by way of income and super taxes, customs duties and port dues and to State Governments in the shape of purchase, sales taxes, etc.

It is a happy augury that the quality of Indian-made cycles and cycle components has continuously and consistently improved in recent years. Many of the manufacturers have become conscious of the fact that the maintenance of high quality is the prerequisite to secure customer acceptance and approval and thereby effect increased sales of their goods. It has been found that the two large manufacturers, who had foreign collaboration, maintained a high standard and enjoyed ready and rapid sales for their products, without the least sign of resistance. The Indian Standards Institute has also set standards for many of the cycle parts and for this purpose valuable co-operation and assistance was forthcoming from both the companies.

Protection

The bicycle industry came under the purview of a tariff enquiry, first by the Commission in 1949, when a protective duty of 60 per cent. of the c.i.f. value was imposed. Again, in 1953, the then Tariff Board recommended a specific duty of Rs. 60 per cycle. Simultaneously, adjustments by restriction were also made in the quantum of allowed imports of cycles and cycle parts. These and other Governmental assistance from time to time, no doubt, helped to foster the growth of the indigenous industry. Another enquiry by the Tariff Board is in the offing and the result of the findings and recommendations of this august body will be watched with very keen and vital interest by all concerned, both in the industry and the trade.

Development Council

The year 1955, saw the formation of Development Councils for various industries and that for cycles was one of the earliest to function. The Council consists of Government authorities such as Industrial Advisers, senior officers of the Ministry of Commerce and Industry, technical experts of manufacturers and representatives of traders. The Development Officer of the particular industry is designated as the Secretary. The main function of the Council is to act as a corollary to the Development Wing and to acquaint Government with the problems and if possible shape the policies to help promote the industry on right lines. The Council also keeps the outside members informed of the progress the industry is making and has called on them to formulate proposals for its future well-being. This set-up is no doubt helping to pave the way for a better understanding and appreciation of each other's problems between the Government and the industry.

Association

A Cycle Manufacturers' Association was formed in Calcutta in 1943, with the then existing three units as its founder members. The activities of the Association were dormant for a few years, first as a result of the war, and then in the years immediately following the cessation of hostilities, as the importers held the sway over the business. This institution got into full swing when more and more manufacturing units came into being. It has now on its membership roll all in the large-scale, almost all in the medium-scale and a few in the small-scale sectors. Besides providing its members with information, it has a vital role to act as liaison between Government and its members on matters affecting the latter's interests. The Association is affiliated to and run by the Indian Chamber of Commerce, Calcutta. It is also an associate member of the Federation of Indian Chambers of Commerce and Industry and the All-India Organisation of Industrial Employers at Delhi. This Association has now come to be recognised as the representative body of the bicycle industry in India.

The prices of Indian-made cycles set by the large manufacturers to the dealers and distributors range from Rs. 120 to Rs. 180, in some cases inclusive of saddles but without other accessories such as bells, carriers, stands and lamps. All these manufacturers, whether they are situated at Bombay, Calcutta, Delhi or Madras, have observed the convention of each evolving a uniform delivered price to the dealers' destination, anywhere in India. They absorbed in their costs the transportation charges. The established prices depended upon their individual costs and the desired profit margins. It is, however, very noteworthy that they have not enhanced their prices to the trade, in spite of spiralling material costs, mounting labour rates and increasing overheads. Whatever fluctuation in their price structure has come about is only as a result of an increase in the rate of sales-tax. By and large, it has been accepted that the pricing policy followed by cycle manufacturers is equitable and fair. The dealers and distributors are at liberty to fix their own prices to the consumer, depending upon market conditions, the demand and supply positions and the reputation of the products that they handle.

Export Prospects

The emphasis now is on export of bicycles, as in every other section of engineering goods, with a view to earning the much-needed foreign exchange. Some of the leading cycle manufacturers are fully seized of the importance and necessity to export and have actually exported small quantities of their makes. But they have their peculiar problems to face up to. They have neither the attractive colour options nor possess the large volume to tend prices down, so as to be able to compete with the cycles exported from more advanced cycle producing countries. The export models, to be acceptable to intending buyers in the neighbouring countries, have to be priced lower in comparison with the Indian market prices. This is uneconomical to the Indian producer and will result in a loss to him. It is considered unethical, under the provisions of the G.A.T.T., for any Government to finance such exports, to the detriment of the interests of other nations. However, the Japanese have very cleverly circumvented these difficulties, by giving adequate income-tax relief as an incentive to their cycle exporters, so that they may be able to fix export prices lower than domestic prices. Some of the Indian cycle manufacturers are the first to contribute voluntarily towards a fund, to be administered by their own Association, to afford some relief in export losses. The Government of India has a distinct duty and responsibility to render additional help to offset these losses, as a result of the price differential.

Tubes

With the rapid and robust growth of the bicycle industry in India, certain other adjunctive industries have been sponsored and have come into being in recent years. The most important among these is the establishment of two steel tube mills, one by the Indian Tube Company near Calcutta, a joint venture of Stewarts, Lloyds and Tatas, and the other by the Tube Products of India near Madras, as a result of collaboration of Tube Investments (United Kingdom) with Murugappas. These two tube mills now essentially cater to the tube requirements of the bicycle industry and to some extent to electrical transformer manufacture. It is anticipated that they will, in course of time, extend the scope of their programmes to cover the needs of other tube users. The first named firm, with the ready availability of Tata's skelp, is producing bright steel by conversion. The Tube Products of India has also planned to turn hot-rolled semi-bright strips into cold-rolled bright steel, of close tolerance. It is also authoritatively understood that Tatas, the largest steel producers in the private sector, have submitted a scheme to the Government for manufacturing certain alloy and tool steels, so far not attempted in this country. With the increasing tempo of industrial development, this is a highly essential industry and the earlier the sanction is granted the better it will be for all.

Parts

Apart from the permission given to complete cycle and cycle parts manufacturers for making all the components they are capable of, special sanction has also been accorded to some *entrepreneurs* to make only friction parts, such as chains and free-wheels. One of the chain manufacturers is expected to make not only bicycle but also all other industrial chains.

There also exist in the country certain manufacturers of so-called accessories such as bells, carriers, chain-guards, saddles, stands and last but not least, lamps. A fairly high standard has been accomplished in making these accessories, with the possible exception of lamps. Two lamp units have been commissioned but their quality has not reached the stage of perfection. A third unit is merely assembling lamps from imported components. Although the lamp is an essential accessory, the statutory law for its compulsory use is yet to be legislated by some of the State Governments. But this is bound to come soon, as the safety of both the passenger and the pedestrian is involved. It is understood that a new scheme has been submitted to Government to make dynamo lamps indigenously, in collaboration with a well-known British manufacturer. This certainly deserves approval, as, when compulsory legislation in the use of lamps does come into effect, the demand for quality makes will be very great.

Next Stage

The next transitory stage, from the bicycle as a means of quick individualised transport, is the moped. The mopeds are motorised pedal cycles and are entirely different from motor cycles or scooters. These machines have been well developed in some of the Western countries and are largely used there. They are priced midway between the motor cycles and cycles. When they do come to be produced in India, the price range at which they may be sold is anticipated to be within the reach of the average middle-class man and some of the high paid wage-earners.

All said and done, the bicycle industry has taken the pride of place among the essential industries in the light engineering section. It has made stupendous strides in the short span of its existence and marched along from strength to greater strength. A large measure of credit for this signal achievement of healthy development is due to the sponsors. This has no doubt resulted in enhanced reputation to the Indian industrial sphere as a whole.

To the vehicle itself, no better description could be given nor higher compliment bestowed, than in the apt saying of the eldest statesman, Mr. C. Rajagopalachari, who had the rare privilege and the deserved distinction, of being the first to preside over the destinies of independent India. His wise words run as follows:—

"A cycle is better than a horse, an elephant or a motor, as it does not need any food or petrol. It is better than hiking, as it is a swift means of transport and costs little for its upkeep. To a man, a cycle is like his wife and to a woman like her husband, but while the husband may be despotic and the wife may be nagging, the advantage of a cycle is that it does not speak."—*All Rights Reserved.*

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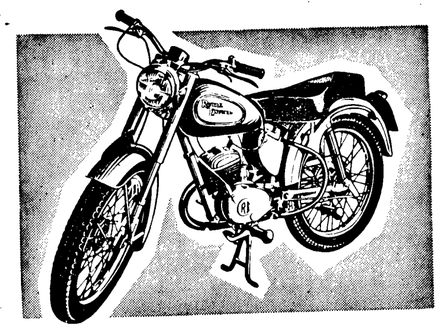

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—A. D. Shroff,
President,
Forum of Free Enterprise.

TOURIST INDUSTRY IN INDIA

TRENDS AND PROSPECTS

By R. K. CHOUDHURY

IN the world of today, when science has shortened distance and time and shrunk the very size of the globe, no nation can truly live in isolation. To know the unknown, to see the unseen, to set the sails of investigation into the ocean of knowledge have always been the supreme desires of man and Tourism is concomitant to man's innate urge to know more, to see more and to enlarge his vision and deepen his understanding of the lands and people other than his own. In a large measure, tourism has sprung from man's compelling desire for enjoyment, not the base, the carnal type but the more refined, which comes through meeting different people, seeing different countries and learning to appreciate their sense of values. But, to an economist, tourism, in particular international tourism has a greater meaning to convey. He perceives it as an industry that has opened up new vistas for the play of economic emancipation, providing a very potent contribution in building the financial resources of a country.

The tourist industry in India is comparatively young and has assumed some stature only in the last few years. However, the industry has given remarkable evidence of a very rapid and steady growth and has carved for itself the place of a potential foreign exchange earner apart from being a promoter of goodwill and understanding between different nations of the world—the social value of which cannot at any rate be underestimated. In the analysis presented below an attempt has been made to examine the value and volume of tourism in India and their relative standing in comparison to other countries.

Who is a Tourist?

Not every foreigner who comes to India is a tourist. The basic screening tests to place tourists and non-tourists in their respective compartments are provided by the length of stay and the motive of visit. According to the international definition, a tourist is a person who visits another country for a period of not less than 24 hours and not more than six months for legitimate non-immigrant purposes, such as sightseeing, recreation, sports, health, study, pilgrimage, business, official duties or family reasons.

How Big is the Inflow?

By any reckoning, the performance of tourist industry in India, when adjudged by the number of arrivals in the recent past, is commendable. The number of foreign tourists has risen from a mere 17,000 in 1951 to 92,000 in 1958. The increase since 1956 is more pronounced. According to statistics released by the Department of Tourism, Government of India, more than two lakhs foreign tourists (excluding those from Pakistan) visited India during the last three years. The inflow of foreign tourists in 1958 registered an increase of 14.5 per cent. over that of the year 1957. Among the 92,000 tourists to whom we stood host in 1958, 20 per cent. came from the U.S., 16 per cent. from the U.K., 3 per cent. from Germany, 2 per cent. from France, 15 per cent. from Ceylon, 12 per cent. from British East Africa and 32 per cent. from other countries. The proportions of tourists entering India by air, sea and land were 61 per cent., 33 per cent. and 6 per cent. respectively. About half the number of tourists in 1958 visited India for reasons purely of pleasure, a tenth for reasons of business, 1/13 for visit to relations or friends and the remainder had purposes like attending conferences, official duty, in transit, etc. Among the Americans 68 per cent. visited India for sightseeing, 6 per cent. for business, 2 per cent. for visit to relations and the remainder had other objects of visit. The corresponding percentages for the tourists from the United Kingdom were 34, 14, 11 and 41, respectively.

Economic Importance of Tourism

The need to develop tourism as a major industry for earning foreign exchange was greatly felt after the last world war. By 1952, 16 countries of Western Europe combined to form the "European Travel Commission," with the avowed object of stepping up the dollar earnings from tourists from the U.S. and succeeded in their mission, as the dollar earnings from the U.S. tourists exceeded the earnings from any other single industry. The lead provided by these nations was a sufficient pointer to the economic gains that can accrue to a nation on travel account. At the present juncture, when India's economy is striving hard towards achieving a self-generating developmental stage, the part played by all those industries which serve to add to our foreign exchange reserves, is nothing short of heroic. In the wake of national consciousness for increasing the earnings of foreign exchange, the role of tourism should, by no means, be minimised. The recent foreign exchange difficulties in implementing the second Plan have brought in their train the hopes that all those industries designed to improve our country's balance of payment should be attended to intensively. The contribution made by tourism in this direction, howsoever meagre it might be in the beginning, cannot be underrated in view of the immense potentialities which exist today for stepping it up by a rational planning of this organised business. Perhaps, a better measure of judging the progress of the industry is to study the past figures of the balance of payments on foreign travel account:

Balance of Payments on Foreign Travel Account

(Rs. crores)

Year	Receipts	Payments	Balance
1950	4.2	14.6	—10.4
1951	7.7	25.0	—17.3
1952	9.8	9.9	— 0.1
1953	7.1	13.6	— 6.5
1954	9.4	12.0	— 2.6
1955	10.8	12.8	— 2.0
1956	15.5	13.4	+ 2.1
1957	16.0	6.8	+ 9.2
1958	17.5	7.3	+10.2

Source: *Reserve Bank of India.*

The figures are not very impressive when compared to the country's total physical exports as a whole, but a comparative study of the earnings from tourism and the commodity exports will place tourism in its right perspective. A glance at the following table will show that tourism is among the first seven of the foreign exchange earning industries of India and, if the same tempo of progress is maintained, it will probably rank, in the near future, as the fourth, next only to tea, jute and cotton textiles.

(Rs. crores)

	1957	1958
Tea	123.40	136.54
Jute yarns and manufactures ..	114.87	103.82
Cotton yarns and manufactures ..	66.58	52.63
Metallic ores and metal scrap ..	49.80	30.35
Cotton raw and waste	18.66	21.20
Oils, vegetable, mineral and animal	19.81	12.35
Tourism	16.00	17.50
Fruits and vegetables	18.80	21.16
Tobacco	12.88	16.29
Mica	8.67	9.84
Wool	12.93	9.85
Gums and lac	8.59	7.16
Spices	8.48	8.83
Hides and skin, raw	6.99	7.85

One of the main objectives of the second Plan is to expand the employment opportunities. The tourist industry as an employment generator ranks higher than most of the industries in India. This is because, from a broader angle it employs the services directly or indirectly of contractors, producers, manufacturers, traders, craftsmen, musicians, artists, hoteliers, transport and tour operators, etc. Although no reliable statistics are available to reveal precisely the exact size of employment in the industry, its importance cannot be ignored.

India and the World

During the last decade, the figures of foreign tourists visiting Italy, Switzerland, United Kingdom, France, Japan, etc., have recorded tangible progress. According to the statistics compiled by the International Union of Official Travel Organisation, the volume and value of tourism in respect of certain countries of the world during 1957 were:—

	Number of tourists (volume)	Earnings (value in Rs. crores)
U.S.A.	651,474	374
U.K.	1,180,432	282
Italy	14,629,020	181
France	4,310,000	233
Switzerland	6,828,925	195
India	80,544	16
Japan	84,211	31

The above figures decidedly do not tell a happy tale about India's progress in this sphere and lead us to a dreary appraisal of the value and volume of tourism in India. Although India is second to none in many of her attractions to the tourists, the annual inflow of tourists and the earnings therefrom are still a trickle as compared with the earnings of the other countries. For instance, in a small country like Italy, more than 14 million tourists who visited it in 1957, contributed Rs. 181 crores to her economy. Similarly, foreign exchange equivalent to Rs. 135 crores, Rs. 232 crores, and Rs. 233 crores were earned on travel account by Switzerland, the U.K. and France, respectively. But, for a vast country like ours, the earnings from 80,000 tourists amounted just to a meagre sum of Rs. 16 crores.

Structure of the Industry

Like any other industry, tourist industry also comprises a number of enterprises dealing in the sale of goods and services to the tourist. Tourism has been given its greatest impetus by many enterprises like hotels, carriers, tour operators, curio and antique dealers, entertainment houses and a large variety of shopkeepers—which together form the bedrock of the industry and are its principal beneficiaries. In this respect, findings of a scientific survey undertaken by the Department of Tourism in 1957, for studying tourist preferences and spending habits brought to light an interesting quantitative distribution of the total tourist expenditure among different segments of the industry. According to the survey, 49 per cent. of the tourists' expenditure in India was incurred on board and lodging, 30 per cent. on internal transportation, 18 per cent. on shopping and the remainder on entertainments.

No estimates about the shares of the tour operators in India and the carriers employed by the tourist for his journey to and fro India could be arrived at, as these expenses are usually incurred by him in his country of residence.

Undisputably, hotels and carriers emerge as the chief beneficiaries among the ancillary enterprises, so a further examination of these aspects appears to be quite befitting.

There are at present luxurious hotels in all the principal cities of India, mainly run by private enterprise. The total number of beds available is estimated to be of the order of 10,000, which falls considerably short of the total requirements. The Hotel Standards and Rate Structure Committee appointed by the Government of India had recently made a pointed reference in its report to the need for stepping up the existing bed capacity by at least 50 per cent., in order to cope with the increased inflow of tourists to India in the not very distant future.

Further, in recent years the innovations in the technique of carrier operations and facilities to the passengers have greatly accelerated the pace at which men have been able to overcome the barriers of space and time. The pattern of travel to a particular region is very much dependent upon the international carriers operating through that area. In all, 22 international airlines and nine shipping lines are engaged in carting and carrying tourists to and from India. The predominant role played by air transport in the movement of tourists can be seen from the table given below:

Number of Tourists who Visited India

Mode of transport	1956	1957	1958
Air	48,343	52,000	56,171
Sea	13,911	24,107	30,646
Land	3,633	4,437	6,385
Total ..	65,887	80,544	92,202

Travel Plant

Let us focus our spotlight of investigation on the travel plant, the production value of which is second to none in the industrial field, though it is conceded that the nature of production of the travel plant in the tourist industry is at variance with that of its counterparts. For the plant or machinery which is the *sine qua non* of our industry, we do not have to look far. Such architectural wonders like the Taj where romantic beauty is best by moonlight; the Ajanta and Ellora frescoes which vibrate with the clash of cymbals and the music of dancing; the Khajuraho temples where the architect, in surpassing traditions, had transcended style, these are all creations which have surpassed their creators. There are few beauty spots in the world which could vie with our Kashmir for its natural grandeur. From times immemorial, the charms of our landscapes, the bewitching sights of the eternal snows, the smiling fields full of swaying corn have been eulogised in verse and painted on canvas. And, in the more recent years, the mighty development projects have sprung up as symbols of India's resurgence and her carving to forge

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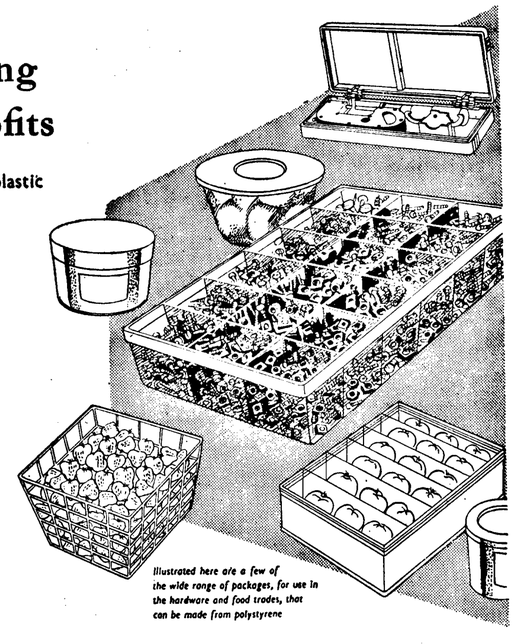

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Planning for Tourism

Economic development of a country is preconditioned by an effective utilisation of its resources and, during the initial "take-off" period, progress on all fronts is most essential if the accelerated economic growth is to be achieved in the shortest possible time. Tourism, by any stretch of imagination, is an economic activity, apart from its ambassadorial role of fostering goodwill among the nations. Strictly speaking, all economic life involves some sort of planning in the form of striking a balance between the resources and the requirements. So a rational plan for tourism must correlate the tourist requirements and resources. This is more or less the basis of the Five-year Plan for the development of tourist facilities in India. During the span of the second Plan, the Central Government is likely to incur expenditure to the tune of Rs. 1.10 crores over and above its contribution of Rs. 1.33 crores to the finances of the State Governments for the promotion of tourist facilities in the States. The plan aims at (*a*) developing facilities, for both foreign and Indian tourists, in about 25 selected places and (*b*) providing amenities for Indian tourists at a number of places not frequented by foreign tourists.

Travel Publicity

What makes people travel? One might think that carriers, tour operators, hotels are the primary moving force in the vast pattern we call tourism. It is beyond any shade of doubt that the lure of foreign destinations is by far the most potent factor in inducing people to travel. What would carriers, hotels, tour operators and travel agents do if the basic urge to see places was not aroused in the public?

Perhaps, the most significant change of our time has been the increasing role played by publicity in attracting more and more tourists from foreign lands. Tourism in the present era is an organised trade and depends for its revitalisation on the application of the most modern techniques of promotion of which publicity forms the central chord. The basic driving force of any travel publicity campaign is to create a new demand for travel and elevate the existing demand, in addition to providing a wealth of information to our would-be customers. Today men in the travel trade are imbued with the desire to establish contacts with a large number of their potential customers through different vehicles of promotion, namely, press, films, radio and television programmes, books, lectures, window displays, etc.

Although it is difficult to predict with any degree of accuracy, what percentage of increase will result from any concerted publicity drive, yet it can be safely surmised that the progressive increase in the volume of tourist traffic to India in the past few years, is, *inter alia*, the outcome of the years of accumulated campaigns of the Government of India through the media enumerated above. The Department of Tourism have brought out a large variety of tourist information material in the form of guide books, pamphlets, folders, films, tourist maps and picture post cards. Nearly six million items of tourist publicity material are being distributed every year through travel agents, hoteliers and our offices abroad. The Government of India are spending approximately Rs. 25 lakhs on an average every year on tourist publicity.

Competition

One of the most striking features of the tourist industry is that the competition among the neighbouring countries for attracting tourists from a common market has a pious role to play rather than washing dirty linen in one another's face. Tourism is immune to the evils of cut-throat competition so common in other industries. Paradoxically, unlike in other industrial spheres, competition among geographically proximate countries helps tourism rather than hinders it. An American or a European tourist does not travel all the distance at considerable expense of time and money to see India alone. He comes to the East and covers in his itinerary four or five countries in a single trip. While much has been done on a national level for wooing more tourists, promotion of tourism can be better attended to on a regional basis. The illuminating example of the 16 nations of Europe forming the European Travel Commission, acting collusively in the United States with the slogan "Come to Europe," had already been cited above. The South Asian Regional Conference held in New Delhi in April last recognised the need for countries of the region taking co-ordinated steps for tourist promotional activities. It has been found from experience that the promotional activities of one country benefit its neighbour and the potential advantages of joint action by countries geographically close to one another such as India, Pakistan, Ceylon, Burma, Nepal and Afghanistan are quite obvious.

Efficiency of the Industry

As progressive industrialists in the travel field, it is our moral and business obligation to investigate the extent to which we have catered to the needs of the tourists. Human behaviour is not amenable to direct measurements and, in the absence of such measures, the promoters have to rely upon researches carried out for studying the qualitative traits of human nature. With this end in view, the Government of India are conducting scientific surveys, on sample basis to know the reactions of the tourists on matters affecting the travel trade. One such survey was conducted in 1957 and the second one is in progress at the principal ports of departure since May last. The findings of such surveys are apt to play a vital role in briefing the authorities about the existing gaps, who, in their turn, are better equipped to fill them up at places where they are most needed.

Prospects by the End of Third Plan

On this front, much is to be achieved by way of attracting more and more tourists to our country. One has to make very cautious forecasts about the future, as the tourist trends are liable to sudden changes due to unpredictable developments on the international horizon. The world tourist industry is experiencing a boom and its importance may be gauged from the fact that, during 1958, over a hundred million tourists travelled from one country to another.

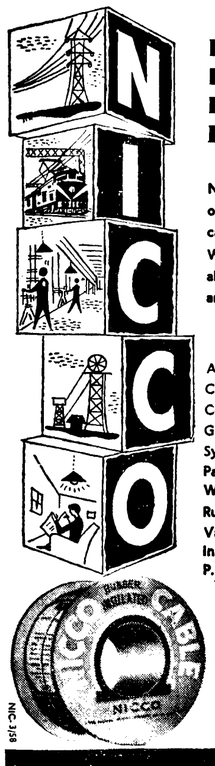
What does the world-wide trend portend for India? To the extent the buoyant economies and the general note of optimism in the Western world lead to increased prosperity in trade and travel, India's share in the soaring movement of travellers would also record a further upswing. The travel prospects for 1960 are quite bright. Against the background of the past achievement, the volume of tourist traffic to India by 1960 will be of the order of 125,000. With cross ocean travel time slashed so dramatically by the advent of jets operation to India and with the widespread appeal of economy class fares, it will not be erring on the high side to estimate a hundred per cent. increase within the span of the third Plan, bringing in its wake an increased revenue to the country and more prosperity to the ancillary industries feeding on tourism.

Today and Tomorrow

The foregoing analysis bears testimony to the remarkable progress of the industry, accomplished in a brief span of time. While the industry deserves credit for the rapid growth that it has attained, the requirements for its further advancement have not reached the point of saturation and the industry has to traverse a long way to achieve the maturity already attained by many countries of the world.

To sum up, the first stage of the journey that the tourist industry in India has completed, it may be said that both the value and the volume of tourist traffic have registered a significant advance in the last three years or so. Though the increase, when measured by the standards of most of the advanced countries, is not heartening, the fact remains undisputed that the trends of the past are encouraging and, given conducive conditions in the form of peace, the rate of increase will touch new heights and one may expect it to surpass the trends hitherto witnessed—more especially so, when the revolution in air transport is about to transcend our frontiers. The promise of an expansionary impulse in the tourist traffic should on no account be permitted to detract us from the problems which we face today in the multi-dimensional set-up of tourist industry and which, more honestly speaking, constitute the weakest links of the industry. The most vexing of these is the perennial shortage of hotels. The acuteness of the problem is brought home to us, when we consider that, whereas the tourist arrivals in the last seven years have increased by 440 per cent., the bed capacity in the hotels has not matched the pace and has increased by only 25 per cent. The problem will assume still greater gravity if we fail to accelerate the pace of development of hotel industry in the immediate future.

Thus, it can be concluded that tourism in India is in its infancy and far more people can be enticed to our land. The active participation in the tourist promotional activities by the Government and other agencies in the travel field hold out promise of rich dividends in the future. We are waiting for the day when travel to India flowers into its golden age and India becomes a tourist paradise.—*All Rights Reserved.*



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Industrial Development of Gujarat

Vast Possibilities Foreseen—A Practicable Plan Outlined

By Dr. M. D. PAREKH

[A keen desire to speed up economic development of their respective regions seems to be one of the chief reasons for the demand for splitting up the composite Bombay State into Gujarat and Maharashtra, a demand which has now been conceded by the powers-that-be. In this article, the author, one of India's gifted chemical engineers and General Manager (Technical) of the National Rayon Corporation Ltd., Bombay, gives a fascinating picture of the industrial potentialities of Gujarat. It is to be hoped that his thought-provoking contribution will provide an urge among entrepreneurs with guts to take up one or more of the industrial projects outlined by him. The author has also given an idea of the infra-structure investment which the State will have to make as a prerequisite for stimulating industrial growth in Gujarat.—Ed.]

GUJARAT is a part of Bombay State and is situated on the Western Coast of India. Its geographical area is about 56,000 square miles and about 20 million people live there. For its geographical area, Gujarat has a very long coast line and very many ports, some of which can be developed into major ports. There are several rivers in this region, most of them small, some fairly medium-sized. The percentage of forest area is almost the least in the country. Communications in Gujarat are fairly poor. A part of the land is very fertile, while another is desert; the bulk of land is in between. Industrially, it is an undeveloped area.

Prerequisites for Industrial Development

Land:—As in the rest of India, so also in Gujarat a very large proportion of land is under cultivation. In the whole country, in the year 1956-57, net area sown was 320 million acres—out of a total land area of about 800 million acres—that is, about 40 per cent. of the land is under cultivation. Perhaps there will be no other comparable country in the world, with 40 per cent. of its land area under cultivation.

Industry requires very little land area. Because of a high percentage of land under cultivation and because of several other reasons, most of the time industry has to be established on land which is under cultivation. Under the present system of working, it usually takes several months before a small piece of agricultural land is made available to industry. The system of making land available to industry should be so arranged that, within a few days, the land can be handed-over to the industry with just compensation to the landowner.

Water: Gujarat has several rivers, small and medium-sized, Most of the rivers are flooded during the monsoon months and water drains in sea shortly after the monsoon. Very few rivers are perennial. This river water must be conserved. Big and small dams are being built across these rivers. This process may be hurried up and continued. This will not only conserve the surface water but also considerably increase the subsoil flow of water, making it an assured supply of water to nearby water wells. Water thus conserved should be made available for domestic use, industry, and irrigation, generally in that order.

Power: At the moment, there is no hydro-electric power in Gujarat. In future, perhaps some power will be generated by water. Present power requirement of Gujarat is met mostly by thermal power plants. In the immediate future, the additional power required will be generated mostly by thermal power plants. There is nothing basically wrong with this development. However, attempts must be made to make this thermal power available to industry as cheap as possible. Planning and development of thermal power plants, therefore, are extremely important. Size of power plants should be increased whenever possible, in order to reduce the cost of production. Big process industries, consuming large quantity of low pressure steam, may be persuaded or permitted to put up big thermal power plants not only for its own use but for sale of power to others as well. In this way, a great economy in production of both power and process steam can be achieved. Big thermal power plants may all be connected to a suitable power grid system. Since power is one of the important requirements and sometimes an important raw material for industries, there may be no duty on electricity till the area is industrially developed. An intensive study may be carried out in this region to find out whether there are any places where hydro-power can be generated with profit.

Communications

Good communications are extremely important for rapid industrial development of any region. Careful and quick attention should, therefore, be given for the development of ports, railways, roads, etc.

Ports: Gujarat has several ports which can be developed into major and medium-sized ports. At least two or three ports should be developed as major ports. Kandla is being developed as a major port now. Attempts may be made to develop Bhavnagar as another major port. There will be some difficulties in developing Bhavnagar as a major port—difficulties such as silting, communications, etc. These are not insurmountable difficulties. Bhavnagar is suggested to be developed into a major port, because (*a*) it can be developed into a major port, (*b*) import requirements of Ahmedabad can easily and cheaply be satisfied by this port, (*c*) it can satisfactorily meet the future requirements of imports and exports of various industries that will be developed in the hinterland of this port, (*d*) an integrated petroleum refinery may be erected in this area, and (*e*) it is due to be connected by a broad-gauge line with the rest of the country.

Several other ports should be developed into medium-sized ports. This will considerably help in transporting rather cheaply materials from one place to another in the country as well as help in the movement of imported and exported materials.

Railways: A large area of this region, namely, Saurashtra, where are located some heavy chemical industries now, and plenty more industries will be established in future, is not connected to the rest of the country by a broad-gauge railway. This is a great handicap for the industrial development for this region. Bhavnagar-Tarapur broad-gauge railway line should be constructed immediately. The scheme of joining Kandla with Viramgam by means of broad-gauge railway should be expedited.

Roads: Road communication in Gujarat is extremely poor. This slows down the movement of men and materials considerably, makes such movement more expensive and tiresome and, consequently, hinders the rapid industrialisation of the region. All attempts should, therefore, be made to construct more and better roads, in order to improve the road communication. Perhaps, it would be better and advisable, in this particular case, to be a little bit ahead of requirements than behind.

Minerals: It is essential to know what the soil contains, in order to develop industry based on local minerals and resources. Unfortunately, the geological survey work all over the country is going on at snail's speed. This lack of geological survey considerably delays the rapid and proper industrialisation of the country. It also hurts the economy of the country—by way of great drain of valuable foreign exchange for imports of such materials which could have been procured and processed locally if only the availability of such minerals could have been proved by geological surveys quickly. The geological survey work is so important that it is suggested that all over the country this work should be increased at least twenty-fold by the end of the third Five-year Plan. Greatest importance and urgency should be attached to the geological survey work in Gujarat.

Finance: It is assumed that, because of the present economic tempo in the country and because of the financial institutions, Government and private, established to help the industry and trade, and because of the fiscal policy of the Government of India, necessary finance required for the industrial development of Gujarat will be available.

Nothing worthwhile will be achieved, unless the people and the Government of the region have the will and desire to industrialise the region rapidly. All steps should, therefore, be taken by the people and the Government to see that this will and desire grew, and grow rapidly.

Soda Ash

The coastline of Saurashtra is, perhaps, about the best in the whole world for the production of good quality sea salt. It is so, because rainfall in this region is very small, sun shines most of the year, there is continuous breeze and sea water has less impurities. There is almost, for all practical purpose, no limit to the total quantity of salt that can be made in this area.

Extensive deposits of good quality limestone have been discovered at very many places in Saurashtra.

Soda ash, a basic heavy chemical, is required in large quantity. The ideal site for location of a soda ash factory is one where good quality and cheap salt and limestone are available, and is fairly close to consuming industries. Unfortunately, no such ideal site at the moment exists in India. Saurashtra, however, is the closest to the ideal site, and that is why all the first three soda ash plants were established here. Recently, the fourth, but the smallest, soda ash plant has been established outside this area.

It is estimated that, by 1966, the requirement of soda ash will be 600,000 tons and 1,200,000 tons by 1971. It is likely that the bulk of this requirement will be manufactured in Saurashtra—perhaps 1,000,000 tons per year. After the third new plant in Saurashtra goes into regular operation, the total production of soda ash in Saurashtra will be about 180,000 tons per year. In the next 10 to 12 years, this production will be increased more than five-fold. The existing soda ash plants undoubtedly will expand, but new plants will have to be established.

A fourth plant for the manufacture of soda ash may be erected at port Albert Victor. This is one of the best sites available. Good quality salt can be produced in this area as required. Limestone will be available from nearby areas. Railway line comes upto port Albert Victor and there is good road communication. Port Albert Victor can be developed into a medium port without much difficulty. The capacity of this plant should be 200 tons of soda ash per day and should be so planned as to increase the capacity to 1,000 tons per day in a short time.

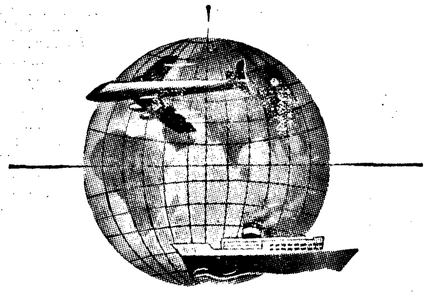
Caustic Soda

It is expected that, by 1966, consumption of caustic soda may be of the order of 400,000 tons per year. By 1971, this consumption may go as high as 800,000 tons per year. Even though it is likely that a larger portion of this requirement will be manufactured by electrolytic plants, a substantial quantity of caustic soda will perhaps be manufactured by chemical process. For the chemical process, soda ash and limestone are the main raw materials. In order to reduce the cost of production of caustic soda by the chemical process and make it comparable to that of electrolytic caustic, the size of the plant should be fairly large, perhaps about 50,000 tons a year minimum. It would be desirable for the expanded and newer soda ash plants in Saurashtra to put up facilities for the manufacture of caustic soda by chemical process.

Manufacture of caustic soda by electrolytic process requires a large quantity of electricity, about 4,000 kwh. per ton of caustic soda. A properly planned, big enough thermal power plant, well integrated with a process plant which may consume large quantity of low pressure process steam, may produce and sell electricity cheap enough for an electrolytic caustic plant. At a future date, therefore, a 100-ton a day electrolytic caustic soda plant may be considered near Sabarmati. The surplus chlorine produced in this plant can be used for the manufacture of ammonium chloride fertiliser. The necessary quantity of ammonia may be available from the synthetic ammonia plant located in this area.

Nitrogenous Fertilisers

One of the most essential conditions for rapid industrial development for any country is that it should be able to produce food sufficient for its population. Hungry people cannot work hard and efficiently. Unfortunately, even today, India has to import food. Attempts are being made continuously to achieve self-sufficiency in food. Evidently, the efforts made so far are not sufficient. Hungry India will have to work hard and efficiently,



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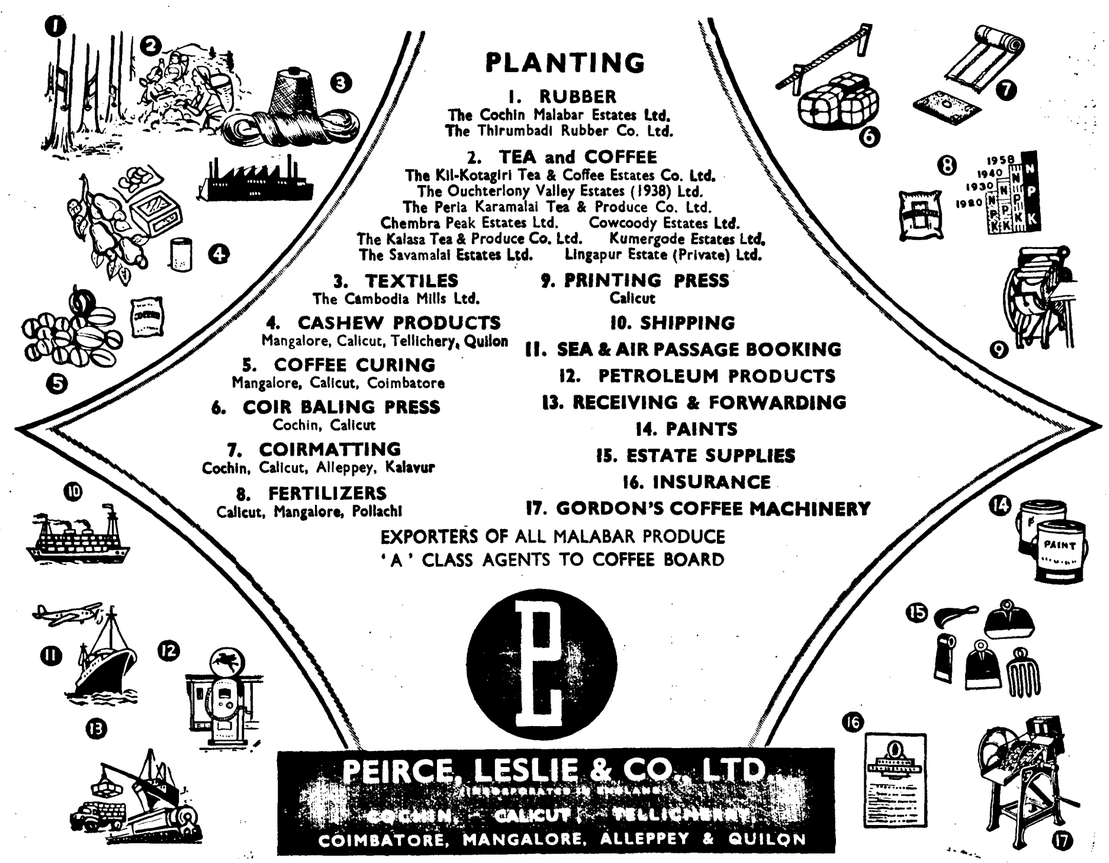

in order to achieve self-sufficiency in food.

Proper application of nitrogenous synthetic fertilisers to soil, along with other good farm practices, will considerably increase the yield of foodgrains per acre of land. Experiments have been carried out on various soils of the country and for various crops of the country to study the effect of nitrogenous synthetic fertilisers on foodgrain yields. From the experiments it appears that an application of one ton of nitrogen to soil in the form of synthetic fertilisers will give an additional yield of eight tons of foodgrains. A synthetic nitrogenous fertiliser plant, say, similar to Sindri, producing about 100,000 tons of nitrogen a year, may be looked upon as producing 800,000 tons of additional foodgrains every year. One of the best methods, therefore, of meeting the food shortage in the country and increasing the yield of foodgrains is to manufacture and apply the maximum possible quantity of nitrogenous synthetic fertilisers to the Indian soil. The present annual production of nitrogenous fertilisers in the country is only about 400,000 tons. By 1966, this production must go up to at least 1,500,000 tons. The Ford Foundation Team, who recently studied this problem, said, in their report, that it is desirable that the production of nitrogenous fertilisers be of the order of 3,000,000 tons per year by 1966. If not by 1966, perhaps a little later, say, by 1971, India will be producing 3,000,000 tons of nitrogen as fertilisers. This would mean that there will be about 30 nitrogenous fertiliser plants in India each one being as big as the Sindri fertiliser plant.

Increasing quantity of coke will be consumed by the ever-expanding soda ash industry in Saurashtra. Large quantity of coke is being consumed now in numerous engineering works in Gujarat and Bombay. Some coke is also required by cement industry. The freight on one ton of coke or equivalent coal is about the same.

The Sabarmati is a meeting place of both broad-gauge and metre-gauge railways. Adequate quantity of water is available from this river. One of the best schemes, therefore, for the manufacture of synthetic nitrogenous fertilisers will be to put up coke ovens for the production of coke at Sabarmati. The capacity of this oven should be to handle 1,000 tons of coal a day. The bulk of 650 tons coke so made may be sold to consumers direct. The balance of coke can be used for the production of synthesis gas. The coke oven gas and synthesis gas made from coke can be converted into synthetic ammonia and then to nitrogenous fertilisers. The capacity of the plant should be about 100,000 tons of nitrogen per year. The recovered organic chemicals such as benzene, phenol, etc., can be used as basic raw materials for the existing and future dyes, intermediates and chemical industries located in Gujarat.

Phosphatic Fertiliser

Plant must have balanced food. So long with nitrogenous fertilizer it is essential that phosphatic fertilizer is applied to soils. By 1966, it is expected that about 750,000 tons of P_2O_5 will be made in the country. The main raw materials required are sulphuric acid made from sulphur and imported phosphate rock. Manufacture of superphosphate requires very little water and power. Gujarat must produce about 50,000 tons of P_2O_5 by 1966. Four plants, each having a capacity to make about 12,000 tons of P_2O_5 per year along with a 100-ton a day sulphuric acid plant, may be located with advantage at Surat, Baroda, Ahmedabad and Bhavnagar.

The consumption of petroleum products will rapidly increase in India along with industrial development. The present consumption of petroleum products is equivalent to about 7 million tons of crude oil per year. By 1966 this consumption may easily go up to 14 million tons and by 1971 up to 24 million tons. At the moment, very little indigenous crude oil is used. Bulk of the crude oil is imported.

Oil has been discovered in Assam and in Khambhet area in Gujarat. Two petroleum refineries are being put up in Assam and Bihar by the Central Government, based on Assam crude oil.

Putting up the oil wells and prospecting of crude oil in Khambhet area are going on rather slowly. Unless this work is hurried up, it will take years before a refinery can be put up based on Khambhet oil. It would be ideal if the imports of crude oil at the present level can be stabilised and all increased future requirements of petroleum products can be met from indigenous crude oil. Every attempt should be made to achieve this goal. However, considering the speed at which all matters connected with petroleum industry is carried out, it seems almost certain that increasing quantities of crude will have to be imported and refined in India at least for a few years to come. This can either be done by the existing three foreign firms or by the Government of India or by the Indian private sector. For very many obvious advantages and reasons, it is desirable to have all future petroleum refineries installed either by the Government of India or the Indian private sector.

Oil Refineries

Petroleum refinery, petro-chemicals and synthetic nitrogenous fertilisers, based on refinery waste gases, constitute a huge industry. Petro-chemicals and synthetic nitrogenous plants are in both the private and public sectors. It is not very clear but it appears that the policy of the Government of India is that no more petroleum refinery will be allowed in the private sector. This would, perhaps, also mean that the existing three foreign petroleum refineries will not be permitted to expand. The work to be done on petroleum refinery, petro-chemicals and synthetic fertiliser is onerous. Speed is extremely important. It, therefore, appears advisable that the Indian private sector, if willing, may be permitted to put up petroleum refinery.

Because of several considerations, it is suggested that a petroleum refinery, having a capacity to handle 2 million tons of crude oil per year, may be installed in Bhavnagar area based on imported crude. At a later date, when indigenous crude is available in sufficient quantity, the imported crude may be gradually replaced with the indigenous one. Undoubtedly, such replacement might necessitate some changes in the equipment and processing conditions. But these can be done without much difficulty.

Very many people wrongly believe that the big petroleum companies of the world control almost all the production of crude oil and petroleum refineries of the world and that no refinery can be put up or crude oil can be had without getting their consent or co-operation. Nothing can be further from the truth. It is true that the big petroleum companies control a major portion of the petroleum industry. But it is also true that, besides these big companies, there are several independent petroleum refiners in the world, some of whom are quite willing to share their knowledge and know-how with Indian business men: And there are more crude producers than petroleum refineries in the world who are quite willing to sell their crude at the world market price to any customer anywhere in the world.

The suggested petroleum refinery at Bhavnagar should be a well integrated unit. Besides the usual products such as petrol, kerosene, diesel, fuel oil, etc., it should also manufacture lubricated oils. From the refinery waste gases, methane, ethylene, and propylene may be recovered. The balance of the refining gases should obviously be used for the manufacture of nitrogenous fertilisers.

Sugar Mills and Industrial Alcohol

Gujarat must produce sufficient food for her people by utilising less land area than is being done at present. This can be achieved if real-honest effort is made. Improving the method of cultivation, better seeds, more irrigation, pest control, land reforms and use of synthetic fertilisers will enable farmers in a very short time to grow two pounds of farm products where only one pound grew before.

Gujarat needs about 100,000 tons of sugar per year now. It may need twice as much sugar by 1971. Very little sugar is produced in Gujarat at present. Sufficient sugarcane can be grown in Gujarat. It is, therefore, suggested that, before 1971, at least ten sugar mills should be established in Gujarat, each having a capacity to make about 20,000 tons of sugar per year. Most of these plants will have to be located in South and Central Gujarat, with perhaps one in Saurashtra.

Molasses is a by-product of sugar mills. Along with 200,000 tons of sugar, approximately 80,000 tons of molasses will be produced. Bulk of the molasses should be converted into ethyl alcohol or industrial alcohol. Annually, about four million gallons of alcohol can be produced. A part of this alcohol could serve as a raw material for the rapidly growing pharmaceutical, fine chemical and dye industries in Gujarat. The balance of alcohol may be exported from Gujarat to other parts of the country or can be used as power alcohol for automobiles. This can easily be done by mixing a certain proportion of ethyl alcohol with petroleum.

Pulp and Paper

Gujarat has very little forest area. The only forest area which can be utilised for a pulp and paper plant appears to be Dang and the nearby area. Gujarat has no modern big size pulp and paper industry. It is suggested that a pulp and paper mill, having a capacity of at least 30,000 tons of product a year, be located in the Surat-Vyara area. Bamboo, the principal raw material for the mill, may come from Dang and Tapti valley areas. Since these forests are not very extensive, the cutting of bamboo and reafforestation of bamboo should be done very judicially. The yield of bamboo from these areas is very approximately estimated as one to two tons per year per acre. This is a very poor yield, indeed.

Dendrocalamus strictus—a variety of bamboo which grows widely all over India and is extensively used as a raw material for pulp and paper manufacture, matures in about four years' time. The demand for pulp and paper in the country is expanding very rapidly. The limited forest area in India and the present method of reafforestation, perhaps, will not yield sufficient quantity of bamboo for the ever-growing pulp and paper industry. Therefore, there will be a shortage of bamboo in the country very soon. In order to meet this contingency, it is suggested that cultivation of bamboo, perhaps on the lines of cultivation of sugarcane, should be started on fairly large areas, first in the present forest areas and afterwards in other suitable areas outside the forests. It is expected that the yield of bamboo from cultivated areas will be considerably more than the present yield from the forest area. Since Gujarat is one of the poorest areas as far as forests are concerned, it is suggested that cultivation of bamboo on a fairly large scale should be started in the existing forest areas and outside.

Solvent Extraction Plants for Groundnut Oilcake

India is one of the best countries in the world for growing groundnuts. The total production of groundnut (nuts in shell) in the country increased from about 2.9 million tons in 1952-53 to about 4.3 million tons in 1957-58. One-sixth of this total production grows in Saurashtra alone. It is estimated that the yield of groundnuts in Saurashtra this year will be about 700,000 tons. Oil from groundnuts is usually expelled by mechanically operated expellers or village *ghanis*. Residual oil content in the cake usually varies between 7 and 9 per cent. This cake is mainly used as cattle food, fertilisers, and some is exported The oil content of the cake is thus mainly wasted—for cattles do not need so much fat in the feed, and, as a fertiliser, oil has very little value. Groundnut cake, for that matter all other oilcakes as well, containing high percentage of residual oil should be solvent extracted in order to recover all the remaining oil.

In Gujarat, particularly in Saurashtra, by employing better agricultural practice, by using better seeds, by manuring, by applying synthetic fertilisers, by pest control, etc., attempts should be made to double the present yield of groundnuts from the same area by 1966 and the total production of groundnut should be increased to at least 1.5 million tons. All the cakes that will be produced should be solvent extracted.

Capacity

Plants are being put up in Saurashtra and elsewhere for solvent extraction of oilcakes. Since the economics of solvent extraction plant is very favourable and since the bulk of the plants can be fabricated locally, the chances are that several more and bigger solvent extraction plants will be put up in Saurashtra and some perhaps in Gujarat. The capacity of a solvent extraction plant should be at least to handle 20,000 tons cakes a year; 100,000 tons a year would be preferable.

Almost all the solvent extracted groundnut cake is exported now. In foreign countries this cake is used as cattle feed, mixed with other ingredients. This export of cake brings in very valuable foreign exchange to India. All attempts should, therefore, be made to increase this export trade and maintain it in competition with the other exporting countries of the world such as South American countries and Africa. At the moment, perhaps by law, extracted cake cannot be used as a cattle feed in India. There must have been good reasons for doing so in the past. There seems to be no reason now, why extracted cake cannot be used as cattle feed in India, particularly when Indian extracted cake is used as cattle feed abroad. A system, therefore, should be established quickly to make it possible to use extracted cake as cattle feed in India.

There are very many good places in Gujarat where solvent extraction plants can be erected. Some of these are Bhavnagar, Veraval, Porbandar, Jamnagar, Dhoraji, Gondal, Godhra, etc.

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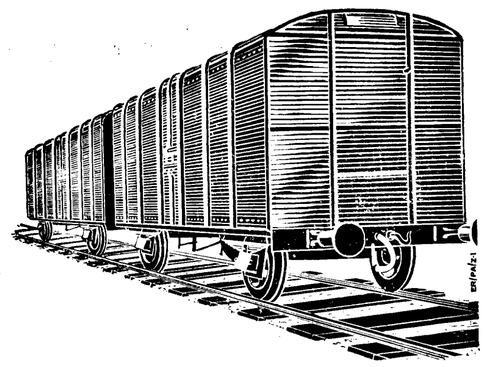

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goods will go up. It is estimated that, by the end of the third Five-year Plan the rate of imports of capital goods might become Rs. 300 to Rs. 400 crores per year. Certainly India cannot afford to import machinery and capital goods at this rate and, for the stability and continuous healthy expansion of the Indian industry, it is essential that the bulk of the capital goods required should be made in India.

The Government is quite aware of this problem and they are correctly planning to establish foundries, forge shops and structural shops under the ægis of the National Industrial Development Corporation. It appears that the purpose of these shops will be to make heavy cast iron and cast steel goods and to make heavy forged materials as required by the engineering works in the country for the fabrication of heavy equipment. It is also the policy of the Government of India to regulate imports of plant and machinery from time to time, so as to enable private engineering works to make progressively more and more capital goods in India.

The private sector, however, will have to take more interest in this field. Some of the existing engineering works are doing a good job of manufacturing capital goods in the country. However, the combined capacity of all these engineering works is far short of what is desirable and required. It is, therefore, likely that several fairly big well integrated engineering works will be established in the country for the fabrication of plant, equipment and components for such industries as soda ash, caustic soda, fertilisers, petroleum refinery, cement, rayon, sugar, dyes, pulp and paper, chemicals, etc.

Consumption of dyes in the country is going up rapidly. Even after establishing several plants, large and small, for the manufacture of dyes, intermediates and dyes worth about several crores of rupees are being imported. Undoubtedly, the existing plants will expand their manufacturing facilities and new plants will be established completely to meet the demand of this important commodity indigenously.

Starting from the basic raw materials available in India, several steps are necessary before finished dyes can be manufactured. Usually, initial steps are more difficult than the final steps. Almost all the present dye factories carry out the last few steps and manufacture dyes mostly from imported intermediates and some chemicals. Plans are being made now to put up plants for the manufacture of intermediates and chemicals required for the dye industry.

Pardi near Bulsar in Gujarat, where a well planned integrated plant for the manufacture of dyes is being operated, appears to be one of the best sites for location of a plant for the manufacture of intermediates and chemicals. It is suggested that a plant for the manufacture of intermediates and chemicals, costing about Rs. 20 crores may be established there.

In a very short time, viscose rayon has become one of the major industries of the country. The main raw materials required, in order of importance, are pulp, caustic soda and sulphur. It appears that, in a few years' time, pulp will be available indigenously. Sufficient grade caustic soda will be manufactured in India soon. Sulphur has to be imported for all industry till an indigenous source is available. As soon as pulp is available indigenously in sufficient quantity, the rayon industry will become an essential industry of the country, for then a part of the fabrics will be available from forest area—that is, from bamboo, etc., instead of from land which is in short supply—that is, Indian cotton, and from imported cotton which requires valuable foreign exchange.

To some extent it is possible to replace long-staple imported cotton by rayon staple made in India. Attempts should be made to use more rayon staple fibre to replace imported long-staple cotton. Also, attempts should be made to change the clothing habits of people so as to progressively decrease the use of imported staple cotton and increase the consumption of staple fibre made from indigenous raw materials.

It is desirable that, by 1971, the total production of rayon filament yarn and staple fibre be of the order of 500 million pounds. A well integrated rayon plant for the manufacture of filament rayon and staple fibre may be located in the Bulsar-Pardi-Billimora area.

Miscellaneous Industries

Plants for the manufacture of ceramics, stoneware, refractory materials may be put up in Sehore, Morvi, Than, Vankaner, Vijapur, etc. Manufacture of electric motors, transformers, and other electrical goods may be carried out at Baroda, Ahmedabad, Bhavnagar, etc. Manufacturing facilities for light engineering goods and steel re-rolling mills may be established at such places as Anand, Baroda, Ahmedabad, Bhavnagar, Rajkot, Jamnagar, etc.

To summarise the main suggestions:

1. *Soda ash*: Increase the production capacity of soda ash in Gujarat upto one million tons per year by 1971;

2. *Caustic soda*: Increase the production capacity of caustic soda to 200,000 tons by 1971;

3. *Nitrogenous fertiliser*: Two or three plants should be established;

4. *Phosphatic fertiliser*: Combined capacity of 100,000 tons of P_2O_5 may be achieved by 1971;

5. *Petroleum refineries*: One based on imported crude and another based on indigenous crude should be established. The combined capacity should be to handle 4 million tons of crude oil per year by 1971;

6. *Sugar mills*: Total capacity should be to manufacture 200,000 tons of sugar per year by 1971;

7. *Pulp and paper*: 60,000 tons per year by 1971;

8. *Solvent extraction plants*: Sufficient to handle 800,000 tons oil-cake per year by 1971;

9. *Integrated engineering works*: Two such engineering works should be established, each requiring a total finance of Rs. 15 to Rs. 20 crores by 1971;

10. *Dyes intermediates*: An integrated plant for the manufacture of intermediates and chemicals may be established, requiring a total finance of about Rs. 20 crores by 1971;

11. *Rayon*: The total production of filament rayon and staple fibre may be raised to 80 million lbs. per year by 1971.

In order to achieve these results quickly and efficiently, Gujarat can and should (*a*) produce sufficient foodgrains for her people and other land crops as required by industry. It should: (*b*) develop Kandla and Bhavnagar into major ports; (*c*) develop Bedi, Navlakhi, Port Okha, Porbunder, Veraval, Port Albert Victor into medium-sized ports; (*d*) improve the ports of Jakhan, Mundra and Surat; (*e*) connect Bhavnagar with Tarapore and Kandla with Viramgam by broad-gauge railway; and (*f*) improve road communications. (*g*) And, above all, there should be will, desire and determination on the part of the Government and the people to achieve these results, and make Gujarat one of the best industrially developed regions of the country.—*All Rights Reserved.*

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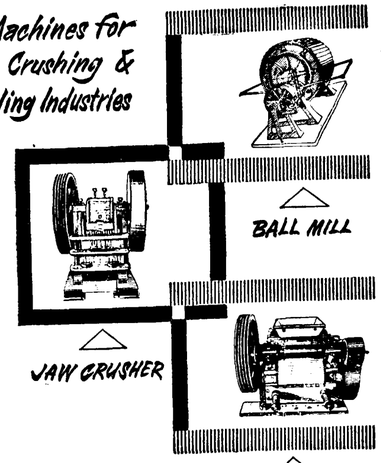

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-ARUNA

Traders' Co-operation Gives New Life to Shellac

By C. R. B. MENON

PRESIDENT, INDIAN LAC EXPORTERS ASSOCIATION

SHELLAC is one of the minor items among Indian export commodities, and annually earns some seven crores of rupees in foreign exchange at present. The price of shellac has fallen steeply since 1954; for instance, the price of TN grade of shellac which touched Rs. 183 in December 1954 fell to Rs. 57 in April 1958 and is Rs. 72 at the time of writing. Foreign demand has also been on the decrease and the exchange earned by the export of the commodity, which was Rs. 14.8 crores in 1951-52 and Rs. 11.7 crores in 1955-56, declined to Rs. 5.9 crores in 1958.

The phenomenon of a steep fall in shellac prices during a period of general rise in prices was largely due to the lack of finance in the hands of all the parties concerned with the commodity, namely, growers, manufacturers and shippers. The financial anæmia was largely caused by the withdrawal of two large exporter firms from the trade: between them these firms used to employ approximately a crore of rupees in the trade, and the withdrawal of this relatively large sum created a void which the remaining operators were unable to fill. The resources of the latter were small to medium; as they had no holding power, they were always in a hurry to sell and underquoted one another in foreign markets. This underquoting led to a spiralling fall in prices.

Another cause was that synthetic resins had started invading industries, particularly the gramophone record industry, which had previously used shellac on a large scale. The diminished foreign offtake was not compensated by any increase in domestic demand (which at the best of times was less than ten per cent. of the total production), and this worsened the tendency of prices to fall.

A third factor contributing to the fall in prices was the prohibition of forward trading in lac: this prohibition resulted in the disappearance of speculative finance from the trade and the consequent diminution of the total finance available to it.

In view of the continued fall in prices, the Government constituted the Shellac Export Promotion Council in June 1957. After it had taken stock of the position and diagnosed the principal causes of the decline in prices, the Council proposed to the Government of India that, with a view to stabilising prices and preventing the competitive underquoting referred to above, Government should impose a variable export cess and operate it so as to maintain export prices at a reasonable level. Mr. K. B. Lall, I.C.S., then Joint Secretary in the Ministry of Commerce and Industry, met the exporters at a meeting held at Calcutta in May 1958, and discussed the proposal with them. After discussion, he suggested that, instead of Government fixing minimum export prices and enforcing them by means of a variable export cess as proposed by the Council, the exporters should organise themselves into an association and fix minimum export prices. The exporters acted upon this suggestion with alacrity, formed themselves into the Indian Lac Exporters' Association, and drew up a schedule of minimum export prices for the various grades of shellac, seed-lac and refuse lac. Government on its part assisted by bringing the export of lac under export control and arranging that licences would be issued only on the production of an "Export Scrutiny Slip" granted by the Association and verifying that the prices were not less than the prescribed minima.

These energetic steps stemmed the fall in prices, and, in July 1959, that is, a year after the price stabilisation scheme was initiated, prices started to move above the minima fixed by the Association. On the enlightened view that unduly high prices would weaken the competitive position of shellac *vis-a-vis* synthetics, the Association decided to fix maximum prices, too, and these were prescribed as from the 28th September 1959.

During the major portion of the period May 1958 (when the Association came into being) to July 1959 (when prices rose above the minimum fixed by the Association), the internal prices in Calcutta and upcountry had sagged 10 to 15 per cent. below the minimum prices. This divergence between export prices and internal prices was due to the lack of holding power on the part of producers of stick-lac and small manufacturers of seed-lac and shellac; they could not hold on to stocks for any length of time, and their competitive selling resulted in a decline of internal prices. Such decline, however, meant abnormal profits to the exporters, but their Association took the enlightened and altruistic step of mopping up a proportion of these profits. For the latter purpose, the Association imposed on exports a fixed levy of Rs. 2 per maund and a variable levy calculated on the difference between the export and internal prices. The proceeds of the fixed levy referred to were earmarked for publicity and research, and the proceeds of the variable levy were earmarked for the creation of a buffer stock—a desideratum for the stabilisation of prices. At the time of writing (November 1959), the total of the levies so far collected is in the neighbourhood of Rs. 15 lakhs.

I believe there would be no parallel in India to this instance in which exporters of a commodity worth Rs. 7 crores per annum have voluntarily taxed themselves to the extent of Rs. 15 lakhs a year for financing publicity, research and buffer stocks.

The Indian lac export trade may now be said to be the best organised trade in India. From the foregoing account of the doings of the Indian Lac Exporters' Association, it will be seen that that Association has acted with energy, maintained an admirable degree of discipline, and pursued policies which pay due regard to the short-as well as the long-term interests of the shellac industry.

Before closing, a brief statement of the activities of the Shellac Export Promotion Council might also be given. The Council has proceeded on the basis that the most urgent threat facing shellac today is that of supersession by synthetic resins, and that the remedy would be to organise scientific and industrial research directed towards new and extended uses for lac. For this reason, and as the export problems were being competently handled by the Indian Lac Exporters' Association, the Council has concentrated on research. It has had signal success in the matter, as it has been able to develop several products each of which promises to make up for the markets lost by the commodity hitherto. The following important items may be mentioned:

Shellac coated jute bag—The Council has developed a jute bag coated with a composition of shellac and cashew shell liquid. The coating has made the bag leak-proof, moisture-proof, water-proof, corrosion-proof and heat-proof (up to 90°C). These qualities have made the bag suitable for the packing of a variety of substances, particularly chemicals and seeds. The following extracts from a communication received from the Central Food Technological Research Institute, Mysore, will be of interest:

"The product has been found to be a good moisture barrier. The water-proof property of the product, as determined by standard tests, is quite satisfactory similar to any tarpaulin cloth available in the market.

"It was found that this material is quite resistant to products acidic and mild alkaline in nature such as ammonium sulphate, superphosphate, lime, cement, etc. Even under accelerated conditions of storage, the material was found to be distinctly superior to the conventional jute bags used at present.

"It seems that this coated jute fabric could be quite advantageously used for the packaging of all varieties of fertilisers, cement, lime, titanium dioxide, carbon black and similar other materials which need moisture protection."

The Council hopes that, eventually, these coated jute bags would sell in lakhs and use up several thousand tons of the cheaper grades of lac.

Shellac-based paints—Enamel and emulsion paints for different purposes have been developed, and small quantities have been manufactured and sold. These paints are comparable to quality paints on the market, but are only one-third or half their cost. When formal test certificates have been received, the Council would be in a position to undertake publicity and propaganda for these items.

Shellac adhesive—A powerful adhesive has been evolved from shellac and is at present undergoing trials. It is likely to prove suitable for the plywood, sports goods and other industries which are at present handicapped by the scarcity of imported adhesives.

Modified resin from shellac—A resin based on shellac has been produced, and it has been found to be resistant to alcohol, water, heat, mild acids and alkalis. The resin has all the virtues of shellac and some possessed only by synthetics.

As will be appreciated, the further development of any of the abovementioned items would involve the use of substantial quantities of shellac. Considering that the total production in India is only about 25,000 tons, additional uses to the extent mentioned would make a very material difference to the future of the industry. On the whole, shellac prospects today may be said to be good; by next year, they might be excellent.—*All Rights Reserved.*

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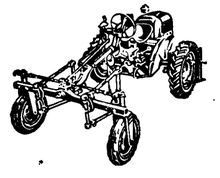
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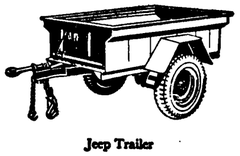
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DEVELOPMENT OF PAPER INDUSTRY

Further Growth Depends On Removal Of Two Bottlenecks

By CHIMANLAL P. SHAH

THE Chinese are credited with the invention of the craft of paper-making. Though the invention is placed as far back as third or second century before the Christian era, it is only in the eighth century A.D. that we find completely reliable evidence of a well-established tradition of paper-making (of course, by hand) in India. Before the advent of the British, paper-making ranked as one of the foremost indigenous cottage industries of this country. Still surviving rare manuscripts, State documents and miniature paintings provide an eloquent testimonial for the durability and high quality of our indigenous paper made in ancient and mediæval times.

Rise of Modern Paper Industry

Renowned Dr. Carey, a pioneer in more than one field, started the first modern paper mill in a small way in Bengal in the latter half of the eighteenth century. It was, however, rather a precursor than a pioneering effort. The real beginning came only in 1867, when a modern paper mill was started at Bali in Bengal. A number of other mills were started soon after in Bengal and elsewhere. Some of the more important landmarks were the starting of the Titaghur Paper Mills (1882), Bengal Paper Mills (1889) and India Paper Pulp Company (1918).

The industry made very good progress during the First World War of 1914-18. However, the post-war slump in all the markets had its effect on the paper industry as well. The paper mills were particularly hard hit by the severe competition from imported paper. The matter was ultimately referred to the Tariff Board in 1924 and, on the recommendation of the Board, the Central Government passed the Bamboo Paper Industry (Protection) Act of 1925 and imposed the duty of one anna per pound on imported paper. The protection from competition by foreign imports thus provided to the indigenous industry not only helped the existing units, but also encouraged the establishment of newer paper manufacturing units. During the following decade, a number of new units entered the field, the more well known of them being the Punjab Paper Mills (1925) which was later taken over by Shree Gopal Paper Mills, the Star Paper Mills (1936) and the Orient Paper Mills (1936).

The production rose from about 40,000 tons in 1932-33 to about 59,000 tons in 1938-39. Then came the Second World War followed by the abrupt cutting off of imports of foreign paper and the consequent shortage of paper which gave a tremendous impetus to the industry. This golden opportunity was fully utilised by the domestic industry and production almost doubled during the six years of war:

(Tons)

Year	Production
1938-39	59,200
1940-41	87,600
1942-43	91,500
1944-45	100,000

The overworking of the equipments during the war years and the difficulties of renovation—combined with generally unsettled political and economic conditions—considerably slowed down the progress of the industry. By 1950-51, there were 17 units in the industry producing 114,036 tons, a rise of only 14 per cent. over the previous quinquennium. This was the position when our National Government launched the first Five-year Plan in 1951.

The First Plan

The Planning Commission laid down the following targets of production for the industry in the first Plan:

(Tons)

	Actual production in 1950-51	Targets for 1955-56
Paper and pulp-board ..	114,000	2,00,000
Newsprint	*Nil*	27,000
Strawboards and other boards.	22,000	52,600

As against these targets, the industry made fairly satisfactory progress as shown by the following figures of production of paper and paper-boards:

(Tons)

Year	Production
1951-52	135,091
1952-53	136,836
1953-54	137,301
1954-55	169,090
1955-56	200,000

A closer study of the figures reveals that, though a significant rise took place in 1951-52, the production of paper and paper-boards was more or less stationary in the following two years. In 1954-55, however, there was a marked rise and, by the end of the Plan period, the target of 200,000 tons was fully realised so far as paper and paper-boards was concerned. Newsprint, however, presented a sad contrast. As against the targeted production of 27,000 tons to be reached at the end of the first Five-year Plan (1955-56), the actual production was hardly 4,200 tons. In the case of straw-boards and other boards also, production lagged behind the target, largely due to lack of demand.

In passing, it may be mentioned that the programme of development envisaged in the first Five-year Plan was estimated by the Planning Commission to cost about Rs. 8 crores. Actually, however, the gross fixed investment in the paper and paper-board industry during the quinquennium is estimated by the same authority to have reached about Rs. 11 crores.

The Second Plan

For the second Five-year Plan period, the Planning Commission set forth the following targets for the industry:

(Tons)

	1955-56		1960-61	
	Annual rated capacity	Production (Estimated)	Annual rated capacity	Production
Paper and paper-board	210,000	200,000	450,000	350,000
Newsprint	30,000	4,200	60,000	60,000
Strawboard and other boards (excluding fibre-board)	59,300	32,000	59,300	35,000 to 40,000

The Planning Commission estimated that a sum of about Rs. 44 crores, over and above the investment of about Rs. 4.25 crores in the public sector projects, would have to be invested in the paper and paper-board industry during the second Plan period.

Against this background, let us study the performance of the industry in respect of paper and paper-board only (excluding newsprint and strawboards). The Planning Commission has recently given the following figures for the actual production for the first three years and tentative estimates for the last two years of the second Plan:

(Tons)

Year	Production
1956-57	197,000*
1957-58	219,000*
1958-59	261,000*
1959-60	290,000†
1960-61	320,000†

* Actual. † Estimated.

Thus, it appears that the Plan target of 350,000 tons may be slightly under-fulfilled. In the case of rated capacity, the shortfall is expected to be even higher. It must nevertheless be admitted that the growth of paper industry has been fairly rapid. Production has almost doubled in the course of the last five years, from 137,000 tons in 1953-54 to 261,000 tons in 1958-59. This rate of growth compares very favourably with the tempo of overall industrial development in our country.

The following production indices (base: 1951=100) tell the story eloquently:

	All industries	Paper
1953	104.2	105.9
1958	133.7	191.8

A comparative study of various industries shows that paper is one of the fastest growing industries in India.

Some Aspects of Paper Industry

An interesting aspect of this rapid growth of the paper industry may be noted here. This industry has grown mainly through the expansion of old units, rather than through establishment of new units. In the recent expansion of production, new units have hardly played any important role. As a result, the bulk of the production is steadily concentrated in a few big units. For example, in 1958, out of 19 units producing 253,000 tons, three largest units alone accounted for about 140,000, that is, about three-fifths of the total production.

In January 1957, the Minister for Heavy Industries announced that the Government has given permission for setting up of 22 new paper mills (apart from 21 existing units). But the licensees seem to be very slow in establishing the units licensed. It is reported that, in many cases, no start has been made, even though in many cases licences were given more than a year or so ago. In view of this light-hearted attitude of the licensees, the Government should, in the larger national interest, reconsider the licences issued and should, if found necessary issue fresh licences to compel early installations of the licensed capacity.

Demand Outpaces Supply

We have noted above that the industry's progress has been really remarkable. Nevertheless, there have been loud complaints of severe shortages of paper in recent years. There are several reasons for these shortages.

(a) Perhaps the most important single reason for the shortage is the heavy cuts imposed on paper imports as a result of foreign exchange crisis. In the last year of the first Five-year Plan (1955-56), we imported 50,000 tons of paper and paper-board (excluding newsprint and old newspaper). In 1958-59, the imports came down to barely a quarter of that quantity, namely, 13,000 tons. This, at once, created a sort of psychology of scarcity in the market.

(b) The scarcity is felt most acutely in the case of writing and printing paper. In this connection, it is pertinent to note that Government commandeering of a large part of indigenous production of these varieties has been a major factor accentuating the scarcity.

(c) One factor from the supply side is the lagging behind of production of writing and printing papers. Between 1955 and 1959, while production of all varieties of paper rose by about 50 per cent. and, that of packing and wrapping paper by about 90 per cent., production of printing and writing paper rose by only 38 per cent. Another factor from the supply side was the unfortunate shift of production in most mills from standard weights to heavier weights, so that the actual increase of production in *terms of reams* was considerably less than that suggested by the impressive figures *in tons*.

As a result of all these factors, acute shortage of paper has been felt during the last two or three years and, in some cases, prices have shot up sharply. This prompted the Government to ask the Tariff Commission to hold an enquiry into paper prices. The report of the Commission, which is keenly awaited by the public, may in all probability be published by the time these lines appear in print.

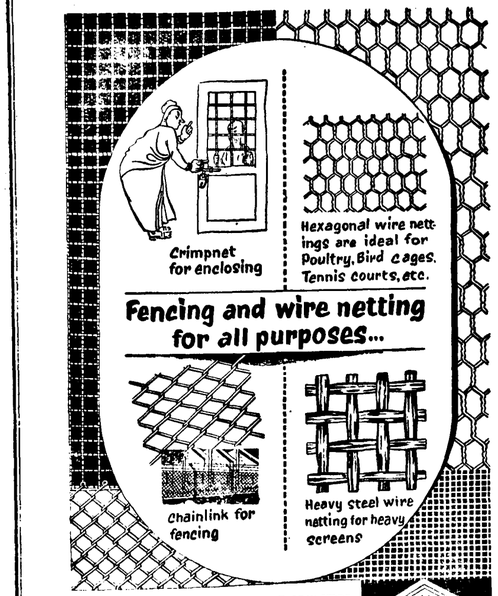
Assessment of Demand

The price question apart, the recent shortages have forced the attention of the Planning Commission and the Paper and Pulp Panel on a proper assessment of the current and future trends of demand for paper (overall as well as by sub-groups).

About the long-term demand trends, F.A.O. (a U.N. body) experts believe that (i) growing industrial output (rising at the rate of 10 per cent. per year) will augment the demand for wrapping paper and boards by 5 per cent. per year, (ii) paper consumption, in general, will further expand proportionately with rising population (roughly 1.5 to 2 per cent. a year), and (iii) the increased literacy will account for a 200 per cent. rise in demand for writing and printing papers and a 300 per cent. rise in demand for newsprint over the next two decades.

The Third Plan

Although these are the long-term projections for the world as a whole, they may be regarded as a rough indication of the growth prospects for the paper industry in India, too. So far as planning of immediate expansion in India is concerned, the Demand Sub-Committee of the Paper and Pulp Panel seems to have made some precise and definite estimates of the demand for paper during the third Five-year Plan. It is realised that, though the actual availability (that is, production *plus* imports) of paper and paper-boards may be about 350,000 tons in 1961-62, the first year of the third Five-year Plan, the unrestricted demand for paper and paper-boards may be of the order of 450,000 tons. The rate of growth of demand for paper is put at between 12½ per cent. and 15 per cent. per annum. On this basis, the Sub-Committee has suggested the following two



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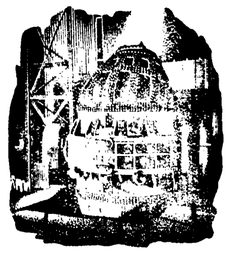
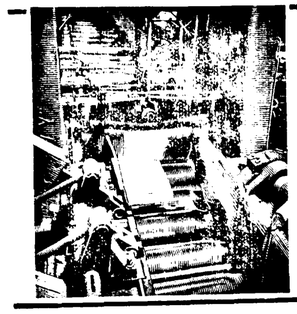
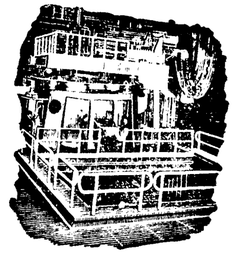

Bessemer Convertor at the Workingon Plant


Cogging Mill at Appleby-Frodingham Steel Works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Blast Furnace at the Appleby-Frodingham Plant

alternative sets of target figures for year-to-year rise in demand:

(Tons)

Years	12½% Progressive increase	15% Progressive increase
1961-62	450,000	450,000
1962-63	500,000	518,000
1963-64	570,000	595,000
1964-65	640,000	690,000
1965-66	720,000	800,000

Which of these two sets of target figures will be ultimately accepted is still a moot point. The final decision on the matter will be taken by the Planning Commission in the light of estimates of funds which can be allotted to the industry. The overall targets suggested by the Demand Sub-Committee for the various varieties of paper for the third Five-year Plan are as follows:

Item	Demand	Capacity
	(Tons)	(Tons)
Paper and paper-boards.	720,000/ 800,000	900,000
Newsprint	150,000	180,000
Strawboards	70,000	100,000
Pulp rayon	100,000	120,000
Pulp paper	100,000	120,000

The *per capita* consumption of paper in India is currently put at about 2 lbs., as against 10 lbs. in Egypt, 183 lbs. in U.K. and 412 lbs. in the U.S. Even if we fulfil the suggested targets for the third Five-year Plan, our *per capita* consumption will hardly rise to about 6 lbs. It is thus evident that even these targets are extremely moderate as compared with what is really needed to bring our consumption of paper in line with levels of advanced countries. Yet, it is estimated that, even in order to achieve this modest target, we shall require huge funds. According to Mr. H. P. Singhi, President of the Indian Paper Mills' Association, "during the third Plan period, we may require paper plant and machinery worth abut Rs. 108 crores at the rate of Rs. 3 crores for a 50-ton unit and maintenance, spares and stores worth about Rs. 4 crores every year."

Raising the Funds

Over one hundred crores of rupees is, by any yardstick, a very large sum, and the question may well be asked: Would it be possible to draw such large funds to this industry, most of which falls in the private sector? Let us look at the problem from the point of view of a potential investor. The most relevant data in this connection would be the index of distributed profits in this industry as compared with that for all industries in recent years:

(Base: 1950=100)

Year	All Industries	Paper
1953	110.2	117.8
1954	125.5	139.7
1955	138.4	201.0
1956	149.1	209.0
1957	146.4	217.6

With such an enviable record of dividend distribution, there is hardly any wonder that there is always a keen demand for paper shares among investors. All of the recent issues of old as well as new paper Mills have had excellent response in the capital market. There is, therefore, no reason to doubt the capacity of the paper industry to attract the requisite volume of capital for its expansion programme during the third Five-year Plan. The current easy conditions in the capital market are another favourable factor in the situation. Hence, with proper incentives from Government for capital formation, finance is not likely to prove a bottleneck for the industry.

Capital Equipment

Nonetheless, there are a couple of serious bottlenecks for the industry. The first of them is the capital equipment.

If our foreign exchange resources were unlimited, there would be no problem regarding capital equipment for the industry. We could have easily imported all the equipment required, but, under the existing conditions, we just cannot afford such vast sums on import of paper-making machines.

Then, the only alternative to the acceptance of defeat is to begin manufacture of such equipments in our country. As Shri Manubhai Shah has said:

> "It is a pity that progress of paper industry is dependent on supplies of plant and equipment and essential maintenance by spares and consumable stores like felts, wires, knives, blades, rolls, valves and pumps, etc., from abroad. So long as this position continues, the industry cannot hope to make rapid progress and catch up with the demand."

In order to develop manufacture of paper mill machinery in the country, a sub-committee has been set up by the Paper Panel. As a result, steps—however limited and small—are now being taken towards the manufacture of paper-making machinery. The Government has already sanctioned four schemes for manufacture of paper mill machinery and one more scheme is still under consideration, but the capacities sanctioned are still far short of our requirements for the current, the third and the subsequent Plans. It is to be hoped that the Government and the industrialists will take immediate and timely steps to set up the requisite capacity for manufacturing paper mill machinery in India.

Raw Materials

Bamboo and *sabai* grass have been the traditional raw material in India for making paper. Its present shortage and probable exhaustion in future constitute a constant headache for many a manager of integrated paper mills. One can hardly exaggerate the impelling need for a bold and comprehensive plan for plantation of these raw materials. But, even when all that can be done in this direction has been done, our bamboo and *sabai* grass resources may not prove adequate to sustain, on a large scale, long-term expansion of paper industry. We must, therefore, turn more and more to bagasse (sugarcane waste).

Bagasse looks like becoming an important raw material for the manufacture of high-grade writing and printing paper in India. At present, it is mostly wasted by being used as a fuel for sugar industry, of which it is a by-product. It is claimed that, roughly, one ton of paper can be made from bagasse at a cost ranging from Rs. 39 to Rs. 78 (about 5.6 tons of mill-wet bagasse yield one ton of paper). India has a very large supply of sugarcane bagasse. Assuming that 50 million tons of cane is crushed every year by the 160 sugar mills and the hundreds of *gur* and *khandsari* manufacturers, the yield of bagasse pulp at the rate of about 10 per cent. of the cane crushed would be about 5 million tons. There is thus vast scope for developing the paper industry with bagasse as the raw material. In fact, a few mills already have plans; one in Mysore, the Mandya National Paper Mills, which will shortly go into production with an initial capacity of 35 tons a day, will be manufacturing paper from bagasse. Other mills also like Shree Gopal are likely to use this raw material as supplementary to those which they are already using.

Straw, old rags, old paper records, hosiery cuttings, etc., are other raw materials some of which are being very widely used in this country. However, the use of straw as raw material is likely to develop in this country, as this can be used for the manufacture of newsprint, kraft, etc.

Role of Small Units

Unfortunately, it is only recently that the important role of small units (with a capacity of one to five tons per day) has been recognised. A big unit, with a capacity of 100 tons per day, costs about Rs. 7 crores—a pretty costly venture which few can afford to undertake. Further, it takes about three to four years to construct such a big unit. On the other hand, a smaller unit (with a capacity of one to five tons a day) would cost only about Rs. 3 lakhs to Rs. 5 lakhs and take much less time to construct. These small units would, furthermore, help to provide greater employment and regional dispersal and development of the industry. By the beginning of this year, licences for setting up 11 small units, with an aggregate annual capacity of 21,000 tons, have been granted. Much more, however, can and should be done in this direction.

But there is a crucial difficulty in establishing such small units. They do not have ther own pulp plants, under the existing stringency of foreign exchange, we cannot afford to build up an industry depending on imported pulp (even if there is no scarcity of foreign exchange, this type of dependence should, in the interests of independent economic development, be rejected). There is, therefore, great need for setting up separate pulping plants to supply pulp to paper mills—small as well as big. Three schemes, with an aggregate rated capacity of 200 tons per day, have already been sanctioned by the Government. The establishment of such pulping plants in other suitable areas in the country will enable better and more economic utilisation of the raw materials and will considerably reduce the load on our much-strained transport system.

Newsprint

Progress in this country with regard to the production of newsprint cannot be considered satisfactory at all. The targets of the first Five-year Plan were:

	Tons
Consumption	100,000
Production	30,000

whereas the targets in the second Five-year Plan are as follows:

	Tons
Consumption	120,000
Production	60,000

At the moment, however, there is only one newsprint mill, namely, Nepa Mills in Madhya Pradesh. This mill went into production only in 1955, and, after facing many teething troubles, it did not attain proper production on account of various factors, including bad planning. However, after many drastic changes were carried out in the plant, its production has lately come up and, at present, it is estimated at about 21,000 tons. When it attains full production, it may reach its target of 30,000 tons. The quality produced by the mills has, however, proved very unsatisfactory and serious complaints have been made by newspaper establishments about both the poor quality of paper and the high price at which the Nepa newsprint is being sold in the market. At the moment, due to foreign exchange difficulties, import of newsprint is restricted only to the newspapers and, as a result, the targets of the third Five-year Plan, estimated on the basis of its use being restricted only to newspapers, are estimated as follows:

Year	Tons
1961-62	100,000
1962-63	110,000
1963-64	120,000
1964-65	135,000
1965-66	150,000

No single new unit seems to have been put up during the second Five-year Plan period, mainly on account of paucity of raw materials. It is difficult to get proper raw materials for the manufacture of mechanical pulp for which conifers such as pine, fur, spruce, etc., have to be used and which are however not available in sufficient quantities in particular areas. Himalayan ranges and the Nilgiri areas abound in such woods. But they are very insufficient and new materials must be sought. Bagasse and straw are other raw materials which can supplement the coniferous woods.

It is, therefore, high time that the Government took some very early action towards establishing at least two newsprint mills producing 30,000 tons each. It will be better if at least one bigger additional unit can be installed with an annual capacity of 70,000 tons. Only such a step would enable the country to reach the production target now being thought of for the third Five-year Plan.

At the present moment, the foreign exchange involved in import of newsprint is of the order of Rs. 5 crores. This may further increase to Rs. 7 to Rs. 10 crores by the end of the third Five-year Plan, unless some very drastic steps are taken for installing a couple of newsprint mills at the very earliest.

Big Tasks Ahead

These are some of the problems and the prospects for the paper industry depend upon the vigour with which this country tries to solve them. With a *per capita* consumption of 2 lbs. a year, we have only made a beginning—a very small beginning. We have yet to go a long way. Yet, judging from the past record, one can safely say that, given proper encouragement by the Government and initiative by the industrialists, the industry will surely prove equal to the task.—*All Rights Reserved.*

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NOTICE IS HEREBY GIVEN that the Board of Directors of the above Company has declared the following Interim Dividends on the undermentioned shares of the Company in respect of the year ending 31st December, 1959, payable on or after 11th January, 1960, to those members whose names are registered in the Register of Members of the Company on 11th January, 1960. Dividend Warrants will be despatched to members and no application to the Company is necessary:

Cumulative Preference Shares—3½% (subject to the provisions of Section 18(3E) of the Indian Income Tax Act, 1922).

'A' Cumulative Preference Shares—3½% (subject to the provisions of Section 18(3E) of the Indian Income Tax Act, 1922).

'B' Cumulative Redeemable Preference Shares—3% (subject to deduction of Indian Income Tax).

Ordinary Shares—12% (subject to deduction of Indian Income Tax).

NOTICE is also hereby given that the Transfer Books and Register of Members of the Company will be closed from 28th December, 1959, to 11th January, 1960, both days inclusive.

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Secretary,
Secretaries and Treasurers.

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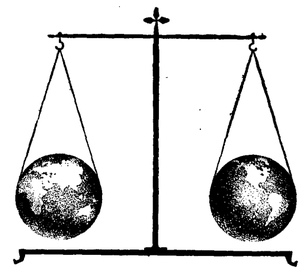

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ECONOMICS OF PUBLIC ENTERPRISES

Some Random Thoughts

By A Special Correspondent

IN a capitalist economy in the past, public enterprises were unimportant, the idea having been that industry and trade did not form part of the functions of a Government. But there were exceptions even in the nineteenth century. For example, teakwood and sandalwood were treated as Government monopolies in Mysore, and the Government secured considerable net revenues by auctioning timber and manufacturing and selling sandalwood oil. Of late, public enterprises have increased in numbers and importance on account of the responsibilities of Governments becoming much wider. There are numerous types of business activity in the U.S.A., run by Guaranteed Corporations. On the other hand, public enterprises are the rule in Communist countries on account of the socialisation of means of production: there, too, there are small private concerns, dealing with items like fruit, vegetables and cigarettes. The question of profit and loss does not arise, because the running of public utilities is considered an integral part of Governmental functions, as important as the maintenance of law and order and the safeguarding of the security of person and property. In Communist countries, costs and prices are adjusted at the source as also employment and output. Co-operatives are considered eligible for organising and running industry and trade, but, in actual practice, Co-operatives are not very different from Government Departments. As such, there is not much complexity in the economics of public enterprises in Communist areas. Even external trade is managed by a Government Department, and dumping is not unknown as an instrument used for international cut-throat competition.

Circumstances

The general trend towards the expansion of public enterprises can be analysed into the following circumstances:

1. Heavy capital outlay which may be beyond the capacity of private enterprise (like mineral oils, hydro-electricity and the Panama Canal Company).
2. Monopoly industries or services which yield fat profits (like the Reserve Bank of India, Railways, Road Transport and sandalwood oil).
3. Depressed conditions requiring special Government attention (like the T.V.A., Rural Electrification Administration, and the Federal Farm Mortgage Corporation in the U.S.A.).
4. Assisting low income groups (like the Federal Deposits Insurance Corporation, Federal Savings and Loan Insurance Corporation, the Federal Housing Administration and the Small Business Administration, U.S.A.).
5. Stabilising prices (like the Commodity Credit Corporation, U.S.A.).
6. Specially attending to International Co-operation (like the International Co-operation Administration, U.S.A.).
7. Facilitating exports and foreign investment (like the Export-Import Bank, U.S.A. and Japan).

Position in India

Space does not allow an exhaustive listing of public enterprises in India. Among such enterprises managed by State Governments are forests, irrigation, electricity, road and water transport and State industries. Table 1 shows a break-up of net revenues from public enterprises in all the States collectively.

Chief among the Central public enterprises are the railways, iron and steel, oil, fertilisers, shipbuilding, aircraft, heavy engineering, machine tools, locomotives and coaches, fishing, antibiotics, paper, life insurance, State Trading Corporation and Small Industries Corporation. The socialistic pattern of society accepted as the goal at the Avadi Congress was subsequently expanded into the socialist pattern of society. This, together with Plan progress, has been responsible for widening the sphere of public enterprises. Table 2 shows the break-up of net contributions by public undertakings in India to the Central Government. The progress so far has been very tardy. It is expected that, in 1959-60, some of the new projects would earn modest profits.

TABLE 1

NET REVENUES FROM PUBLIC ENTERPRISES IN STATES

(In crores of rupees)

	1951-52	1955-56	1956-57	1957-58	1958-59 (Revised)	1959-60 (Budget)
Net contribution of public enterprises (total)	24.92	30.07	34.88	41.27	35.73	39.89
Forests	12.61	12.82	11.99	22.71	19.97	19.64
Irrigation	8.03	8.51	10.90	7.45	8.97	12.44
Electricity schemes	3.41	5.96	7.66	6.31	3.28	1.88
Road and water transport	0.77	2.03	3.51	4.74	4.01	5.48
Industries and others	0.10	0.75	0.82	0.06	—0.50	0.45

TABLE 2

NET CONTRIBUTIONS BY PUBLIC UNDERTAKINGS TO THE CENTRAL GOVERNMENT

(In crores of rupees)

	1950-51	1955-56	1956-57	1957-58	1958-59 (Revised)	1959-60 (Budget)
Total	23.16	28.92	31.81	36.27	36.90	54.89
Railways	6.60	5.80	5.86	6.29	6.40	5.98
Posts and Telegraphs	3.98	3.47	6.32	3.71	5.38	4.20
Currency and Mint	9.71	19.75	19.44	26.04	25.63	45.78
(Profits of the R.B. of India)	(9.91)	(20.00)	(20.00)	(30.00)	(30.00)	(40.00)
Others	2.97	—0.10	0.19	0.23	—0.51	—1.07

In the United States

The following is a list of business type activities organised and supervised by the U.S. Federal Government, and figures relating to assets and the U.S. Government interest reveal the wide scope of Government responsibility in running such Guaranteed Corporations:

U. S. GUARANTEED CORPORATIONS

Sl. No.	Federal business type activity	Assets (In million dollars)	U.S. Government Interest (In million dollars)
1.	Federal Farm Mortgage Corporation	6	6
2.	Commodity Credit Corporation	6,635	5,589
3.	Disaster loans etc. revolving fund	124	124
4.	Public Housing Administration	205	162
5.	Federal Housing Administration	927	744
6.	Federal National Mortgage Association	2,561	1,727
7.	Federal Savings and Loan Insurance Corporation	302	284
8.	Small Business Administration	540	534
9.	Export-Import Bank	3,410	3,396
10.	Tennessee Valley Authority	2,110	2,076
11.	Panama Canal Company	458	440
12.	Veterans Administration	1,015	979
13.	Farmers Home Administration	746	739
14.	Rural Electrification Administration	3,094	3,093
15.	International Co-operation Administration	2,720	2,718
16.	Banks for Co-operatives	580	221
17.	Federal Intermediate Credit Banks	1,304	133
18.	Federal Deposit Insurance Corporation	2,068	1,966
19.	Agricultural Marketing Act, Revolving Fund	186	186
20.	Federal Home Loan Banks	383	....

In one case—No. 20—there is no U.S. Government interest, but yet it is a Guaranteed Corporation. In most others, the assets are very slightly more than U.S. Government interest. The whole scheme is subject to the same set of rules, and wide financial autonomy is allowed to these bodies, in spite of the bulk of funds having been provided by the Government. Here, in India, similar figures are not available, one reason being that many of the enterprises were started very recently.

The demarcation line between public and private enterprises is very broad. There are semi-public enterprises like the Refinance Corporation of India, the Industrial Finance Corporation, and the Industrial Credit and Investment Corporation of India, share capital of which is subscribed by select public bodies and Government, which pay income-tax, and which are closely controlled by the Government. Even among the concerns in the private sector, there are numerous units in which the Governments own a part of the capital, with representation on the boards of directors. There are some cases in which Government concerns also compete with private enterprises, like the Industrial Testing Laboratory (Bangalore), the Mysore Government Soap Factory, the Mysore Government Porcelain Factory and the Hindustan Machine Tools.

It should be of special interest to note that public enterprises in the other hand, some of them such as the Reserve Bank of India (net revenue to Government in 1958-59: Rs. 30.00 crores), Railways (net revenue to Government in 1958-59: Rs. 6.40 crores), Road and Water Transport (Rs. 4.01 crores net revenue to Government in 1958-59), the State Trading Corporation (Rs. 2.88 crores profits in 1958-59), and antibiotics (over Rs. 1 crore profits in 1958-59), yield good revenue to the Government. Some public concerns take long before earning sizable profits, as, for instance, steel and hydel works. The demands on the profits from the enterprises in the public sector are:

(a) Ploughing back, in order to ensure reinforcement and regeneration.

(b) Contributing squarely to public funds residually and through investments.

(c) Reasonable interest on share capital.

(d) Improving labour conditions through shorter hours, higher wages, further mechanisation, and facilities like canteens, creches, housing and lighting, protected water-supply, schooling and training, and club life.

(e) Maintaining and stimulating consumer demand through maximum quality and minimum prices.

Emphasis on one or other of these five demands on profits depends on the stage of the industry (infant or developed), the financial needs of the Government, the extent of foreign investment in the country, labour conditions and the standard of life among the masses. In contemporary conditions, leading economists favour ploughing back the bulk of profits into the industry concerned. It is not possible to attach particular merits or demerits to public enterprises as such or private enterprises as such. Recent audit reports on public enterprises in India have pointed out considerable waste of funds and corruption in public concerns. The L.I.C. scandal is too recent to need any detailed reference. The Mundhra affair has revealed the extent to which mismanagement can go undiscovered and unchecked in private enterprises also.

Future Role

Speaking of the future, one is reminded of the couplet:

"Let forms of Government fools contest:
What is best administered is best."

One observation, however, is warranted: the considerable expansion of public enterprises in a capitalist country like the United States, with very good contributions to the national income and social security, is proof positive of the growing inability of the private sector to manage business activity all by itself. With the projected programme of leading industrial countries aiding one hundred underdeveloped countries with a thousand million population (excluding China) in the course of 1960-70, with about $30 billion, with the object of raising the *per capita* income from $120 per annum to $140, there can be no gainsaying the fact that Governments (those lending as well as those borrowing) will be doing the job of economic development predominantly. It is also necessary to add at the same time that, nowadays even in Russia, there is a bias towards stimulating private initiative through appropriate incentives, and any idea of doing away with private enterprise in non-Communist countries is beyond practical politics. Even today, in spite of so much patronage to public concerns ninety per cent. of the national income flow in India is from the private sector. Indian States, collectively speaking, do not earn enough to meet even interest charges, and the general taxpayer has to make up the loss. On

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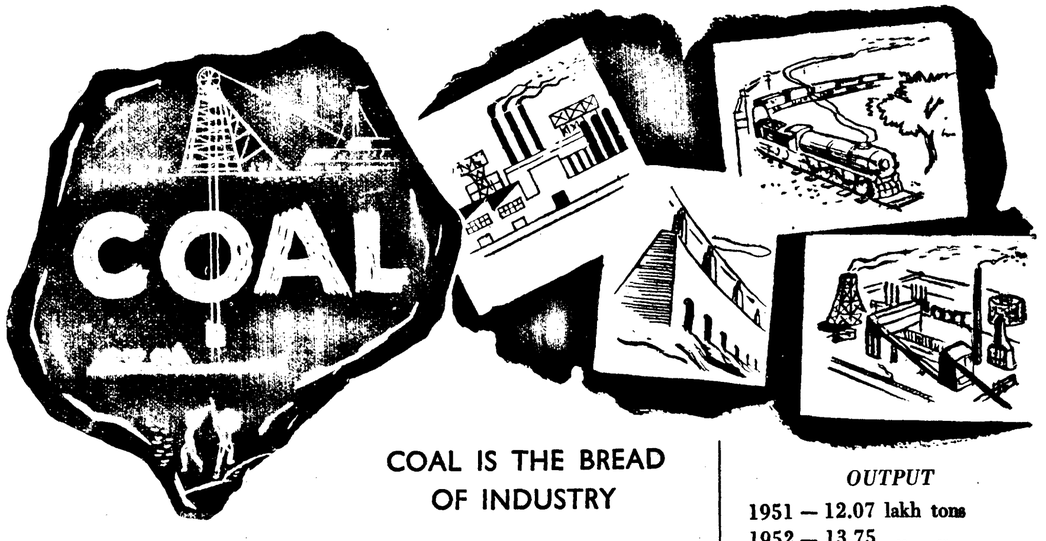

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1961 — 30.00	,,	,,	,,

USE OF CAPITAL IN A LARGE CORPORATION

By JAMES H. GARVIN

TREASURER'S DEPARTMENT, E. I. DU PONT DE NEMOURS AND CO., INC., U.S.A.

THE creative use of capital funds is as important to the success of a corporation as is the application of science and technology. Money becomes a unit of value when it is put to use to finance productive enterprise, and its value will grow with the skill and selectivity of its investors.

The Du Pont Company is, of course, owned by the stockholders of the Company. Each year, these stockholders elect a Board of Directors to manage and control the property and affairs of the Company. Between its monthly meetings, the Du Pont Board exercises its authority through permanent committees.

The two committees predominantly concerned in the operating management of the Company are the Executive and Finance Committees. The Executive Committee has overall responsibility for the operating affairs of the Company. In addition to formulating policy as a committee, its members act as advisers in various fields, such as sales, research, personnel, etc. They have no administrative duties in connection with departmental operation, however, and thus are free to give their time and effort to the business of the Company as a corporate unit. The Chairman of the Executive Committee is the President of the Company, and the other members are the Vice-Presidents; its regular meetings are held each Wednesday.

The Finance Committee, meeting twice monthly, exercises jurisdiction over the Company's financial affairs, including final approval of major expenditures and commitments for new facilities and other purposes.

Magnitude

Du Pont has 12 industrial departments, divided along technical and product lines, which carry on their own programmes for production, sales, and research and development. While the general managers of each of these departments initiate proposals for capital expenditures and may authorise those involving smaller amounts, it is the responsibility of top management to select the most promising of the larger proposals. This responsibility is carried out by the Executive Committee and also, if the amount involved is substantial enough, by the Finance Committee. Ideally, these groups provide a venturesome yet temperate direction to employment of the Company's capital funds.

Generally, Du Pont finances plant expansions and the associated working capital requirements from within—primarily by retaining a portion of each year's earnings and utilising funds made available through depreciation set asides. In carrying out its responsibility to provide required funds, the Finance Committee seeks to assure that the Company's resources are adequate to the job at hand, with enough in reserve, to permit the Company to take advantage of future opportunities in the United States and abroad.

In practice, the management of investment is quite complex. Cost must be balanced against possible gain, risks balanced against returns. Each new product or process requires some change or some adaption of facilities, and some new investment. It is never easy to know when to innovate, and to what extent; when to build a new plant whose cost will be reckoned in millions or tens of millions of dollars, and when to continue with existing facilities; when to pursue, at great cost, a promising new field of exploration, and when to halt work on an unpromising one, however much may already have been invested in it.

Moreover, in trying to make Du Pont's capital as productive as possible, management must guard against over-extending the Company, or measuring its success purely in terms of its investment. Size alone is by no means an index of profitability. The yardstick of financial performance is not the amount of investment, but the return on investment—that is, the amount of the Company's profit expressed as a percentage of the investment it takes to earn it.

Folklore of Capitalism

Profit rates do not necessarily grow in proportion to business size, and bigness is no guarantee of success. Of the firms that ranked among the 100 largest in the United States in 1909, only 36 were still on the top list 40 years later. Some of the missing firms declined in assets and profits, some others stayed in contention but were displaced by faster growing and more profitable competitors.

The folklore of capitalism is such that some people are easily impressed by profits in large dollar amounts. But 10 cents on the dollar remains 10 per cent., no matter how many times the total is expanded. Du Pont's profits run into many millions of dollars, but its rate of return, as measured against investment, has ranged in the past decade from 8.2 per cent. to 13.8 per cent. And, over the years, the rate of return has been lower in war years than in peace time.

What are the functions of the profit incentive in holding an industrial enterprise to a successful course? Indeed, the profit incentive is both the carrot and the stick which prods a corporation to its best performance.

How a large manufacturing enterprise appraises its performance, measures its financial results, and does its forecasting is exemplified by Du Pont's way of reporting to its executive management. The Du Pont Company believes that a system of financial control should include a periodic forecast of sales and profits, a forecast of working capital requirements and cash resources, a capital expenditures budget and working capital standards, together with statements that show actual operating performance and balance-sheet conditions promptly after the close of the accounting periods. It is the responsibility of the financial staff to make these data available to executive management promptly, in a form that will reveal the operating results of each particular product line or division of investment. Clarity in the presentation of operating results without sacrifice of substance is the primary objective.

System of Charts

Since 1919, Du Pont has based its analysis of operating performance on a system of charts that presents manufacturing, sales, and profit data pertinent to the performance of each broad investment or product group. The charts do not replace the customary financial statements used by management, such as forecasts, budgets, or historical reports; they are supplementary to these reports. The charts are prepared for and used by the Executive Committee in reviewing with each general manager the results of his department's operations.

At least one series of charts is established for each department. In some cases, the operations of a particular department are so diverse that it has been found desirable to establish several sets of charts, each portraying a portion of the department's activities. Also, there is a "Summary Du Pont" set of charts which summarises the operations of all 12 industrial departments. Thus, there are maintained some 30 separate chart series comprising over 400 charts. Each month the Executive Committee reviews the "Summary Du Pont" set and certain of the other charts. The schedule is so arranged that the charts for each department are reviewed and discussed every third month.

In each of these series, the results of operations for the current and previous year are shown in detail by months against a background of comparable data for the ten preceding years and a forecast for the year ahead. The forecast provides management not only a basis for an informed judgment as to future prospects for the business, but also constitutes a yardstick against which actual performance ultimately will be measured.

Du Pont believes that a manufacturing enterprise can best measure and judge the effectiveness of its efforts in terms of return on investment. The charts are, therefore, designed to place primary emphasis upon the return on investment ratio and to permit critical examination of all factors that produce this end result. Return on investment is shown as the product of two percentages: turnover, multiplied by earnings as per cent. of sales. Analyses of turnover are made through charts showing sales and total investment, segregated into permanent investment and working capital (that is, inventories, accounts receivable, and cash). Other charts used for analyses of earnings as per cent. of sales show mill cost of sales, selling expense, and administrative expense.

The Formula

The formula is set up in this manner, so that the separate effects of earnings as per cent. of sales and turnover upon return on investment can be determined. Earnings as per cent. of sales reflect the success (or lack of success) in maintaining satisfactory control of costs. Turnover reflects the rapidity with which capital committed to the operation is being worked. Thus, the manager of an operating investment can improve his return by reducing costs or working existing investment harder, both of which factors are within his control.

Return on Investment

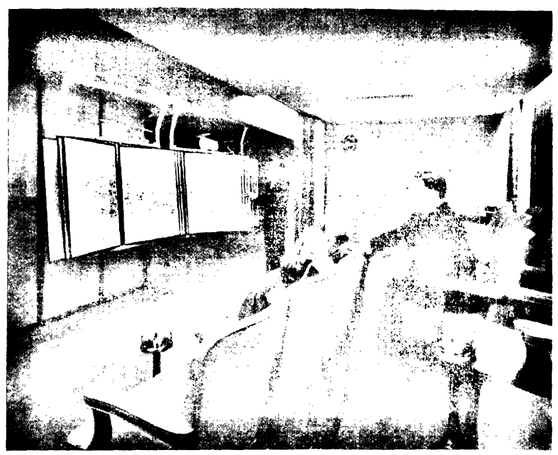
Return on investment as presented in the chart series is based upon gross operating investment and earnings net of depreciation.

Gross operating investment represents all the plant, tools, equipment, and working capital made available to operating management for its use; no deduction is made for current or other liabilities or for the reserve for depreciation. Since plant facilities are maintained in virtually top productive order during their working life, the depreciation reserve being considered primarily to provide for obsolescence, it would be inappropriate to consider that operating management was responsible for earning a return on only the net operating investment. Furthermore, if depreciable assets were stated at net depreciated values, earnings in each succeeding period would be related to an ever-decreasing investment; even with stable earnings, return on investment would, in that case, continually rise, so that comparative return on investment ratios would fail to reveal the extent or trend of management performance. Relating earnings to investment that is stable and uniformly compiled provides a sound basis for comparing the "profitability of assets employed" as between years and between investments.

In the case of any commitment of capital—e.g., an investment in a security—it is the expectation that, in addition to producing earnings while committed, the principal will eventually be recovered. Likewise, in the case of funds invested in a project, it is expected that, in addition to the return earned while invested, the working capital will be recovered through liquidation at

(Continued on page 190)

DU PONT'S CHART ROOM



The author of the article is shown with charts of the financial forecast for a hypothetical ABC Department. Seated are Mr. T. Crawley Davis (left), Vice-President and Adviser to the Treasurer's Department, and the Treasurer of the Company, Mr. R. Russell Pippin.

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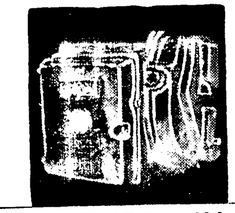

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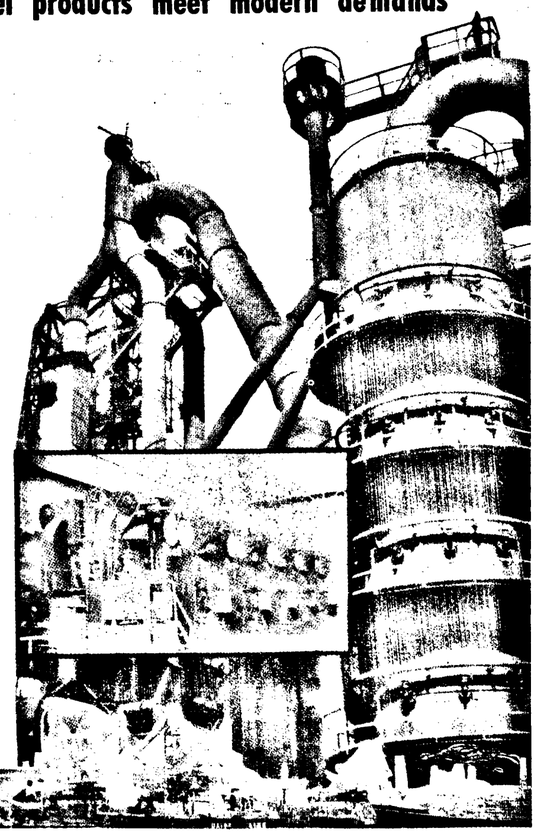

UNDERWRITING OF CAPITAL ISSUES IN INDIA

Expansion Of This Facility Is An Urgent Necessity

By L. C. GUPTA

DURING the last decade or so, the Government of India has been making efforts to improve the mechanism for the supply of finance to Indian industries. As a result, long-term institutional credit facilities for the organised industrial sector have been considerably expanded. Not the same progress, however, has been achieved in improving the institutional set-up of the new issue market. The greatest shortcoming of the new issue market in India has been the lack of issuing institutions, willing to underwrite new issues of capital after proper investigation of each project. The Shroff Committee, which reported in April 1954, made a pointed reference to this "major lacuna in the structure of the capital market in India." Though some progress has taken place since the time of the Shroff Committee, the underwriting facilities for new capital issues are still far from adequate.

This article attempts at examining the present facilities for underwriting capital issues in India and the underwriting practices and policies followed by various types of institutions which include banks, brokers, the Life Insurance Corporation of India, Industrial Credit and Investment Corporation of India Ltd., the Industrial Finance Corporation of India and others. It also tries to point out the directions in which the present facilities need to be improved.

Before 1955, cases of underwriting of capital issues in India occurred only sporadically. There was no institution which made a regular business of underwriting. The stockbrokers were the most usual underwriters. Underwriting operations were usually undertaken by a few big firms of stockbrokers as a side line to their main business of brokerage. Their activities in this sphere were, however, more pronounced during periods of stock market boom than at other times. Apart from stockbrokers, other institutions which occasionally stepped into an underwriting operation included banks, investment companies, insurance companies, managing agents and individual financiers. A study by R. C. Cooper of 40 issues underwritten during 1946 revealed that nearly half of them were underwritten by stockbrokers.

I.F.C.

In 1948, the Government of India set up the Industrial Finance Corporation of India. The preamble to the Act setting up this Corporation indicates that the main purpose of establishing the Corporation was to make "medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable." But the Corporation was also expected to engage in underwriting activity which was included in its "authorised business." The I.F.C. Act, however, originally contained an onerous restriction that securities acquired by the Corporation as a result of an underwriting commitment, must be disposed of within a period of seven years from the date of acquisition. From the point of view of the Corporation, this made underwriting operations very risky, particularly at a time when the capital market was very dull. The first annual report of the Corporation contained the following observation about underwriting: "In view of the present situation in the money market and the stock exchanges, the Corporation does not consider it advisable to undertake underwriting commitments for the time being. The Corporation would be justified in underwriting an issue of shares or debentures only if it was reasonably satisfied that there was likely to be an adequate response from the public and the market." The second and third annual reports also contained similar observations. Partly as a result of the seven-year limit on holding of shares and partly also on account of its own generally cautious attitude which was further reinforced by Parliamentary attitude towards it, no underwriting could be done by the Corporation for almost ten years.

The most important event in the development of underwriting in India was the setting up of the Industrial Credit and Investment Corporation of India Ltd., in January 1955. It is only since then that some progress has taken place in the organisation of underwriting facilities for corporate issues of capital in India.

In order to obtain a correct idea about the present availability of underwriting facilities for new capital issues in India and also to judge the progress made since the setting up of the I.C.I.C.I., a study was undertaken by the author of all corporate issues advertised in the *Times of India*, Bombay, during the period from January 1951 to June 1959. The study reveals some very interesting facts.

It should be clearly understood that this study was confined to the underwriting of public issues of capital. "Rights" issues which are also sometimes underwritten, are not included in this study, because of the difficulty of obtaining the required information about them.

Extent of Underwriting Today

The extent to which underwriting facilities are *available* for public capital issues can be indicated by the proportion of capital *actually* underwritten during the period of our study. One may, however, object to this method on the ground that there might be cases where, in order to save the payment of underwriting commission, a company might prefer not to get its issue underwritten. The number of such cases, however, is generally very small. Very few managements really mind the payment of a small underwriting commission in exchange for the assurance of funds where the issue is a public one. It was found that even some very well established companies which made public issues during the period covered by our study sought the assurance of underwriting for these issues.

The period of our study has been divided into two parts: before January 1955 and after it. The period January 1955 to June 1959 has been studied in detail in order to analyse the main features of underwriting at the present stage of its development in India.

Our study shows that the amount underwritten formed 38.9 per cent. of the amount actually offered for public subscription during the period from January 1955 to June 1959 as compared with only 5.8 per cent. during the earlier period from January 1951 to December 1954. This improvement has been due not only to the setting up of the I.C.I.C.I. in January 1955 but also to the increased interest taken by banks and other agencies in underwriting operations during recent years.

It is important to note, however, that the availability of underwriting facilities is not the same for the different classes of securities. Our detailed analysis for the recent years clearly reveals that these facilities are much less adequate for the issues of equity capital than for issues of preference shares and debentures. Table I gives the relevant figures. It can be seen from this table that only 21.9 per cent. of the amount of equity capital offered for public subscription was underwritten as compared with 53.6 per cent. in the case of preference shares and 55.8 per cent. in the case of debentures. The percentage of equity issues underwritten would have been even lower but for the fact that a large part of it is usually agreed to be subscribed privately by promoters, directors and friends, only the balance being offered for public subscription.

TABLE I

*Capital Issues during January 1955-June 1959**

(Amounts in crores of Rs.)

Type of security	Total amount of issues	Amount offered for public subscription†	Amount underwritten	(5) as per cent of (2)
	(1)	(2)	(3)	(4)
Equity ..	26.23	14.03	3.08	21.9
Preference ..	10.54	8.21	4.76	58.6
Debentures ..	7.55	6.10	3.40	55.8
Total ..	44.32	28.34	11.24	38.9

* Only public issues advertised in the *Times of India*, Bombay, are included in this study.
† The balance was subscribed by promoters, directors, friends, etc.

Facilities for New Companies

The far too inadequate facilities for the underwriting of equity issues hits the new companies more severely than the established companies, the latter being in a much better position to issue senior securities (that is, preference shares and debentures) than the former. Even where an established company decides to issue further equity capital, this is very often taken up by the existing shareholders who have a pre-emptive right and the need to make public issue does not often arise. This is the reason why the proportion of equity capital is much higher in the issues of new companies than in those of established companies, the percentages being 83 and 35, respectively, in the case of issues covered in our study as shown in Table II.

TABLE II

Composition of Public Capital Issues

(Amounts in crores of Rs.)

	Capital issues of new companies	Capital issues of old companies
Equity shares	18 52	7 71
Preference shares	3 51	7 02
Debentures	0 22	7 33
Total ..	22.25	22 06

The difference in the availability of underwriting facilities to new and old companies can be seen from Table III which shows the percentage of the amounts issued by new and old companies underwritten. This percentage is very nearly the same for the two groups of companies, if issues of equity capital are considered separately from issues of preference shares and debentures. It is around 22 per cent. for equity issues and about 52-55 per cent. for issues of senior securities. It would not be correct to infer from this that new companies enjoy the same underwriting facilities as the established companies, because the differences in the composition of capital issues of the two groups of companies must be taken into account. Table III shows that the capital underwritten formed only 31.1 per cent. of the *total* capital offered for public subscription by new companies as compared with 43.4 per cent. for established companies.

TABLE III

(Amounts in crores of Rs.)

	Offered to public	Amount underwritten	Per cent underwritten
New Companies :			
Equity capital ..	7.51	1.66	22.1
Preference and debenture capital ..	3.17	1.66	52.5
Total ..	10.68	3.32	31.1
Old Companies :			
Equity capital ..	6.52	1.42	21.7
Preference and debenture capital ..	11.74	6.50	55.4
Total ..	18.26	7.92	43.4

Our analysis of the issues advertised in the *Times of India*, Bombay, during the period January 1955 to June 1959 also throws interesting light on the relative importance of the various types of underwriting institutions in India.

Main Underwriting Institutions

In order to judge the relative importance of different underwriting institutions, it would have been better if sub-underwriting had also been taken into account. This course could not be adopted, because no information was available about sub-underwriting contracts in the prospectuses issued by companies. Considering, however, that the I.C.I.C.I. has not found it easy to arrange sub-underwriting with brokers or others, and that the practice of sub-underwriting is not very common in India, it does not appear that the picture would be materially different if sub-underwriting were taken into account.

The amounts underwritten by the various types of underwriting institutions are given in Table IV.

TABLE IV

Underwriting Institutions for Public Issues of Capital during January 1955-June 1959*

(Amount in lakhs of Rs.)

Underwriting institutions	Amount underwritten			
	Equity capital	Preference capital	Debenture capital	Total capital
Banks	4.15	248.94	185.00	438.09
I.C.I.C.I. ..	280.18	100.00	50.00	430.18
Stockbrokers ..	..	45.00	30.00	75.00
Insurance companies (including Life Insurance Corp.)	5.00	5.00	50.00	60.00
Investment companies ..	46.00†	..	25.00†	71.00
Industrial Finance Corp.	..	37.50	..	37.50
Others	2.00	40.00‡	..	42.00
Total ..	307.33	476.44	340.00	1123.77

* Rights issues are not included in this study. Sub-underwriting has also been ignored for lack of complete data about it.
† These amounts were underwritten by the Investment Corporation of India, Ltd. No other investment companies were found to participate in underwriting of capital issues covered by this study.
‡ Not known.

Judging from the total amount underwritten by each type of institution, commercial banks, as a

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group, emerged as the most important underwriters during the period January 1955 to June 1959, accounting for 39.0 per cent. of the total amount underwritten during the period. The banks which participated in underwriting operations during this period include the Central Bank of India, the Union Bank, the Bank of Baroda, the United Commercial Bank and the United Bank of India. Considered singly, however, the I.C.I.C.I. is the most important underwriting institution in India, its share being 35.6 per cent. of the total underwriting (excluding the underwriting of rights issues). Thus the banks and the I.C.I.C.I. together underwrote nearly 75 per cent. of the total amount underwritten during recent years. The balance of 25 per cent. is distributed among brokers, insurance companies (including the L.I.C.), investment companies, the Industrial Finance Corporation of India and others.

Institutions for Equity Issues

It is more interesting to examine the relative importance of the various underwriting institutions separately for each class of capital. As regards equity capital, the I.C.I.C.I. occupies a dominating position, accounting for as much as 81.4 per cent. of the total amount of equity capital issues underwritten during the period of our study. Very few other institutions seem to be interested in the underwriting of equity capital issues. Commercial banks, it appears, would not touch them. The only case where a bank had underwritten a very small equity issue was one where both the capital and the dividend had been guaranteed by a foreign company. Insurance institutions (including the L.I.C.), too, show very little interest here. No equity issue in our study was underwritten by stockbrokers, except, perhaps, where they might have acted as sub-underwriters. The Industrial Finance Corporation of India has not so far entered into the underwriting of equity issues. As regards investment trusts and finance companies, very few of them in India are of even a moderate size and their importance as underwriters is very little at present. The only one worth mentioning here is the Investment Corporation of India, Ltd., which was started by Tatas in 1937 and which has interested itself in the underwriting of a number of equity and other issues since its inception.

As regards the underwriting of preference and debenture issues, banks have played the most important role during recent years, the proportion of preference and debenture issues underwritten by them being 52.3 per cent. and 54.4 per cent., respectively. The I.C.I.C.I.'s share came to 21.0 per cent. in the underwriting of preference issues and 14.7 per cent. in the case of debenture issues. Insurance companies, including the L.I.C., seemed to be interested chiefly in the underwriting of debentures in which their share came to 14.7 per cent. Brokers have taken interest in the underwriting of both preference share and debenture issues but their share was less than 10 per cent. in both. The Industrial Finance Corporation has only very recently entered into the underwriting of public issues of preference shares.

We shall now examine the underwriting practices of some of the underwriting institutions in India in greater detail.

I.C.I.C.I. and Underwriting

The I.C.I.C.I. is at present the only institution which makes underwriting of capital issues an important part of its activities. The decision to underwrite is based on a thorough investigation of the project and not simply on the reputation of its sponsors as is more generally the case in underwriting by stockbrokers. The importance of underwriting in its total activities is borne out by the following figures:

Total of Operations Sanctioned by the I.C.I.C.I. by the end of 1958

	Number of operations	Amount Rs. crores
Lending	20	6.64
Underwriting (of both public and "rights" issues) ..	18	5.50
Direct subscriptions to shares	14	1.23
Total ..	52	13.37

The I.C.I.C.I. has sometimes been criticised as not being bold enough in its underwriting operations. This criticism, however, does not appear to be very fair. The I.C.I.C.I. had to take up large amounts of shares because of insufficient public response to the issues underwritten by it every year. Till the end of 1958, it had completed 15 underwriting operations (including both public and "rights" issues), amounting in all to about Rs. 4.88 crores, as against which it was called upon to take up Rs. 1.77 crores or about 36.5 per cent. That it has continued to underwrite in spite of these heavy odds is certainly an evidence of boldness and vigour.

Whether the I.C.I.C.I. should further liberalise its underwriting policy raises an important question. The expansion of underwriting facilities through such public institutions should be carried out with a certain amount of caution. It is not advisable for these institutions to throw open underwriting facilities indiscriminately to all kinds of industrial enterprises, lest underwriting by them should cease to have any meaning to the investor. When they decide to lend their name to an issue, they implicitly guarantee its soundness as an investment and the ordinary investor has come to rely on this implicit guarantee. Enterprises which involve more than a fair degree of risk and which, therefore, may not be considered very suitable for investment by the ordinary investor, should be clearly distinguished from enterprises which are suitable for investment by a wide class of investors. It appears that underwriting by institutions like the I.C.I.C.I. and the I.F.C. should be restricted to the latter kind of enterprises. This does not mean that no support whatever should be given by these institutions to the former type of enterprises. This support should, preferably, take the form, not of underwriting, but of direct subscription to a part of the capital by these institutions. The institutions should also maintain lists of rich clients for private placement of securities in such cases.

'Nursing' of New Enterprises

There is an important respect in which the approach of the I.C.I.C.I. to underwriting is different from that of stockbrokers, who were hitherto the most usual class of underwriters. The I.C.I.C.I. is prepared to hold the issue for a few years in case it becomes necessary in order to "nurse" an enterprise in its initial years. As Mr. G. L. Mehta, the present Chairman of the I.C.I.C.I., put it: "I should make it clear that our underwriting activity takes into account the fact that the investment market in India is often unable initially to take up fully capital which is publicly offered; and the object of this Corporation is to fill the gap by absorbing the unsubscribed capital." This function, which is usually described as "nursing" of a new enterprise, was so far performed in our country by the managing agents who were generally prepared to put in their own capital till the concerns were well established and shown to be working profitably. The decline of the managing agency system during recent years has made it important that other institutions should be developed to fill this gap. It would not be a correct policy for the institutions like the I.C.I.C.I. and the I.F.C. if they aimed only at earning easy commissions. It is here, in fact, that there is a very essential difference between the underwriting by stockbrokers and that by investment institutions with strong finances. Stockbrokers ordinarily would not agree to underwrite an issue, unless they thought it was a "hot cake" and would be readily sold. This attitude of stockbrokers in general is dictated by the fact that, in order to fulfil their underwriting commitments, they depend on the support of their clients and do not like to lock up their own resources in holding the issue for a long time. This explains why stockbrokers are more active as underwriters during periods of boom than at other times.

'Syndicating' in India

The I.C.I.C.I. has placed before itself the aim of developing a proper underwriting system in India. Underwriting of capital issues in India has not yet developed into a *system*. A peculiar feature of underwriting in India is that in most cases each underwriting agency is acting in isolation from others. In contrast to the system of working in syndicates as found in Western countries, the usual system in India is the system of sole underwriter, generally handling the entire issue without even the aid of sub-underwriters. There have, of course, been cases where two or more underwriters have joined hands in a single issue, but the number of such cases is rather small. The absence of mutual co-operation among underwriters in India may be attributed to the absence, till very recently, of an institution which could command the confidence of other institutions and act as the leader of an underwriting group.

Recently, however, the situation is changing for the better. In a number of recent issues, different underwriting institutions, particularly the I.C.I.C.I., the L.I.C. and the I.F.C., have co-operated with each other in underwriting individual issues.

Underwriting operations require very large resources and involve considerable risk. A system of mutual participation among underwriters is necessary, in order to overcome both these difficulties. The absence of a habit to work in syndicates makes it very difficult to handle big issues of equity capital. At the present stage of development of underwriting in India, it is generally difficult to arrange underwriting for sums over a crore of rupees in the case of equity capital. This state of affairs is not favourable to the development of industries requiring a large capital investment.

The Shroff Committee had suggested that the leading banks in India, in co-operation with insurance companies, should form a consortium or syndicate for underwriting of new industrial issues. With the coming up of the I.C.I.C.I., the idea of a consortium of banks seems to have been given up. It is understood that the Reserve Bank did not look with favour upon this idea. Our analysis of the problems of developing a proper underwriting system in India indicates the need for a reconsideration of the idea of a consortium of banks and other important underwriting institutions. In particular, the banks should be encouraged to participate in the underwriting operations of the I.C.I.C.I.

L.I.C.

The Life Insurance Corporation of India is regarded as a great potential underwriting institution and it is interesting to examine its policy a little further. The scope for undertaking underwriting operations has certainly increased after the amalgamation of a large number of separate companies into one giant institution.

According to the first two Statutory Reports of the Corporation, the Corporation underwrote 21 new issues for an aggregate amount of Rs. 1.87 crore during the sixteen months ended 31st December 1957 and 19 new issues for an aggregate amount of Rs. 2.74 crores during the year 1958. The issues underwritten comprise of:

(Rs. crores)

	1-9-1956 to 31-12-57	During 1958	Total
Debentures and loans ..	0.22	2.21	2.44
Preference shares ..	1.20	0.48	1.68
Ordinary shares ..	0.44	0.10	0.54
Total ..	1.87	2.74	4.61

The emphasis is clearly on the underwriting of debentures and loans and of preference shares. Underwriting of ordinary shares occupies a rather unimportant place.

The L.I.C., however, does not figure as an important underwriter in our study of *public* capital issues. There was only one case upto the end of June 1959 in which the L.I.C. had underwritten a *public* issue consisting of debentures. There were also a couple of cases where the L.I.C. had participated with the I.C.I.C.I. and the I.F.C. in underwriting of rights issues of preference shares and debentures. In the majority of cases of what has been termed as underwriting in its reports, the securities were bought outright by the L.I.C. for being held as an investment. This is not underwriting in the true sense of the word; more correctly, it may be described as an outright purchase at a discount.

The underwriting policy of the L.I.C. in respect of capital issues may be summed up by saying that its underwriting commitment is generally restricted to such issues and to such amounts as the L.I.C. may itself be prepared to hold as a permanent, or quasi-permanent investment. In the majority of cases, the securities underwritten by it are subscribed by it without being offered to the public. This is in line with the policy followed by insurance companies and investment trusts in the U.K. and the theory behind this practice is sound. Underwriting in cases where the issue is not suitable for their portfolios would appear to be alien to the principles which govern the administration of insurance or trust funds.

Since the underwriting of industrial issues by the L.I.C. has to fit into the framework of its investment policy, the scope for underwriting by it will depend directly on the scope for industrial investment of its funds as laid down in the modified Section 27A of the Insurance Act.

Equity Issues

Our discussion of underwriting of capital issues in India clearly shows that it is in regard to equity capital that the present underwriting facilities are most inadequate. It is, therefore, necessary to establish more institutions capable of underwriting equity issues. The Industrial Finance Corporation of India is one such potential institution.

(*Continued on page* 190)

FINANCES OF STATE GOVERNMENTS

Centripetal Trends Hardening

By Prof. S. KESAVA IYENGAR

TABLE I shows how the Plan receipts during the first four years of the second Plan were recently estimated at Rs. 2,044 crores (Centre) and at Rs. 1,511 crores for the States, making up a total of Rs. 3,555 crores, the balance for the fifth year being Rs. 945 crores (assuming the total Plan estimate at Rs. 4,500 crores):

TABLE I

(In crores of rupees)

Heads	Recent estimates	
	Centre	States
Balance from current revenues ..	305	290
Railway's contribution	186	..
Loans from the public ..	435	196
Share of small savings	122	174
Miscellaneous capital receipts ..	—2	—47
Central assistance to States ..	—799	799
Deficit financing	1,022	..
Withdrawal from reserves and ways and means advances from the Centre	..	99
External assistance	798	..
Total ..	2,044	1,511

These figures indicate that balances from current revenues were more than proportionate in the States (Rs. 290 crores) as compared with the Centre (Rs. 305 crores). With regard to loans from the public, the States fared well on the whole (Rs. 196 crores as against Rs. 435 crores realised by the Centre), the situation some years ago having been so unfavourable that some States like Andhra Pradesh were afraid of issuing loans in the market. A sum of Rs. 799 crores constituted assistance by the Centre out of a total of Rs. 1,511 crores, four years' Plan estimate for all the States. The Central assistance to the States thus works out to 52.87 per cent. of their investment.

Revenue Receipts

Tables II(*a*) and II(*b*) give details of revenue receipts and service expenditure during 1957-58, 1958-59 (revised) and 1959-60 (budget):

TABLE II (*a*)

(In crores of rupees)

Item	1957-58 (Accounts)	1958-59 (Revised)	1959-60 (Budget)
Tax Revenue			
Taxes on income ..	80.61	83.11	85.78
Taxes on property and capital transactions ..	124.84	131.10	139.90
Taxes on commodities and services	264.06	299.92	305.34
Total tax revenue ..	469.51	514.13	531.02
Non-tax revenue ..	236.11	274.64	302.86
Total revenue ..	705.62	788.77	833.88

Taxes on income (including share of income-tax given by the Centre, agricultural income-tax and profession tax) do not show any considerable elasticity, the receipts for the three years standing at Rs. 80.61 crores, Rs. 83.11 crores and Rs. 85.78 crores. Taxes on property and capital transactions show quicker progression, increasing from Rs. 124.84 crores to Rs. 139.90 crores. Even taxes on commodities and services reveal slow progress, in spite of the fact that excise duties on textiles, sugar and tobacco taken over by the Centre have been yielding larger revenues to the States. In 1957-58, collections by the States under these three heads stood at Rs. 32.50 crores, but, in 1958-59, the figure increased by Rs. 42.12 crores on account of collections by the Centre. The two elastic taxes are those on motor spirit and motor cars. The following are among new or additional tax proposals during 1959-60, but the expected yields are quite small, namely, Rs. 4.4 crores, the levies applying in eight out of thirteen States:

1. Revision of rates on freights and passenger fares (R.T.D.),
2. Revision of land revenue and electricity rates,
3. Imposition of cess on education,
4. Betterment levies,
5. Upward revision of the general sales-tax, and
6. Higher duties on motor spirit.

Tax revenue brings much more to the State treasuries than non-tax revenue, the all-India figures for 1959-60 standing at Rs. 531.02 crores and Rs. 302.86 crores, respectively. Public enterprises like forests, electricity, irrigation, road and water transport and industries do not meet even interest charges and the general taxpayer finds the deficit. The all-India figures of income from these enterprises are Rs. 39.89 crores (net contribution by public enterprises) out of Rs. 302.86 crores total non-tax revenue. But there is a wide difference among the States. In regard to non-tax revenue, Bombay comes first with Rs. 38.04 crores, while the corresponding figure for Rajasthan is only Rs. 15.40 crores. With regard to net contribution by public enterprises, while the all-India figure is Rs. 39.89 crores, U.P. stands first with Rs. 7.59 crores and West Bengal comes last with Rs. 0.63 crore. In the shape of shares and grants, the States received Rs. 154 crores, Rs. 235 crores, Rs. 312 crores and Rs. 343 crores (total Rs. 1,044 crores) during the four years 1956-60. Of the average annual increase of Rs. 70 crores in the States' revenue receipts during 1956-60, no less than Rs. 60 crores comes from the Centre, and only Rs. 10 crores from the tardily expanding resources of the States themselves.

Revenue Expenditure

As between developmental and non-developmental service expenditure, the pace of progress is higher in the former case, and its proportion to non-developmental expenditure is also higher, as per details given in Table II(*b*).

TABLE II (*b*)

(In crores of rupees)

Item	1957-58 (Accounts)	1958-59 (Revised)	1959-60 (Budget)
Expenditure			
Development expenditure	381.73	436.43	480.96
Non-development expenditure ..	295.62	334.35	348.93
Total expenditure ..	677.35	770.78	829.89
Surplus(+) or deficit(—)	+28.27	+17.99	+3.99

The total revenue expenditure of the States for the first four years of the second Plan were, respectively, of Rs. 631 crores, Rs. 684 crores, Rs. 780 crores and Rs. 840 crores, working out to an average annual increase of Rs. 70 crores: nowadays, as high as 40 per cent. of States' revenue expenditure is being borne by the Centre.

During all the three years, the States had surpluses, collectively speaking, although a trend towards a decline in the surpluses is definite, from Rs. 28.27 crores to Rs. 3.99 crores. State budgets were fairly balanced upto 1953-54, but showed deficits rising from Rs. 11 crores to Rs. 77 crores during the years 1954-55, 1955-56 and 1956-57. The improved position during 1957 to 1960 was due to the acceptance of the recommendations of the second Finance Commission which generally aimed at balancing State budgets. But, the declining trend of the surplus to Rs. 3.99 crores in 1959-60 shows that the State finances have not yet been stabilised. The situation calls for caution by the State Governments and watchfulness by the Centre: otherwise, subventions would have to be increased which the Centre would not be able to grant, except through additional deficit financing.

Capital and Debt Transactions

During the three years 1957 to 1960, there were continuous deficits on capital account, of Rs. 23.98 crores, Rs. 32.97 crores and Rs. 10.51 crores. Loans by the Centre stood at Rs. 274.18 crores, Rs. 314.15 crores and Rs. 301.96 crores, respectively. There is a slight recession under this head in the estimate for 1959-60, though the tempo of planning has been increasing during the first four years of the second Plan. The biggest items under disbursement were multi-purpose river valley schemes and irrigation at Rs. 123.37 crores, Rs. 127.83 crores and Rs. 134.27 crores. On the whole, the States have been spending on an average Rs. 400 crores yearly on development, out of which 80 per cent. has been lent by the Central Government. During the nine years from 1951-52 to the end of 1959-60, the total amount of the loans from the Centre to the States is expected to amount to Rs. 2,110 crores, of which Rs. 290 crores have been repaid, leaving a balance of Rs. 1,820 crores. By the end of the second Plan period, loans due by the States to the Centre would amount to Rs. 2,100 crores, necessitating an annual provision of Rs. 150 crores to Rs. 200 crores towards payment of interest and repayment of instalments. Debt servicing charges of States rose from Rs. 8.49 crores in 1951-52 to Rs. 62 crores in 1959-60. The distribution of debt burden is far from even as among the States, and, in the ultimate analysis, it might come to the more solvent States paying for extravagance by the more heavily indebted ones. Table III gives details:

TABLE III

(In crores of rupees)

Item	1957-58 (Accounts)	1958-59 (Revised)	1959-60 Budget
A. RECEIPTS			
Permanent debt ..	25.89	78.45	72.50
Floating debt	12.59	—7.03	1.16
Loans from the Centre ..	274.18	314.15	301.96
Other loans	6.33	16.08	11.09
Unfunded debt ..	3.11	4.52	8.86
Loans and advances repaid to State Governments	43.92	44.57	46.50
Deposits and advances and other items ..	19.50	10.25	42.74
Total receipts	390.52	461.89	484.80
B. DISBURSEMENTS.			
Capital Outlay.			
Development:			
Multi-purpose river valley schemes ..	61.79	65.87	55.76
Irrigation and navigation	61.48	61.96	78.51
Schemes of agricultural improvement and research ..	4.60	7.05	6.43
Electricity schemes ..	37.80	26.88	26.90
Road transport	2.63	3.25	2.92
Buildings, roads and water works ..	62.76	85.27	92.08
Industrial development	12.23	15.86	15.12
Others	0.66	1.31	2.05
Total Development ..	243.95	267.45	279.76
Non-development:			
State trading	15.85	4.17	—1.64
Compensation to landholders on the abolition of *zamindari*	4.46	7.65	11.96
Other financial transactions ..	0.01	0.18	0.20
Total Non-development ..	20.32	12.00	10.52
Total capital outlay ..	264.27	279.45	290.28
Discharge of permanent debt	7.18	13.48	7.67
Repayments of loans to the Centre	56.98	76.33	67.74
Other loans	0.07	0.24	1.18
Loans and Advances by State Governments ..	86.00	125.36	128.44
Total Disbursements ..	414.50	494.86	495.31
C. Surplus(+) or deficit(—) (A—B) ..	—23.98	—32.97	—10.51

On 2nd October 1959, a radical devolution of powers into the hands of village *panchayats* and *zilla parishads*, was begun in Rajasthan, to be followed by other States. But, so far as the past is concerned, the dealings between State Governments, on the one hand, and local bodies and agriculturists, on the other, have been going from bad to worse. States' loans and advances to local bodies and agriculturists rose from Rs. 49 crores in 1951-52 to Rs. 128 crores in 1959-60. Recoveries increased from Rs. 24 crores to Rs. 47 crores, but the percentage of recovery declined from 50 to 33 per cent. During these nine years, total loans to these bodies were Rs. 741 crores, recoveries Rs. 296 crores, and the balance Rs. 455 crores. While this is the over-all position, some States fared much worse than the average. For example, in Bihar, during 1957-58, issue of loans to local bodies and agriculturists aggregated Rs. 3.63 crores, while recoveries of previous loans were only Rs. 44 lakhs. In 1958-59, loans and recoveries were budgetted at Rs. 5.26 crores and Rs. 3.54 crores, but the revised figures for the year stood at Rs. 8.34 crores and Rs. 0.75 crore! It looks as though the proportion of default and bad debts shows a hardening trend, and scaling down or writing off of such bad debts may become a normal feature, thanks to over-liberal credits being granted by the State Governments in recent years.

Second Plans of States

Table IV gives details with regard to the progress of Plan expenditure during 1956 to 1959 and the percentage of such expenditure to the proposed total second Plan outlay of Rs. 2,161.0 crores. The proportion of expenditure to estimate is highest in Madras (59 per cent.) and lowest in Mysore (37 per cent.). The average for all States is 48 per cent., while it should have been 66.66 per cent. This shortfall was due partly to non-availability of resources and partly to delays in procuring capital goods:

TABLE IV

Plan Outlay by States

(In crores of rupees)

States	Plan target 1956-61	1956-59 three years	Balance for years 1959-61	Percentage of outlay during the first 3 years to five-year target
Andhra Pradesh ..	174.8	84.8	90.0	49
Assam	57.9	29.4	28.5	51
Bihar	190.2	85.8	104.4	45
Bombay	350.2	176.2	174.0	50
Jammu and Kashmir ..	33.9	13.4	20.5	40
Kerala	87.0	39.1	47.9	45
Madhya Pradesh ..	190.9	75.5	115.4	40
Madras	152.3	89.1	63.2	59
Mysore	145.1	53.1	92.0	37
Orissa	100.0	50.1	49.9	50
Punjab	162.6	86.6	76.0	53
Rajasthan	105.3	48.2	57.1	46
Uttar Pradesh ..	253.1	134.4	118.7	53
West Bengal ..	157.7	76.8	80.9	49
Total ..	2,161.0	1,042.5	1,118.5	48

Details with regard to Plan resources for the first four years are given in Table I. During these four years, the Plan outlays of the States amounted to Rs. 300 crores, Rs. 340 crores, Rs. 417 crores and Rs. 472.6 crores, respectively (total Rs. 1,529.6 crores). Against these, the total resources transferred from the Centre were Rs. 373 crores, Rs. 518 crores, Rs. 638 crores and Rs. 655 crores, including transfers on both revenue and capital account (total Rs. 2,184 crores). The Central contribution to non-Plan expenditure rose from Rs. 73 crores in 1957-58 to Rs. 172 crores for the budget year 1959-60. In other words, the Central Government bore the entire burden of States' Plan expenditure, in one form or another, and contributed substantially to routine expenditure on administration, etc. This is a highly unhealthy position, somewhat like young men in their teens behaving like babies and expecting spoonfeeding as a long-term measure. The position as budgetted for 1959-60 is clear from Table V, according to which Rs. 472.6 crores is the total outlay, of which Rs. 231.2 crores is expected to come from the Centre. The table also reveals the wide disparity as among the States

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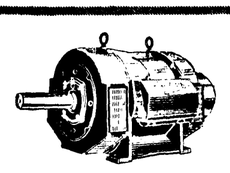

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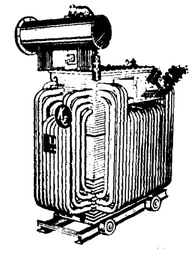

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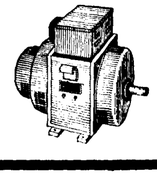

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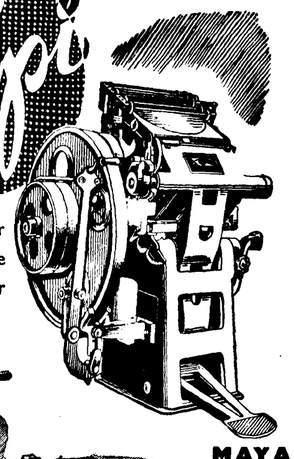

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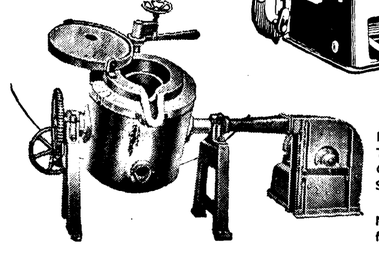

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with regard to the scale of planning and percentage of Central assistance:

able. It is only this way that the Central Government could desist from indulging in deficit finance.

TABLE V

Plan Outlays, Central Assistance and States' Resources 1959-60

(In crores of rupees)

Name of the State	Plan outlay	Central assistance	States resources	Uncovered gap between the Plan ceilings and estimated resources which is to be met by additional resources to be raised by the States
Andhra Pradesh	37.7	19.0	17.0	1.7
Assam	12.3	6.8	5.0	0.5
Bihar	41.2	19.0	22.2	....
Bombay	87.7	28.5	59.2	....
Kerala	18.5	8.4	10.1	....
Madhya Pradesh	34.2	22.0	12.2	....
Madras	33.6	18.0	15.6	....
Mysore	32.5	14.5	18.0	....
Orissa	19.3	13.5	5.6	0.2
Punjab	35.2	19.0	16.2	....
Rajasthan	24.1	13.0	11.0	0.1
Uttar Pradesh	52.0	28.5	22.2	1.3
West Bengal	37.5	16.5	21.0	....
Jammu and Kashmir ..	6.8	4.5	2.0	0.3
Total ..	472.6	231.2	237.3	4.1

On top of this, expenditure on education, Community Development and National Extension Service Blocks and others is expected to be transferred to the States in 1961-62, and the States Finance Ministers could not be too careful even from now.

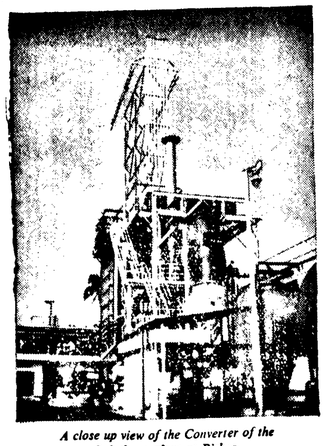
The financial procedure evolved during the first and second Plan periods is rather hard to understand: the Planning Commission's general attitude towards State Plans has been this: "You put up your Plans. We study, boil down and approve, but you should find the resources." The more rational course would be to ask each State to cut its coat according to the cloth, and not according to the size without reference to the cloth available. It is only this way that the Central Government could desist from indulging in deficit finance.

Very recently, one of the Central Ministers admitted that more and more power was being exercised by the Centre with regard to items that came within the jurisdiction of the States according to the Constitution. He did not like this, but explained away by saying that this unhealthy development was due to dearth of ability among State Cabinets. The fact is that, during the last decade, the A.-I.C.C., the Central Cabinet, the National Development Council and the Planning Commission have informally assumed dictatorial powers in State matters, with little or no heed to State Cabinets and Legislatures. The usual practice nowadays is for each State Cabinet to submit the annual budget to the Planning Commission, and place before the State Legislature the budget as finalised by the Planning Commission: many a Minister openly admitted that the sanction behind this Bill was the approval of the Planning Commission, while the Constitutional authority for according sanction was the State Legislature. The procedure adopted in the Centre levying excise duties on textiles, sugar and tobacco in place of the States' sales taxes on these commodities, was unconstitutional, and the financial success of this measure has resulted in a demand for transferring collection of excise duties on 27 other commodities instead of local sales taxes. Contrast this with the imposition of the Madras sales tax to make up for loss of revenue on account of prohibition in 1939, the Centre having had no say in the matter. The argument is that the collections by the Centre permit minimum evasion through excise duties levied at the source instead of in the market, but the more important argument, namely, the discretion of the States to adjust rates of sales taxes according to circumstances, has been ignored. The States are burdened with growing responsibilities under social services, but resources available are comparatively and growingly inadequate. This is the real explanation for the Centre mono-acting the entire drama of planning with the States as puppets more or less. The process of centralising financial powers has gone very far, and State Governments have lost, more or less completely, all incentive and initiative, not on account of mediocrity but due to the deadening of faculties as a result of disuse. The sooner the Constitution is respected and the States given back their own powers, the better the auspices for the third Plan.

The National Development Council and the Planning Commission are not statutory bodies, and their powers are based on convention. But, according to the Constitution, it is open for each State to have its own Planning Commission, but no State has been allowed to have one such. The right thing to do would be to set up one planning body for each State, the Central Commission confining its work to Central subjects and evaluation and co-ordination with regard to State matters. A statutory Inter-State Council should replace the present National Development Council. The informal but decisive pressure being exerted by the A.-I.C.C. on State Plans and finances should be discontinued, because that body is predominantly motivated by political influences.

Debt Revision and Autonomous Corporations

Another important reform for stabilising States' finances is a close study and settlement of the public debt of each State, with revised rates of interest on the low side. At present, the transactions are highly complicated, and several State Governments are demanding that rates of interest on Central loans should be determined on the basis of the productivity of the concerned projects. So far as Central aids and grants in different directions are concerned, the State Governments should be made the sole responsible agency which, in turn, should be able to avoid overlapping and over-financing. With regard to inter-State projects, the most appropriate arrangement would be to set up an autonomous authority with wide powers in each case. The news that the U.S. President has signed an order permitting the T.V.A. to issue $750 million worth of revenue bonds, should be of high suggestive value to planners and financiers in India. Only the other day, the Nagarjunasagara Control Board decided to approach the Central



A close up view of the Converter of the Polythene plant at Rishra

Investment in India's future

In recent years I.C.I. (India) has been associated with a series of manufacturing schemes of great significance to the nation's economy. In November 1958, the President of India opened the Indian Explosives Ltd. plant at Gomia, Bihar—the country's first commercial blasting explosives factory. I.E.L. is a joint undertaking of I.C.I. and the Government of India.

In April 1959, Atic Industries Private Ltd., in which I.C.I. is in partnership with Atul Products Ltd., inaugurated a major extension to their vat dyestuffs factory at Bulsar, Bombay.

A third plant, opened in May 1959, is India's first polythene plant, built at Rishra, West Bengal, by the I.C.I. subsidiary, the Alkali & Chemical Corporation of India Ltd. It cost Rs. 4 crores and will save the country Rs. 1.5 crores every year in foreign exchange.

Yet another project ... Soon I.C.I. and its subsidiary, the Alkali & Chemical Corporation of India Ltd. will build a Rs. 2 crore Rubber Chemical Plant at Rishra, West Bengal, which will save the country Rs. 1 crore foreign exchange annually.

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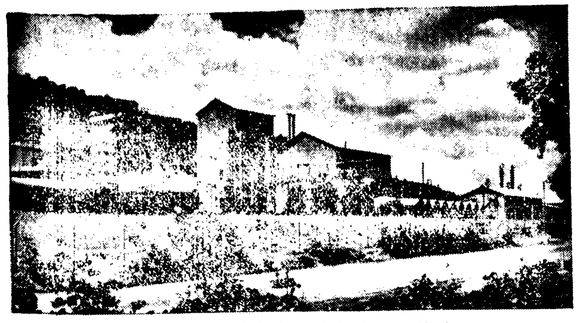
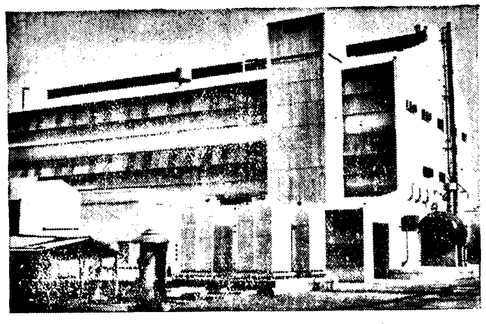


India's first Commercial Blasting Explosives factory at Gomia — General view of the area where raw materials are manufactured



Part of the extensions at the Atic Industries Bulsar plant

ICG 862 C

Government for a further grant of Rs. 14 crores for outlay before the end of the second Plan, and, in all probability, "yes" or "no" from the Centre may come after we enter the third Plan period. The T.V.A. is one among many Guaranteed Corporations which have been functioning in the U.S. successfully. It is only high level decentralisation that has been responsible for their efficient working. The T.V.A. has been paying 8.3 per cent. of revenue in the shape of State and Local taxes, while, on the average, 12 neighbouring public utilities have been paying only 6.4 per cent. under the head.

The number of public enterprises in India has been increasing fast, some yielding good returns, some moderate, some poor and some none. All these might be justified on grounds of national finance as distinguished from Government finance, but financial results of all of them are bound to improve if only the authorities in charge of each of them are allowed sufficient elbow room: a complaint was made to this effect by the Russians in charge of the Bhilai steel plant. In the U.S.S.R., the republics have the option to secede according to the Constitution, but any such proposal is looked upon as sedition by convention. In the U.S.A., it is claimed that the original 13 States were there before the Union came into being, and they would continue even after the Union disappeared (if and when) and all the 50 States enjoy residuary powers. But here in India, in spite of Constitutional devolution of powers in favour of the States, under the Montford Reforms of 1919, the Government of India Act 1935 and the Indian Constitution after Independence, the State Governments have, in fact, degenerated into more or less Local bodies, and State Legislatures and Cabinets have become redundant on account of the bulk of their work comprising "ditto" to decisions by the Centre. How far the States will regenerate into strong and useful partners in the Indian Republic will depend on the extent to which public opinion and State Legislatures insist on the desirable change. To neglect State Governments in a policy of devolution of financial and other powers in favour of village *panchayats* and *zilla parishads* would amount to ignoring the substance and catching at the shadow.—*All Rights Reserved.*

MINISTER AND HIS SECRETARY

(*Concluded from page 22*)

be concerned primarily with policy, wider issues and Parliamentary responsibility. He should leave the detailed administration of the Department to the Secretary and should interfere as little as possible with personnel and with the day-to-day administration. In the matter of contracts and negotiations, the Minister should keep away from direct participation, leaving the negotiations to the Secretary and to the permanent civil servants working under the supervision, guidance and direction of his Secretary. This is, in my opinion, a sound rule, departure from which has, in certain patent cases known to everyone in the country, led, apart from inevitable misunderstandings, to disastrous consequences including large-scale wastage of public money. This is the practice in the countries where Parliamentary Government has been practised most and rather efficiently and it would be as well for us that we follow these healthy and time-tested conventions.

Relations between Minister and Secretary, being a delicate matter, should not be made the subject matter of a *public* enquiry as happened in the case of the L.I.C. affair. In so far as the public is concerned, they both are and should be regarded as the same body, namely, Government. Occasions for an apportionment of blame as between them cannot be ruled out, but this should be done through an *in camera* investigation. It is to be earnestly hoped that this lesson arising from the Mundhra case proceedings would not be lost on the Government or on the people.

In the end, I would stress, once again, that relations between Minister and Secretary are difficult to define and yet very easy to maintain, provided that there is mutual confidence, mutual goodwill and mutual adjustment superimposed upon mutual loyalty. If these conditions are lacking, no codification would serve any useful purpose and would, on the other hand, introduce an element analogous to litigation or saving one's skin or passing the buck to the other, and wordy wrangles would replace decisions and acceptance of responsibility. This may be good for the particular individual, but it is certainly harmful to the administration and to the country.—*All Rights Reserved.*

RUBBER MANUFACTURING INDUSTRY

(*Concluded from page 146*)

expected to commence production by 1961.

The training of technicians and operatives to man the rubber manufacturing industry is another factor intimately connected with its expansion programmes. Towards this end, the industry, in conjunction with various State Governments, has instituted a series of apprentice training schemes. The Indian Institute of Technology at Kharagpur has introduced a post-graduate course of one year's duration in rubber technology. The Bombay University also proposes to introduce a degree course in that subject. Since the development of the rubber industry involves both basic and applied research, the industry and the Government are working out a plan to keep in close touch with universities, scientific and learned bodies and professional institutions in the field both in India and abroad.

Yet another important advance in rubber manufacturing is the introduction of quality control and quality marking schemes. The industry is also maintaining closer liaison with the National Productivity Council.

Scientific Research

Although India has availed itself of the advances in rubber research all over the world as a result of its association with international organisations like Dunlop and Firestone, the Indian rubber manufacturing industry has yet to have the necessary facilities for organised research within the country. But a beginning has now been made and the Council of Scientific and Industrial Research has drawn up plans for the establishment of an Indian Rubber Manufacturers' Research Association in conjunction with the Association of Rubber Manufacturers in India and the Indian Rubber Industries Association. The National Chemical Laboratory at Poona has made a very promising beginning in this direction. There is no doubt that, in the years to come, its investigations will yield immense practical benefit.

The rubber manufacturing industry in India has already reached a level of maturity and there is no doubt that, in the years to come, it will reach out in many new directions and acquire greater stature commensurate with the service which it will render to the country.—*All Rights Reserved.*

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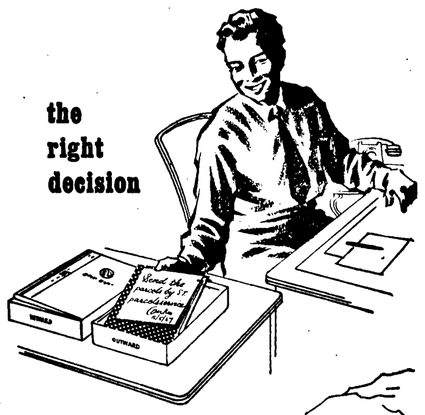

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WORLD SUPPLY OF OILS AND FATS AND INDIA'S POSITION

VEGETABLE oils have been in common use for many centuries, but the industry owes its recent growth and development largely to the discovery of the hydrogenation or hardening process at the end of the nineteenth century. Prior to this, the low melting point of vegetable oils had restricted their usage mainly to industrial purposes and to direct consumption as liquid oils (olive oil, for example). The discovery of hydrogenation enabled the margarine industry, established in the Netherlands soon after 1870, to employ raw materials which were cheaper than the animal fats originally used. Thereafter, rapid expansion of oilseed production occurred in tropical and sub-tropical areas, while large oilseed crushing plants were erected at ports of entry in Europe.

A corollary to the increased production was the greater availability of oilcake residue for cattlefeed. This gave rise to a completely new industry, manufacturing compound feeding stuffs for cattle, pigs and poultry—an industry which has recorded spectacular progress in recent years. It is of interest that the same economic force, namely, the shortage of butter, which promoted the development of the margarine industry, and thereby the supply of vegetable oils, has resulted in a substantially increased availability of high protein animal feed which has significantly assisted in the increased production of animal fats. While world production of butter at 4,185,000 metric tons for 1958 is only marginally greater than the pre-war figure of 4,160,000 tons due to the growing demand for direct milk consumption, there has been a marked increase in the availability of lard and tallow.

Vegetable Oils and Animal Fats

The figures given in Table I indicate the estimated world production of oils and fats pre-war and in the past three years by commodities. An analysis of these figures reveals that animal fats (butter, lard and tallow at 8,752,000 tons) accounted for 40 per cent. of the total pre-war, and vegetable oils for 56 per cent., the balance of 4 per cent. being marine oils. Coming to 1958, we find that overall supplies have increased to such an extent that animal fats even at 11,125,000 tons have declined marginally to 39 per cent. of the total, while vegetable oils have enhanced their share to 58 per cent., the tonnage of marine oils remaining static, though their relative percentage has fallen to 3. Just as lard and tallow account for the increase in total animal fats, among vegetable oils the bulk of the increase is in the edible type group and to a smaller extent in the "palm" oils group. Industrial type oils have not recorded any real progress, as many of these oils have to face severe competition from mineral oil substitutes. It is also felt that marine oils can only show a slowly declining trend in the future, as the heyday of whaling is over and it is becoming more and more difficult to operate a whaling fleet profitably. As it takes time for new "palm" type of plantations to become productive, any short-term expansion of the supply of oils and fats must be related to the "edible" type oils and animal fats.

Per Capita Availability

While one may consider that an increase in world supply, in terms of oil or fat, from 21,590,000 tons pre-war to 28,360,000 tons in 1958, or 32.28 per cent., is appreciable, in the context of increasing population it gives no cause for complacency. Table II indicates that *per capita* availability in 1958 was in fact just under the pre-war level. The 1959 forecast, however, is more hopeful and raises the estimated *per capita* availability to 22.9 lbs. per year—the highest ever. Such figures of average *availability* are only useful for purposes of comparison—they do not give any indication of actual *per capita consumption* in the various parts of the world. The fact is that, in most countries of the West, consumption is well above the world average, which obviously means that elsewhere, there are vast numbers of people who will get less than 22.9 lbs. in 1959. It is held by nutrition experts that a minimum of 2 ozs. of oils and fats are required per day (or 45 lbs. per annum) which means that the supply of oils and fats to a large section of the world's population is pitifully inadequate. To make matters worse, the rate of population increase in many countries is alarmingly high, which makes the future even more gloomy.

U.S.A. and China

Perhaps the most important development during the last 20 years has been the tremendous increase in production of oils and fats in the U.S.A. From an estimated 16.41 per cent. of total world production pre-war, Table III indicates that the U.S.A. accounted for 22.6 per cent. in 1958 and an estimated 23.36 per cent. in 1959. The expected production in 1959 at seven million tons (in terms of oils and fats) is just about double the pre-war figure, which gives hope to those countries which are struggling to increase their output by means of more efficient agricultural methods. The other major producer of these commodities (apart from India) is China, but, though the 1959 estimate is a million tons more than 1958, not too much reliance can be placed on these figures which are based on Chinese Government reports. The original reports of sensational increases in production later proved false and the Chinese had to admit to much lower figures of actual production. It would, however, be safe to state that, with their vast and ever-increasing population, it will be a long time before China will be able to put large quantities of oils and seeds on the world markets without seriously depriving her own people of their necessities.

The confident announcement of Chinese estimates, however, is of relevance, as it conditions the minds of the people dealing in these commodities into believing that world production is much higher. The original world estimate for 1958 had to be revised drastically downward by 1.4 million tons and China was responsible for the greater part of this reduction. However, world exports, more than world production, form the principal factor in determining the general price level, and, in this context, it is America which has vast surpluses to dispose of. Table IV gives the world exports by countries and the progress of the U.S.A. in the last 20 years is again truly remarkable. From the position of a net importer pre-war, the U.S.A. has emerged as the world's largest exporter of oils and fats, with the forecast of their 1959 exports at 2,035,000 tons being the highest on record. Nearer home, we find that India and Ceylon, which provided 10 per cent. of world exports pre-war, have sunk into a position of insignificance, with their exports amounting to a trifling 1.68 per cent. of the total for 1958. With an ever-increasing internal demand, it is unlikely that these countries will achieve a position of prominence as exporters in the near future.

The commodity, which has perhaps exercised the most effect on the trend of world prices of vegetable oils in the last two years, on account of its acute shortage, is copra. In 1957, the quantity of copra and coconut oil exported in terms of oil was 1,364,000 tons—this figure dropped to almost one million tons in 1958 and further to an estimated 924,000 tons in 1959. The three main exporters of copra are the Philippines, Indonesia and Ceylon, of which the Philippines is predominant. The Philippine's crop has been poor in the last two years, due to drought and the spread of disease; there was a severe curtailment of exports from Indonesia on account of unsettled internal political conditions and, finally, there was a sharp drop in Ceylonese production. Consequently, the copra market was firm and advancing even at times when the general trend of oil prices was easy. This situation revealed the rigidity of manufacturers in adhering to their formulas in spite of higher prices. In the middle of 1958, when the price of Philippine copra was $190 c.i.f. Europe, there were definite indications of shortage, but no corrective action was taken. It was not until nearly six months later, after the price had soared to $280, that the usage of coconut oil was reduced. In the meantime, consumers contented themselves with using up their inventories and buying only sparingly, hoping for an improvement in the supply situation. Since the beginning of 1959, manufacturers in Europe have turned to substitutes. This in turn caused a steady rise in these commodities—soon groundnut oil became unattractive and U.S. cottonseed oil proved more economical. Soya oil is also being used more and more as a substitute for cotton and groundnut oil, and finally, the low price of U.S. lard has made it attractive as a raw material for edible products in some countries. Necessity is the mother of invention, and, as a result of the copra shortage, the readiness to interchange at short notice has been greatly stimulated. This fact should ultimately result in steadier markets and eliminate some major fluctuations—it should help commodities in excessive supply and ease the pressure on those in short supply.

Soyabeans and Groundnuts

In view of the copra shortage, it is fortunate that the availability of soyabeans and groundnuts in 1958 and the estimate for 1959 are more than the 1957 exports of these commodities. The United States is now the world's largest producer of soyabeans, the restrictions on wheat, maize and cotton plantings, combined with the policy of maintaining price supports for soyabeans, have led to a remarkable expansion in acreage, especially since 1954. Increased acreage and good yields have resulted in both the 1957-58 and 1958-59 crops reaching new record levels. There is, in addition, a ready internal market for soya meal for the manufacture of animal and poultry feeding stuffs. The other major producer of soyabeans is China which accounted for the bulk of the pre-war exports of this commodity. Although their current production is expected to be no less than in pre-war years, the Chinese absolute and relative share of the exports have dropped sharply. Out of the pre-war total world exports of 2,233,000 tons seed and 77,000 tons oil, China exported 2,078,000 tons seed and all the oil, as against their 1958 export of 995,000 tons seed and 73,000 tons oil from the total world exports of 3,347,000 tons seed and 469,000 tons oil in 1958.

The Commonwealth is of outstanding importance as a producer of groundnuts, accounting in the five-year period ended 1950 for an average of 5.2 million tons or 48 per cent. of world output compared with 47 per cent. in 1938. India is not only the leading Commonwealth producer but also the largest world producer of groundnuts, although the proportion of her crop entering world trade has been generally very small since the war. On the other hand, Nigeria and French West Africa, with much smaller crops, contribute the bulk of the exports of this commodity. Extremely favourable climatic conditions resulted in the 1958 Nigerian crop being the largest ever harvested and practically double the poor crop of the previous season. If it were not for the copra shortage, the international price for groundnuts and groundnut oil would in all probability have ruled at very low levels throughout the current year.

Butter

Another commodity which has seen a dramatic reversal of its price trend is butter. In 1958, the supplies of butter in West Europe (particularly the U.K.) appeared excessive and the price declined to levels not seen in recent years. This situation caused some misgivings to butter producers and margarine manufacturers. The position has now completely reversed itself and, following the hot dry summer in Europe this year, there is danger of a butter shortage in 1960. The following are the estimates of butter and margarine consumption in the U.K. in the last three years:

(In thousand tons)

	1957	1958	1959
Butter ..	405	460	450
Margarine ..	365	332	350

Apart from special situations which may arise in particular commodities causing erratic individual price movements, statisticians, in relating estimated overall availability of oils and fats against the projected demand for them, arrived at a neat balance for 1959 which held out the promise of generally steady markets. The point at issue is that the projected demand is measured in cold financial terms and bears no relation to human needs. It is not that the demand does not exist; it is merely for reasons of individual or national poverty that it cannot be translated into effective terms. If, on the other hand, all unfulfilled human needs were suddenly converted into active economic demands, then, the world's supplies of oils and fats would prove pitifully inadequate and could be equated to demand only through a rising price spiral.

P.L.480

It seems anomalous that shortages and surpluses can exist at the same time, but just as the problem of meeting the minimum requirements of their population exercises the minds of some Governments, so also the Government of the U.S.A. is faced with the problem of disposing of its surplus production without disrupting world trade. At this stage, it is fruitless arguing the economics of American farm production policy, because it is as much conditioned by political as by economic motives. The policy exists bringing its surpluses, which, if left on the free market, would force down prices to a level that the American farmer would find unremunerative. So it becomes the responsibility of the American Government to take up these surpluses whenever the price comes down to the support level. The oils concerned are soyabean oil and cottonseed oil which do not always find a ready market in West Europe in competition with groundnut oil.

Furthermore, the countries which can absorb large additional quantities of oils and fats are short of the foreign exchange necessary to buy their requirements. Public Law 480 (more popularly known as P.L. 480) was devised to meet this situation by permitting the sale of surplus agricultural commodities not for American dollars but for the local currency of the country to which they are sold. P.L. 480 sales of soya and cotton oil came to the assistance of the Mediterranean countries, particularly Spain and Italy, when their olive production was severely reduced on account of unseasonal frost and attacks of the "dacus" fly. The suggestion that such assistance kills the initiative of the recipients to increase their own production is inadmissible, as this year Spain has hardly taken up any part of her P.L. 480 allocation, because of an excellent olive crop. The political significance of the heavy monetary balances built up by the U.S.A. in many countries, and the fact that, in the short run, it is the American taxpayer who subsidises the American farmer, are two strong criticisms of this system, but, from a purely humanitarian point of view, there is much to be said for P.L. 480 as an instrument in the relief of human suffering.

While India has acquired large quantities of foodgrains under P.L. 480, so far, the situation as far as oils is concerned has not been grave enough to warrant such purchases. Besides, the main oil on offer is soyabean oil, which would have to be refined and perhaps hardened before it can be used in this country. Apart from its processing, there would be considerable problems involved in its receipt, storage and distribution, but these would no doubt be solved if the necessity arose.

India's Position

Indian oilseed production for the 1958-59 season was the highest ever and gives hope that the second Plan target of 7.6 million tons may be achieved. Table V gives the production of the five major oilseeds for the past five years, and it is seen that, in 1959, the groundnut, linseed and rape and mustard crops have been very good. In spite of the increased availability, there was a general upward movement in the prices of most seeds and oils, which is a fair indication of the steadily increasing demand. The index number of oilseed prices in 1956 was 115 (1952-53 : 100). It rose to 120 in July 1958 and to 136 in July 1959, an increase of 8 per cent. over the same month last year. Does this mean that even if the second Plan target is met, prices will still continue to rise?

The third Five-year Plan is now on the anvil, and a target of nine million tons of oilseeds is being suggested. Let us hope that this quantity will meet the requirements of the increased population and the higher standard of living without a steady rise in prices.

Export Policy

In the past, the Government of India made it clear that the internal price was the criterion by which export policy was decided. Only if the prices dropped to a level which indicated a surplus were exports permitted—furthermore, there were heavy export duties on most oils and groundnuts H.P.S. exported out of India. All these measures contrived to protect the Indian consumer at the expense of the Indian producer of oilseeds. Foreign exchange is now a very important problem and everything is being done to promote exports—all export duties have been abolished; rebates of excise duty are given and the procedure for claiming refunds has been simplified; and, finally, export promotion schemes have been put in operation. For instance, shippers of groundnut oil are given as incentive an export quota of 3½ tons of groundnut oilcake. The profit they make on the cake is calculated to just offset their loss on the oil, leaving a small margin of profit. A similar scheme, allowing imports of copra against exports of *vanaspati* has also been recently started. Such concealed subsidies cut across all canons of classical economics, but the foreign exchange situation is desperate enough to warrant unorthodox measures so long as they have some hope of success. The Indian producer benefits from the high internal prices, generated by export schemes. In the long run, this should result in bigger crops, but, unfortunately, the prices of all agricultural commodities are rising and the Indian producer may continue to be in the same quandary regarding the best utilisation of his land.

Cottonseed Oil

It must be said to the credit of the Government that they are doing all in their power to increase oil supplies. A source which offers great potential is cottonseed crushing and, to encourage this industry, the excise duty on cottonseed oil has been abolished and *vanaspati* manufacturers have been asked to utilise a minimum percentage of this oil in their finished product. In

(*Continued on page* 192)

TABLE I

Estimated World Production of Oils and Fats

Metric tons (000's)

(In terms of oil or fat)

	Pre-war	1957	1958 Preliminary	1959 Forecast
Edible Type Oils :				
Cottonseed	1,453	1,875	1,865	2,140
Groundnut	1,755	2,545	2,660	2,955
Soyabean	1,263	3,085	3,275	3,730
Sunflower	435	1,400	1,130	1,175
Olive	950	1,150	1,210	1,110
Sesame	563	440	370	450
Rapeseed	1,273	1,120	1,090	1,135
Maize	70	130	135	135
Teaseed	25	15	15	20
Total	7,787	11,760	11,750	12,850
Palm Oils :				
Coconut	1,633	2,165	1,820	1,730
Palm kernel	355	405	430	435
Palm oil	644	1,025	1,025	1,030
Babassu kernel	27	20	20	25
Total	2,659	3,615	3,295	3,220
Industrial Type Oils :				
Linseed	1,040	1,100	920	1,015
Castor bean	178	240	240	235
Tung	121	125	130	130
Oiticica	9	10	10	10
All other vegetable oils*	211	250	250	260
Total	1,559	1,725	1,550	1,650
Animal Fats :				
Butter (fat content)†	4,160	4,060	4,185	4,195
Lard	2,913	3,635	3,790	4,055
Tallow	1,679	3,230	3,150	3,225
Total	8,752	10,925	11,125	11,475
Marine Oils:				
Whale (including sperm oil)	507	500	515	485
Fish	323	370	325	340
Total	830	870	840	825
Estimated World Total	21,587	28,895	28,560	30,020

Notes:—The above estimates are based on detailed consideration of production in each country, using actual visible oil production where it is possible to obtain a reasonably firm estimate, e.g., Europe, U.S.A., Australasia. For most other areas visible oil production has been calculated from crop estimates (after allowance for seeding, etc.), export supplies plus arbitrary allowances for domestic consumption, livestock statistics and other relevant information.

* Includes mowrah, niger, hempseed, perilla seed and other minor oils. † Includes ghee.

TABLE II

World Oil and Fat Situation and Prospects

SUMMARY OF SALIENT STATISTICS

(In terms of oil or fat)

	Pre-war	1957	1958 Preliminary	1959 Forecast
World supply*				
World Production—Metric tons (000's)	21,590	28,895	28,560	30,020
„ Population (millions)	2,130	2,795	2,840	2,885
„ *per capita*—lbs.	22.3	22.8	22.2	22.9
Total World Exports				
World exports—Metric Tons (000's) of which—	5,830	7,515	7,055	7,405
U.S.A.—Metric tons (000's)	100	2,020	1,690	2,035
Other Countries—tons (000's)	5,730	5,495	5,365	5,370

* It is emphasised that *per capita* figures are calculated from production and do not necessarily reflect actual consumption in the years stated.

TABLE III

Estimated World Production of Oils and Fats

Metric tons (000's)

(In terms of oil or fat)

	Pre-war	1957	1958 Preliminary	1959 Forecast
U.S.A.	3,543	6,634	6,455	7,015
Argentina and Brasil	995	1,356	1,400	1,290
Other America	562	1,230	1,230	1,250
Total America	5,100	9,220	9,085	9,555
Western Europe (16 countries)	2,914	3,840	4,050	3,775
Western Europe (16 countries) (Whale oil)	423	275	235	215
Other Europe	1,231	1,240	1,330	1,370
Total Europe	4,568	5,355	5,615	5,360
West Africa	1,132	1,770	2,060	1,925
Other Africa	370	785	700	790
Total Africa	1,502	2,555	2,760	2,715
India and Pakistan	2,274	2,560	2,480	2,560
Ceylon and Burma	216	195	185	190
Indonesia and Malaya	931	945	850	845
Philippines	452	875	680	590
China and Manchuria	3,341	2,925	2,840	3,890
Australasia and Oceania*	575	765	765	775
Other Asia (excluding U.S.S.R.)	628	825	790	815
Total Asia and Oceania	8,417	9,090	8,590	9,665
Total World (excluding U.S.S.R.).	19,587	26,220	26,050	27,295
Total World (including U.S.S.R.).	21,587	28,895	28,560	30,020

TABLE IV

World Exports of Primary Oils and Fats by Producing Areas

Metric tons (000's)

(In terms of oil or fat)

	Pre-war (Average 1934-38)	1957	1958 Partly estimated	1959 Forecast
United States of America	100	2,021	1,690	2,035
Argentina and Uruguay	577	289	334	259
Other America	133	344	288	325
Portuguese Africa	62	101	102	105
Belgian Congo	97	236	247	251
British West Africa	455	598	719	723
French West and Equatorial Africa.	298	331	381	363
Other Africa	212	304	233	274
India and Ceylon	589	158	119	149
Malaya	132	121	111	95
Indonesia	529	359	261	256
Philippines	348	788	589	500
Australasia and Oceania	363	464	475	510
China and Manchuria	742	347	420	531
Other countries (including Europe).	685	555	573	531
Whale Oil (Antarctic and Arctic).	507	499	515	487
Grand Total	5,829	7,515	7,057	7,404

TABLE V

Production of Major Oilseeds in India

Tons (000's)

Year	Groundnut	Castor	Sesamum	Rape/ Mustard	Linseed	Total
1954-55	4,178	122	593	1,021	384	6,298
1955-56	3,801	123	460	846	413	5,643
1956-57	4,200	124	442	1,026	384	6,176
1957-58	4,271	97	363	905	271	5,907
1958-59	4,816	111	493	1,069	430	6,919

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Malabar Pepper In The Limelight

Bull Syndicate In Singapore Successful In Boosting Prices

By INDRAJI T. PAREKH

THE calendar year 1959, especially after the month of July, witnessed not only the end of the bear phase in pepper which had begun in 1952 and gathered considerable momentum during the succeeding years, but also a smart recovery. A notable rise in prices, with broadening of activities both in primary and in consuming markets, was recorded. Black pepper for spot delivery at New York, after touching the lowest at $0.23 in January, improved to $0.59 per lb. in the month of December, 1959. Ready Sarawak black and Lampong at Singapore rallied from Str.$70 to Str.$200 per picul (of 133⅓ lbs.). Ungarbled Malabar black pepper rose from Rs. 525 to Rs. 1,500 per candy (672 lbs.). and garbled from Rs. 85 to Rs. 242 per cwt. (112 lbs.). The distinct change in the sentiment was seen, thanks to the shortfall in production of Sarawak, Lampong and Muntok pepper. An optimistic assessment of the statistical outlook of the commodity acted as a stimulus.

Singapore was the first to foresee the coming events. Some of the Chinese bulls formed themselves into a syndicate. They almost cornered the major part of the stock of white pepper, both Sarawak and Muntok. The stock position of Sarawak black remained very tight throughout the year, as the major part of the crop of Sarawak pepper was turned into white. Lampong black had, therefore, almost no competitor in Singapore. Europe is the biggest buyer of white pepper, while America is mostly interested in black, particularly Lampong. New York is generally considered as the arbiter of world pepper prices. As such, for a successful manœuvring, the bulls thought it fit to lay their hands on Lampong pepper also. They purchased almost all the available stock of Lampong black from Singapore. They also entered into forward contracts for Lampong new crop with Indonesia. Thus, complete control over the marketing of black pepper was obtained. Having taken a leaf from the past history of a Chinese speculator who failed in his efforts to corner pepper in the year 1956, they tried to forestall all pitfalls. They desisted from sending consignments to Europe, the scope of operation in the European markets being very limited. They, however, continued to send consignments of Lampong to the U.S. But here they adopted a different selling policy. They did not come out to sell either spot or afloat on an unwilling market. Stocks with the grinders and the spice mills being everywhere low, manœuvring of the market proved an easy job. In short, Singapore afforded a dynamic leadership to world pepper. For boosting the morale of the grinders, the Singapore bulls often repurchased a parcel or two in the New York market. They also purchased many a time lower-priced offers from India and floating distressed parcels.

Singapore Beats New York

Late arrival of the new (1959-60) crop of Malabar and the purchase of a large parcel by the U.S.S.R. for November (1959) shipment, which reduced the carryover of the 1958-59 season to the bare minimum, proved a godsend to the speculators. As a consequence Singapore which was fearing passing of her leadership to Malabar on the advent of the new season continued to lead the world market. A mad orgy of speculative buying at Singapore reflected excitement on New York and India. Cornering of old stock of Sarawak and Lampong pepper having proved a success, the "Wantong Syndicate" at Singapore diverted its attention to the new crop of Lampong and Malabar Singapore dealers continued to make speculative purchases of Malabar black in New York market for long forward shipments at every advance. The Singapore syndicate having successfully squeezed the local bears, diverted its attention to New York and India Fortunately for them, the Chinese bulls got helpful and timely support from the Indo-American firm who had successfully cornered pepper in 1951 when spot at New York was rigged up to the dizzy height of $2.80. Thus, the spectacular rise in spot pepper at New York and in other important markets proved the highlight of pepper trading by the end of the year under review.

Opening of the Year

The year opened on an optimistic note. Despite pressure of arrivals, the market tried to look up as Russia and the East European countries were said to be in the market. Reduction of freight by the Conference Line operating on Indo-Atlantic ports from $80.50 to $70 and then again to $50 proved a supporting factor. Short position in January delivery on the Cochin ring was another contributory factor. Lampong in Singapore market showed hardening tendency, it having improved from Str.$65 to Str.$71. Ready garbled at Cochin improved to Rs. 115. Ungarbled rallied from Rs. 518¾ to Rs. 687½. Calicut rose from Rs. 565 to Rs. 740.

New York was showing patchy interest for Malabar, as Lampong was underselling India. In contrast, however, Malabar showed improvement under the pressure of speculative buying. Speculators who had smelt the rat that the exporters had sold short a sizable quantity to U.S.S.R. and East European countries tried to boost up the prices, with a view to forcing the shippers to cover their blank position. The speculators continued to make purchases both at Cochin and Bombay. At Cochin they made purchases on the ring for January and February delivery. At Bombay they continued to accumulate contracts for specific delivery for the months of February and April. Chances of any sizable export business to the U.S. failed to improve, owing to the activities of speculators which resulted in prices in almost all the primary markets going up above the export parity. This was considered a weak spot in the picture, as the major part of the production was still to be marketed. Rapid improvement in ginger and in other spices, however, emboldened speculators and investors to make fresh purchases, pepper being comparatively cheaper. New York refused to follow the advance in India. As a consequence, business in ASTA for January/February/March remained meagre. As the reduction in the freight from Singapore to New York appeared imminent, speculators in Singapore were buying rather freely Lampong both at Telok Betong and Djakarta. Future of the market at the moment appeared uncertain, as speculators without the support from overseas markets could not push up prices indefinitely.

In February

The bullish trend seen in January continued unabated during the major part of February. Prices of Malabar shot up. Russia and other East European countries were said to have bought more than 2,000 tons. The sudden flare up in prices appeared paradoxical, as neither Russia nor America was willing to follow the advance. Business in specific delivery contract and in ASTA at Bombay came to an abrupt close under fear of intervention by the Forward Markets Commission following the enforced closure of the forward trading in cloves. The operators, therefore, decided among themselves to square up all their outstandings at agreed rates. Though February delivery touched Rs. 640 and April Rs. 660 on 30th January 1959, the rate for squaring up the business was fixed at Rs. 600 for February and Rs. 620 for April. Business in ASTA for February/March shipment was squared up at $0.23½, as against the ruling price of $0.24½.

Ready in Bombay and forward at Cochin were reported to be under the grip of bulls from Northern India who were buying all kinds of spices and other commodities on talks of State trading in foodgrains. A report of a reduced estimate of the current crop of Malabar to about 24,000 tons as against the earlier estimate of 27,000 tons proved a bolstering factor. Singapore, after remaining steady at round about Str.$71 for a fairly long time, improved to Str.$80 in sympathy with the continuous rise of Malabar black as New York dealers came in the market to buy Lampong at a higher limit for replacing their resales of Malabar black to Indian exporters. After the closing of business in specific delivery contract and in ASTA at Bombay, local Commission Houses and bull speculators diverted their attention to ready. They bought sizable quantity of spot and afloat at advancing limits, the highest rate paid being Rs. 115 per Bengal maund exgodown. Calicut advanced to Rs. 900. Alleppey and Cochin rallied to Rs. 775 with few sellers.

Meanwhile, a stern warning by the Forward Markets Commission (F.M.C.) against unbridled speculation and boosting of prices in the commodity had a chastening effect on the runaway prices. There was a move on the part of some of the merchants at Cochin to enforce special margin for checkmating unhealthy speculation but nothing came out of it as the majority of members were against the margin system on the argument that the improvement in pepper had been brought about by the revised smaller crop estimate of the Malabar and in sympathy with Singapore. Spot in New York improved from $0.24 to $0.26 under inquiries from grinders. After giving repeated warning, the Forward Markets Commission imposed special margin with effect from 10th February, with a view to curbing speculative excesses in the commodity, as it was found that there was a persistent tendency to rig up the prices of pepper to the detriment of exports. A margin of Rs. 15 and Rs 30 per cwt was imposed whenever the future prices of the February-March or May 1959 delivery traded in the Indian Pepper and Spice Trade Association rose above Rs. 125 and Rs. 135 per cwt., respectively. As a result, the market at Cochin in ready garbled came down to Rs. 123. March and April delivery were also quoted lower at Rs. 121. Ungarbled at Alleppey and Cochin climbed down to Rs. 775. News of revised lower estimate of Sarawak and Lampong, however, imparted steadiness to Malabar at a lower level.

Spring and Summer

The months of March, April, May and June were uneventful for Malabar pepper, as business proved thin and fluctuations narrow with tendency pointing downward, except for small reactions every now and then. The closure of business in specific delivery at Bombay and the enforcement of special margin at Cochin appeared to have taken the sting out of the speculators, though temporarily. As such, the daily turnover on the ring remained thin. Even though, arrivals of Malabar on the coastal primary markets were limited, the market failed to look up in the absence of foreign inquiries. Singapore interests were sending consignments of Lampong to New York almost regularly. As a result, New York dealers were drawing their requirements mostly from the unsold parcels. This was one of the reasons why spot in New York moved narrowly, showing fractional changes. Grinders were buying hand to mouth, as they were sure of replenishing their pipelines whenever they liked. Singapore market also appeared to have remained in the doldrums, in view of rather heavy arrivals both from Sarawak and Indonesia, as dealers there wanted to clear off their old stock before the start of the new season and in view of the vulnerable position of the Indonesian currency. Though prospects for new crop of Sarawak, Lampong and Muntok appeared poor, the Singapore market failed to improve as it ought to have, because speculators were marking time and awaiting new developments in the face of heavy stock. The steep fall in the value of Indonesian rupiahs and the policy of the Indonesian Government to keep the Chinese traders out of business resulted in panic, as most of the Chinese merchants were liquidating their holdings for acquiring foreign exchange, notably Malayan dollars, at any price with a view to transferring their assets either to Singapore or Hong Kong. This resulted in heavy arrivals of Lampong at Singapore from January to May which amounted to more than 15,000 tons. Ungarbled at Cochin moved down from Rs. 725 to Rs. 612½ and garbled from Rs. 125 to Rs. 107. Forward delivery also had a sympathetic fall and the lowest price recorded for May and July delivery on the Cochin ring was Rs. 111. Spot at New York fell from $0.26 to $0.24½ under pressure of unsold consignments of Lampong. Fluctuations in Singapore were also narrow, though holders there tried to resist the downward trend. The prices for black and white slowly moved down from Str.$86 to Str.$77 and from Str.$163 to Str.$130, respectively. As the spread between white and black was large, growers in Sarawak were induced to turn black into white Consequently, pressure of white Sarawak in Singapore was more pronounced when compared with Lampong and Sarawak black. A noteworthy feature of the market during the period was that Tellicherry peppers were available at a cheaper price than Alleppey, even though Tellicherry peppers were selling at a premium both in New York and on the Continent. In New York, the price difference between Tellicherry and Alleppey pepper was about two cents. Consequently, both investors and exporters preferred to buy in Tellicherry areas.

Monsoon Months

The months of July, August and September proved important, inasmuch as the world pepper market turned the corner during this period, following the manipulation by a bull syndicate at Singapore. The news of lower estimate of the final outturn of Sarawak pepper and the downward revision of the estimate of new crop of Muntok and Lampong made the position of the bulls who had been nibbling since June, still stronger. It appeared that they were setting the stage for "fireworks."

After a long spell of inactivity, Malabar black showed signs of improvement on news of the purchase of more than 1,000 tons by Russia, East Germany, Czechoslovakia, Rumania and others at the parity of $0.27 as against the New York's indication of $0.25. Demand from these sources proved timely. It afforded the necessary stimulus to tired longs, who were on the point of liquidating their holdings as distressed parcels. Report of some purchases by Singapore interests in New York and uncertain political situation in Indonesia and Kerala were supporting factors. New York, which was hitherto a selective buyer and was mostly confining itself to Lampong, began to bid for Malabar black at advancing prices. Dealers there purchased large parcels during the beginning of August at prices ranging from $0.27 to $0.28. Spot in New York improved to $0.30½, with grinders showing more interest.

Indonesian Bombshell

The announcement of President's rule in Kerala gave the necessary relief to the planters. As a consequence, arrivals at the terminal markets during August and September showed an increase. But they were well absorbed. Though the undertone of the market remained firm, prices failed to look up for want of foreign buying. The Chinese trouble on the Indian border also acted as a damper. Then came the bombshell in the form of sweeping monetary reforms by the Indonesian Government with a view to fighting runaway inflation in the country. The Government abolished the two-year-old export certificate system. It demonetised the value of 500 and 1,000 rupiah notes by about 90 per cent. After a few days of "freezing," the new exchange rates at rupiahs 45 for one U.S. dollar in place of rupiahs 11.40 and rupiahs 126 for one pound sterling in place of the old rate of rupiahs 31.92 were fixed. For sometime no quotations were received for Lampong. Malabar took some time to find out the real implications of such overnight sweeping economic reforms in Indonesia.

At first, Malabar moved irregularly. Price movements appeared to be rudderless. However, East European countries entered the market soon. They purchased in all about 500 tons. This made the market more active. Yet, the upward movement was checked as New York refused to follow. Spot in New York, after touching $0.32½, came down to $0.31. The impending dock strike in the U.S. created uncertainty. Calicut, after rising to Rs. 900, dipped down to Rs. 860. Ready garbled at Cochin came down to Rs. 139 after showing a perpendicular rise to Rs. 144. The stock position at Singapore remained tight. The major part of the stock was under the control of the bull syndicate. News of the purchase of about 3,000 tons of Lampong new crop for September/October shipment by the Syndicate confirmed that the bulls were preparing for some kind of hat-trick to surprise other pepper producing and consuming countries. A revised estimate of Lampong at 6,000-8,000 tons and Muntok at 3,000 tons which was broadcast by the Chinese dealers from Singapore was treated with reserve by the New York dealers and grinders who were ex-

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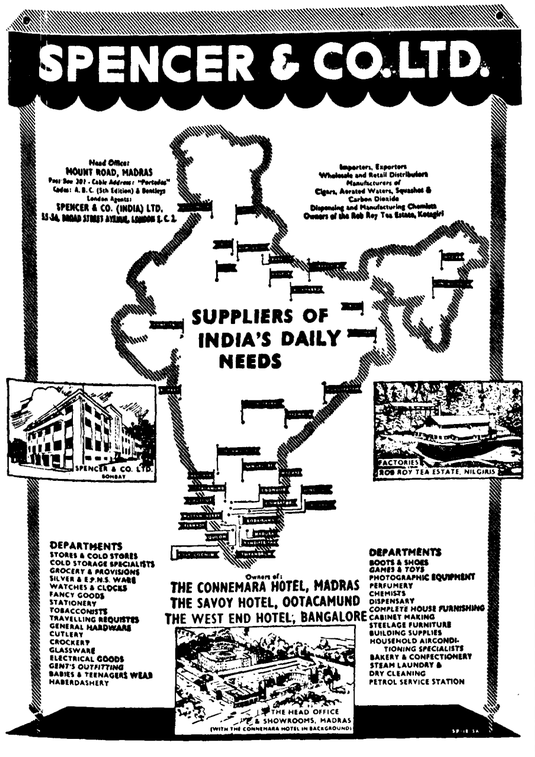

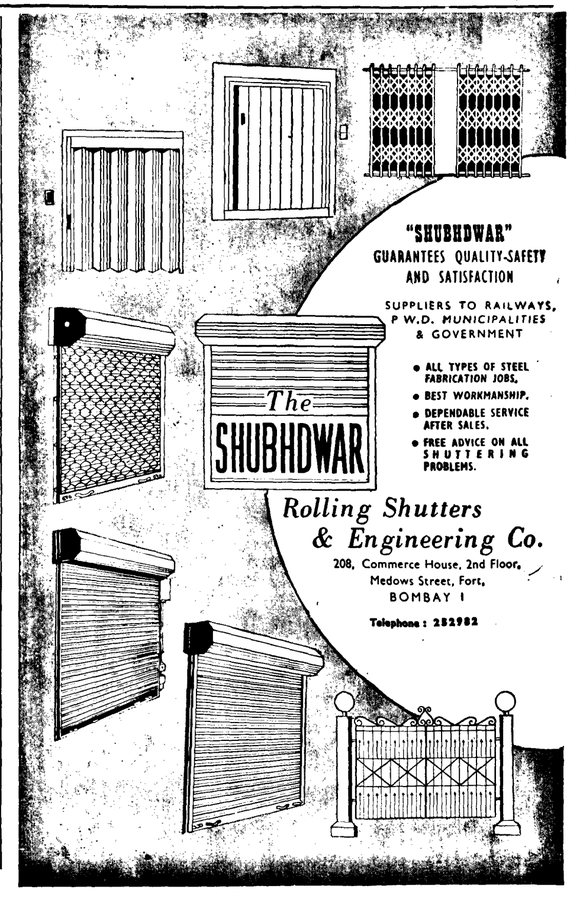

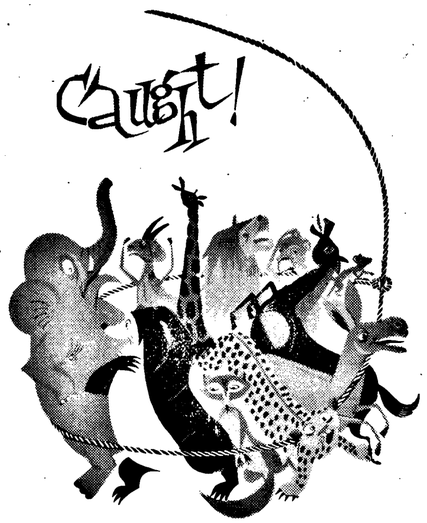

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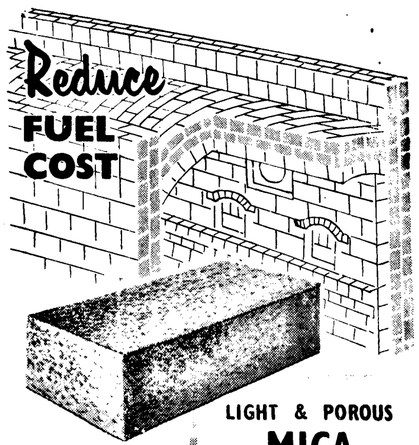

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pecting lower prices of pepper on the arrival of the new crop of Malabar. But their judgment proved wrong and they missed the bus. New crop of Malabar black was estimated by the trade between 27,000 and 30,000 tons. But, pepper estimate is always guesswork and one's guess is as good as another's. Traders generally give out their own estimates, which are always more or less coloured, according to their book positions. Prices of ready garbled at Cochin during these periods moved from Rs. 112 to Rs. 144 and ungarbled from Rs. 650 to Rs. 800.

October

During October, the market opened irregular for want of foreign inquiries. But the undertone remained steady, as New York buyers continued to show interest in Malabar black for November-December and December-January shipments. Later came the news that the East European countries and Russia were in the market for a sizable quantity. This lifted the prices. Speculators took the hint and tried to boost the prices. October delivery on the ring spurted to Rs. 149, creating a scarcity of contracts. Ungarbled moved to Rs. 850 at Cochin and to Rs. 875 at Calicut. Ready pepper in Bombay showed small improvement owing to inquiries from the Middle East, but the demand persisted to be poor, the dislocation of the railways on account of heavy rains and floods being the main cause. In New York, spot, after touching $0.32, came down to $0.31 in spite of fair-sized repurchases for October shipment at $0.30 and $0.30½ on India's account. The grinders were sidelining, as they covered their requirements before the reported dock strike which proved to be of short duration. The President of the United States invoked the Taft-Hartley Act in the U.S. dock strike, opening the way for the Government to seek an 80-day back-to-work Court order. Middle of October witnessed a quiet session. But the market looked more or less deceptive, as the weakness was engineered by interested parties, who wanted to pick up large parcels at lower prices to cover their sales to Russia. Some of the exporters had previous information as to the possibility of Russia being in the market for November shipment. They also tried to exploit growers by re-selling a small portion of their holding. They thought that they could by such manœuvring soften the stiffer attitude of growers. Unfortunately, they were disillusioned. They failed in their efforts to book pepper at lower prices. Bears, who anticipated arrival of the new crop early in November, came out to depress the market in December and January delivery on the ring. Later on, however, it was found, that they had badly burnt their fingers by short sales, as Singapore interests began collecting contracts in the local market. Simultaneously, New York brokers were buying Malabar on Singapore's account at every rise. In contrast, New York dealers were waiting for lower prices on the arrival of new crop of Malabar. Grinders too remained selective buyers, as they thought that prices were too high and deceptive. In short, Singapore bulls outmanœuvred them all. The range of prices during the month for ungarbled was from Rs. 800 to Rs. 850 and for garbled from Rs. 137 to Rs. 148.

November

November witnessed spectacular "fireworks" in all the principal markets—New York, Singapore and India. The monthly requirements of U.S. during the autumn is usually estimated to be about 1,500 tons. When speculators saw that the shipment from India and Singapore to U.S. would not be more than 900 tons during October, they thought that it was the proper time to show their hands. They started pushing up the prices almost daily. The market was agog with various rumours and a purchase of about 500 tons of spot in New York at $0.42 by an Indo-American firm confirmed that something unusual was brewing. Spot was pushed up almost every day by 4 to 5 cents and, in a short time, it was boosted up to $0.59. Singapore rose perpendicularly, the highest touched being Str.$200 for black and Str.$279 for white. Such a hectic rise was reminiscent of the period in 1951 when the price for spot at New York was bolstered up to an all-time record of $2.80. Dealers and grinders in New York who generally buy in the rising market came out to book their needs. They bought afloat from parcels consigned on Singapore account, first lot at $0.31½, second lot at $0.33½ and the third lot at $0.42.

The load of unsold consignments having been thus lifted from the shoulders of the bulls, they hurried to make replacement purchases at higher price in Singapore. This afforded further stimulus. Shorts in Singapore were perturbed. They came out to cover. A scramble for buying ensued. Bulls tried to rig up the prices. Some of the shorts, after covering their blank, were reported to have gone long. The bull syndicate was wise enough to unload some of its holdings at higher prices, so that it might be able to support the market whenever the prices were lower.

Futures Suspended

Malabar black sky-rocketed in sympathy with Singapore and New York. The rise proved so rapid that shorts were badly caught. They were anxious to cut their losses. There being, however, more buyers and few sellers, nothing was obtainable except at sellers' price. In a rising market growers became reserved sellers. They refused to part with their stock, except at their own price. The position of bears had become precarious. Bulls were out to squeeze the bears. In the circumstances, payment trouble was feared on the hedge market. The Board of Directors of the India Pepper and Spice Trade Association at Cochin, in exercise of the powers conferred under by-law 65 of the by-laws of the Association, decided unanimously, on 23rd November 1959, to close all the outstanding hedge contracts for December 1959 and January 1960 at the closing prices of 17th November, that is, Rs. 162.50 and Rs. 160.50, respectively. The Forward Markets Commission later on conveyed its concurrence to the above decision of the Board.

The suspension of futures trading at Cochin caused a flutter in Bombay as well as in other coastal markets. Fears that hedging facilities might not be available for an indefinite period led to a sharp rise in the prices of ready. Dealers and exporters were eagerly awaiting developments at Cochin, in view of the fact that it was the only centre where forward trading in commodity was allowed. The feeling of anxiety stemmed from the close link between the export trade and the hedge market. It was felt that the Association should not snap the link, as, otherwise, exporters would be without cover. After the close of the ring, spot rate for garbled pepper shot up from Rs. 180 to Rs. 250 (per cwt.) and ungarbled from Rs. 1,100 to Rs. 1,500 (per 6 cwts.) owing to nervous covering by exporters. In Bombay, ready pepper was done at prices ranging from Rs. 150 to Rs. 180 per Bengal maund, the principal buyers being the exporters.

December—Futures Reopened

The month of December brought about a reaction which was long overdue. Increased arrivals on the coast, withdrawal of New York as buyers and cessation of short-covering in Singapore had a salutary effect on the market. It once appeared as if the market was coming back to normalcy after last month's madness. Prices in Singapore came down with a vengeance to Str.$155 for black and to Str.$231 for white. Malabar black was marketed at as low as Rs. 185 and ungarbled at Rs. 1,000. Arrivals were increasing from day to day. Exporters were anxious to sell. They were offering to New York almost daily at lower price, as the 1959-60 crop outlook was reported to be better than that of last year.

Spot in New York reacted to $0.45, with grinders sidelining. Offers from India being comparatively cheaper than those of Singapore, the bulls from Singapore were reported to have re-entered the New York market. They were said to have bought a sizable quantity of Malabar black for December and January shipments at advancing limits from $0.41 to $0.46 per lb. c. & f. New York. The forward trading in pepper for February and March 1960 contracts was resumed from 8th December 1959. The Forward Markets Commission permitted the Association at Cochin to re-open the futures market in pepper with the additional safeguard—a daily clearance and a deposit of Rs. 25 on the transaction of every cwt. of pepper. The new terms imposed for the hedge trading being too stiff, there appears to be few chances of business in the ring. In the interest of all parties concerned, the F.M.C. should permit Bombay to run a hedge market.

With the beginning of the harvesting season, the key to the market is Malabar. Unless Malabar pepper is supported by continuous buying by overseas, the present prices cannot be maintained.

Immediate Outlook

The market at present is extremely confused after the recent rapid rise. Now that the advance has halted, it is only but natural that buyers should try to be careful. It is, however, practically impossible to obtain worthwhile bids from sellers. No doubt, this has opened up a new era for pepper. The grinders are so frightened by the spectacular advance that the "hand-to-mouth policy," which had been generally adopted by them during the past two years, will no longer be followed. As it is obvious that the Lampong new crop will be lower, it cannot be denied that at the moment pepper is statistically strong. It will therefore, be able eventually to stabilise itself at a higher level than in the past. The recent advance appears to have been overdone, as it is a most unusual thing to happen in the face of a new crop of Malabar pepper. It is, however, difficult to forecast what the new level will be. As a good proportion of buying has already been done by consumers, one can safely expect a quiet period which will enable the market to adjust itself to a level dictated by supply and demand rather than by speculators. It will need a few powerful bulls in Singapore, India and New York to push up the prices over $0.40 per lb. c. & f. New York, as the supply and demand position is evenly balanced as far as black pepper is concerned.

Sarawak

The final outturn of Sarawak was placed at a small figure of 7,000 tons as against the last year's crop of 10,000 tons because the crop was said to have suffered from root-disease and for want of fertiliser, since prices during the previous years proved unremunerative to the farmers. As the price of white pepper remained higher by about Str.$70 per picul than that of black in Singapore, the farmers in Sarawak were reported to have turned 75 per cent. of their production into white.

Lampong

This year's Lampong crop was estimated between 7,000 and 8,000 tons as against last year's large crop of 18,000 tons. We are not fully aware of the reasons why it is so much smaller. There are, however, reports that a greater number of the vines have been destroyed by root-disease. Political and economical unrest have also a lot to do with the lower crop.

Muntok

This year's crop is estimated between 2,500 and 3,000 tons as against last year's production of 6,000 tons. The present world supply of white pepper is considered to be short in view of poorer crop of Muntok. Further, the entire supply of white pepper from Sarawak and Muntok is reported to be under the control of the "Wantong Syndicate" in Singapore. The syndicate is a big factor in the market. In view of their successful operation since last year, they may rig up the market as soon as they consider the moment opportune.

The following tables give the statistics relating to price movements and export of pepper:—

Prices of Pepper at Alleppey and New York

	Ready Alleppey per candy of 6 cwts.		Spot Malabar in New York (per lb.)	
	High Rs.	Low Rs.	High $	Low $
1958				
November ..	550	500	0.25½	0.24
December ..	512½	500	0.24	0.23½
1959				
January ..	650	525	0.24½	0.23
February ..	775	650	0.28	0.23½
March ..	715	612½	0.26½	0.24½
April ..	687½	625	0.25½	0.24½
May ..	675	625	0.25½	0.24½
June ..	650	625	0.25½	0.24½
July ..	750	650	0.29	0.25
August ..	750	675	0.30½	0.27½
September ..	800	725	0.32½	0.29½
October ..	850	775	0.32½	0.30½
November ..	1,500	850	0.59	0.33

High and Low Prices of Garbled at Cochin during the years 1956 to 1959

(In Rs. per cwt.)

Month	1956		1957		1958		1959	
	H.	L.	H.	L.	H.	L.	H.	L.
January ..	147	135	102	92	90	84	115	88
February ..	146	135	100	92	98	84	124	113
March ..	145	132	95	90	112	96	124	108
April ..	142	120	95	93	112	101	118	111
May ..	137	122	107	102	105	98	115	110
June ..	130	125	110	102	108	97	112	110
July ..	125	118	105	101	115	108	130	112
August ..	143	125	105	102	112	104	132	124
September ..	135	125	105	102	109	100	140	123
October ..	125	110	100	95	100	95	147	137
November ..	125	110	98	92	98	92	242	135
December ..	112	95	98	92	89	85	220	185

Export of Malabar Black Pepper from India

(In tons)

	Exports to all countries	Export to U.S.A.	Export to U.S.S.R.
1958			
November	985	421	309
December	1,720	515	730
1959			
January	1,959	604	325
February	570	170	150
March	490	118	..
April	305	116	..
May	528	20	..
June	173	60	..
July	573	47	..
August	1,764	385	650
September	1,570	560	150
October	1,570	250	500
November (estimated) ..	1,500	500	500

Spot Price of Malabar Black in New York

(In $ per lb.)

1949	1.00
1950	1.89
1951	1.60*
1952	1.40
1953	1.20
1954	0.70
1955	0.42
1956	0.30
1957	0.27
1958	0.25
1959	0.27†

*Peak 2.80 †Peak 0.59

Total Export, including Sarawak, Lampong and Muntok Pepper, from Singapore during the years 1957 to 1959

(In tons)

Month	1957	1958	1959
January	2,250	3,090	2,081
February	1,300	2,120	2,563
March	1,250	2,705	3,263
April	1,220	2,998	2,639
May	1,940	2,277	2,369
June	2,010	2,186	2,243
July	1,875	2,586	2,768
August	3,300	1,828	2,630
September	3,220	1,592	2,331
October	2,000	1,801	2,598
November	2,600	1,745	..
December	2,348	1,689	..

Total output of Lampong Black, Muntok White and Sarawak Pepper

(In tons)

Year	Lampong Black	Muntok White	Sarawak Pepper
1953	4,000	1,800	5,000
1953	3,000	3,750	8,000
1954	8,000	8,250	14,000
1955	5,000	5,000	13,000
1956	7,000	8,000	18,000
1957	8,000	9,000	14,000
1958	12,000	5,000	8,000
1959	10,000	3,500	9,000

Price Range for monthly delivery in Cochin in 1959

(Per cwt.)

	Highest Rs.	Lowest Rs.
1959		
January	95.50	89.50
February	126.00	89.50
March	122.00	100.00
May	135.00	116.00
July	120.00	111.00
August	131.00	114.00
October	149.00	119.00
December	162.50	123.00

Output of Pepper in India and Exports

(In tons)

	Output	Exports
1950-51	18,000	15,109
1951-52	19,000	13,000
1952-53	18,000	10,709
1953-54	22,500	14,584
1954-55	19,000	11,179
1955-56	24,000	12,830
1956-57	22,000	14,700
1957-58	24,000	13,067
1958-59	24,000	19,210
1959-60 (estimated) ..	28,000	..

Comparative Table showing Export of Black Pepper from Singapore and India and also Export to U.S.A. from Singapore and India

(In tons)

	Total export of Black Pepper from Singapore	Total export of Black from India	Export to U.S.A. from Singapore	Export to U.S.A. from India
1958				
November ..	1,092	985	421	421
December ..	1,063	1,720	379	515
1959				
January ..	1,438	1,959	709	604
February ..	1,788	570	1,044	179
March ..	2,485	490	1,692	118
April ..	1,802	305	1,165	116
May ..	1,563	528	801	20
June ..	1,445	173	786	60
July ..	1,883	573	1,235	47
August ..	1,739	1,764	1,135	385
September ..	1,522	1,570	920	500
October ..	1,492	1,570	835	250

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USE OF CAPITAL IN A LARGE CORPORATION

(*Concluded from page 170*)

the end of the project's useful life and the plant investment will be recovered through depreciation accruals. Since earnings must allow for this recovery of plant investment, they are stated net of depreciation.

There are, of course, many different viewpoints among businessmen as to how return on investment should be computed for different purposes. It is the purpose of the Du Pont chart series to seek to present as clearly as possible the results produced by operating management. The capital, liability, and reserve positions of an enterprise are largely a reflection of the philosophy of top management as to how the business should be financed. The Du Pont Company believes that operating management should be responsible for turning in a profit on capital assigned to that management, regardless of how the capital was raised.

Partly through the effective use of its capital and careful control of its financial operations, Du Pont has attained sizable growth and successful diversification of its operations.

Capital, of course, remains the property of the shareholders. In Du Pont most, but by no means all, of the more than 215,000 owners are individuals. Organisations, such as churches, hospitals, colleges, and museums, hold the Company's shares. Supplementing the ranks of the Company's shareholders are the indirect owners, a fast-growing group of people who have invested savings in mutual funds, banks, or insurance firms which, in turn, have invested part of their holdings in Du Pont stock. For all these participants in American capitalism, profit is undoubtedly one of the most important incentives.

For those who have invested in the Company, and for the general public, an external method of reporting is needed. This reporting, as distinguished from the internal reporting to management typified by the chart system, is accomplished through the stockholders' annual report, supplemented by quarterly financial statements.

No corporation in a competitive economy can ever guarantee its owners a profit. There is always an element of risk in enterprise. But well over 12 million Americans have accepted these risks in the hope of earning a return on their investment, small or large, and thus have a direct interest in the way their capital is used by corporate management. These owners, just as the people who work for and manage Du Pont, quite naturally wish to see the corporation perpetuated and have it maintain the traditions that have characterised its past.

Du Pont believes that an organisation, to be efficient, should be specifically designed for the purpose which it is to serve. Essentially, Du Pont is a business organisation dedicated to earning a fair profit on its owners' investment. It is also dedicated to individual initiative, in which new ideas and new developments find full expression.

In any field so highly competitive as the chemical industry, no company could long keep its place without a venturesome outlook and an ability to meet the needs of a growing population and expanding economy. To meet this challenge, a large corporation's financial management has to put its capital funds to creative use. In today's complex, competitive economic system, this is at the same time a fine art and an exacting science.—*All Rights Reserved.*

UNDERWRITING OF CAPITAL ISSUES IN INDIA

(*Concluded from page 175*)

provided the Central Government allows it greater latitude and Parliament pays due regard to its autonomy. At the same time, the Government should also consider the question of promoting the development of investment trusts which form an important adjunct to the underwriting organisation in England and America. It would be necessary for this purpose to devise a tax policy which does not bear harshly on investment institutions. There should also be special legislation governing the investment of funds by investment trusts so that they serve the national economy and not particular groups of industrialists. Only those investment trusts which satisfy the requirements laid down in the special legislation should be granted special tax treatment.

There are two important reasons why the expansion of underwriting facilities in India has become urgent today. First, there has been a broadening of interest in corporate securities during recent years. This is a healthy development, in view of the aim of building up a more egalitarian society and should be encouraged. However, the ordinary small investor of today needs the protection and guidance of an intermediary institution much more than the wealthy investor of the earlier decades. Secondly, the old structure of company finance in India based on the managing agency system is crumbling under the impact of new legislative measures and also because very few managing agency houses today continue to command the confidence of the general investor. In fact, the level of public confidence in promoters and *entrepreneurs* has generally been at a rather low level in the post-war period. The less known industrialist, therefore, needs the assistance of an institution which can lend its reputation in support of him. This is desirable socially, in that it will help the rise of new *entrepreneurs* and check concentration of economic power in the hands of a few old-established houses.

The situation in India today can best be summed up in the words of the Macmillan Committee appointed in England more than a generation ago:

"We believe that our financial machinery is definitely weak, in that it fails to give clear guidance to the investor when appeals are made to him on behalf of home industry... In the case of big first class companies, the names of which are a sufficient guarantee in themselves and which probably issue their own securities, this system is adequate. But, in most other cases, the public is left without a guide... It would, in our opinion, be an important reform that relations between finance and industry should be so developed that issuing institutions of first class strength and repute should vouch to the investor more normally and more fully for the intrinsic soundness of the issues made... In this way, the investor would be encouraged to support well vouched issues, and be put on his guard against others."

If the system of underwriting of corporate issues by properly organised institutions becomes fairly widespread in India, it will be much more effective in protecting the ordinary investor and in promoting a healthy and smooth development of corporate enterprise than the labyrinth of legal provisions.—*All Rights Reserved.*

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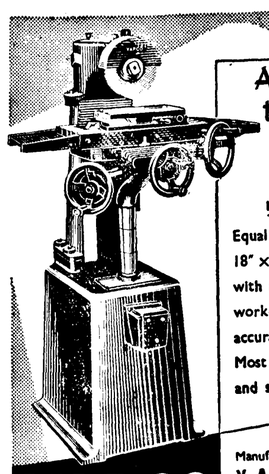

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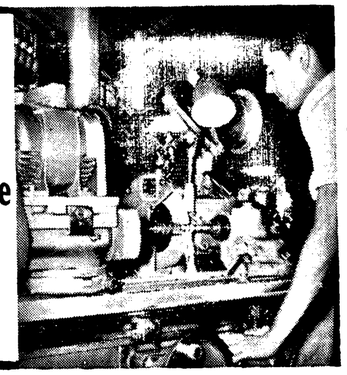

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WORLD SUPPLY OF OILS AND FATS AND INDIA'S POSITION

(*Concluded from page 184*)

spite of all these measures, washed cottonseed oil production has not recorded a swift increase. Production in 1959 is estimated at 25,000-30,000 tons which is marginally greater than the production in 1958.

Solvent Extraction

In contrast to washed cottonseed oil, the solvent extraction industry has shown spectacular progress in the last three years, for which thanks are due almost entirely to Government policy. By keeping a control on the exports of groundnut oilcake (the raw material for this industry) and allowing free export of groundnut solvent extracted cake, Government provided conditions which make solvent extraction a profitable industry. Plants have been erected in all groundnut growing areas from the U.P. to Saurashtra and Madras and, almost the full production of extracted meal is exported. The following figures of exports in the last three years and estimates for 1960 will give some idea of the progress of the industry:

	Tons
1957	37,000
1958	131,246
1959 (partly estimated)	300,000
1960 (estimate)	400,000

Apart from the valuable foreign exchange earned by the export of extractions, the de-oiling of 400,000 tons of cake would yield an estimated 20,000 to 25,000 tons of oil which would otherwise have gone waste. In addition, this has given an impetus to Indian fabricators to manufacture solvent extraction plants in India either on their own or in collaboration with one of the well-known foreign manufacturers, namely, Rosedowns of the U.K., DeSmet of Belgium and an East German firm.

Conclusion

While this is all to the good, Indian industry can achieve nothing without Indian agriculture producing the raw materials. So far, any increase in production has been achieved by greater acreage rather than increased yields per acre. In oilseeds, as in many other commodities, Indian yields are among the lowest in the world. With improved seeds, usage of fertilisers and better agricultural methods, the scope for increasing production is vast. This fact alone holds out great hope for the future, and, if there is in course of time a revolution in agriculture as far as oilseeds are concerned, this country may be able to meet her own increasing future needs and even make available a surplus for direct export without the aid of any concealed subsidies.—*All Rights Reserved.*

TREND OF OIL PRICES

The world prices of oils and seeds have registered a notable rise during 1959. The latest available rates, though they are slightly lower than the highest levels touched, compare favourably with those prevailing at this time last year. The following table gives the closing rates for some of the oils and seeds quoted in the London market on 18th December 1959, as compared with the corresponding rates a year ago, together with the highest and the lowest levels touched in 1959:

	Latest available prices in £ per ton	A year ago	1959 High	1959 Low
OILS:				
Castor, Indian	127½	112	127½	104
Coconut, straits	148	128	147	121½
Groundnut, B. W. A. § per cent. ..	109	94½	123	91½–92
Linseed, crude ..	106	102½	120	90½
Palm, Sumatra ..	85	..	89½	.. 75
Soyab'n, European.	75	80		
SEEDS:				
Groundnuts, Nig.	64	63	71½	58½
Linseed, Can. No. 1	54½	56½	67½	49½
Copra, Philippines.	$251½	$245	$290	$209

$—U.S. dollar.

EXPORTS OF IRON ORE

Exports of iron ore from India during the year ended June 1959 touched the record level of 2.4 million tons, as against 2.1 million tons in the previous year, 1.6 million tons in 1955-56 and 300,000 tons in 1951-52. The entire exports during the year, valued at about Rs. 12.4 crores, were canalised through the State Trading Corporation. Japan accounted for 1.41 million tons, 58 per cent. of the total exports. Czechoslovakia was the second largest buyer; this country progressively increased the purchases from India from less than 300,000 tons in 1955-56 to over 700,000 tons in 1958-59. Large supplies are also being made to East European countries like Poland, Yugoslavia and Hungary, as also Italy and East Germany. The S.T.C. is claimed to have achieved a measure of success in increasing the export of low grade iron ore which accounted for 16 per cent. of the total exports during 1958-59. Hitherto, export of low grade ore has been extremely meagre. Indian deposits of high grade iron ore are estimated at about 22,000 million tons, approximately equal to one-fourth of the total world reserves. Besides, it has low grade ore estimated at about 85,000 million tons. The domestic requirements of iron ore are at present modest. Out of a total production of 5.8 million tons during 1958, the Indian steel industry consumed about 3.2 million tons.

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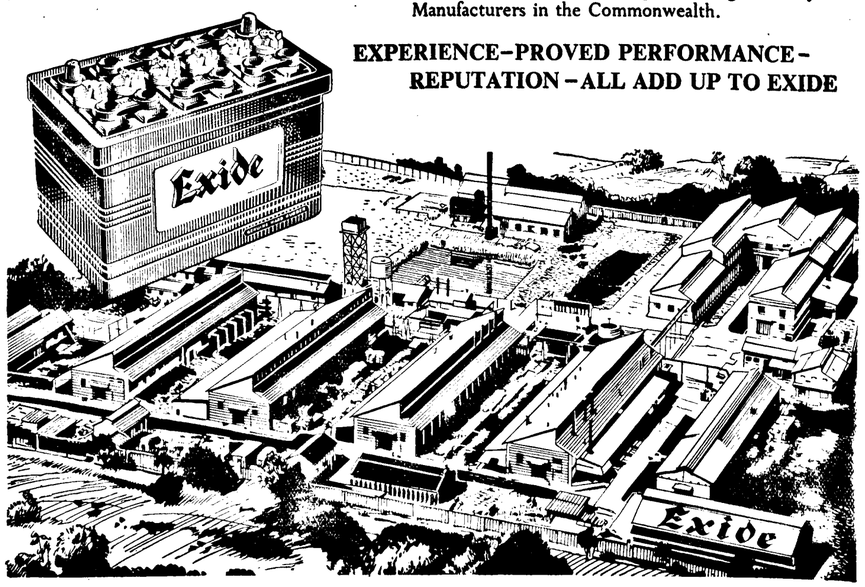

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1957	Rs. 6,30,28,931	Rs. 8,49,40,826
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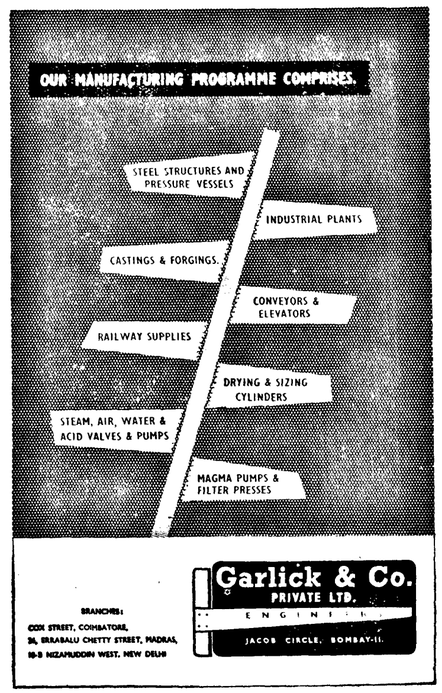

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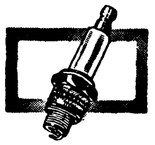

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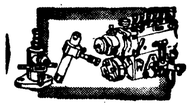

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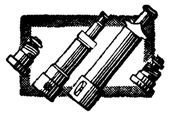

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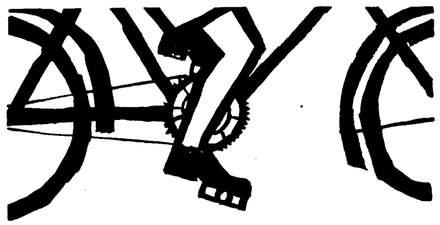

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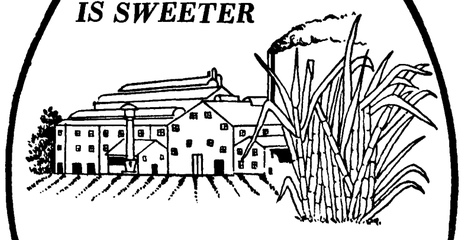

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An Eventful Year For U.K. Textile Industry

Size Shrinks, But Health Improves

By Our Special Correspondent

MANCHESTER, 8*th December*

RARELY in the past can there have been such a transformation in conditions and activity between one year and another as that encountered in the Lancashire cotton industry between 1958 and 1959. When dealing with the previous year, twelve months ago, the statement was made that the period must have seemed interminable to traders in the cotton textile and allied industries; recent months in Lancashire have slipped by so quickly and there have been so many developments that it has been quite a job to keep pace with events.

At the outset of 1959, the mills were in a parlous state. Few orders had been booked for months past, customers lacked confidence of any kind in price levels and the uncertainty surrounding several important issues was sufficient to keep the turnover at a minimum. Within weeks, decisions were taken which had the eventual effect of starting the wheels in motion once more, culminating in such a wave of activity in the second six months of the year that traders have been inundated with inquiry and business.

Curb on Imports

The first matter to be at least temporarily dealt with was the limitation of imported cloth and garments arriving from Hong Kong. The negotiations with the representatives of the Colony had dragged on for several months before an undertaking was announced at the end of 1958, providing a ceiling to the quantity of goods to be shipped to the United Kingdom annually during the next three years.

The details are sufficiently well known to need no recapitulation, the outline being that exports of cotton cloth and garments from Hong Kong for retention in this country should be stabilised at some 165 million square yards per year. It was emphasised at the time that the undertaking was voluntary and the Hong Kong millowners left themselves opportunities of avoiding too rigid an application of the system.

Reaction in Lancashire was by no means entirely favourable as many traders regarded the ceiling as far too high, although resigned to the fact that this was the best arrangement which could be achieved in the circumstances. A notable omission was the absence of any limitation on yarn exports from the Colony.

The impact of foreign cloth arrivals and the eventual establishment of a ceiling on imports from the various Eastern Commonwealth countries is of considerable immediate importance to the weaver, while it is, as yet, only a growing threat to the producer of yarn.

From this viewpoint, therefore, the year has been notable for the completion of the series of negotiations with overseas competitors which have now led to an arrangement being made to restrict purchases of foreign cloth for retention in the home market to defined limits. The Hong Kong agreement was reached at the beginning of the year and operated from February. It was not until the end of September, however, before a similar undertaking was given by the representatives of India and Pakistan to place a ceiling on their exports to this country, starting from 1960.

The pact with India provided for a maximum of 175 million yards a year and the Pakistan limit was 38 million yards annually. Each of these separate agreements is to run for three years from its introduction.

Free Yarn Market

The investigation undertaken by the Restrictive Practices Court into the price regulation schemes organised by the Yarn Spinners' Association ended early in December 1958, but it was not until late in January that the decision of the Court was made known. The adverse verdict on the Yarn Spinners' Agreement was not altogether surprising, but its repercussions were naturally widespread. The Association bowed to the inevitable and withdrew its price maintenance schedules, the Agreement being abandoned early in February.

The effect of a free market in cotton yarns for the first time for more than 20 years was immediate and considerable. Prices showed much irregularity, although the initial drop of between 5 and 7½ per cent. in quotations was largely held by the leading producers. Instances were reported of millowners accepting much reduced rates in order to secure particular contracts, but evidence of weak selling was only spasmodic and it could not be said that there was any real panic in the attitude of salesmen.

Government Aid Plan

The third and undoubtedly the most important event followed almost simultaneously on the withdrawal of the price maintenance systems adopted by the Yarn Spinners' Association and the Cotton Yarn Doublers' Association. This was the announcement that the Government was prepared to participate in a scheme to facilitate the elimination of redunant machinery and the re-equipment of plant in the cotton textile industry. The Prime Minister had indicated his readiness to consider plans put forward by the trade when he addressed the Cotton Board's annual conference; in the meantime, tentative proposals had been drawn up sectionally with this end in view.

In April, the President of the Board of Trade was able to announce that the Government was prepared to introduce legislation to provide financial assistance. A figure of £30 million was mentioned as the extent to which the Government would commit public funds for this purpose.

The outline of the plan offered a two-thirds financial grant to assist in redundancy, the other one-third being paid by the industry by means of a levy on the remaining plant; a 25 per cent. subsidy towards re-equipment costs spread over five years; and a satisfactory arrangement being concluded between the employers and the trade unions for the millowners to provide compensation for displaced workers.

As a result of the swift implementation of the Government's reorganisation plan, a change in the industry's structure is now taking place which will be regarded as an historic landmark in its development. It seems astonishing to think that barely six months have elapsed since the reorganisation plan was first put forward.

In such a relatively short time, the industry has decided to scrap roughly half the number of spindles and looms in place and, before the end of March next, several hundred more mills will have shut their doors permanently. Perhaps, the most remarkable aspect of the whole affair has been the speed at which the programme has been carried out.

The accent has been on speed from the very beginning and every incentive was given to encourage swift action. The most effective move was to offer a 5 per cent. bonus on compensation to those firms which made up their minds before the end of August. There can, in fact, have been few summers in which the trade has been so active. July and August are not usually months when developments of note can be expected to occur, but in order to fit the legislative pattern of Parliamentary procedure and provide the basis for so far-reaching a plan, it was necessary to secure accurate information as soon as possible as to the number of machines due to be scrapped.

Machinery Scrapping Programme

The response from the industry to the redundancy proposals towards the end of August was enormous and created fears in some directions that too many good and efficient firms might be tempted by the compensation offered to go out of business. The final result was that the following plant was registered for *dismantling* before the end of March:

In spinning: 12,444,000 mule equivalent spindles, consisting of 3,408,000 rings and 7,332,000 mules, together with 15,092 carding engines.

In doubling: 571,000 spindles, including 187,000 twiner spindles, 195,000 rings under 2 inches and 188,000 rings of 2 inches and over.

In weaving: 104,747 looms, including 68,597 up to 48 inches wide, 31,997 between 48 and 72 inches wide and 4,253 over 72 inches wide.

The remaining machinery in the industry, after the scrapping schemes are completed, should, therefore, consist of 12,901,000 mule equivalent spindles (comprising 6,619,000 rings and 2,973,000 mules), 1,038,000 doubling spindles and 154,497 looms. It should be emphasised that a substantial proportion of the plant scheduled for scrapping was already standing idle in April when the scheme was launched. The Cotton Board has estimated that the quantity of running machinery to be broken up will be less than 20 per cent. of the industry's productive capacity.

Throughout these months of speculation and counter-rumours, traders in the industry have been busy dealing with a large and expanding demand. In April, there were signs of a widespread inquiry and amid occasional lulls in demand, the offtake increased steadily throughout the summer.

Aided by an almost unprecedented spell of fine weather, which had the effect of stimulating big retail sales and curtailing supplies in the pipeline to extremely small quantities, producers were able to add to their contracts and secure additional business at gradually improving margins. After so long in the doldrums, this development was extremely gratifying, although it created special difficulties at a time when vital decisions were being made.

Those responsible for deciding whether to take advantage of the two-thirds compensation towards scrapping offered by the Government were often placed in an invidious position. In the end, many of them took the long-term view, recognising the futility of expecting sudden revivals in demand to recur frequently.

A subsequent factor which came to light was that, although certain firms signified their intention of scrapping their machinery during the August rush, they later accepted business which meant that their spindles or looms would remain fully occupied until well into the first quarter of 1960. The sponsors of the redundancy plan hardly anticipated such a procedure, but in the circumstances the temptation was understandable.

Reduction in Manpower

By the end of August, the number of operatives on the books of employers in spinning and weaving had declined to below 200,000 for the first time for more than a century. The reduction in the labour force during the early months of 1959, however, was on a much smaller scale than in the previous year or two. It was equally significant that, despite the fall of about 8,000 in manpower, the mills by the summer were turning out more yarn and cloth than in the same period of 1958.

An overwhelming proportion of the very substantial turnover recorded during the year was in products scheduled for disposal at home. The demand covered many varying styles of domestic goods, with continual pressure for supplies needed by industrial consumers.

In the midst of a more promising offtake, the export outlook remained obscure and depressing. Over the first nine months of the year, the gap between exports of cotton cloth made in Lancashire and arrivals of corresponding fabrics of foreign construction had widened to nearly 120 million square yards. A fall in shipments of 44 million yards as compared with the previous year had taken place by the end of September, while imports had increased by 94 million yards.

The following table indicates the latest position of exports, imports and production compared with recent years:—

	Exports (In thousand square yards)		Imports (In thousand square yards)		Production (Weekly averages)	
	Cotton	*Rayon, etc.*	*Cotton*	*Rayon, etc.*	*Yarn* Lbs.	*Cloth* Linear Yds.
1938	1,386,235	31,176	52,000	24,000	*26,500,000	†79,270,000
1941	783,109	69,054	340	720	23,180,000	41,300,000
1945	441,095	84,187	10	7,620	17,910,000	35,530,000
1947	532,887	96,836	160	16,980	19,570,000	38,700,000
1949	903,578	160,708	348,800	51,600	24,350,000	49,830,000
1951	864,375	217,206	276,800	99,200	27,110,000	56,920,000
1953	709,905	176,826	98,640	44,400	23,100,000	49,660,000
1955	554,504	133,747	299,600	65,320	22,350,000	47,680,000
1956	474,280	120,822	305,635	74,249	21,250,000	44,490,000
1957	455,760	111,239	416,252	73,490	22,050,000	43,980,000
1958	384,078	84,404	386,763	47,161	19,160,000	38,290,000
1959						
1st quarter ..	82,163	15,843	121,911	8,152	18,580,000	36,370,000
2nd ,, ..	86,975	16,337	118,582	8,563	19,670,000	38,520,000
3rd ,, ..	82,673	15,288	130,191	9,653	18,310,000	33,580,000

* Excluding doubled yarn; figures relate to 1937. † Figures relate to 1937.

As compared with conditions some years ago, the attention directed towards raw cotton affairs is no longer as keen; nor has it quite the same effect on the state of the market. The artificial prices ruling as a result of continual interference by Governments in producing countries and the problems confronting those involved in futures trading have a pronounced bearing on the whole situation.

Earlier in the year, the trend of the raw material was largely bearish, in anticipation of a large prospective crop in the United States and a lack of enthusiasm among consumers which threatened a return to abundant supplies and a substantial carryover. During the past summer, however, the position altered, at least on the side of consumption, so that there is not now the same anxiety about the outlook.

Spinners and manufacturers in all the large consuming countries have increased their demand following the improvement in trading conditions and a wider offtake in their products. Many of the smaller importing areas have also produced more raw cotton and the expansion in mill operations generally has stimulated the movement of supplies.

A significant increase in the total quantities of raw cotton available this season is the main feature of the statistical outlook. Certainly, a radical change in the disposition of supplies is in prospect. This particularly affects the American staple, where the crop will provide an addition of some three million bales over last season's output.

Exports and Imports

As already stated, a feature of the year has been the marked change in the trend of overseas trade in cotton goods. In 1958, for the first time for over a hundred years, arrivals of foreign cloth reaching British ports exceeded the volume of comparable exports. This situation only arose in the final month of the year and the difference was barely a couple of million yards.

In the twelve months under review, however, the position has altered alarmingly from the Lancashire viewpoint. The balance between exports and imports deteriorated from the outset and, in the first ten months of the year, arrivals of cotton goods reached 421,757,000 square yards at a value of £31,488,369. Exports in the same period amounted to 283,411,000 square yards worth £37,228,899.

The volume of imports compares with 314,530,000 square yards in the same period of 1958 and is already in excess of the previous record arrivals in 1957, when the whole year's total amounted to 416,252,000 square yards. Exports in the first ten months of 1958 were 322,964,000 square yards.

To the end of October, foreign countries had supplied 363,047,000 yards of grey cloth and 58,710,000 yards of other cotton material. In the grey cloth total, India provided 139,171,000 square yards, as against 100,623,000 square yards in the first ten months of 1958. Further strides were made by Hong Kong, whose share of this trade rose from 89,346,000 square yards to 111,487,000 square yards over the ten-month period.

Arrivals from "other Commonwealth countries," in which Pakistan is believed to hold the highest share, amounted to 25,016,000 square yards to the end of October, as against only 1,411,000 square yards in the same period of 1958. Cotton yarn arrivals from abroad also continued to rise, the ten-month total being 16,822,000 lbs., as against 11,713,000 lbs.

During the month of October alone, no less than 51,070,000 square yards of foreign fabrics entered British ports at a value of £3,818,815. Both figures represented the highest point so far reached in this trade. In view of the fact that average production of cotton fabric in Lancashire mills in September was 26,340,000 yards per week and the monthly total during the year was a little more than 100,000,000 yards, it can be recognised that current arrivals of foreign cloth represented not far short of 50 per cent. of local output.

Labour Matters

As in so many other departments, the reorganisation plan has dominated discussions concerning labour relationships during the year. Other matters have been put aside for the time being, while representatives of the employers and trade unions have thrashed out various details affecting the proposals which have a profound bearing on the workpeople.

When the overall scheme was first announced, its implementation was made dependent on a satisfactory arrangement being drawn up to compensate displaced operatives. The talks between representatives of labour and management were conducted as an urgent measure and an agreement was hammered out under which those operatives who lost their employment or were forced to switch their jobs received due consideration.

The scale on which compensation was based rested on the age of the worker concerned, ranging from one week's pay at 21 to 30 weeks' pay at 65 and over. It was later decided to revise the system, so that half the payment was made as a lump sum and the remainder by weekly instalments so long as the individual involved remained out of work.

During the course of the period when closures were being announced and mills were making plans to scrap their machinery, various anomalies arose which required attention by the joint committee of employers and union representatives set up for the purpose.

More Shifts in Prospect

One outcome of the scheme, dependent on the scale of re-equipment planned, was the wider adoption of shift-working in the mills. A number of applications were considered and approved by the trade unions and it was felt that more efficient working by the use of shifts would be gradually extended in sections of the trade where such measures had not been used in the past. The weaving trade unions have now agreed to the introduction of night-shift work even in mills where only a single day-shift is in operation, provided it can be established that a double day-shift is impracticable.

Average earnings of cotton operatives at the end of April 1959, according to the latest Ministry of Labour survey, showed a slight improvement as compared with six months previously. The payment was £8 2s. 8d. weekly, as against £7 19s. 6d. in October, 1958, and £8 0s. 1d. in April 1958. Weaving was still a better paid employment than spinning and doubling, the respective average figures being £8 9s. 5d. and £7 17s. 10d. weekly.

Prospects

"It is a long time since the trade as a whole was so well booked. On existing order lists alone the majority of mills can look forward to uninterrupted working of machinery as far ahead as the middle of 1960. In such circumstances, there is little need to underline the fact that a prosperous few months lie in advance of those firms which are remaining in operation. Even those which have decided to abandon the struggle will probably be able to keep machinery running for the major part of the period.

Within a short time, proposals will be submitted in an attempt to eliminate surplus capacity in the finishing sections. Much difficulty has been encountered initially in establishing a basis for compensation, but it is now believed that a satisfactory formula has been found which should lead to early developments in this direction.

Nobody realises the need for such schemes as much as the finishers themselves, who have found their problems multiplying in the past three or four months during the revival in activity in spinning and weaving. Squeezed between rising prices in the producing sections and the endeavours of merchants to keep their quotations as low as possible, the processors of cloth have been in an awkward spot. It is to their advantage to push their own reorganisation plans ahead as rapidly as possible.

Despite plenty of plausible statements indicating the drastic effect of the current reconstruction on the labour force, a wide body of opinion favours the view that the impact will not approach the severity suggested in some quarters. Posters stuck up in the mill towns proclaim the need for workers and the facilities offered for training and retraining. Advertisements in local papers tell the same story.

Curbs on Imports

High as the ceilings are, the limitation on cloth arrivals for home use from the three chief Commonwealth sources of supply provides a respite from the heavy inroads being made on the domestic market. It will be time enough to consider the situation nearer the end of the fixed limit to these voluntary undertakings; in any case, those with India and Pakistan have not yet even started. Murmurings in certain quarters, however, have already begun, suggesting that Lancashire's Eastern competitors will not be satisfied with the same conditions when the pacts expire.

Lancashire, therefore, has not much time in which to set her house in order. A start has been made—in many ways a very creditable start—but without a continuation of the spirit which plunged the industry into redundancy almost before it realised it, the temporary initiative will be lost. The die has been cast so far as eliminating surplus plant is concerned; now the emphasis must be entirely on dealing with re-equipment.

To sum up, the flourishing state of trade now evident in all sections can be expected to continue until well into 1960. The placing of follow-on contracts will depend largely on the disposal of goods through the pipelines and domestic consumption. Wage levels in British industry generally have never been higher and, despite the competition for the consumer's purse from the multitude of electrical appliances and entertainment of all kinds, there should be a fair share for textiles.

Looking to the more distant future, the industry's status will depend on how the challenge presented by overseas competitors in the home market is met. Modernisation of machinery is part of the answer; labour must be prepared to row in with management to work as efficiently and effectively as possible; marketing methods, both at home and abroad, must be thoroughly overhauled, if the chance to revive Lancashire's former prestige is not to be lost.—*All Rights Reserved.*

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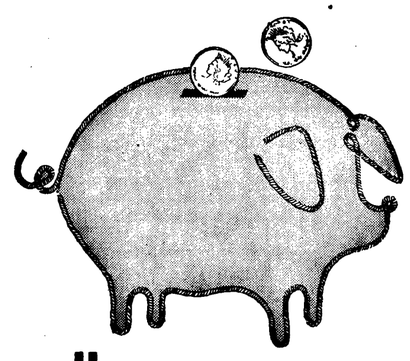

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BASIC FACTS ABOUT INDIAN COAL INDUSTRY

By S. S. GARGA

COAL is one of the basic materials of modern industrialism. Prof. Jevons called it "the main-spring of modern industrial civilisation." Despite the growing use of other mineral fuels and water power for the generation of energy, the coal mine still remains the only available source sufficient to meet the ever-increasing demand for fuel in a modern economy. At present, it is estimated that coal provides about 73 per cent. of the world's industrial energy.

The coal deposits of the world are widely dispersed. In the United States, the world's largest producer, coal is commercially mined in 29 States. Great Britain, Germany and Russia have the largest coal resources in Europe, although much coal is found also in France, Poland, Belgium, Czechoslovakia, Holland and Spain. In Asia, the important fields are in China, India and Manchuria. New South Wales in Australia and the Transvaal and Natal in Africa have the most important workable deposits on their respective continents. The table below gives the coal production in the principal countries of the world in 1957:

(In '000 metric tons)

Countries	Monthly average production
U.S.A.	38,760
U.S.S.R.	*38,580
U.K.	18,935
Western Germany	11,096
Poland	7,841
France	4,733
Japan	4,311
India	3,680
Union of South Africa	2,897
Belgium	2,424
Czechoslovakia	2,015
Australia	1,767
Germany—Saar	1,371
Spain	1,165

* Including lignite.

The total world production of coal was of the order of 1,670 million metric tons in 1956, the principal contributors being U.S.A. (28.7 per cent.), U.S.S.R. (17.6 per cent.), U.K. (13.5 per cent.), West Germany (8 per cent.), China (6.3 per cent.) and Poland (5.8 per cent.).

Importance

The above figures bring out fairly closely the degree of relationship between the industrial status of a country and the development of its coal industry. They also highlight the position of importance attained by India and other developing countries in the field of coal production. Coal has always assumed a dominating position in modern economic life. It has indeed been a factor in the world's international trade. Its importance for underdeveloped countries aiming at rapid industrialisation is particularly great. Although the total Asiatic output of coal constitutes about 11.5 per cent. of the world's production, China, India and Japan have been endeavouring to step up their coal output. The progress which China has reportedly made during recent years is really remarkable; while the world total of coal output rose from 1,250 million metric tons (average 1936-38) to 1,670 million metric tons only during 1956, the output of China during the period increased from 35 million metric tons to 106 million metric tons. The growth in the industrial output of coal-producing countries themselves and the difficulties experienced in securing foreign fuel supplies have stimulated domestic coal production and, in every country, the coal industry has been receiving greater and greater attention. It is against this broad background that an attempt has been made below to review certain important aspects of Indian coal industry.

The importance of coal in India's national economy can be judged from the fact that coal is the principal source of power to manufacturing industries. The value of coal (2.3 per cent.), as percentage of total value of materials consumed by the manufacturing group of industries in India was greater than the corresponding value of electricity (1.6 per cent.). The National Income Committee has estimated coal industry's contribution to the national income of India at approximately Rs. 40 crores.

Types of Coal

The three main types of coal are anthracite, bituminous and lignite. Anthracite, or smokeless coal, contains a very high percentage of carbon, is difficult to ignite but when ignited gives intense local heat. Bituminous coal is the usual coal of commerce and burns with a yellow, often smoky, flame. Lignite, or brown coal, is a fuel in an intermediate stage in the formation of bituminous coal from peat which is the first stage after the vegetable matter. The coals of India have been classified geologically as belonging to two series, namely, Tertiary coals and the Gondwana coals. The principal areas in the Tertiary strata are Assam, Rajasthan, Madras, Kutch and Jammu and Kashmir. The Assam coals are of low ash content and low moisture content but contain a high percentage of sulphur which makes them unsuitable for metallurgical purposes or even certain combustion purposes. About 120 miles south-west of the city of Madras occur the largest known deposits of lignite. An integrated project for mining this lignite, power generation, briquetting, etc., is on its way to implemention. The Gondwana coalfields are mostly situated along with the Damodar-Sone-Valley, the Mahanadi Valley and the Wardha Godavari Valley and contain bituminous coals. Anthracites are almost unknown in India. They are the least widely distributed of all the kinds of coal, the purest found in South Wales and Pennsylvania.

The coals of the U.S.A. range in quality from graphitic anthracite to the poorest lignite. In the U.K., the coal varies from anthracite to bituminous house coal. Germany has both hard coal and lignite coal. The following table about the production of coal in the principal coal-producing countries of the world will throw some light on the available types of coal:

Types of Coal Produced in Important Countries, Including Brown Coal and Lignite

(In long tons)

Country	Type	Production in 1957
Great Britain ..	.. Anthracite ..	3,376,200
	Bituminous ..	206,682,700
West Germany	.. Bituminous ..	132,882,000
	Brown coal ..	95,232,200
East Germany	.. Bituminous ..	2,710,000
	Brown coal ..	209,237,000
U.S.S.R. ..	.. Bituminous ..	322,000,000
	Lignite ..	134,000,000
United States	.. Anthracite ..	22,623,501
	Bituminous ..	437,586,226
	Lignite ..	2,327,084
China		*125,000,000

* Estimate.

Production

The production of coal in India in recent years has been as under:

(In million tons)

Year	Total production	Monthly average Production
1951	34.431	2.859
1952	36.302	3.019
1953	35.979	2.987
1954	36.880	3.084
1955	38.226	3.184
1956	39.431	3.286
1957	43.504	3.625
1958	45.340	3.777

It is evident that there has been a steady increase in the production of coal year by year, although, as compared with 1957, the tempo of increase slowed down during 1958. The progress continued to be slow during 1959 also, as the production during the first nine months was 35.32 million tons only, as against 33.75 million tons during the corresponding period of 1958.

Unlike most of the manufacturing industries, the localisation of coal industry is entirely governed by natural and physical factors. The coal deposits and the great bulk of collieries in India are concentrated in a comparatively small area extending from Raniganj to Karanpura. Raniganj, Jharia and Bokaro fields together produce about 90 per cent. of the total coal output. The Bokaro coalfield contains some of the thickest seams known in India. Outside Bihar and West Bengal, the important coal mining regions are Pench and Kanhan Valleys, Singareni, Talchar, Central India and Assam. All good quality coal is, however, concentrated in West Bengal and Bihar coalfields. The regional distribution of Indian collieries during 1958 was: Andhra Pradesh 13, Assam 15, Bihar 526, Bombay 9, Madhya Pradesh 51, Madras 1, Orissa 5, Rajasthan 1 and West Bengal 216—total 837.

Structure of Industry

An idea of the structure of Indian coal industry can be had by classifying the collieries with reference to their output and the number of persons employed. The tables below throw light on the size of collieries as indicated by their output (Table I) and by the average daily number of persons employed (Table II).

TABLE I

Frequency Distribution of Collieries according to Output

Size of collieries as determined by their output	Number of collieries 1956	1957
Upto 5,000 tons ..	239	205
5,001 to 10,000 ,, ..	93	95
10,001 to 20,000 ,, ..	119	117
20,001 to 30,000 ,, ..	94	90
30,001 to 50,000 ,, ..	82	79
50,001 to 100,000 ,, ..	96	110
100,001 to 200,000 ,, ..	85	92
200,001 to 300,000 ,, ..	20	24
Above 300,000 tons ..	15	16
Total ..	843	822

TABLE II

Classification of Coal Mines according to Employment

Size of collieries (as denoted by the average daily number of persons employed)	Number of coal mines 1956	1957
Upto 50 persons ..	222	194
51-150 ,, ..	185	181
151-300 ,, ..	156	138
301-500 ,, ..	92	101
501-1,000 ,, ..	86	104
Above 1,000 ,, ..	102	104
Total ..	843	822

It will be seen from the foregoing tables that the number of small collieries in India is very large, though there is a perceptible trend for a fall in their number year after year. There is also considerable diversity in the sizes of collieries. It has been aptly remarked that "in no other industry diversity in size is of so considerable magnitude as in the coal industry, for, apart from the geographical and geological factors which are beyond human control, there exist fundamental differences in the operational technique, layout of individual mines, degree of mechanisation and the differing methods of organisation and management. (M. M. Mehta: *Structure of Indian Industries*. The existence of small and irregular collieries which make scientific and planned mining difficult and result in wastage of coal was taken special notice of by various Committees since 1919 which recommended that small collieries should be amalgamated. A special committee on amalgamation of collieries was set up towards the end of 1955 to go into this question and to formulate definite proposals. This Committee summed up the position in regard to the amalgamation of small collieries and concluded as under:

"The small collieries are large in number, but their overall output is small. They are small ventures with no equipment. They have no technical staff. They have limited, if any, possibilities of expansion. They cannot follow scientific and planned methods of exploitation of coal. They cannot tackle fires. They do not provide housing and other amenities to labour and as labour in these mines is not organised, collective bargaining is not generally possible. Labour is not paid wages according to the standards laid down and provident fund and other facilities are denied. There is wastage in production. The country is going to need more coal and in the next decade or so, the requirements of coal for industrial purpose may increase to more than 200 million tons. New standards to improve the living and working conditions of labour are being laid down. If the Industry is to play its part in the immediate future, if labour is to get its due place, it should be reorganised. Such reorganisation is hardly possible if so many small units of production, with all the disadvantages mentioned are to be allowed to continue. They should, therefore, be amalgamated, brought under unified control, reorganised and modernised, so that the existing resources will be exploited in the best possible manner and in the best interest of the nation."

A committee has recently been constituted by Government to promote voluntary amalgamation of small coal mines, and it is learnt that legislation may be enacted for compulsory amalgamation of coal mines which do not agree to voluntary amalgamation.

Production Cost and Efficiency

The continued existence of small-size collieries is not only uneconomic and wasteful but also has, by and large, wider repercussions on the economic system as a whole. There can be no greater waste of national resources than inadequate return on the financial outlays when the country's crying need today is the utilisation of all available financial resources in order to build up a sound and solid industrial base.

The table below shows the average rate of return on shareholder equities in Indian collieries in different size groups:

Relation between Size and Rate of Profits

Firms grouped according to output (in tons)	Average rate return (percentage) on shareholders equity during 1938-47
0— 25,000	2.20
25,000— 50,000	4.80
50,000— 100,000	8.20
100,000— 200,000	12.40
200 000— 500,000	15.90
500,000 and above	19.40

The Reserve Bank's latest study (March 1959) of *Profits in Relation to Size of Companies* brings out highly interesting results. Taking the 'total net assets' (total capital employed) as the indicator of the size of companies, it classifies them into different size groups and gives their profit rates as under:

Size range (Total net assets in Rs. lakhs)	No. of companies	Gross profits of coa companies in 1956 As % of total capital employed	As % of sales
0— 50 ..	38	3.8	5.3
51— 100 ..	10	6.0	6.9
101— 150 ..	1	1.9	3.4
151— 200 ..	..	..	..
201— 250 ..	1	18.7	15.8
251— 300 ..	..	..	..
301— 500 ..	2	4.5	6.5
501—1,000 ..	1	1.9	6.0
Above 1,000 ..	..	..	..

The above data provide evidence of the structural weaknesses of the coal industry and indicates that

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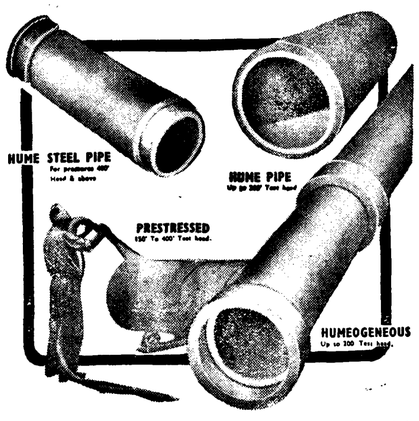

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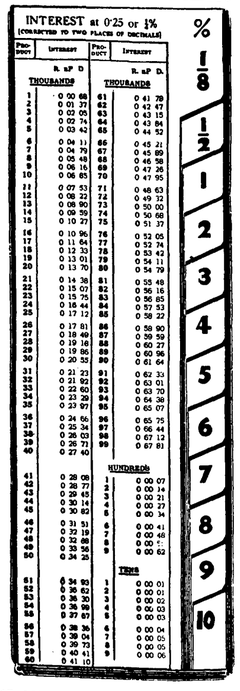

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there is no clear pattern of changes in the profit rates in relation to size. Neither the profit margin on total capital employed nor in relation to sales shows constant variation with the size of coal companies. Owing to the lack of any definite pattern, it is almost impossible to determine the optimum size of a colliery. Dividends as percentage of paid-up capital, however, show a somewhat increasing trend in relation to size.

The relation between size and cost of production reveals the same grievous position. According to a recent study (M. M. Mehta: *Structure of Indian Industries*), the results arrived are as under:

Size classifications	*Percentage of cost to value of goods sold*
Small (units raising less than 50,000 tons of coal)	93.8
Medium (units raising more than 50,000 tons but less than 2 lakhs tons of coal)	92.2
Large (units raising more than 2 lakhs tons of coal)	88.2

It is true that the cost of production of coal is appreciably affected by the nature and character of coal deposits, including the quality of coal deposits, the thickness of the seams and the depth at which coal occurs, methods of leasing, methods of working and mining operations, wage rates, transport facilities and degree of financial, managerial and administrative integration of the coal mining units. At the same time, size and efficiency are so interlinked that the maximum technical efficiency and largest economies, external and internal, in production are incompatible with the preponderant small-size collieries.

Productivity

Reference may also be made to productivity, a widely accepted indicator of economic efficiency. The output per man-shift (in tons) for miners and loaders in India during 1951-57 has been 1.03 (1951), 1.04 (1952), 1.05 (1953), 1.09 (1954), 1.10 (1955), 1.12 (1956) and 1.14 (1957). Although these figures show a slight upward trend, the increase is hardly significant; in other words, the progress is painfully slow. In fact, the increase is more apparent than real, for, in the later years of the same period, there was a gradual rise in the average weekly hours of work, as reported by the Chief Inspector of Mines. The average weekly hours during 1951-57 were 46.63 (1951), 47.86 (1952), 46.99 (1953), 46.98 (1954), 47.13 (1955), 47.51 (1956), 47.86 (1957) and 47.63 (1958).

There is an element of truth in the complaint of Mr. D. F. Macmillan (an ex-chairman of the Bengal Coal Company) that coal production in India "has never risen above 135 tons per annum per person employed" and in his reference to Great Britain, where mining conditions are more difficu't, with 286 tons annual output per worker in 1948 and to the Union of South Africa with 496 tons annual output per person employed in 1946. In other countries, too, substantial increases in productivity have been achieved. For instance, a Commission of Experts on Coal in the U.K. had, *inter alia*, reported that "from 1925-27 to 1936, output per man-shift had risen by 54, 81 and 118 percentages in Poland, the Ruhr and Holland, respectively. In recent years, the output per man-shift has risen greatly; in the U.S.A. from 4.44 in 1938 to 8.16 in 1954; in France from 0.83 in 1938 to 1.12 in 1957. In other countries, too, like Belgium and Western Germany, the output of coal per man-shift has increased more than in India.

It is encouraging to note, in this connection, that arrangements are being made to send a team of Indian mining engineers to visit certain advanced countries to study measures adopted there for increasing the productivity and to suggest as to what extent those measures or such other measures could be applied in India.

Mechanisation

The 1951 Working Party for Coal Industry in India had studied the cause of low productivity and suggested mechanisation as one of the remedial measures to increase the output per man-shift. It observed:

"Truly speaking in this machine age, there is no other alternative left for rapid production, movement and preparation of coal except by some process of mechanisation. The age of pick, shovel, sledge, wedge and barrow is receding. During the last two decades, rapid strides have been made in all the progressive countries towards mechanising their coal mines and thereby achieving mining conditions to make the work of miners a safer and more paying occupation by replacement of man-power with machines. Engineers strove hard to find means of working the deposits of coal, so that the underground mine would be a safer, healthier place in which to work and there would be saving of man-power. Today, in all progressive countries, machines have been developed so extensively to do the work of men and men are trained in operating the machines so skilfully that a new age of greatly increased production per man has been ushered in."

The proportion of machine cut coal has been steadily growing in all parts of the world. In the U.S., approximately three-fourths of the coal mined today are cut by machines. In Great Britain, where the quality of the coal makes it unnecessary to do much undercutting, machinery undercuts only about 24 per cent. of the country's output, an amount which is about three times as great as in pre-war days. In the Ruhr coalfields of Germany the machine-cut output is at present over 85 per cent. of the total, a most extraordinary increase over 1913 when less than 5 per cent. of the output was produced by machinery. Over 80 per cent. of the Belgian and about 60 per cent. of the French output are obtained by machine cutting. Likewise, the number of loading machines has greatly increased. In India, however, the tonnage of coal cut by machines is not even one-fourth of the total coal produced, while the quantity of coal mechanically loaded is not even half per cent. In December 1957, only one mine had five mechanical loaders.

The table below shows the number of coal-cutting machines used during 1953-57 and the percentage of coal cut by machines:

Year	*No. of coal-cutting machines in use*	*Percentage of coal cut by machines*
1953	408	21.19
1954	485	21.83
1955	442	23.08
1956	454	22.96
1957	450	22.88
1958	470	24.27

In spite of increase in coal production under the second Five-year Plan, the progress of mechanisation of coal mines in recent years has been slow following restrictions on the import of foreign machinery and its high cost. It is learnt that a factory for the manufacture of coal-mining machinery and equipment will be set up at Durgapur with foreign assistance and that its annual turnover will be to the tune of 30,000 tons of machinery items.

Employment

In the circumstances, the labour-intensive character of Indian coal industry should cause no surprise. The average daily number of persons employed in coal industry increased from 339,211 in 1951 to 340,676 in 1957. The corresponding number was 250,000 in the U.S.A. in 1954, 56,000 in Saar in 1956, 145,000 in Belgium in 1956 and 204,000 in France in 1956. In the U.K. and West Germany, employment was larger—703,000 in the U.K. in 1956 and 433,000 in West Germany in 1956.

A striking feature of Indian colliery labour is its high percentage of absenteeism as will be seen from the figures given below:

Country	*Absenteeism % (1956)*
Belgium	18.4
France	12.9
West Germany	12.8
Saar	8.1
India	14.08
U.K.	12.5
Netherlands	10.6

In India there has been some drop in the percentage of absenteeism during recent years; it was 13.7 per cent. in 1957, 12.8 per cent. in September 1957, 12.97 per cent. in July 1958, 12.4 per cent. in September 1958 and 12.31 per cent. in February 1959. Sickness, accidents and leave are responsible for about one-third of absenteeism and the "other causes" for the remaining two-thirds or so.

Welfare and Earnings

Increasing labour welfare and social security measures in recent years such as hospitals and educational and recreational centres set up by the Coal Mines Labour Welfare Fund, miners' houses built or subsidised by the Fund and the benefits accruing from the Coal Mines Provident Fund and Bonus Schemes have helped in stabilising the Indian colliery labour to an appreciable extent. But the conditions under which the colliery labour live and work still call for further improvement. The level of wages has, however, distinctly improved in recent years following the Award of the All-India Industrial Tribunal (Colliery Disputes) which came into force in May 1956. The average weekly cash earnings went up from Rs. 10.90 in 1951 to Rs. 15.00 in 1956, to Rs. 18.74 in 1957 and to Rs. 21.59 in February 1959.

Capital

Mining involves an unusually high proportion of fixed capital investment. Information relating to investment in coal industry is, however, not available. Some idea can be had from the amount of paid-up capital of the joint-stock companies dealing with coal. On 31st March 1957, the paid-up capital of such companies, numbering 499, was only about Rs. 25 crores, an amount which is in the neighbourhood of the total productive capital employed in aluminium, copper and brass industry (Rs. 24.4 crores). According to a recent survey made by the Reserve Bank of India, foreign investment in the coal industry at the end of 1956 amounted to Rs. 3.49 crores, the overall investment of joint-stock companies in coal being Rs. 22.80 crores. Certain restrictions have been placed on the investment of foreign capital under the Mines and Minerals (Regulation and Development) Act, 1957.

Prices

The labour costs usually account for between 50 and 70 per cent. of the total coal production costs. In the U.K., labour costs accounted for 61 per cent. of total production costs in 1955. Even in the U.S.A. where a relatively high degree of mechanisation has taken place, the proportion is much the same. In the U.S.S.R., wages in coal mining industry account for 70 per cent. of total production costs. In India, wages comprise about 70 per cent. of pit-head costs. It is, therefore, only in the fitness of things that, in India, the pit-head prices of coal have been revised during recent years mainly with the object of enabling coal producers to pay higher wages and concessions enjoined upon them by the Awards of the Conciliation Boards or the Industrial Tribunals constituted under the Industrial Disputes Act. Following the implementation of the Award of a Conciliation Board, there was a general increase in coal prices of Rs. 3-8 per ton, with effect from July 1947. The second increase of Rs. 3 per ton was sanctioned from July 1956, when wages and concessions were increased consequent upon the Award of the All-India Tribunal (Colliery Disputes). This Award, which came into force in May 1956, was modified, with retrospective effect, in favour of labour by the decision of the Labour Appellate Tribunal in January 1958 and a third increase of Re. 1-8 per ton was granted, effective from July 1957. The quantum of the dearness allowance payable to colliery workers is now determined every half-year on the basis of the All-India Consumer Price Index Numbers and, consequently, the coal prices will have to be adjusted every half-year whenever necessary. By and large, therefore, the principle of "wage-price" relationship, in the place of "price-wage" relationship, which the Indian Coalfields Committee (1946) had recommended, is being followed by the coal industry.

While wages should be and are the starting point in the coal price-policy, many hurdles have to be crossed before a really national policy can be reached. First, while a uniform level of wages for colliery workers throughout the country has been rightly prescribed by the All-India Tribunal (Colliery Disputes), the costs of production vary from area to area and from colliery to colliery. Secondly, while wages are generally the same, irrespective of the quality of coal raised, different prices have to be fixed for different qualities of coal. Thirdly, coal prices have to be controlled, because coal enters into the production of so many goods and any increase in its price affects the cost structure of almost every other industry and also results in a general rise in the cost of living. Fourthly, besides wages, there are other factors leading to increase in production costs, the effect of which varies from unit, to unit, depending on its size, efficiency of management, mining conditions, etc. Fifthly, in the interest of expansion of coal industry to meet the targets under the Five-year Plans, no unit can be permitted to go out of production on the ground of high costs alone, if their continuance be essential in the national interest. Finally, the coal is a wasting asset involving additional capital for maintaining the production as the mine advances and it is necessary that the coal prices include an adequate element for depreciation and development.

Coal Price Revision Committee

A Coal Price Revision Committee under the chairmanship of Mr. S. Bhootlingam, I.C.S., Secretary to the Government of India in the Department of Iron and Steel, was appointed by the Ministry of Steel, Mines and Fuel in May 1957 to examine and report upon the cost of production of coal and coke and to recommend what changes were necessary in the price structure. The Committee submitted its first report in December 1958 and, on its recommendations which have been accepted in their entirety by the Central Government,

(i) the prices of coals of West Bengal and Bihar of all grades other than grades IIIA and IIIB have been increased by 50 nP per ton,

(ii) the prices of grades IIIA and IIIB have not been raised and the existing prices have been declared as the maximum,

(iii) the excise duty levied on all despatches of coal/coke under the Coal Mines (Conservation and Safety) Act, 1952 has been raised by 25 nP per ton and the proceeds will be used for raising the subsidy for stowing payable by the Coal Board from the present 75 to 89 per cent. to 100 per cent.,

(iv) another levy of excise duty equal to 25 nP per ton will be levied and its proceeds will be used for granting assistance to uneconomic units requiring special consideration, and

(v) the coals of the Madhya Pradesh, Orissa, Bombay will be graded and revised prices therefor will be fixed thereafter.

The Committee has yet to make its report on the Assam and Andhra Pradesh coalfields.

The report of the Coal Prices Revision Committee is a valuable document on the subject of coal prices and shows that great pains were taken by the Committee to arrive at a "normal" wage cost per ton of coal and average sales realisations, separately, for the coalfields in West Bengal and Bihar and in Madhya Pradesh, Orissa and Bombay, specially when, as already explained, the actual production costs vary from colliery to colliery and, in most of the collieries, there is no satisfactory system of cost accounting; in fact, many collieries do not maintain any authentic accounts and, even if they do, they are hardly susceptible to any detailed scrutiny. The Committee has allowed a depreciation and development allowance of Re. 1.70 nP per ton and a profit of Re. 1.75 nP per ton.

Hitherto, the Government of India had been following, by and large, the policy of a uniform price increase based on a national or regional average of costs. This policy helped low-cost collieries but was obviously disadvantageous to high-cost collieries. Through the recommended levy of 50 nP per ton for specific purposes to be disbursed to deserving collieries by the Coal Board, in accordance with well-known principles, the Coal Prices Revision Committee has made a welcome and significant contribution to the coal price policy. The ceiling prices for grade IIIA and IIIB coals may, it is apprehended, give rise to unhealthy competition amongst low grade collieries, but the experiment was, perhaps, overdue in the context of the complaint that the present difference between the prices of the lower and the higher grades of coal is so little that even those consumers who could manage with low grades of coal do not make any attempt to use such coals. The grading of coals of the Madhya Pradesh, Orissa and Bombay coalfields is expected to improve the quality of loading by collieries, about which there have been persistent complaints from consumers, including the railways.

Industry's Reaction

As could be anticipated, the recommendations of the Coal Prices Revision Committee have failed to satisfy the coal producers (although the report has been received well in other quarters) and the industry has protested against the Committee's report and its acceptance by the Government. In the industry's view, the increase in coal prices by 50 nP per ton is extremely inadequate and a further increase of Rs. 2 per ton should be granted immediately, if the recent fall in coal output is to be arrested. The industry has, however, welcomed the decision about increased assistance for stowing and about help in the operation of deep, gassy and difficult mines.

On the coal price front, it appears, the situation in India at the moment is similar to one prevailing in the U.K. in 1942 and the levy recommended by the Coal Prices Revision Committee is, in a way, similar to the Coal Charges Account started in that year by the U.K. Ministry of Fuel and Power. In this connection, the following extract from the *History of the Second World War—Coal—by* W. H. B. Court makes interesting reading:

"....costs in the mining districts began to rise, but their incidence was very unequal. How to adjust coal prices to this situation, so as to avoid complaints by consumers that they were being forced to take high-priced coal and at the same time to recoup the high-cost districts without sending prices sky-high was the problem that became increasingly acute as time went on.

"....These circumstances led to an important step being taken on 3rd June, 1942.

"....This was accomplished through a reform of the system of industrial levies....on all coal produced, levied under the order of the Minister of Fuel and Power and disposable by him under the approval of the Treasury, for any purpose connected with the production or marketing of coal ....The Coal Charges Account met in other words some of the most pressing needs of both coal producers and consumers. At the same time, it maintained the principle that the industry must meet its own cost, without Government subsidy, and that the consumer should pay full price of the coal."

Distribution

As is well known, the import of coal into India is negligible. The bulk of Indian coal is internally consumed. Export to Pakistan, Burma, Ceylon and other countries total only about 4 per cent. of all despatches. In the interest of the foreign exchange resources of the country, efforts are being made to regain the markets which India has lost due to competition from other countries. Indian railways are the principal internal consumer, the actual despatches during 1958 being 14.8 million tons. Other principal consumers during 1958 were iron and steel works 4.2 million tons, electricity undertakings 3.9 million tons, brick kilns 3.10 million tons, cement factories 2.2 million tons, domestic requirement (soft coke) 1.93 million tons, textile mills 1.8 million tons and sugar, glass and chemicals 1.53 million tons.

Of the 45.34 million tons of coal raised during 1958, 40.347 million tons of coal were despatched by rail and other means of transport, about 3.169 million tons were used for the manufacture of soft coke and hard coke and the balance of 1.821 million tons together with about 0.515 million tons of the previous year's raisings were used for the collieries' own consumption, namely, for boilers and for the domestic use of the colliery employees.

The requirements of iron and steel works will rise rapidly with the entering into production of the Bhilai, Rourkela and Durgapur steel plants in the public sector and the expansion of the existing works at Jamshedpur and Burnpur in the private sector. Their eventual requirement during 1961 is estimated at 11 million tons.

For the supply of washed coal to the steel plants at Rourkela and Bhilai, a coal washery has been installed at Kargali in Bihar and three more washeries are to be installed at Bhojudih, Dugda, Patherdhi during the next two or three years for the other plants.

High-grade Coking Coal

The reserves of high-grade coking coal suitable for metallurgical purposes being limited, efforts are made to allocate the coking coal only to such consumers as cannot manage with non-coking coal. The other consumers, the principal one of which are the railways, are advised to switch on to non-coking coals. This will cause inconvenience to some consumers, but the changeover cannot be helped. For conservation of the valuable reserve of coking coal, a ceiling is fixed on the production of such coal, under the Coal Mines (Conservation and Safety) Act, 1952 and, with a view to finding outlets for low grade coals, all new thermal power stations are, as far as possible, designed to burn high ash low grade coal or middlings obtained through coal washing. In the case of all other consumers also, there is a grade schedule which governs the permissible quality of coal, the intention being that no consumer should be allowed to use coal of a quality higher than it actually requires, without, of course, detriment to its efficiency.

Coal Transport

Transport is one of the key factors in the production of coal, because, unless coal moves day by day as it is raised from the mine, further production becomes difficult. Apart from the fact that no coal producer can afford to lock up his capital in the pithead stocks which even now equal about a month's production, there is the lack of stacking space at collieries and the risk of spontaneous combustion in the pithead stocks, especially in the case of high volatile coals of Raniganj. As the coal mines are concentrated in a comparatively small area and the points of consumption of coal being widely scattered throughout the country, the transport of coal by road and river is barely 5 per cent. of the total despatches. During 1958, out of a total despatch of 40.34 million tons, 38.06 million tons were despatched by rail and only 2.27 million tons by other means. For the movement of coal, the railways have been offering increasing number of wagons every year but the supply is still far short of the coal distribution target, as will be seen from the following figures of coal loading from West Bengal and Bihar which together comprise the major coal loading area in the country:

Year	Coal distribution target	Average daily loading
	Wagons	Wagons
1955	3,976	3,262
1956	4,185	3,405
1957	4,647	3,668
1958	4,915	3,910

Shortage of wagons is felt more during January-June every year, which are good months for coal production, as compared with July to December, when there is seasonal drop in production. Significantly, the period of increased production of coal coincides with the busy season of the railways when wagons are in greater demand for the movement of general goods and the railways find it difficult to offer adequate number of wagons for coal. When there is seasonal drop in production of coal during July to December, the demand for general goods also decreases and, as a result of their "slack" season, the number of wagons offered by the railways increases. Occasionally, the number of wagons offered is unusually high and many of the wagons cannot be utilised for coal loading. The solution lies in the consumers combining to build up coal dumps where coal may be collected during July-December, when the transport is easy, to be used during January to June, when there is a general shortage of wagons.

Another important feature of coal transport may also be touched upon here. It is not enough if adequate number of wagons is available for loading in the coalfields as a whole. What is more important is that wagons be available to collieries who can load them and for movement in the directions in which coal is in demand. Very often, movement of wagons from a group or groups of collieries to the consuming centres has to be limited or restricted due to inadequate pilots and depot capacities in coalfields and the limited capacity of the lines, transhipment and terminal points, marshalling yards, etc., resulting in occasional shortages of coal. The demand for coal in South India generally remains unsatisfied. A portion of coal to this region moves by sea at a high cost of freight. The railways are alive to the situation and are already working on several projects designed to improve not only the overall availability of wagons for coal but also the coal transport, in general. To make the best possible use of the limited transport, the distribution of coal is made, as far as practicable, from the nearest coalfields producing the requisite quality of coal.

Future Development

The coal industry is listed in schedule 'A' of the Industrial Policy Resolution of April 1956. The future development of the industry is the responsibility of the State and all new units will ordinarily be set up by the State. The target for the output of coal for the second Five-year Plan was fixed at 60 million tons. This meant an increase of 22 million tons over the production of 38 million tons during 1955. Of this additional output, the public sector is expected to produce 12 million tons—1.5 million tons to be produced by the Singareni Collieries Company Ltd., in which most of the shares are held by the Andhra Pradesh Government, and 10.5 million tons by the existing and new collieries of the National Coal Development Corporation—a Government company formed in October 1956. Ten million tons of the additional production (of 22 million tons) is to be achieved by the privately-owned collieries from the existing workings and the immediately contiguous areas, the intention being that the unworked and virgin areas should be exploited by the State. The Coal Bearing Areas (Acquisition and Development) Act 1957 seeks to establish greater public control over the coal mining industry and its development by providing for the acquisition by the State of unworked land containing or likely to contain coal deposits. The Act provides for payment of reasonable compensation for the acquisition of rights of the prospecting licensees and mining leases.

Research

Before we close this review, a passing reference may be made to the arrangement made recently for research into the problems of the coal industry from time to time. By a resolution dated 28th August 1956, the Government of India has set up a high-powered body, namely, the Coal Council of India, consisting of the representatives of the Planning Commission, the coal industry and the Union Ministries of Finance, Irrigation and Power, and Works, Housing and Supply, etc. The Minister of Steel, Mines and Fuel is the Chairman of the Council. The main function of the Coal Council is to have reviews and studies conducted under its overall supervision and guidance for planning the development, utilisation and conservation of the coal resources of the country. The Council has constituted four Committees on

(i) Assessment of Resources
(ii) Production and Preparation
(iii) Requirement and Utilisation and
(iv) Transport.

Another Committee on Fuel Efficiency has also been set up. All the Committees are presently busy with the study of specific problems entrusted to them and have submitted a number of reports. It will not be long before a co-ordinated long-term policy for the development of Indian coal industry emerges.—*All Rights Reserved.*

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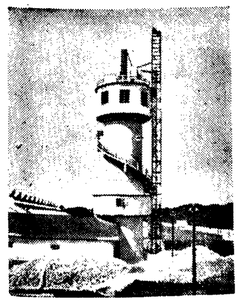

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Cotton Consumption Back At 1956-57 Level

Drastic Decline In Production

THE 1958-59 cotton season, which ended on 31st August last, demonstrated, once again, the almost complete dependence of cotton production on the monsoon and the weather. These have been playing hide and seek with the Indian farmer through the centuries and, in spite of what has been done to increase irrigation facilities, he still has to look to the skies for the fruition of his efforts and the sustenance of himself and his family. Targets of production, distribution of seeds, fertilisers and irrigation under the Five-year Plan are set higher and higher year after year. The actual performance, however, falls short of them in most cases, with the result that the efforts made in this direction have produced little impression on the volume of production. Rain and other elements continue to rule the roost, with their decisive influence on output.

Cotton production during the year under review, namely, 1958-59, was expected, as in previous years, to be on the high side early in the season. And, again as in the past, the final crop turned out to be much below earlier estimates, thanks to unfavourable weather conditions in the months of September and October 1958, particularly in the Punjab. Thus, as against 5.4 million bales (of 400 lbs. each) estimated at the beginning of the season, the harvested crop was only 4.8 million bales (trade estimate). The official estimate (final) was lower still at only 4.70 million bales, as compared with 4.73 million bales in 1957-58.

Plan Targets and Performance

Quantitatively, cotton production during the season under review fell far short of the second Plan target of 5.7 million bales. Distribution of improved seeds and fertilisers did not reach the target, though provision of irrigation exceeded the target. The target for distribution of improved seed during the 1958-59 season was 1.49 million maunds (of 82.2/7 lbs. each), while the actual quantity distributed amounted to only 773,211 maunds. Fertiliser distribution also fell short of the target of 44,650 tons, in that it aggregated only 15,708 tons. But the additional area brought under irrigation during the season was 334,178 acres which exceeded the target of 291,811 acres by a sizable margin, raising the total irrigated area under cotton to 2.4 million acres, representing just 12 per cent. of the total acreage under this crop. The percentage of irrigated area to the total shows considerable variation from State to State. It is as high as 93 per cent. in the Punjab and 83 per cent. in U.P., while in Madras it is only 28 per cent. The following table gives the staple lengthwise break-down of the cotton production during the five years 1954-55 to 1958-59.

Production (Staple-lengthwise)

(In Thousand bales of 400 lbs.)

Season	A.	B.	C.	Total
1954-55 ..	1,529 (36)	1,908 (45)	790 (19)	4,227 (100)
1955-56 ..	1,577 (39)	1,781 (44)	662 (17)	4,020 (100)
1956-57 ..	2,018 (42.50)	1,950 (41.25)	767 (16.25)	4,735 (100)
1957-58 ..	1,760 (37)	2,122 (45)	857 (18)	4,739 (100)
1958-59 ..	1,687 (35)	2,298 (49)	775 (16)	4,705 (100)

Note.—Figures in brackets are percentages to total. A—Long staple (1" and above); B—Medium staple (below 1" and above 11/16"); C—Short staple (11/16" and below).

Much discussion had taken place during the year regarding the third Plan target for cotton. The National Development Council had earlier proposed the figure of 8 million bales which was subsequently reduced to 7.8 million bales. The Indian Central Cotton Committee suggested only 7.2 million bales which itself is generally considered to be on the high side.

It is common knowledge that cotton production in India can be stepped up only through an improvement in yield per acre which, in turn, can be achieved only through distribution of improved seed and fertilisers and provision of irrigation. Since cotton cannot claim priority over food crops in view of the prevailing food shortage, the possibilities of more lands newly brought under irrigation being sown with cotton, are limited. More attention should, therefore, be devoted to the supply of improved seed and fertilisers. While provision of better seed to cover the entire area is said to be not very difficult, shortage of fertilisers is a serious limiting factor in agricultural production. Unless, therefore, more provision is made in the third Plan for fertiliser factories, all talk of increasing production will be mere moonshine.

Much progress has been made in recent years in the evolution of finer and larger staple cotton due largely to the vigorous efforts of the Indian Central Cotton Committee. There has been a marked rise in production of long-staple Indo-American (mainly Co_4) cotton of one inch staple and above in many areas, particularly in Saurashtra and other regions of the Bombay State. Output of these varieties, which amounted to only 200,000 bales in 1957-58, increased to as much as 370,000 bales in 1958-59. The evolution of more Indo-American varieties such as 170-Co_4 and 134-Co_4-M, MCU-[1] and MCU-[3], LL-54 and M.A.5, as also the development of Sea-Island 'Andrews' cotton which could be utilised by the textile industry in partial replacement of some of the imported record, not only constitute important landmarks in the progress of cotton research in the country but has also strengthened hopes of attaining self-sufficiency in cotton varieties which are at present imported. Work on isolating still better and finer types of cotton in order to maintain their purity is progressing apace under three schemes now in operation in the Punjab, Bombay and Madras. The Ministry of Commerce and Industry constituted a Working Group to examine the question of the development of extra long-staple cotton. The Group recommended certain incentives for the speedy development of these cottons. In pursuance of these recommendations, the floor and ceiling prices of cotton of staple length 1" and above, which have been hitherto outside control, have been fixed. However, Sea-Island and hybrid cottons, having a staple length of 1⅛" and above, have been exempted from price control. This variety is gradually attaining commercial status. Total production of this cotton (Sea-Island) in 1958-59 amounted to 208 bales which fetched handsome prices at auctions.

While the extension of Sea-Island and hybrid cottons might help in the attainment of self-sufficiency in extra long-staple cottons, it is cotton of 1⅛" staple capable of spinning 40 counts and over that would largely contribute to self-sufficiency in regard to imported varieties. Much importance, therefore, attaches to the efforts that are being made to improve the acclimatised Egyptian varieties, namely, Giza 7 and Giza 12, to levels at which they will prove to be remunerative to farmers. These varieties are being tried in certain parts of Mysore, especially as a summer crop.

Mill Consumption

In contrast to the fall in production, mill consumption of cotton recorded a marked rise, thanks to the improvement in the textile situation. Total consumption of Indian and foreign cotton in 1958-59 aggregated 5.07 million bales. This is the second highest consumption on record, next only to the 1956-57 figure of 5.32 million bales. As regards consumption of Indian cotton, the cotton textile industry is back at the level of the 1956-57 season, when there was a record consumption of 4.66 million bales. The share of foreign cotton in total consumption, however, declined further to 450,000 bales, as compared with 560,000 in 1957-58, 570,000 bales in 1956-57 and 600,000 bales in 1955-56. During the ten-year period 1949-50 to 1958-59, foreign cotton consumption declined almost to one-third. The following table indicates the trend of mill consumption during the decade ended 1958-59:

Trend of Consumption

(In million bales of 392 lbs. net.)

Season	Indian	Foreign	Total
1949-50	2.54	1.14	3.68
1950-51	2.52	1.10	3.62
1951-52	2.99	1.08	4.07
1952-53	3.61	0.85	4.46
1953-54	3.89	0.72	4.61
1954-55	4.14	0.63	4.77
1955-56	4.37	0.60	4.97
1956-57	4.66	0.57	5.32
1957-58	4.43	0.56	4.99
1958-59	4.62	0.45	5.07

Exports during the season were higher at 395,000 bales excluding zoda and yellow pickings which continued to be freely allowed for export, as against 292,000 bales in the previous season. Total export quotas issued amounted to 500,000 bales, comprising 250,000 bales of Bengal *Deshi*, 200,000 bales of ¾" cotton and 50,000 bales of cotton stapling ¾" and below. These liberal quotas ensured continuity of supplies to foreign buyers and enabled the trade to sell cotton as and when demand emerged. Bengal *Deshi*, being a special type of cotton with limited direct competition in world markets, found, as usual, a regular outlet even at advancing prices. This was not the case with ¾" staple cotton, which as the season progressed, was increasingly difficult to sell abroad. The high internal prices, brought about by the increased mill demand, pushed this cotton out of parity with competing cottons in world markets. This explains the substantial quantity of unutilised export quota at the end of the season. Nevertheless, the export performance during the season was satisfactory.

The import policy during the season reflected a better appreciation of the difficulties of the textile industry. Imports were allowed on a more liberal scale than in the previous season, the total import allocation issued having been of the order of about 600,000 bales. The normal level of imports was thus restored during the year.

Supply Position

The supply position of cotton during the season underwent a radical change. When the season commenced, carryover stocks aggregated 2,045,000 bales. Initially, production was expected to be about 5.4 million bales. There was thus a strong hope of adequate supply. But, as the season advanced, crop estimates were drastically revised downwards, while the demand picture improved; conditions in the mill industry started improving slowly, with internal demand for cloth and exports looking up, thanks to the incentive scheme. As a result of these developments, which were reflected in the higher consumption of raw cotton by mills and the firm trend of prices, the 1958-59 season ended with conditions practically the reverse of those prevailing at its start. The following table shows at a glance the supply and distribution position of cotton during the 1957-58 and 1958-59 seasons.

Supply and Distribution

(In thousand bales of 400 lbs.)

	1958-59	1957-58
Supply:		
Stocks (Beginning of Season)		
Indian Cotton	2,045	1,722
Foreign cotton ..	156	250
Commercial crop during season	4,850	5,150
Non-Commercial Production ..	270	270
Foreign Cotton Imports (estimated)	489	422
Total ..	7,810	7,814
Distribution:		
Indian Cotton:		
Estimated exports	294	298
Village Consumption ..	270	270
Mill Consumption	4,616	4,432
Foreign Cotton Consumption ..	455	566
Stocks (end of season)—		
Indian Cotton	1,350	2,045
Foreign Cotton	185	154
	40*	53*
Total ..	7,810	7,814

* Utilised by Khadi Board and surgical dressing manufactures.

The outlook for the current season 1959-60 is distinctly bullish. The weather has played havoc again and an anticipated crop of 5.2 million to 5.4 million bales is now expected to be even less than that of the previous season. Currently, it is estimated to be no more than 4.5 million bales. Mill consumption is running at a higher rate than in the previous season.

In view of the disappointingly poor crop, there has been a virtual scramble for available lots and this has sent prices shooting up. The ceilings for almost all varieties have been pierced. Consequently, the Government has been forced to take measures for stabilising the prices. The war-time and post-war controls have been reintroduced in part. Thus, mills have been prohibited from buying or possessing stocks of cotton in excess of three months' consumption. They have also been prevented from purchasing or otherwise acquiring *kapas* (unginned cotton). Those holding stocks of *kapas* have been directed to get them ginned by specified dates. These measures are considered to be inadequate and more restrictions are expected to be introduced even before these lines appear in print.

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Production Of Cotton Mills Static

Offtake Better, But Costs Go Up

ALTHOUGH the offtake of cotton piecegoods and yarn, for both domestic consumption and exports, was quite large during 1959 as compared with the previous two years, there could not have been any significant improvement in the financial position of the industry as a whole, barring the units engaged in the manufacture of superfine and fashion fabrics. The number of mills making losses must have gone down, but that is only a negative satisfaction. It is quite possible that, among the coarse and medium count mills, a few units, which had completed their modernisation programmes with up-to-date machinery, have fared distinctly better, but it is a moot point whether their profit margin has been commensurate with the heavy capital expenditure incurred by them. Thus, when the financial results of the industry are published in the next six months, they will show quite a mixed trend. For the increase in sales was offset largely by the steeply enhanced cost of production.

The two major constituents in cost structure, namely, raw cotton and wages, recorded a distinct rise. As compared with 1958, the prices of Indian cotton rose by more than 20 per cent. and the average amount of dearness allowance paid to a mill worker in Bombay City went up from Rs. 81·50 (average for 1958) to Rs. 91.15 (November 1959). It may be noted here that every increase of Re. 1 per worker in dearness allowance means an addition of about Rs. 2 lakhs to the mills' wage bill. The mills had also to pay enhanced prices for chemicals, dyeing materials and coal. There being no control on prices, the mills were, of course, free to pass on the higher cost of production to consumers. But they could not do so to the full extent, as, during the first four or five months of the year, the piecegoods market could not absorb higher prices, following keen competition among mills to work off their stocks. Subsequently, of course, cloth prices went up and several mills realised better prices. Taking the year as a whole, however, the average rise in prices realised by mills was only modest. Here, again, it is necessary to qualify. The fine and superfine count mills were relatively more prosperous than coarse and medium count mills. This was so, because, while the prices of imported cotton tended to be lower during the major part of the year, they could realise much better prices on their finished goods than the coarse and medium counts.

Labour Force Thins

Being unable to bear the brunt of a heavy incidence of production cost, thirty mills continued to remain completely closed in 1959 also. Only six units restarted, of which three units were run by the Government of Bombay under the unemployment relief scheme and three were taken over by the Centre, the State Governments concerned having arranged for working capital for two units, while, in the case of the other, the authorised managing agents advanced the necessary working capital. To the camp of thirty mills which continued to remain completely closed, ten more joined, the number of workers rendered jobless as a result being 40,580. Four mills are reported to have, however, reopened recently, absorbing about 32,000 workers. Consequent on the closure of several mills and the curtailment of production operations by a few others, the total number of workers (including *badlis*) on the mills' list during the month of September 1959 was 886,275, as against 890,115 in the corresponding month of 1958 and 945,503 in September 1956, or a shrinkage of 59,228 over three years in the labour force employed by the industry. This thinning down in the size of mill labour force is to be welcomed, as the industry is overmanned even now. The number of spinning mills and composite mills on 1st January 1959 was, however, higher at 188 and 294, as against 121 and 291, respectively, three years before.

The offtake of cloth during 1959, as stated at the outset, was quite encouraging. There was a sizable reduction in the accumulations of stocks lying with mills. The total of these stocks at the end of November 1959 was just 462.00 million yards, as compared with 869.70 million yards held a year before. The drop of 407.70 million yards over the year has been shared by both unsold stocks and stocks sold but not taken delivery of, the former declining from 492.45 million yards to 220.50 million yards and the latter from 377.25 million yards to 241.50 million yards. Similarly, the stocks of yarn lying unsold with mills have thinned considerably; they stood at 10.80 million lbs. as on 31st October 1959, as against 35.28 million lbs. on the same date in 1958. The reduction in cloth and yarn stocks has occurred despite the fact that production has not suffered a setback. The aggregate quantity of cloth actually produced in the first eleven months of 1959 was slightly more than that in the corresponding period of 1958, being 4.496 million yards, as against 4.488 million yards. The output of yarn, however, was a little higher at 1.537 million lbs., as against 1,529 million lbs. for more new spindles came into operation.

Offtake Rises

The improvement in the offtake of mill-made piecegoods during the year under review was on account of both domestic consumption and exports, as is indicated in the following table:

(In million yards)

	January—November	
	1959	1958
Opening stocks	874	990
Production	4,496	4,488
Total supply ..	5,370	5,478
Exports	644	536
Closing stocks (end of November)	462	870
Domestic consumption* ..	4,264	4,072

*A rough estimate only, for it is rather difficult to assess the quantity of mill cloth consumed within the country in the absence of details regarding the stocks held by the trade—wholesale and retail.

Encouraged by the rise in offtake and in their anxiety to reduce the unit cost of manufacture which would have otherwise been higher still, the cotton mill industry endeavoured to maintain output at as high a level as possible. The estimated production of cloth during 1959, on the basis of actual production for eleven months, is 4.933 million yards as against 4.927 million yards in 1958 and the all-time record output of 5.317 million yards in 1957. The actual production in the first eleven months of the year was 4,496 million yards of cloth, as against 4.488 million yards and 4.879 million yards in the corresponding periods of 1958 and 1957, respectively. The cloth output was slightly lower, though the total quantity of yarn spun was larger at 1.721 million lbs. in 1959 (estimated), as against 1.685.4 million lbs. in 1958, on the basis of the actual output of 1.567 million lbs. in the period January-November 1959, that in the same period last year being 1,529 million lbs. The trend of mill yarn and cloth production—month by month—in the past two years is indicated below:

(Cloth in million yards; yarn in million lbs.)

Month	Cloth		Yarn	
	1959	1958	1959	1958
January ..	430.1	436.5	150.5	145.7
February ..	401.6	391.4	138.7	133.9
March ..	405.8	405.6	141.5	138.5
April ..	406.9	407.3	139.9	134.1
May ..	405.3	421.3	136.5	138.7
June ..	405.1	388.3	135.7	126.0
July ..	425.5	419.4	146.3	145.0
August ..	403.6	407.9	143.9	140.4
September ..	412.8	441.3	147.6	143.5
October ..	412.0	421.5	146.0	147.4
November ..	396.6	377.4	140.0	134.2
December ..	438.0*	433.5	156.0*	150.0
Total ..	4,932.9*	4,926.0	1,720.6	1,685.4

*Estimate only.

Mills' Capacity Utilised

The upward trend in yarn output during 1959 was due to two factors. First, the spinning capacity of the industry as a whole was higher, the actual number of spindles in the beginning of the year being 13,406,466, as against 13,054,098 early in 1958. Secondly, there was more intensive utilisation of the mills' capacity. The daily average number of spindles run in the first, second and third shifts during the nine months ended September 1959 was 11.23 million, 10.84 million and 4.81 million as against 10.81 million, 10.31 million and 4.33 million respectively, in the corresponding period of 1958. Nevertheless, the capacity lying idle in the first shift was to the tune of 16.6 per cent. The basic reasons for the relatively better performance of the yarn section was the marked improvement in the fortunes of powerlooms and handlooms alike. With regard to the weaving side of the industry, the daily average number of looms run during the aforesaid period, as compared with the same period in 1958, was larger in the second shift (167,485, as against 166,250), while it was less in the first and third shifts (175,679 and 36,908, as against 177,172 and 38,778, respectively). The percentage of idle weaving capacity in the first shift was 12.6.

The bulk of mill piecegoods produced in 1959 continued to consist of medium varieties, their share in the total output actually being higher at over 71.1 per cent., as against less than 69.0 per cent. in 1958. During the year, the pace of "go-coarser movement" among mills, which had received considerable impetus towards the close of 1956 following the disproportionately high rates of excise duty and sales tax levied on finer cloths and the rebate in excise duty offered for increased yardage production, was arrested. The percentage proportion of coarse cloth to the aggregate output of all varieties in 1959 was about 18.0, as against as much as 20.0 in 1958 and 21.8 in 1957. The following table shows the different categories of cloth actually produced in the first ten months of 1959 and 1958, as well as in the whole of 1958 and 1957:

(In million yards)

	January—October		Whole of 1958	1957
	1959	1958		
Coarse ..	750	811	970	1,163
Medium ..	2,903*	2,825	3,396	3,503
Fine ..	206	262	303	353
Superfine ..	242	214	258	268
Total ..	4,101	4,112	4,927	5,317

*Of this quantity, lower medium cloth accounted for 1,430 million yards and higher medium counts for 1,473 million yards.

While the aggregate mill output of cloth in 1959 was more or less the same as in 1958, there was a marked fall in the production of *dhotis* and *saris*. During the first nine months of the year, not more than 354 million yards of *dhotis* and 367 million yards of *saris* were actually woven, as against 377 million yards and 424 million yards, respectively, in the same months of 1958. The production of shirtings, sucies, poplin, crepes, twills and fair cords was also lower. There was, however, a notable rise in the output of longcloth, sheeting, leopard cloth and markin, as well of prints and chintz. The table below gives a broad idea of the different varieties of wearable mill piecegoods packed:

(In million yards)

Varieties	Jan.—Sept.		Whole of 1958
	1959	1958	
Longcloth, sheeting, leopard cloth and markin	1,053	980	1,322
Dhotis	354	377	492
Saris	367	424	548
Shirtings and sucies ..	358	396	522
Prints and chintz ..	441	395	538
Mulls, voiles and dorias,	242	216	286
Poplin, crepes, twills and fair cords	312	329	438
Drills, jeans, satin drill and jeaberdine ..	169	160	218
Coating, tussores, corduroy and bedford corduroy	96	104	154
Madapolam, cambrics and lawns	19	16	21
Dupattas, khes, chola and uparana ..	5	5	6
Other varieties ..	125	131	183
Total ..	3,541	3,533	4,722

As already mentioned, yarn output during 1959, was at a higher level as compared with the previous year. Consequently, a larger quantity of yarn was made available to the decentralised sector of the textile industry, that is, the handlooms and the powerlooms. The total quantity of yarn actually delivered in the first nine months of the year was 408.58 million lbs., as against 386.65 million lbs. in the same period last year. Thanks to the improvement in yarn deliveries thus, as also to tax remissions and active financial assistance in the form of loans, grants and rebate on sales given by the authorities, the production of handloom cloth continued to move up. The latest estimate of handloom cloth production in 1959 is 1,863 million yards, which compares favourably with 1,798 million yards in 1958 and 1,643 million yards in 1957. The production of powerlooms is placed at 343 million yards, as against 331 million yards in 1958 and 303 million yards in 1957.

Cloth Supply Position

The supply position of cotton piecegoods during the years 1957, 1958 and 1959 is indicated in the figures cited below:

(In million yards)

	1959†	1958	1957
Opening stocks†	874	990	407
Production	7,173	7,110	7,314
Of which:			
Mill cloth	4,918	4,927	5,317
Handloom	1,863	1,798	1,643
Powerloom	343	331	303
Khadi†	49	49	49
Imports	5	5	11
Total supply	8,047	8,100	7,721
Less—exports	739	617	877
Of which:			
Mill cloth	709	587	840
Handloom	30	30	37
Supply available for domestic consumption	7,308	7,483	6,844
Per capita availability (in yards)	18.1	18.8	17.8
Mid-year population (in millions)	402.6	397.5	392.4

† Estimates only.

It will be seen from the above figures that the total supply of cloth available for domestic consumption during 1959 was slightly lower than in 1958, being 7,308 million yards, as against 7,483 million yards; the *per capita* availability was 18.1 yards, as against 18.8 yards.

Despite the rise in the offtake of cloth for domestic consumption as well as for export and the continuously increasing production cost of mills, cloth prices did not, as stated earlier, register any marked increase. The all-India average wholesale price index of cotton manufactures (Base: 1952-53=100) for the week ended 21st November 1959 stood at 116.3, as against 111.2 a year before, representing a rise of just 4.6 per cent. It may be noted here that there was a drop of 4 per cent. in cloth prices in 1958 and 10 per cent. in 1957.

Exports Improve

The year under review witnessed a revival of upward trend in cloth exports. The revival, though it was in keeping with the general improvement in world cotton textile trade, must also be attributed partly to mill-made cotton cloth export promotion scheme which gives incentives to exporting mills in the form of grant of import licences as is outlined below:

Coal-tar dyes and chemicals: The value of import licence is based on 5 per cent. of the exports of cloth to America and Europe and 3 per cent. to all other destinations; exporting houses are given 1 per cent.

Raw cotton: Import entitlements are based on the mills' average export performances in the basic years 1954, 1955 and 1956 to the extent of 66-2/3 per cent. of the excess of over 50 per cent. of the average exports.

Plant, machinery and spare parts: Import licences are granted to mills on the basis of the value of their exports in excess of 75 per cent. of the average of their past performance in the three basic years.

The actual shipments of mill cloth from Bombay Port—this port accounts for more than 90 per cent. of the cloth exported from India—during the first ten months of 1959 were over 549.17 million yards (worth Rs. 36.78 crores), as against 455.84 million yards (Rs. 30.77 crores) in the corresponding period of 1958. The estimate of total exports of cloth from India for the whole of 1959 is 709 million yards, 587 million yards shipped in 1958 but is much lower than the export of 840 million yards in 1957. The rise in exports of grey goods was particularly marked as is indicated below:

(In million yards)

	January—October		1958	1957
	1959	1958		
Grey ..	328.48 (20.13)	255.04 (15.91)	306.14 (19.15)	448.11 (28.59)
White ..	106.89 (7.52)	93.76 (6.51)	111.42 (7.70)	176.91 (12.36)
Coloured ..	113.86 (9.15)	107.04 (8.35)	126.14 (9.86)	171.37 (13.67)
Total ..	549.17 (36.78)	455.84 (30.77)	543.70 (36.80)	796.39 (54.62)
Apparel ..	(0.18)	(0.24)	(0.26)	(0.57)
Other textiles ..	(6.85)	(6.60)	(7.94)	(9.35)

Note: The table gives exports from Bombay Port only. The figures in brackets represent value in crores of rupees.

Of all the varieties of mill cloth sold abroad in 1959, sheetings constituted, as usual, the largest single item, accounting as it did, for more than 47 per cent. of the total shipments. The following table indicates

(Continued on page 220)

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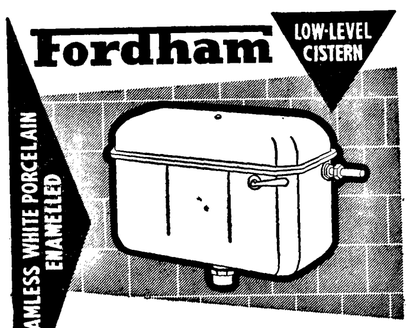

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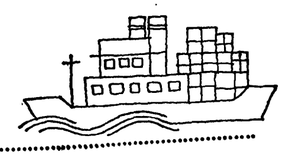

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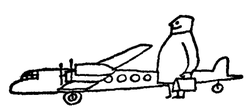

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A GOOD YEAR FOR JUTE INDUSTRY

Offtake Improves Sizably

THE year 1959 is an important milestone in the history of jute industry in India for two reasons. First, it marks the centenary of the first installation of powerlooms in the industry. Secondly, it also marks the twentieth anniversary of the Working Time Agreement of the Indian Jute Mills Association. For two decades now, the industry has reconciled itself to a position of stagnation under this agreement, which requires member-mills of the I.J.M.A. in West Bengal with a registered complement of more than 220 looms to work a 48-hour week with a certain percentage of looms sealed, this percentage varying according to market conditions. The industry has had to accept this position in the belief that the world demand for jute products had reached the point of saturation and it was powerless to influence the demand any more. During these two decades, the Indian industry has not enlarged its size and increased its capacity, in tune with the expansion in economic activity elsewhere. On the contrary, it has chosen to thin down. It has, however, concentrated its attention on improving its strength through modernisation, so that it may effectively face the competition from other manufacturing countries, substitute packaging materials and bulk handling.

It should be said to the credit of the industry that it has, to a large extent, succeeded in its efforts through a judicious working of the Working Time Agreement. Barring a few months in 1956, when the sealed complement of the looms was raised, the mills have almost continuously been working with 12½ per cent. of the looms sealed during the past ten years. It was only in 1959 that the mills have had to resort again to this experiment of reducing the sealed complement of looms to suit the market conditions and to achieve stability in prices. The story of jute industry in 1959 is the story of this successful experiment.

A Paradox

The year reopened on a somewhat subdued note in distinct contrast to the sense of optimism which had prevailed a year before. Rising trend of production, fall in exports and mounting level of stocks were the main features of the industry's position at the beginning of 1959 and these were by no means propitious for the industry. The problem of sacking, the stocks of which had mounted up considerably at the close of 1958, in fact, caused some measure of apprehension. A paradoxical situation also had developed. The industry, the survival of which had at one time been threatened by the acute shortage of raw jute, was burdened with an embarrassing abundance of it. At the end of 1958, the price of Assam Bottoms had sagged to a low of Rs. 20.25, which was lower than the minimum price touched each year since partition, except in April 1953 when it had dipped to Rs. 17 owing to the post-Korean recession. The fall in raw jute values was aggravated further by the sustained decline in prices of jute goods. This slump in raw jute created fears that the cultivators might switch over to other crops, as jute cultivation became unprofitable. The industry was thus faced with the prospect of raw jute supply being affected during the 1959-60 season. This fear has proved correct to some extent, as will be shown presently.

Several steps were taken to avert extreme hardship to jute growers. The I.J.M.A. direction to member-mills to increase their purchases of raw jute to four months' consumption was one of them. The others were the imposition of additional margins by the East India Jute and Hessian Exchange Ltd. and the I.J.M.A.'s minimum price agreement for manufactures. These measures, however, did not succeed to the extent anticipated. It was at this stage, on 8th December 1958 to be precise, that the Government of India announced its decision to export raw jute through the State Trading Corporation. This decision was, however, viewed with some misgivings, as it was thought that it might lead to shortage of supply and push up prices in India. In actual fact, even with this decision it was found difficult to hold the prices of both raw jute and jute goods. There were frequent complaints that several mills were selling their goods even below the minimum levels in an attempt to reduce their stocks.

After considering the pros and cons of the situation, the I.J.M.A. terminated, on 6th February 1959, the minimum price agreement which had been in force since February 1958. This was followed by sealing, with effect from 2nd March, of 1½ per cent. of the looms of member-mills of the I.J.M.A., thus raising the proportion of sealed looms to 14 per cent. This was done with a view to restoring stability to the gunny market by reducing the excessive stocks of heavy goods. The balance of accumulated loom-hours of mills under the Working Time Agreement was also freezed from 14th February. The East India Jute and Hessian Exchange also decided to abolish the whole of additional margins first imposed on 29th September 1958 and enhanced on 20th and 30th December. All these measures, coupled with large-scale orders for jute manufactures from Australia, Burma and a few countries in the Middle East, as also larger orders by the Government of India, changed the complexion of the market.

Unsealing of Looms

Barring the month of April, when jute goods prices showed a tendency to relapse, owing to diversion of business in sacking from Australia and Burma to Pakistan, the rest of the year witnessed a recovery in prices, thanks to the large overseas orders from China, Burma, Indonesia, Indo-China, Australia and Egypt, and good internal demand. Most of the mills had sold forward up to the end of October and in some cases order books extended to January-March 1960. It was, therefore, decided to unseal 1½ per cent. of the looms with effect from 22nd June. This was followed by the unsealing of a further 2½ per cent. of the looms with effect from 24th August, reducing the sealed portion of the looms to 10 per cent. This arrangement is to continue till 2nd January 1960. Thus, during the current year, the industry thrice manipulated the sealed complement of the looms to meet the exigencies of the situation.

The industry's performance during the current year as a whole has been good. While the production of jute goods was a fraction lower, the despatches from mills for both export purposes and internal consumption have been substantially larger, with the result that, at the time of writing, stocks, particularly those of sacking, stand considerably reduced. Though raw jute prices were more favourable for mills than in the previous year and mills had purchased large quantities at low prices early in the year, there was more stability in prices throughout the year. Though the prices of manufactured goods may have been slightly less favourable, on account of the low prices fetched in the earlier months of the year, the margin of profit must have been better than in 1958. Accordingly, the financial results of jute mills for 1959 will make favourable reading when made available to the public. Many investors have already anticipated this encouraging probability, as witness the appreciation of 10 per cent. in the stock market value of jute shares during the past 12 months. In fact, at the time of writing, prices of jute shares are a little below the best levels seen a few weeks earlier. This is due partly to fears of scarcity of raw jute and high prices for the commodity in the 1959-60 jute season, and partly to political developments, such as Chinese aggression.

Production

The production of gunnies during the first ten months of the year amounted to 869,900 tons representing a decline of 8,400 tons from that in the corresponding period of 1958. This is solely accounted for by the fall of 78,200 tons in the output of sacking. The production of hessian has, however, gone up by 51,400 tons and that of "other varieties" by 18,400 tons, as will be seen from Table I.

In view of the improved trend of production since July the output for the whole of 1959 may turn out to be the same as that for 1958, if not a little better.

As stated already, the despatches of goods have so far been encouraging, having gone up from 757,100 tons in the first nine months of 1958 to 808,200 tons in the corresponding period of the current year. If the present pace of despatches is maintained during the rest of the year, the total despatches for the year would probably be the highest in recent years, if not a record since the partition of the country. Of this rise, despatches for export purposes account for 34,800 tons and those for internal consumption for 16,300 tons. On the export front, the trend of despatches would have been far more encouraging but for the decline of 19,900 tons in sacking. The drop in exports of heavy goods has been made good to a large extent by the rise in internal offtake of these varieties, as Table II at the bottom of the second and third columns will show.

The increase in hessian despatches reflects the rise in burlap consumption in the U.S. from 694 million yards in the first ten months of 1958 to 735 million yards in the corresponding period of the current year. The burlap consumption in the U.S. would have been higher still but for the steel strike in the country lasting for 114 days.

The slightly lower production and the increase in despatches have resulted in a considerable reduction of stocks with mills (as at the end of October) to 72,500 tons, the lowest level since November 1957.

Raw Jute Supplies

The improvement in the position of mills during the year under review was due, to some extent, to the favourable supplies of fibre. For the year 1958-59 proved to be a bumper one for raw jute production amounting to 5.18 million bales and mesta to 1.58 million bales, as against 4.05 million bales and 1.29 million bales, respectively, in the 1957-58 season. The area under raw jute was also higher at 1.83 million acres, as against 1.74 million acres, so that the yield per acre showed an improvement from 2.33 bales to 2.89 bales, which was, however, very much less than that (3.93 bales) in Pakistan. The consequent setback in prices was so severe, as pointed out earlier, that it has led to a decline in acreage under jute in the 1959-60 season. This, together with adverse weather conditions, has brought about a reduction in raw jute crop for the current (i.e., 1959-60) season. No official estimate of this season's crop is available yet, but trade circles fear that the decline in crop will be much larger than is believed in official circles. According to one estimate, the current year's crop of raw jute is no more than 4.3 million bales and of mesta 800,000 bales, as against 5.18 million bales and 1.58 million bales in 1958-59. Though this shortfall is expected to be made good by the large carry-over stocks from the previous season, the total supply will still be less than that available in 1958-59 and mills may, therefore, have to pay a higher price for their raw material.

Progress in Modernisation

So far as the manufacturing side is concerned, considerable progress has been made with the programme of modernisation. The rehabilitation of the preparatory and spinning machinery in the mills is said to have reached an advanced stage and is expected to be completed for all practical purposes by the end of the second Five-year Plan. The National Industrial Development Corporation has so far granted loans amounting to Rs. 4.60 crores to 22 jute mills for modernising their machinery. Of this, a sum of Rs. 2.64 crores has been drawn by 15 mills. The N.I.D.C. has also introduced a scheme to provide short-term loans to jute mills to facilitate the purchase of indigenous machinery. Loans up to Rs. 5 lakhs will be granted under this scheme. Progress has also been achieved in the production of special types of jute goods, such as bagging cloth for packing raw cotton, jute carpets, canvas, twine, yarn, etc. The production of these special varieties in 1958-59 (July-June) aggregated 84,600 tons, as against 38,100 tons in 1954-55.

Summing up, it can be stated that the Indian jute industry is better equipped materially than it has been for many years to maintain its important position in India's export trade. Stability of prices is being attained by regulating production to meet the demand. The industry is also in a position to meet any increase in demand that may follow as a result of promotional activities. Of course, there may be variations in offtake from year to year and from country to country due to a variety of causes. But, on the whole, there is reason to view the industry's future with some confidence, provided it is allowed to operate under conditions which will ensure competitive and stable prices.

TABLE I

Production of Jute Goods

(In '000 tons)

	Hessian	Sacking	Others	Total	Jute consumption ('000 bales)
1954	3,88.9	5,06.1	32.7	9,27.7	5,384
1955	4,01.4	5,74.7	51.1	10,27.2	5,981
1956	4,15.2	6,05.5	72.1	10,92.8	6,341
1957	4,14.3	5,48.7	66.9	10,29.9	6,152
1958	4,07.1	5,82.4	72.3	10,61.8	6,145
1959—					
January	40.0	45.2	6.9	92.1	532
February	36.9	39.5	7.2	83.6	490
March	38.1	37.2	8.0	83.3	492
April	38.1	37.9	8.4	84.4	496
May	39.7	37.9	9.2	86.8	500
June	37.8	35.8	9.1	82.7	478
July	40.5	39.9	9.2	89.6	518
August	37.6	41.9	7.4	86.9	502
September	37.5	48.8	6.3	92.6	535
October	36.4	46.0	5.5	87.9	511
Total: Jan.-Oct. 1959	3,82.6	4,10.1	77.2	8,69.9	5,054
Jan.-Oct. 1958	3,31.2	4,88.3	58.8	8,78.3	5,083

TABLE II

Despatches of Gunnies

(In '000 tons)

	Total despatches	For Export Purposes				For Internal Consumption			
		Hessian	Sacking	Others	Total	Hessian	Sacking	Others	Total
1954	950.4	372.9	459.0	8.7	840.6	17.0	77.4	15.4	109.8
1955	1,018.8	376.0	467.0	16.1	849.1	34.9	125.6	21.7	182.2
1956	1,064.9	397.8	420.7	38.0	861.5	21.9	148.4	33.1	203.4
1957	1,048.8	385.0	440.8	38.7	864.5	22.2	135.4	20.7	179.3
1958	1,021.3	396.1	388.2	31.5	815.8	20.8	154.6	29.9	205.5
1959									
January	87.7	37.4	23.6	2.7	63.7	1.8	19.8	2.9	24.0
February	85.5	36.3	25.3	2.6	64.2	1.9	16.3	3.1	21.3
March	86.8	34.3	27.0	3.3	64.6	2.3	17.7	2.3	22.2
April	85.1	33.4	27.5	4.7	65.6	2.0	14.9	3.5	19.5
May	93.4	36.4	29.1	7.3	72.8	1.8	15.7	2.1	19.6
June	86.6	34.2	27.3	8.8	70.3	1.8	13.8	2.3	16.3
July	91.4	36.3	31.4	8.0	76.2	1.4	11.9	1.9	15.2
August	96.2	37.3	40.3	7.0	84.6	1.7	10.2	1.7	13.6
September	94.5	35.3	41.8	4.0	81.1	1.5	10.2	1.7	13.4
Total: Jan.-Sept. ..	808.2	321.4	273.3	48.4	643.1	15.7	129.0	20.4	165.1
Jan.-Sept., 1958.	757.1	290.6	293.2	24.3	608.8	15.4	111.3	22.1	148.8

Disappointing Year For Sugar Consumer

Controls, Again, Over Distribution And Prices

SO far as the consumer of sugar is concerned, the 1958-59 season was rather disappointing, in that it did not appease his appetite for sugar at a reasonable price. In theory, the total available supply of sugar —sugar in this article means only refined white sugar—was no doubt a little more than what was actually required to meet the estimated domestic requirements. Nevertheless, the consumer had to pay high prices, higher than those paid in the previous season. In fact, several parts of the country experienced an acute shortage of supplies and spiralling prices. This was the result of the thin margin between supply and demand. The excess of supply over demand was so small that it was not sufficient to take care of the pipeline requirements.

The blame for all this must lie with the Union Food Ministry, the State Governments, and a section of sugar industrialists and traders. It was the Union Food Ministry which first made the mistake of interfering with the normal market forces of supply and demand by continuing the ex-factory prices of sugar for North India, by delaying monthly releases, by reserving a fairly large part of the season's output for distribution through official agencies and by talking loudly of exporting 100,000 tons of sugar. Further, the Central Government did not take prompt and adequate measures to neutralise the big advantage to producers of brown sugars (*khandsari* and *gur*) arising from the imposition of heavy excise duty on white sugar. On their part, the State Governments, particularly the U.P. Government, failed to take any timely steps to regulate manufacture of brown sugars, with the result that their producers were able to attract a larger supply of cane at the expense of white sugar mills. Some millowners actively supported the official attempts to export sugar through persuasion and compulsion, although they knew that the supply position was not favourable for doing so.

Supply Position

Thanks to the bungling of the Centre and the States thus and adverse weather conditions in some crushing areas, sugar production in 1958-59 suffered a setback, the quantity actually produced being 1,921,000 tons, as against 1,979,000 tons in 1957-58. This, together with the reduced carryover stock of 336,000 tons (as against 435,000 tons), brought the total supply to 2,257,000 tons. Excluding the frozen export quota of 25,000 tons, the quantity available for internal consumption was 2,232,000 tons, which compared very unfavourably with 2,378,000 tons in 1957-58 and 2,409,000 tons in 1956-57. The table below indicates the statistical position of white sugar in the past three seasons:

(In thousand tons)

	1958-59	1957-58	1956-57
Opening stocks ..	336	435	553
Production	1,921	1,979	2,026
Total supplies ..	2,257	2,414	2,579
Exports (net) ..	25*	36	170
Supplies available for domestic consumption.	2,232	2,378	2,409
Sugar presumed to have been actually consumed ..	2,097	2,042	1,974
Per capita consumption (lbs.)	11.8	11.6	11.4
Closing stocks as on 31st October ..	135	336	435

* Frozen export quota. Actual exports are, however, estimated at 19,000 tons.

Considering the tight statistical position of sugar and the all-round increase in commodity prices as a result of inflation, sugar prices, too, naturally tended to rise. Instead of appreciating this position and taking steps to help sugar mills maximise output, the Central Government adopted a negative policy, so that sugar has now become, once again, a commodity subject practically to full-fledged control, from the producer to the consumer, all over the country. The details of controls are pin-pointed below:

Assumption of full powers to requisition the entire sugar production of mills and to allocate the same directly according to the needs of the situation.

Fixation of ex-factory prices and control over prices that can be charged by wholesale dealers to whom direct allocations of sugar are made by the Centre.

Ban on inter-State movement of sugar, except on the basis of export permits issued by the Directorate of Sugar and Vanaspati.

Discontinuance of the free sale release of sugar from factories in Uttar Pradesh, North Bihar and the Punjab, barring a small quantity released to each factory for sale to its employees and allotments of sugar for consumption in other States only to the nominees of the State Governments at the officially stipulated prices.

Sugar Dealers Licensing Orders issued by the State Governments, under which no dealer engaged in sugar business exceeding 137 maunds at a time can carry on business except under and in accordance with the terms and conditions of a licence issued by the licensing authorities.

Imposition of "full control" over sugar distribution throughout Uttar Pradesh; fixation of retail prices and rationing in the Punjab; fixation of ex-mill and retail prices as well as ban on movement of sugar outside the State and regulation of distribution in Greater Bombay in the Bombay State; distribution of sugar at a fixed price in Andhra Pradesh, Madras, Mysore, Kerala and Orissa through a private arrangement by the South Indian Sugar Mills' Association.

Cost Structure Rigid

With all these measures, distribution of practically the entire quantity of sugar produced in India has come under official control. What is worse, the sugar mills have no control over virtually 88 per cent. of the elements that enter into the ex-factory price of sugar. Indeed, cost structure of sugar industry has tended to become very rigid, thanks to the high levels of cane cost, taxes, wages and manufacturing expenses. It is to be hoped that this aspect will be duly considered by the Wage Board for Sugar Industry while formulating its final recommendations. Already, the sugar mills have been paying enhanced wages to their workers drawing up to Rs. 500 per month as consolidated wages with effect from 1st January 1959 in accordance with the Board's interim report. The actual increase varies from Rs. 3 per worker drawing a total monthly wage of less than Rs. 100 to Rs. 9 per worker drawing between Rs. 301 and Rs. 500.

The fall in sugar production during 1958-59 occurred despite the expansion in the production capacity of the sugar industry and the notable improvement in sugarcane crop. During the season, an additional capacity of 164,000 tons went into production—the total capacity being 2.19 million tons—of which eight new mills accounted for over 60,000 tons and expansion of 23 existing units for 104,000 tons. The cane crop actually harvested in the season was markedly higher, being 70.92 million tons, as against 68.02 million tons in 1957-58; the rise in cane output was due entirely to the increase in the average per-acre yield from 13.4 tons to 14.7 tons, for the area sown to the crop was smaller by 244,000 acres at 4,836,000 acres.

Lower Sugar Output—Why?

The improvement in cane production did not, however, result in higher white sugar output for two reasons. First, the quantity of the cane crop harvested was poorer as compared with the previous season in all States excepting Bombay, Madras, Mysore and West Bengal. The all-India average recovery per cent. of sugar in 1958-59 was 9.84, that in 1957-58 being 10.01. Secondly, the diversion of cane supplies to *gur* and *khandsari* manufacture continued to be on a large scale. For *gur* continued to enjoy complete tax advantage over white sugar, while the advantage enjoyed by *khandsari* was Rs. 13 per maund in the first four months of the season (November 1958—February 1959) and Rs. 8.52 with effect from 1st March 1959, when a relatively small excise was applied on it. Moreover, there was a further rise in the prices of these sugar substitutes, the actual extent of the rise over the season being nearly 30 per cent. Consequently, the quantity of cane actually crushed by the sugar mills during the season aggregated no more than 19.52 million tons, as against 19.75 million tons in 1957-58.

Consequent on the reduced cane supplies to factories, the duration of crushing season was shorter, the average number of working days for the country as a whole being 118 during 1958-59 as against 128 in 1957-58. Bihar, Kerala, Mysore and West Bengal, however, had a longer duration. The number of factories that had commenced crushing operations by 30th November 1958 was just 87, as against 105 units on the same date in 1957. The crushing operations did not continue as late as they did in 1957-58. During the month of May 1959, only 37 factories were working, as against 43 in the corresponding month of 1958. The number of factories that worked for 150 days or more was 27, that is eleven less than in 1957-58.

The statement at the foot of the page highlights the main trends in sugar industry during 1958-59 as compared with 1957-58. The statement reveals that sugar output was markedly lower in the States of Uttar Pradesh and Andhra Pradesh. The decline was offset to some extent by a notable rise in production in Bihar. The quantity of sugar produced by the Bombay-Deccan mills was more or less at the previous season's level, though six new factories started crushing.

Cane Prices

Throughout the season under review, the sugar mills were required to pay the same minimum prices for cane as those prevailing during the last six seasons, namely, Re. 1.44 per maund for delivery at the gates of factories and Re. 1.31 for delivery at rail centres. Besides, there was the compulsory (deferred) payment of additional price to cane growers under the Expert Committee's formula linking the cane price to the price of sugar realised by the factories concerned or under the South Indian Sugar Mills' Association formula or any other alternative scheme worked out by the State Government concerned. The additional price was, of course, not payable by the Bombay-Deccan sugar mills as in the previous seasons, in view of the alternative scheme enforced by the State Government in consultation with the Deccan Sugar Factories Association. Under this scheme which was approved by the Centre, the sugar mills had to pay at the rate of Rs. 47 per ton (equivalent to Re. 1.72 per maund) for the cane delivered at the factory site, whereas the all-India minimum price was Rs. 33.29 (Re. 1.37 per maund); the price paid in the previous season was a rupee less. The price of Rs. 47 per ton did not, however, affect any contracts for higher prices entered into between mills and cane growers.

The Government of India, as already stated, was talking loudly of its determination to export 100,000 tons of sugar. An official announcement of the release was actually made towards the close of December 1959. Later on, it was announced that export of only 50,000 tons of sugar would be allowed in the first half of the season (November 1958-April 1959). The quota was subse-

SUGAR AT A GLANCE

States	No. of working factories (Total)		No. of working days (Average)		Cane crushed (Thousand tons)		Sugar production (Thousand tons)		Recovery of sugar (Per cent.)	
	1958-59	1957-58	1958-59	1957-58	1958-59	1957-58	1958-59	1957-58	1958-59	1957-58
Uttar Pradesh	70*	69*	118	124	92,46	94,85	8,88	9,42	9.60	9.93
Bihar	28	28	122	108	31,74	27,70	3,11	2,75	9.79	9.91
Bombay	27	21	115	167	27,99	28,57	3,21	3,20	11.46	11.18
Andhra Pradesh ..	11†	11†	107	139	12,79	15,68	1,20	1,52	9.42	9.71
Madras	5	5	190	172	8,43	7,81	76	68	9.01	8.72
Punjab	6	6	111	124	8,05	8,74	69	82	8.58	9.42
Madhya Pradesh ..	5	5	62	98	2,23	3,47	21	34	9.62	9.77
Mysore	6	6	146	132	8,17	7,12	85	73	10.36	10.28
Rajasthan	2	3	67	95	77	1,52	7	14	9.10	9.37
Kerala	1	1	184	131	1,33	1,01	11	8	9.30	8.31
Orissa	1	1	79	118	30	42	3	4	9.45	9.46
West Bengal	1	1	81	75	70	59	7	6	10.27	9.40
Assam	1	—	42	—	23	—	2	—	7.69	—
All India	164	157‡	118	128	195,19	197,48	19,21	19,78	9.84	10.01

* Includes one experimental factory at National Sugar Institute, Kanpur.
† Nizam I and II factories taken as one unit.
‡ Excludes Vijayalakshmi Factory in Andhra Pradesh which worked for a very short duration.

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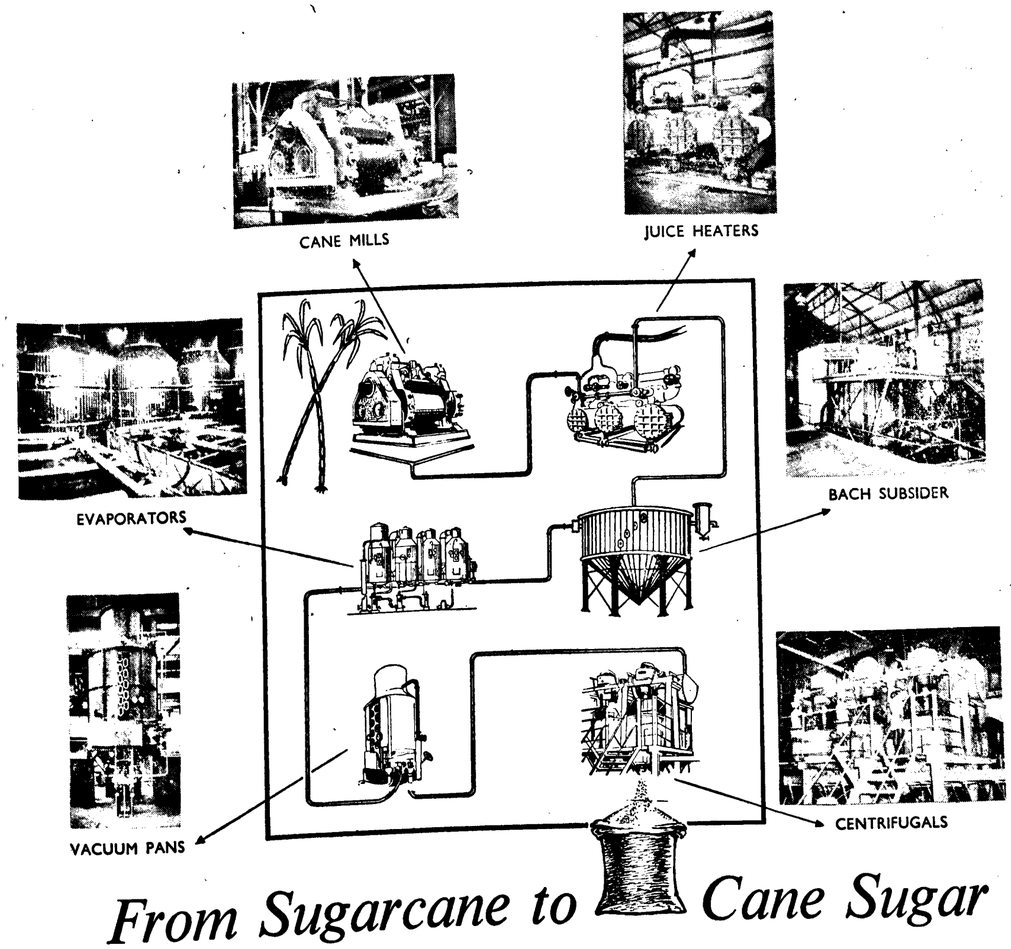

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quently reduced to 25,000 tons and this was applicable for the whole season. Even this reduced quantity could not, in fact, be shipped, as the world sugar markets continued to rule depressed with plenty of stocks going round. The actual exports are estimated at no more than 19,000 tons.

The market prices of sugar generally showed a hardening tendency in a number of centres in the country, for reasons already mentioned. The following table indicates the trend of prices in the Bombay City market before controls were introduced:

(Rs. per bag—wholesale)

	24-6-59	A year before
Before the State Government fixed the prices—		
Medium grain ..	110—121	108—110
Large grain ..	122—129	113—117
	Original price fixed on 30th June 1959	*Revised price with effect from 25-10-59**
Officially fixed prices—		
D-29 grade	110.00	116.06

*Following the imposition of a special excise duty of Rs. 2.52 per cwt. on all opening stocks of sugar held by factories on 25th October 1959 announced by the Union Government on 24th October 1952.

The excise duty on sugar remained unchanged at Rs. 11.25 per cwt., excepting for the aforesaid change in regard to stocks with factories on 25th October 1959. For the first time after so many years, *khandsari* was once again subjected to a basic excise duty of Rs. 5.60 per cwt. with an additional duty of 70 nP in lieu of sales tax—in the Central Government budget for 1959-60 presented on 28th February 1959. The rate was reduced, on 20th April 1959, to Rs. 5.04, the additional duty being lowered to 63 nP; a still lower rate was imposed on *khandsari* produced without the aid of sulphitation plant.

What of 1959-60?

As for the outlook for the 1959-60 season which began on 1st November 1959, there are two factors pointing to the possibility of a higher output. One, the production capacity of the industry is believed to have gone up further by 132,000 tons to 2,330,000 tons (on the basis of 120 working days and 10 per cent. recovery), as a result of seven new sugar mills with a capacity of 72,000 tons commencing operations and eight existing units completing their expansion programmes. Two, the Government of India has adopted what is claimed as an incentive scheme for boosting sugar production. The scheme is as follows:

1. An increase of 12½ per cent. in the minimum price of sugarcane payable by millowners, that is, from Re. 1.44 to Re. 1.62 per maund for delivery at the gate of a factory, and from Re. 1.31 to Re. 1.50 per maund for delivery at the buying centres connected by rail; this price is for the 1959-60 season only.

2. An increase of Re. 1.85 per maund, or a little over 5 per cent., in the ex-factory price of sugar in North India, that is, from Rs. 36 to Rs. 37.85 per maund in U.P. and Bihar and from Rs. 36.50 to Rs. 38.35 per maund in the Punjab; the basic variety is D.29 and the differentials for other varieties will be suitably enhanced. The revised prices came into effect from 25th October and were made applicable for all sugar leaving factories on and after that date. The ex-factory prices for mills in the Deccan and the South were also suitably enhanced with the concurrence of the respective State Governments.

3. A special excise duty of Rs. 2.52 per cwt. on all opening stocks of sugar held by factories on 25th October 1959, as the enhanced prices are meant to apply only to sugar extracted from sugarcane bought at the new prices.

4. A rebate of 50 per cent. of the basic excise duty (now Rs. 11.25 per cwt.) on sugar produced in the 1959-60 season in excess of the average of production in the two preceding seasons. A suitable base will be fixed for factories which do not have a base on these lines.

Despite these favourable factors, it would appear that the next sugar season may not witness an appreciable rise in production. Some even anticipate that the output will be lower than the 1,914,000 tons produced in 1958-59, not to speak of the 1,979,000 tons in 1957-58 and 2,026,200 tons in 1956-57. For the sugar mills may continue to find difficulty in securing adequate cane supplies. The cane growers of Uttar Pradesh have been threatening to stop cane supplies if the price of cane delivered at the gate of a factory is not raised further, from Re. 1.62 to Rs. 2 per maund. A strike call with effect from 10th December 1959 was given by the U.P. Sugarcane Growers *Sangh* early in November last. The diversion of cane supplies from sugar mills to *khandsari* and *gur* manufacture will continue to be on a large scale, especially in the U.P., owing to the relatively high prices commanded by these commodities and the removal of restrictions on export of *khandsari* from this State to any State with effect from 1st October 1959. The size of the sugarcane crop that will be harvested in the 1959-60 season is expected to be smaller than that harvested in 1958-59. It is true that the all-India first estimate of the crop puts the total areas higher at 4.92 million acres, as against the corresponding adjusted estimate of 4.80 million acres. But since the estimate was made in June 1959, several areas have suffered from excessive rains and floods which, it is said, have caused much damage to the sugarcane crop.

The foregoing analysis shows that the possibility of any marked rise in sugar production in the current season is remote. On the contrary, the chances are for a lower production. Nevertheless, it can be said that there will not be any violent fluctuations in prices nor any distinctly hardening tendency, in view of the widespread controls over distribution and prices. Consumers in remote areas, however, will continue to experience hardship in getting their requirements of sugar.

NO NATIONALISATION OF SUGAR INDUSTRY

A categorical statement that the Government of India does not propose to nationalise the sugar industry at present was made by Mr. S. K. Patil, Minister for Food and Agriculture, in Lok Sabha on 3rd December 1959. The Government, he said, do not think that it will add to the resources of the Plan. Mr. Patil pointed out that the present policy of granting licences for the manufacture of sugar to co-operative societies of sugarcane growers would stand for the present. "But," he added, "nothing is final in the world and, if at any time it becomes necessary to revise that decision, surely, it can be done." Speaking earlier, Mr. A. M. Thomas, Deputy Minister for Food and Agriculture, observed that the Government did not consider it necessary or desirable to nationalise the sugar industry. The question which industries should be in the public sector and which should be left in the private sector was examined carefully in framing the Industrial Policy Resolution of 1956. According to that policy, the sugar industry was left to the private sector. The control of sugar industry vested in the Central Government under the Industries (Development and Regulation) Act. He said: "The Government is not aware that the Uttar Pradesh Government is considering any proposal for nationalisation of the sugar industry. All that appears to have been done was that, at the suggestion of one member, it was agreed at a meeting of the Uttar Pradesh Planning Board that the question might be examined by a committee. The committee has, however, not yet been appointed."

A Year Of Unique Experiences To Plantation Industry

Production Of Tea Unchanged, But That Of Coffee And Rubber Higher

THE year which is closing has been a year of unique experiences for the plantation industry of India. Production of the principal crops—tea, coffee and rubber—has been maintained at high levels. Markets on the whole have behaved well and fair prices have been realised. Relations with labour and staff have been cordial. There has been increased recognition in official quarters of the industry's role in India's economy. Proposals for development of the industry during the third Five-year Plan have been under active consideration. In the midst of all these happenings, there have also been instances of difference of opinion between the industry and the Government on several matters of importance. These include, among other things, planning, marketing and propaganda, export policy, taxation policy and labour policy. The industry feels that its considered opinion on these matters have not been given proper attention by Government. It is, therefore, entering the new year with some anxiety about the future.

For the first time in several years, the tea crop is likely to show a small diminution. During the ten months ended October 1959, North-East India produced 490.6 million lbs., as against 486.2 million lbs. during the same period of 1958. Although it shows a slight increase of about 4 million lbs., this is likely to be offset by the smaller production in South India. For the ten months ended October this year, South India produced 130 million lbs., as against 135 million lbs. during the corresponding period of 1958. The all-India tea crop for 1959 is, therefore, likely to be slightly smaller than the 1958 crop, though, with two more months' figures to come in, it is not possible to estimate the exact total just at present.

Exports Slightly Less

Export figures for this year are more or less the same as for last year in the case of North-East Indian tea but smaller for South India. During the ten months ended October 1959, North-East India exported 279.1 million lbs. as compared with 276.3 million lbs. in the same period of 1958. Corresponding figures for South India are 71.00 million lbs. and 85.11 million lbs., respectively. Exports from South India to all the traditional markets have suffered a reduction this year, particularly to the U.K., in respect of which the figure for the first ten months of this year is only 37.15 million lbs., as against 47.58 million lbs. for the same period of last year. Reduced output, competitive world markets and excessive sales tax on tea sold in Cochin are stated to be the main reasons for the reduced exports from South India. The United Kingdom stock of tea on the 4th December 1959 was only 131.5 million lbs., as compared with 171.20 million lbs. on the same date last year. Total imports of Indian tea into the U.K. during the first nine months of 1959 amounted to 170.2 million lbs. only, as compared with 202.9 million lbs. during the same period of 1958. But it is also significant that U.K.'s total imports of tea from all countries came down from 395.2 million lbs. for the above-said period of 1958 to 343.8 million lbs. for the corresponding period of 1959.

The price of export teas has on the whole been satisfactory. In London, the average price realised by North-East Indian teas during the week ended 13th November 1959 was 5s. 0.91d. a lb. and that by South Indian teas 4s. 2.79d. Comparative figures for the same week of last year were 4s. 8.56d. and 3s. 5.17d., respectively. The average price realised by North-East Indian teas in London over the period of January-November 1959 was 4s. 10.14d., as against that by South India of 3s. 7.60d. Quality teas, as usual, commanded a premium. Internal prices also showed some improvement over 1958. The estimate of internal consumption this year has been placed at not less than 250 million lbs.

World Surplus Nominal

Although it is widely believed that world supplies are currently in excess of world demand, there have been no authoritative statements to this effect supported by figures, due to lack of information from some of the smaller producing countries. Nevertheless, the reduced quantum of exports from all the major producing countries in the face of intense competition and the availability of a widely selective range of tea in the producing markets could be taken as indicating the existence of a world surplus. Efforts to renew the International Tea Agreement either on a full scale or on a reduced scale with only India and Ceylon participating in the first instance have failed, and the Government of India do not seem to be interested in any such agreement at the present time. Indeed, this appears to be the attitude of all the producing countries and no country seems really keen on restriction.

Propaganda

The question of tea propaganda in India and abroad received particular attention this year, but here the Government and the tea industry did not seem to agree with each other. So far as propaganda in foreign markets is concerned, India has certainly suffered by withdrawing herself from the International Tea Market Expansion Board some years ago, and this has helped Ceylon very greatly. In several important markets of the world today, India has practically no propaganda machinery in working and these include the United Kingdom, India's principal market. While this unfortunate situation continues, it was with some surprise that one heard the official view that internal propaganda is not so important now in view of the need for maximising exports. The industry has pointed out that this view overlooks two important facts: first, that year after year the rise in internal consumption has been more than balanced by the rise in production, and second, an expanding home market is absolutely essential as a cover against uncertain world markets. From this point of view, it is regrettable that the Government of India should attempt to curtail internal propaganda as they apparently intend to do, judging from the reduced budget of the Tea Board this year.

Efforts to secure further improvements in the quality of tea production and the elimination of adulterated and waste teas were a special feature this year. The Tea Waste Control Order promulgated in March this year prohibits the export, sale, purchase or holding in stock of tea waste except in accordance with the terms and conditions of a licence granted under the Order. It also prohibits the disposal of tea waste except under certain prescribed conditions. The industry has expressed acceptance of the scheme, with a view to eliminating very inferior and adulterated teas, the sale of which ruins the malket during a period of intensive production and keen competition.

Heavy Fiscal Burdens

The tea industry continues to bear very heavy fiscal burdens. Reliefs granted by way of a readjustment of excise duty on a zonal basis and some reduction in export duty did not have any material effect either on the internal market or on the export trade, and the industry continued to appeal for further reliefs. In certain areas of North-East India like Cachar, the tea gardens were in serious economic distress and the Government announced subsidies in fertiliser prices and transport charges as a measure of relief. The West Bengal entry tax and Assam octroi duty continued to be levied in spite of the industry's strong protest. This tax is driving trade away from Calcutta. There has already been a rapid growth in the sale of tea direct from producing estates to upcountry buyers. A considerable quantity of tea is also being despatched direct from the tea areas to Bombay for shipment thence to the West Asian countries. In South India, the Kerala State continued to levy a heavy impost of 5 per cent. sales tax on all teas sold at the Cochin auctions, relief being available only to producers who could export their teas directly out of India. The effect of this excessive levy was to divert a considerable portion of the sale of South Indian tea from the Cochin auctions, which seriously affected the trade at this port. In view of the heavy weight of Central taxation already imposed on tea and the levy of agricultural income-tax by the States concerned, there is little justification to continue the minor State levies of the type of the Bengal entry tax and Kerala sales tax and these should be withdrawn. Representations made by producers to the Government on this subject have so far failed to achieve success.

It is encouraging that the difficulties suffered by the growers in the matter of seasonal finance and finance for capital improvement and modernisation are beginning to be understood and schemes have been devised for providing loans for working capital, replanting, hire purchase of tea garden machinery and so on. These schemes are awaiting approval by Government but one of the main drawbacks is the question of providing guarantees. The conditions laid down are so onerous that very few gardens could really comply with them in order to avail themselves of the facilities offered.

Working Group

The Working Group appointed by the Central Government to study the scope for expansion and development of the industry during the period of the third Plan has been discussing the matter and final decisions are expected to be taken shortly. On the basis of the trend of world production and consumption, the Group is believed to have taken the Indian production requirement at between 800 and 900 million lbs. in the final year of the third Plan. There are, of course, numerous imponderables in this study, particularly the trend of production in other producing countries during the same period.

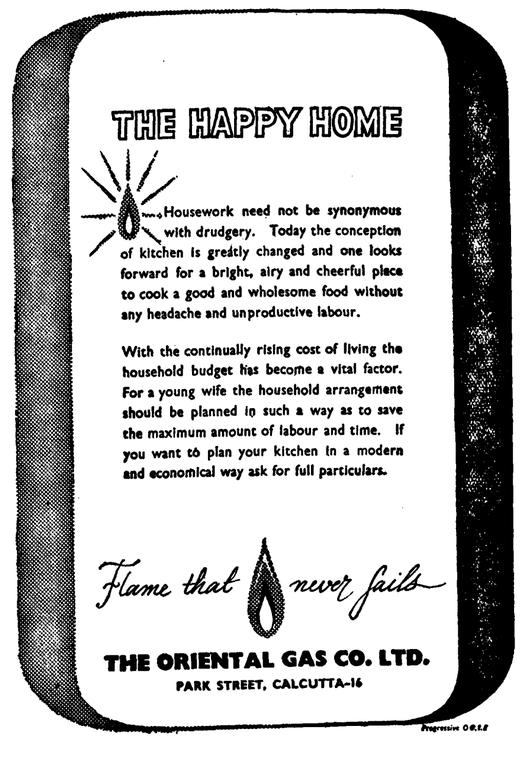
Coffee Production

The coffee crop again reached a new high level this year. Receipts of the 1958-59 crop up to the end of November this year amounted to 46,200 tons, as compared with 44,046 tons of 1957-58 crop received by the same time last year. A significant feature of the 1958-59 crop was that the 'Plantation' variety accounted for 17,822 tons only, as against 21,492 tons in the previous year, whereas the *Robusta* variety amounted to 20,913 tons as against 14,557 tons in the previous year. This reduction in the available quantity of the plantation variety was incidentally responsible for the spurt in coffee prices which occurred in the middle of this year. Releases from the Coffee Pool to the internal market during the first eleven months of 1959 amounted to 27,640 tons, representing an increase of 11 per cent. over the total release during the corresponding period of last year. This is an indication of the rapidity with which internal consumption has been rising.

Despite the increase in internal consumption, there is a large surplus available for export. By the end of November this year, a total quantity of 15,047 tons was sold for export against the year's export allocation of 17,000 tons. World prices have continued to fall with the greater accumulation of world stocks and our coffee industry is likely to experience difficulties in the disposal of its surplus in world markets at reasonable prices. A further implication here is that it might no longer be possible to subsidise internal prices by the premium on export prices, in the absence of any premium, with the result that some rise in internal price would be inevitable.

The overall average prices secured in the Pool sales during 1959 were Rs. 223.09 per 50 kilos of Plantation A, Rs. 184.03 of *Arabica* cherry flats and Rs. 151.25 of *Robusta* cherry flats. Average prices realised in export sales held on the 6th November 1959 for the same varieties were Rs. 210.53, Rs. 211.34 and Rs. 125.53, respectively.

The rate at which Indian coffee production has been rising in the past ten years shows that the industry will soon face a situation wherein it will have to use every device possible to increase internal consumption and exports. Whereas in 1950 the export was a mere 3,000 tons, this year it has amounted to nearly 17,000 tons and the figure may be doubled in the next five or six years. Internal consumption also is expected to rise similarly, but total production is still likely to exceed the total of internal consumption and exports. Incidentally, the high production is an indication of the state of good health of the coffee plantations and it disproves the allegation of the Plantation Inquiry Commission that a considerable portion of the planted areas is over-aged and needs regeneration.



The Expert Committee on Marketing appointed last year has submitted its report to the Government but this has not been published so far. The industry made several important suggestions to the Expert Committee, including the setting up of a Central Marketing Organisation as well as a Marketing and Promotional body, independent of the present Statutory Board, to deal with marketing and propaganda. Suggestions were also made for the elimination of close-bid auction and tender system and for sale by open auction as in the case of tea, the extension of curing facilities and the provision of incentives for quality production.

Rules for licensing of new planting and replanting of coffee have been circulated in draft form but have not so far been finalised. The industry has pointed out that while there may be a need for restriction on new planting to prevent production outstripping demand, the proposed control over re-planting and infilling of planted areas would be detrimental to the proper maintenance of the existing estates.

While coffee continued to be subject to agricultural income-tax by State Governments, attempts were made during the year to assess the notional value of coffee tendered to the Coffee Board's Pool to wealth tax. The assessment is being contested on the ground that the income is agricultural in character and outside the scope of wealth tax.

Rubber Crop

The rubber crop this year is expected to amount to at least a thousand tons over last year's crop of 24,348 tons. The schedule of prices fixed in 1955 continues to be in force, but the Tariff Commission is presently engaged in an inquiry into cost and price of rubber. World price which in 1958 was well below the Indian controlled price started rising from January this year and in March it had gone ahead of the Indian price by Rs. 12 per 100 lbs. There have been further large increases in world price since then, reaching the level of Rs. 218 per 100 lbs. in October, as compared to the Indian controlled price of Rs. 149.50 (excluding cess), representing a difference of Rs. 68.50. Thus, whereas the Indian controlled price was intended to be a protected price for Indian producers, this price has in fact been of greater advantage to the manufacturers of rubber goods than to the producers of rubber.

The Tariff Commission has issued a questionnaire to individual producers as well as to associations of producers and the inquiry is likely to be completed within the next two months. Some of the main grounds upon which the producers may base their claim for an increased price are: the rise in taxation in Kerala—which produces over 95 per cent. of Indian rubber—which has reduced the element for rehabilitation and the margin of profit, increase in salaries and wages and provident fund contributions for workers, increase in cost of supplies and services, heavy expenditure on welfare and amenities to workers, and the inadequacy in the previous costing of return on investment which was calculated on the capitalised value of Rs. 1,200 per acre, while the present figure should be at least Rs. 2,000.

Rubber Development

The Working Group appointed by the Government to inquire into the scope for development of the rubber planting industry during the period of the third Five-year Plan has been engaged in a thorough study of the trend of increased production and the requirements of the rubber goods manufacturing industry during this period and beyond it. It estimates the consumption of rubber at 74,400 tons, 134,000 tons and 227,500 tons respectively for the years 1965, 1970 and 1975. The quantities of natural rubber included in these figures are 64,400 tons, 99,800 tons and 150,000 tons, respectively, for the three years mentioned. It would be impossible for the natural rubber industry to reach the high targets, unless the rate of production is stepped up very considerably and it is here that the Government should come forward with all the assistance at its command. While the area planted under rubber has increased from 173,000 acres in 1952 to 286,500 acres in 1958, further increases in acreage under new planting and replanting as well as increases in the unit production per acre are vitally necessary. The Rubber Board is giving assistance in the way of replanting subsidies, technical advice and distribution of high yielding clonal seeds, particularly to small growers. To this should be added an adequate rate of new planting subsidies, an incentive price to stimulate interest in rubber production, allotment of suitable land for growing rubber, a reduction in the tax burden, facilities to obtain timely and adequate supplies required by the plantations, and complete exemption from Land Reforms proposals in the States where rubber is largely grown. Improvements in yield will be achieved by facilitating the use of high-yielding seeds and by consolidation of units in order to achieve a higher standard of management efficiency.

The Kerala Agrarian Relations Bill as passed by the State Assembly is a measure that is certain to hamper the production of rubber in that State. If production is to go on unhampered, suitable provisions should be made in the Bill to give complete exemption not only to lands planted with rubber but also to lands held in reserve by plantations for future expansion.

Minor plantation crops like cardamom and pepper have on the whole passed through a good year in respect to both production and prices.

Taxation

In a review of the general problems affecting all the plantation crops, one should not overlook the most important problem, namely, taxation. This year the Government has shown increasing interest in the economic condition of the plantation industry, but, nevertheless, it has done little to reduce the heavy weight of taxation on this industry. This is a matter that requires particular consideration in the light of the programmes that have been drawn up for development of the industry for which a considerable amount of new capital would have to be found. As the tea, coffee and rubber plantations are under Central control, the Centre should also advise the State Government to relax the tax burden at State levels, in order not to hamper the gradual development of the industry.

The Commodity Boards for Tea, Coffee and Rubber have continued to do useful work. Their role in the future would not be confined to "keeping a watch" but to assisting effectively in the implementation of developmental programmes. This has been indicated in some of the programmes that were drawn up this year and mentioned in the foregoing paragraphs. The Tea Board is due to be reconstituted early next year.

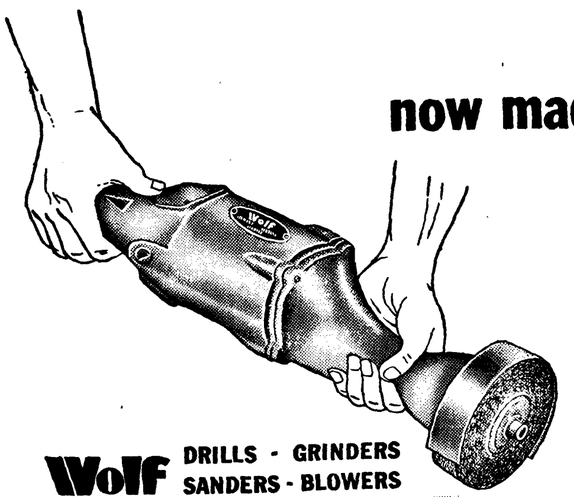
Labour has on the whole been peaceful this year. There has been a general appreciation on the part of union leaders of the value of direct negotiations and the futility of strikes and demonstrations. The appointment of a Wage Board for the plantation industry has been decided upon at the last session of the Industrial Committee on Plantations. To what extent this would help to bring contentment to labour and to improve employer-labour relations remains to be seen. Owing to wide disparities in conditions of work and life in the plantations of North-East India and those of South India and as between different zones in each of these regions themselves, the Wage Board is likely to have a tough job, notwithstanding the decision to set up separate wings for the North and the South.

The plantation industry has also accepted the Code of Discipline for industries. There is, however, considerable misgiving regarding the effectiveness of the Code as an instrument for improved employer-labour relations in the peculiar circumstances under which the plantation industry is placed and developments will, therefore, be watched with interest.—*All Rights Reserved.*

SMALL SAVINGS COLLECTIONS

The net collections in small savings scheme for 1958-59 amounted to Rs. 79.70 crores. In 1957-58 and 1956-57, the net collections were Rs. 70.75 crores and Rs. 61.64 crores, respectively, according to Mr. Morarji Desai, Union Finance Minister. The provisional figures for the period from April to October 1959, were Rs. 31.64 crores.

In 1958-59, the net collections under the scheme were the highest in Bombay (Rs. 23.78 crores), followed by West Bengal (Rs. 10.46 crores) and Uttar Pradesh (Rs. 9.30 crores). In 1957-58 also, Bombay led with a net collection of Rs. 15.51 crores, followed by Uttar Pradesh (Rs. 10.39 crores) and West Bengal (Rs. 8.73 crores). Net collections were also the highest in Bombay in 1956-57 (Rs. 16.24 crores), followed by Uttar Pradesh (Rs. 9.43 crores) and Punjab (Rs. 8.03 crores). From April to October 1959, Bombay again led with net collections amounting to Rs. 12.10 crores, followed by West Bengal (Rs. 5.77 crores) and Bihar (Rs. 4.19 crores).



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Agricultural Production Increases

Prices Of Foodgrains, However, Higher

In the field of production, Indian agriculture has given a good account of itself in the crop year 1958-59, a trend similar to world agricultural production. Foodgrains, which had suffered a serious setback in 1957-58, staged a smart recovery in the year under review, with their total output estimated at 73.50 million tons—an all-time record. Both rice and wheat, India's major cereals, rose to a peak of 29.72 million tons and 9.69 million tons, respectively. The cash crops also made a significant headway. The increase in production had, however, been of little consolation to consumers. For prices of most of them, particularly foodgrains, rose, leading to a paradoxical situation. The wave of popular indignation against the rise in prices of food and discontentment over official policy was reflected in a stormy debate on food situation in the last summer session of Parliament, which resulted in the exist of the then Union Minister for Food and Agriculture, Mr. A. P. Jain. Another landmark was the Government's acceptance of two major policy measures, one on State trading in foodgrains and the other on co-operative joint farming which are not only revolutionary in content but far-reaching in their impact on the institutional set-up. Both the policies have led to a lot of controversy in the country and accelerated the birth of a new political party of rightist persuasion, namely, the Swatantra Party. Even in the ranks of the Congress Party, there is no unanimity of opinion on them.

Table I gives the indices of agricultural production (Base: 1949-50=100) since 1951-52, the first year of the first Plan. The index number of total production of all commodities based on final estimates stands at the record figure of 131, an increase of 35 per cent. over 1951-52. Foodgrains index improved by as much as 40 per cent. to 128.2. Index of non-foodgrains also rose, but at a slower pace, by less than 25 per cent. to 136.6. In absolute terms, the total output of foodgrains in 1958-59, at 73.5 million tons, was higher by 11 million tons, as compared with 1957-58, when production was adversely affected by unfavourable weather and by 5.75 million tons over the previous record of 68.75 million tons touched in 1956-57, as shown in Table II on this page. As compared with the base year of the second Plan, that is, 1955-56, it was higher by 7.5 million tons (or 13 per cent.), which compares a little unfavourably with the five-year target of additional production of 15.5 million tons. On this basis, the increase should have been at least 9.3 million tons.

Rice Production

Among foodgrains, rice is by far the most important commodity, consisting as it does of about 40 per cent. of their total output. The production of rice, which had fallen from 27 million tons in 1955-56 to 24.89 million tons in 1957-58, rose to 29.72 million tons—a record figure. The rise in output was brought about, mainly through increased acreage and favourable weather conditions. Regionwise, there was marked improvement in Bihar, Bombay and U.P., while a decline occurred only in W. Bengal since its autumn crop was affected by inadequate rainfall during the early part of the season. The other *kharif* cereals and millets also rose significantly—barring maize the output of which declined slightly, owing to crop damages caused by excessive late rains towards the end of September and in the beginning of October 1958 in parts of the Punjab, U.P. and Andhra Pradesh. The production of *jowar* rose by 440,000 tons to 8.69 million tons, and that of *bajra* by 270,000 tons to 3.79 million tons. The production of other millets went up by 390,000 tons to 6.76 million tons. In the case of *rabi* cereals, too, the position was bright. Wheat touched a peak of 9.69 million tons, as against 7.74 million tons in the previous year and 8.62 million tons in 1955-56. The output of barley was higher by 410,000 tons at 2.64 million tons. Among pulses, gram attained its highest mark at 6.83 million tons, as compared with 4.98 million tons in the previous year. The other pulses also fared better by 850,000 tons to 5.38 million tons.

The commercial crops also contributed to the expansion in the total agricultural production. In particular, jute (excluding mesta) set up a new record at 5.2 million bales, which compares very favourably with 4.1 million bales and 4.2 million bales in 1957-58 and 1955-56, respectively. This is by no means an insignificant achievement, considering the fact that the annual production of jute in this country was no more than 1.7 million bales soon after Partition. If this rate of expansion is maintained, the target for the production of jute envisaged in the second Plan at 5.5 million bales is likely to be over-fulfilled. The production of cotton, however, was just maintained at the last year's level of 4.7 million bales, which was higher by 12 per cent., as compared with 1955-56. The trend in the production of cotton, which feeds India's major industry, causes some concern, for there is yet a long way to cover to attain by 1960-61 the second Plan target of 6.5 million bales. In the case of sugarcane, the production (in terms of *gur*) went up to 7.2 million tons, as compared with 6.9 million tons in the previous year, and 6 million tons in 1955-56. Sugarcane cultivation has gone on satisfactorily, judged by the targets for 1960-61 placed at 7.8 million tons. Oilseeds production improved by 13 per cent. over the year to 6.9 million tons. The production of groundnut had maintained almost a continuous upward trend since 1955-56. Sesamum had more than recovered from the setback it received in 1957-58. The output of castorseed was almost static. The rapeseed and mustard crop showed an improvement from the slight decline in the previous year (that is, 1957-58).

Much of the credit for the impressive increase in agricultural production goes to the 1958 monsoon which was generally satisfactory over large parts of the country. Indian agriculture continues to be a gamble in the monsoon, inasmuch as only 24 per cent. of the net sown area in the country has an assured rainfall (of 45 inches and above per year) and only about 18 per cent. is provided with irrigation facilities. There is, however, no denying the fact that the various developmental activities—both in respect of extensive and intensive methods of cultivation—must have partially contributed to the uptrend in production. In spite of year-to-year fluctuations, there are definite signs of a steady expansion in agricultural production, which must be attributed to the various measures of development undertaken in the rural sector. It was in 1953-54 that foodgrains production witnessed a substantial spurt "and the country crossed marking, so to say, the dividing line between an average level of production of about 53 million tons (for the three years ended 1952-53) to a level of production which in no year since then has fallen below 62.5 million tons (in 1957-58)." Against an average annual production of about 51.5 million tons in the previous six years and an annual peak of 54 million tons, production in 1952-53 exceeded 58 million tons, rose to over 68 million tons in the succeeding year and kept up a range of 65 to 69 million tons in the subsequent three years. In fact, it is argued that, but for the developmental measures, the unusually bad weather in 1957-58 would have pushed down the total production well below 62 million tons.

A wide range of developmental measures are being undertaken in the rural sector, such as provision of irrigation, fertilisers, manures, improved seeds and credit, besides improved cultural practices. The only point of criticism to be made here is that the progress in this direction is pitifully slow and very inadequate, only the fringe of the problem having been touched.

Improved Practices

The improved agricultural practices are expected to secure about 2.5 million tons of foodgrains, or over 15 per cent. of the additional production, in the second Plan. Under these programmes, it is expected to increase the area covered by the Japanese method of paddy cultivation from about 2 million acres in 1955-56 to 8 million acres by 1960-61. In 1956-57, 2.4 million acres were brought under this method in different States. The coverage increased to 4 million acres in 1957-58. The target for 1958-59 was 5 million acres. A new feature of development programmes in the year under review was the adoption of special intensive production campaigns. An intensive *rabi* production campaign was launched in 1958 in Andhra Pradesh, Bihar, Bombay, Madhya Pradesh, Mysore, Punjab, Rajasthan, U.P. and Delhi for mobilising and co-ordinating all available resources and agencies in the region concerned in the task of raising the production of four major food crops, namely, wheat, barley, gram and *jowar*. The main emphasis was placed on non-official participation and creation of enthusiasm among the farmers, while the Government agencies were mainly to provide technical guidance and assistance in ensuring timely supplies of wherewithal of production. Attention was particularly given to a few selected items of work, such as timely supply of improved seeds and fertilisers, treatment of seeds against seedborne diseases, provision of irrigation facilities, supply of improved implements, and credit. Further, there has been steady progress with provision of agricultural credit and marketing facilities during the year under review.

Prices of agricultural products, as already mentioned, continued to go up. The index number of wholesale prices of agricultural commodities rose to 114, from 107.4 in 1957-58 and 104.5 in 1956-57. The rise in prices of foodgrains was more pronounced than that of non-foodgrains. The index number of wholesale price of cereals, which had gone up from 96 in 1956-57 to 101 in 1957-58, went up still further to 107 in 1958-59. Similarly, price index of pulses increased from 81 to 82 and to 104. In contrast to this trend, the group index number of industrial raw materials was lower at 115.6, as against 116.5 in 1957-58 and 116 in 1956-57. But the index for oilseeds, however, was higher by 7 points at 127.

There are several reasons for the failure of increased production to check the spurt in prices. The increase in the absolute level of production has not been accompanied by a corresponding increase in the marketable surplus. Obviously, the holding power of farmers has gone up. Nowadays, farmers are well informed of market conditions and are in a position to influence prices by withholding a part of the crop during the harvesting season. So far as foodgrains are concerned, an additional factor that induces farmers to keep back a larger part of the crop than in the past is the desire to ensure themselves against crop failures in the following season. Demand for both industrial raw materials and food has been growing, as a result of a progressive rise in development expenditure. After the slump in 1957-58, world markets for raw materials began to improve, especially in the latter half of 1959. This, too, had an effect on agricultural price levels in India. Then, there is the fact that the population of this country has also been going up by about 2 per cent. every year.

Outlook

It is rather doubtful whether the rate of growth in agriculture witnessed in 1958-59 will be maintained during the current year, that is, 1959-60. It is quite early to forecast the level of production for any crop with any degree of accuracy. But all available indications are that at best the total agricultural production may only be maintained, though there may be setbacks in some individual crops. Although the general rainfall during the 1959 monsoon (June to September) was satisfactory, there were widespread floods and excessive rains towards the close of the season, causing considerable damage to standing crops in several parts of the country. Reports received from the different States suggest that production of rice will not be far short of that of last year. But for the floods in West Bengal and some districts of Orissa and drought in eastern U.P., the rice crop would have certainly been better than in 1958-59. The damage caused by natural calamities is likely to be offset, at least in part, by increased production elsewhere. Besides, the total area under rice has registered an improvement, particularly in W. Bengal. The earlier floods in Kashmir and Assam are believed to have actually helped the farmer. Even in the areas of late floods, such as W. Bengal and Gujarat, the beneficial effects of flooding are being exploited by sowing gram for which seed has been supplied from the Punjab. These efforts are likely to be felt at the time of the *rabi* crop which will gain substantially from the silt left behind by the receding waters. While some States will turn out less, Andhra Pradesh, the Punjab and Rajasthan are expected to do better than last year. Madhya Pradesh, Madras and Orissa will come up to last year's level. The other cereals and pulses are also expected to experience more or less the same trend as rice. It is, however, generally felt that the aggregate size of food crop will be slightly less than the 73.5 million tons in 1958-59. As for the commercial crops, production of both cotton and jute are perceptibly lower, due to unfavourable weather. The output of oilseeds is a little better, but still not sufficient to meet the domestic demand and export needs. The sugarcane crop is more or the less the same as last year; if anything, it may be a shade smaller. On the whole, the prospects are that, in the 1959-60 crop year, agriculture will contribute little or nothing to the increase in national production which everyone is anxious to secure.

TABLE-I

Index Numbers of Agricultural Production

(1949-50=100)

Group	Weight	1951-52	1953-54	1956-57	1957-58	1958-59
Kharif cereals	47.8	90.4	120.0	116.0	107.8	124.6
Rabi cereals	10.5	15.1	120.6	137.7	112.4	139.5
All cereals	58.3	91.2	120.1	119.9	108.6	127.3
Pulses	8.6	90.3	112.0	124.5	104.2	134.1
All foodgrains	66.9	91.1	119.1	120.5	108.0	128.2
Oilseeds	9.9	97.3	103.7	118.9	113.8	131.5
Fibres	4.5	128.3	132.1	171.4	165.6	179.0
Plantation crops	3.6	109.4	104.0	118.9	121.3	126.6
Miscellaneous crops	15.1	114.0	97.4	127.5	127.2	129.7
Non-foodgrains	33.1	110.5	104.7	130.0	127.8	136.6
All commodities	100.0	97.5	114.3	123.6	114.6	131.0

TABLE II

Area and Production of Crops

Crop	Area (in million acres)			Production (in million tons)		
	1956-57	1957-58 (a)	1958-59 (b)	1956-57	1957-58 (a)	1958-59 (b)
Rice (cleaned)	70.3	79.4	81.6	29.28	24.89	29.72
Wheat	33.6	29.3	31.0	9.31	7.74	9.69
Jowar	40.4	42.2	42.6	7.25	8.25	8.69
Bajra	27.9	27.2	27.0	2.89	3.52	3.79
Other millets	27.3	27.5	28.3	6.69	6.37	6.76
Barley	8.7	7.5	8.2	2.83	2.22	2.64
Gram	24.3	22.8	24.3	6.28	4.98	6.83
Other pulses	24.0	22.7	24.2	5.24	4.55	5.38
Total foodgrains	275.5	268.6	278.6	68.75	62.51	73.50
Potatoes	0.7	0.8	0.6	1.70	1.98	2.00(e)
Sugarcane (d)	5.1	5.1	4.6	67.00	68.02	70.92
Tobacco	1.0	0.9	0.9	0.29	0.24	0.28
Chillies (dry)	1.5	1.6	1.5	0.34	0.36	0.33
Pepper (black)	0.3	0.3	0.3	0.04	0.04	0.04
Ginger (dry)						
Groundnut (in shell)	13.5	14.9	14.5	4.20	4.44	4.82
Other major oilseeds	17.3	15.4	16.5	1.96	1.61	2.10
Cotton (lint)	19.9	20.0	19.8	0.88	0.88	0.88
Jute (dry fibre)	1.9	1.7	1.8	0.76	0.72	0.92
Mesta (dry fibre)	0.7	0.8	0.9	0.26	0.23	0.28
Total crops (other than foodgrain and plantation crops) (c)	61.9	61.5	61.6	77.40	78.47	82.49
Grand total for agriculture	337.4	330.1	340.2	146.15	140.98	155.99

(a) Partially revised estimates. (b) Final estimates subject to revision. (c) Estimate assumed. (d) In terms of cane. (e) Although sugarcane, chillies, etc., are foodcrops they are treated here as commercial crops because they are not foodgrain crops.

Overall Rise in Industrial Output

Steel Projects Beginning to Yield Results

THE pace of industrial production, which slowed down in 1958, recorded some notable recovery in 1959, thanks mainly to the coming into operation of new capacity that was being created in the previous years, the slightly better availability of certain raw materials and ability of industrial managements to better adapt themselves to the continuing difficulties arising from shortage of imported stores, raw materials and equipment. In restrospect, the most outstanding developments of the year are the progress made by the three State-owned steel plants, the establishment of new capacity in a few industries and the wider awareness of the importance of productivity. The year was also distinguished by the animated discussions on the shape of the third Five-year Plan to come, which as now generally envisaged, will imply on outlay of Rs. 10,000 crores and lay greater emphasis on heavy and machinery-manufacturing industries.

National Income

It is gratifying to note that the setback in overall national income, which took place in 1957-58, is not shared by the industrial sector. Thus, although national income (at 1948-49 prices) declined from Rs. 11,000 crores in 1956-57 to Rs. 10,830 crores in 1957-58, the contribution made by mining, manufacturing and small enterprises increased from Rs. 1,840 crores to Rs. 1,880 crores; the decline in overall national income was largely due to the fall in agricultral income which receded from Rs. 5,250 crores in 1956-57 to Rs. 4,930 crores in 1957-58. The value of industrial production is available only for 1956. In that year, according to the Census of Manufactures conducted under the Industrial Statistics Act, the total exfactory value of products and by-products in 29 scheduled industries was Rs. 1,614 crores; the value added by manufacture, which is arrived at by making allowance for value of raw materials and depreciation, was Rs. 468.7 crores. The number of industrial workers in India is now a little over three million. The average *per capita* annual earnings of industrial workers increased from Rs. 1,186 in 1956 to Rs. 1,234 in 1957, which, it may be noted, is much higher than the overall *per capita* income, estimated at Rs. 275.

The progress of expenditure relating to industrial development in the public sector under the second Five-year Plan is satisfactory. Indeed, it is ahead of the target. It may be recalled that, last year, the allocations for the year 1959-60 were reviewed, following the decision of the National Development Council that efforts should be made to ensure that the total outlay for the second Plan does not fall below Rs. 4,500 crores. Out of this total, the share of industries and minerals was revised to Rs. 790 crores and of village and small industries to Rs. 160 crores; the total of expenditure on these two sectors for the four years ending 31st March 1960 is placed at Rs. 725 crores and Rs. 146 crores respectively (91 per cent. in each case of the respective provision for the period of the entire Plan). This estimate is based on actuals of expenditure for the first two years of the Plan (1956-57 and 1957-58), revised estimate for 1958-59 and budget estimate for 1959-60. It may be mentioned here that the total outlay in the four-year period is expected to be of the order of Rs. 3,660 crores or only 81.3 per cent of the total outlay on the Plan. It will thus be seen that the progress of expenditure on industrial development is ahead of the overall rate of progress of the Plan, taken as a whole.

Production

To turn now to trends in industrial production. The index number of industrial production (base: 1951=100) was well above the average for 1958. Thus, as against the average of 139.7 for 1958, the index number touched a high of 151.9 in January 1959. Since then, it has fluctuated at lower levels. It was 144.6 in February, 145.1 in March, 144.5 in April and 142.2 in May. But it is noteworthy that the pace of industrial production as stated at the outset, has regained the loss it sustained in 1958. Between 1956 and 1957, the average index number of industrial production moved up from 132.6 to 137.3 or by nearly 4 points, whereas between 1957 and 1958, it gained only a little over 2 points to 139.7. The average of the index number for the first six months of 1959 was as high as 146.2, an increase of 6.5 points, as compared with the whole of 1958.

The following table shows at a glance the trend of increase in industrial production since 1952:

	Per cent.
1952	3.6
1953	1.9
1954	6.9
1955	8.4
1956	8.3
1957	3.5
1958	1.7
1959 (half-yearly) ...	5.1

The aforesaid figures relate to development both in the public and private sectors.

Prices

A notable feature of the increase in industrial production is that it has been achieved without any large increase in the prices of manufactured articles. Thus, whereas the index number of wholesale prices of all commodities (base: 1952-53=100) increased from 108.4 in 1957-58 to 112.9 in 1958-59 (or by over four points), the index number of prices of manufactures increased during this period from 108.1 to 108.3 or by 0.2 point only. As the year 1959 progressed, the prices of industrial raw materials moved up, which had its impact on the prices of manufactures too. Even so, prices of manufactures rose less steeply than those of raw materials. Thus, between January 1959 and October 1959, the index number of prices of industrial raw materials increased from 114.1 to 122.6 (or by 8.5 points), while the index number of prices of manufactures rose from 108.4 to 111.1 only (or by 2.7 only). This indicates that industrial managements could not wholly pass on the increased cost of their raw materials to consumers. Presumably, the margin of profit has been reduced considerably in several industries. The latest available figures relating to index number of industrial profits (after tax) (base: 1950=100) are those for 1957 when it was 116.4, as against 158.3 for 1956.

Engineering Industries

Among individual industries, gains in production have been recorded by textiles, cement, chemicals like caustic soda and sulphuric acid, paper, tyres, and non-ferrous metals like aluminium. In particular, much improvement has taken place in several engineering industries such as those manufacturing machine tools, electric fans, electric motors, bicycles, sewing machines and diesel engines. There has been a setback in certain industries, chiefly among those producing transformers and motors. Nevertheless, it is now confidently predicted that the targets for production set under the second Five-year Plan will be reached in nearly all industries. Be that as it may, it is somewhat difficult to estimate the trends in the year 1959, thanks to the long interval which elapses between the completion of a month and the publication of statistics of industrial production in that month. At the time of going to press, industrial production statistics are available only for July, and that too, only for a few industries. It is to be hoped that the delay in the publication of statistics will be greatly reduced in future.

The output in some of the representative industries during the period January-July 1958, with the figures for the corresponding period in 1957 in brackets, is given below:

Coal (in million tons) 27.65 (26.35); steel† (in thousand tons) 1,122 (854); yarn (in million lbs.) 987 (964); cloth (in million yds.) 2,871 (2,870); cement (in million tons) 3.91 (3.72); jute‡ (in thousand tons) 871 (878); paper and paper boards† (in thousand tons) 123 (120); sugar† (in thousand tons) 1,429 (1,472); electric lamps (in millions) 20.35 (17.71); power transformers† (k.v.a.) 539,000 (569,900); electric motors† (in h.p.) 305,100 (331,600); electric fans (Nos.) 383,400 (369,000); radio receivers 112,925 (115,302); storage batteries (Nos.) 254,800 (196,900); dry cells (in millions) 104.09 (93.24); machine tools† (in lakhs of rupees) 218.36 (221.18); caustic soda† (in tons) 29,709 (30,858); soda ash (in tons) 56,589 (50,652); sulphuric acid† (in tons) 127,043 (106,478); bleaching powder (in tons) 3,338 (3,523); aluminium† (in tons) 7,874 (4,051); matches (in thousand cases) 365 (368); sewing machines† (in Nos.) 118,174 (104,206); bicycles† (in Nos.) 460,345 (483,550); automobiles (in Nos.) 18,945 (14,319); cigarettes† (in millions) 15,732 (15,215); railway wagons† (in Nos.) 3,594 (8,203); woollen worsted fabrics (in million yds.) 8.08 (10.36); woollen worsted yarn (in million lbs.) 16.76 (16.54); sheet glass† (in million sq. ft.) 45.16 (36.30).

† Upto June only. ‡ From January to October.

A significant development during the year was the inauguration of the first blast furnaces in the State-owned steel projects at Rourkela and Bhilai in February last. When all the departments are in commission, Rourkela will produce 200,000 tons of plates, 470,000 tons of hot and cold rolled sheets, 50,000 tons of tinplate and 50,000 tons of foundry iron. The by-products plant with capacity for processing 130 tons of coal tar per day will produce benzol, creosote and other products, while the fertiliser plant, which will be as large as the one at Sindri, will produce 580,000 tons of nitro-limestone. In Bhilai the production will be 200,000 tons of rails and sleeper bars. 160,000 tons of heavy structurals, 260,000 tons of medium structurals, 150,000 tons of billets and 300,000 tons of foundry iron. The by-products plant for coal tar will deal with the same quantity of coal tar as the plant at Rourkela. The plant under construction in Durgapur will produce one million tons of crude steel to be rolled into blooms (40,000 tons), billets (210,000 tons), sleeper bars (60,000 tons), structural sections (440,000 tons), wheels and axles (50,000 tons), besides 300,000 tons of iron for pig iron industry. An important stage in the construction of Durgapur Steel works was reached in August last when the coke ovens were lit up, nearly ten weeks ahead of schedule. The first blast furnace is due for formal inauguration on 29th December 1959.

Defence Production

To the increase in India's industrial production, a significant contribution is being made by the Defence Ministry. It may be noted here that 95 per cent. of the defence requirements of general stores, such as textiles, chemicals and metal goods is being met from domestic sources. Defence establishments produce ammunition and other equipment. Bharat Electronics produced components worth Rs. 60 lakhs in 1958-59, as compared with Rs. 30 lakhs in 1957-58. The ordnance factories under the Ministry of Defence have started manufacturing military trucks in collaboration with Messrs. M.A.N., a W. German firm; the new truck, named Shaktiman, has been fitted with multi-fuel engine. They have already launched on a project for the production of tractors with the assistance of a Japanese firm, Messrs. Komatsu Manufacturing Company. Again, in collaboration with the Hawker-Siddley group of the U.K., the Kanpur military depot will produce Avro-748 at a cost of Rs. 22-25 lakhs each. Under the terms of agreement with the foreign firm, India has the right to manufacture the aircraft for sale in the neighbouring countries also.

Among engineering industries, nearly all of which have made considerable progress this year, automobile industry has received considerable attention. The production of automobiles is expected to go up to 37,500 in 1959, as against 26,788 last year. The problem of producing a low-cost passenger car has evoked considerable interest. A committee, under the chairmanship of Mr. L. K. Jha, was set up to examine the progress of the industry and also the feasibility of producing a low-cost car within the price range Rs. 5,000-7,000. Several offers for producing such a car have been made to the Committee by private manufacturers; one project has been submitted by the Government itself to the Committee. It remains to be seen whether, as a result of the Committee's work, India will soon achieve its long-cherished ambition of producing a car within the means of the middle-income groups.

Machinery

India continues to maintain a steady ready rate of progress in the manufacture of machinery. It is now realised that this rate has to be stepped up. Blue-prints for ensuring a significant increase in the rate of production and widening the range of equipment are now being prepared. India now produces machinery for use in agriculture and in such industries as textiles, jute, cement, tea and sugar. In 1958, the latest year for which data are available, India produced agricultural machinery valued at Rs. 83 lakhs, cement machinery (Rs. 61 lakhs), chemical machinery (Rs. 71 lakhs), constructional machinery (Rs. 31 lakhs), jute mill machinery (Rs. 115 lakhs), oil mill machinery (Rs. 23 lakhs), sugar mill machinery (Rs. 191 lakhs) and tea processing machinery (Rs. 71 lakhs). A notable development in the sphere of machinery manufacture was the establishment of the State-owned Heavy Engineering Corporation Ltd. The Corporation will administer several machine-building projects under contemplation, including the heavy machine building plant at Ranchi and coal mining machinery plant at Durgapur (for both of which assistance has been secured from the Soviet Union) and the foundry forge plant at Ranchi (for which Czech assistance is available). The heavy machinery plant will have an initial capacity of 45,000 tons per year, which will be stepped up to 80,000 tons. Three schemes, received from private firms, have been finalised for the production of paper-manufacturing machinery. A scheme has been finalised for the production of printing machinery.

Industrial production continues to be hampered through lack of certain essential imports, including raw materials, though the Government has liberalised the import policy for these goods consistent with the availability of foreign exchange. Arrangements have been made with certain countries of Eastern Europe for financing imports through blocked rupees which are to be used for the purchase of Indian goods. But the demand for raw materials, the imports of which cannot be easily arranged through special agreements, is on the increase. It is recognised that the only solution for the problem of the shortage of such raw materials as those for which this country has to depend upon foreign sources is to increase domestic production of these materials and to increase exports of manufactures which will enable this country to import what it needs. Appropriately enough, in framing its import policy every year, the Government makes a special provision for the issue of extra import licences in the interests of export promotion.

Research

Scarcity of imported raw materials has served to canalise research effort on the production of such materials in India. This is one of the problems which have attracted the attention of the Union Ministry of Scientific Research. At the same time, the Ministry is making special efforts towards inducing industry to utilise results of research. Special staff consisting of industrial liaison officers have been appointed with a view to maintaining an active and living contact between the industry and the research laboratories. India's first composite Industrial and Technological Museum was opened at Calcutta in May last. The Museum consists of galleries on seven different branches of science and technology. Extension services have been started with a view to demonstrating to industry all over the country the processes developed in the laboratories.

A good fillip to industrial productivity is being given by the National Productivity Council, set up in 1958. The Council has established several local productivity councils in different industrial centres. It organises symposia and seminars on productivity and disseminates knowledge of efficiency techniques. Specialists have been stationed at its regional offices at Bombay, Kanpur, Calcutta, Bangalore and Madras, in order to provide advice and assistance to industrial establishments. The Council, which has received a generous aid of $3.35 million from the U.S. International Co-operation Administration, is now engaged in organising training in techniques of productivity within the country and also a programme for sending trainees abroad for intensive training in productivity.

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A. Costing is an efficient and effective Management tool.
Q. Is Profit disclosed in audited Profit and Loss Account real?
A. No.
Q. How to ascertain real profit?
A. Costing profit will show real profit.
Q. Does the Management know—

1. Cost of each
   (a) Product
   (b) Processes
   (c) Operation
2. Profit and Loss on individual product?
3. What the Profit SHOULD BE?
4. Invisible WASTAGES of material, labour and overheads?
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6. How to QUOTE in a competitive market?
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Commodity Prices Move Up To Higher Levels

Rise In Living Costs Causes Concern

WIDESPREAD was the concern caused by the rising costs of living which the increase in commodity prices in 1959 meant for the common man. Agitation against the authorities for their alleged failure to hold the price line took an ugly turn in some parts of the country, notably West Bengal. Many a stormy debate in Parliament and the State legislatures, and strong protests in Press and on political platforms indicated that people were more than ordinarily alive to the inflationary implications of the rising trend of prices. Much exception was taken to the way in which the Government had allowed prices to move up. An upshot of all this agitation was the resignation of the Union Food Minister, Mr. A. P. Jain, who, in the course of his letter to the Prime Minister, indicated how food prices were affected by factors which were beyond the control of the Food Ministry alone. Yet another development on the price and trade front, though an unwise one, was the increased determination of the Government to pursue State trading in foodgrains. Although no concrete measures have been taken to implement it on a large scale, the trend of opinion in the Government and in the ruling party is sharply divided. While the Prime Minister and some of his colleagues both in and outside the Cabinet are swearing by State trading and are in favour of assumption by the State of complete responsibility for foodgrains distribution, the new Union Food Minister, Mr. S. K. Patil, has been saying that the country should be rid of all controls, including procurement and food zones, as early as possible.

Increase in Prices

There has been a persistent increase in prices of commodities during the year under review, which was particularly noticeable from the beginning of April last. The index number of wholesale prices (Base: 1952-53=100) ruled in the neighbourhood of 112 in the first three months of the year. It dipped to 111.9 in March, but, thereafter, the rise has been continuous at the rate of about a point per month. Indeed, in October, the latest month for which data are available, it spurted by two points to 119.3, as against 108.4, the average for 1957-58, and 116.1 in October 1958.

Since the base of index numbers of wholesale prices has now been changed to a post-war year (1952-53), the new series have failed to satisfy the economic curiosity of those who suffer from a nostalgia for pre-war prices. Perhaps, they will be interested in the index numbers of wholesale prices with pre-war base (year ended August 1939=100), reconstructed by the second Pay Commission (Chairman: Mr. Justice Jagannadha Das) which submitted its report this year. The index numbers, constructed on this basis, show a continuous rise since 1955-56 when it was 352.1. In 1956-57, it moved up to 400.4 and still further to 412.9 and to 429.3 in 1957-58 and 1958-59, respectively. In June, 1959, which is the latest month for which this series is available, the index was 440.4. This rise is a rough index of the magnitude of the depreciation in the purchasing power of the rupee over the last two decades. International comparisons could, of course, be notoriously inexact. Even so, it may be noted that the rise in prices is a world-wide phenomenon. In the U.K., the index number of retail prices (Base: 1938=100) was 271 in September 1959. The U.S. wholesale price index number series, which have 1947-49 as their base, stood at 50.1 in 1939; as against this, the index for August 1959 was 119.1. It will thus be seen that, over the last two decades, there has been in the U.S. a twofold increase in prices, that is, half of the increase in India.

Larger Demand

The increase in commodity prices reflects the impact of larger demand arising from increase in population and wider diffusion of purchasing power in certain areas where new industrial establishments have been set up. A no less important contributory factor is the increase in money supply with the public which increased to Rs. 2,430 crores in September 1959, from Rs. 2,391 crores in January and Rs. 2,314 crores in September 1958. The Reserve Bank continued to enforce restrictive credit regulations. Nevertheless, the total bank credit registered an improvement of Rs. 181.7 crores (to Rs. 1,020 crores) in the 1958-59 busy season, as compared with Rs. 89.4 crores in the busy season of the previous year; this increase in bank credit is attributed to larger agricultural and industrial output. Clearly, the situation serves to show that, when available supplies of commodities are limited in relation to demand, curbs on advances can have only a marginal effect.

A group-wise analysis of the trends in the movement of index numbers of wholesale prices shows that the food articles group witnessed the most strident advance. After fluctuating between 113 and 115 in the first four months of the year under review, the index number of food articles moved up to touch 121.7 in August 1959. There was a slight fall to 120.5 in September, only to be followed by an increase of more than three points to 124.0 in October. During the first ten months of the year 1959, industrial raw materials witnessed an increase of eight points, having improved from 114.1 to 122.6. In contrast, the index number of manufactures rose by only three points from 108.7 to 111.1.

The following table shows the movement of index number of wholesale prices of the major groups, which make up the index number of all commodities, as also of some of the main commodities included in each sub-group:

	October 1959	January 1959	October 1958
Food articles	124.0	114.3	121.2
Cereals	109.5	105.2	113.6
Pulses	94.3	117.1	109.2
Edible oils	129.6	118.8	131.3
Sugar and *gbur* ..	150.1	126.6	136.0
Liquor and tobacco ..	101.4	103.5	93.0
Fuel, power and lubricants ..	116.4	114.6	115.4
Industrial raw materials	122.6	114.1	116.9
Fibres	109.2	106.8	104.8
Oilseed	135.4	123.8	135.3
Minerals	98.1	106.6	105.2
Others	125.6	110.3	106.9
Manufactures	111.1	108.4	108.7
Intermediate products ..	114.4	110.5	110.3
Finished products ..	110.5	108.0	108.5
Textiles	106.1	101.9	103.6
Metal products ..	144.5	143.1	143.1
Chemicals	107.1	111.3	107.4
Machinery and transport equipment ..	105.9	104.4	103.5
All commodities ..	119.3	112.3	116.1

It will be seen from the table above that it is the food articles group that shows the largest increase during the current year; the index of the group rose by nearly 10 points to 124.0. A break-down of this group reveals that the index number of cereals moved up from 105 in January to 109.5 in October, of edible oils from 118.8 to 129.6 and of sugar and *gur* from 126.6 to 150.1; pulses, however, declined from 117.1 to 94.3. The increase in cereals prices was thus less steep than in other foodstuffs, except pulses. Nevertheless, the increase in prices of cereals is significant for the reason that it took place in the face of increased production of rice, wheat and other foodgrains. Between 1957-58 and 1958-59, the output of rice moved up from 24.8 million tons to 29.7 million tons, of wheat from 7.7 million tons to 9.7 million tons, of *jowar* from 8.2 million tons to 8.7 million tons and of *bajra* from 3.5 million tons to 3.8 million tons; the total output of all cereals (excluding pulses) increased from 53.0 million tons to 61.3 million tons.

A question which has engaged the attention of economic analysts was the reason as to why prices of cereals did not decline in response to increased production. Among the explanations which have been offered are: the farmer, who has had to pay heavy prices for his seed requirements in pre-harvest period, found that the rates fixed by the Government were unduly low and hence withheld his stocks, (2) he preferred to sell his cash crops for his immediate requirements of money rather than part with his foodgrain, (3) some food surplus was retained by him as safety margin. Yet another reason was the Government's announcement relating to State trading in foodgrains which made farmers withhold their stocks. Thus, the report of the Central Board of Directors of the Reserve Bank of India for the year ended 30th June 1959, after pointing out that estimated record production of foodgrains was not fully reflected in food indices, observed: "This suggests, what is also borne out by *ad hoc* inquiries, that the inflow of supplies to the markets has been affected to some extent by the announcement of introduction of State tracing in foodgrains." On the demand side, the increase in money supply with the public and the normal increase in population must have been among the factors which have contributed to the increase in prices. But, as the report of the Central Board of Directors points out, "basically, the output of foodgrains is insufficient for the needs of the economy and the importance of giving top priority to agricultural output in general and food output in particular cannot be overemphasised."

Oilseeds

The reasons given above for the increase in prices of food articles will generally apply to increase in prices of edible oilseeds. It may be mentioned here that, in 1958-59, the output of the three chief edible oilseeds, groundnut (in shell), sesamum and rape and mustard moved up respectively to 4.81 million tons, 0.49 million tons and 1.07 million tons from 4.43 million tons, 0.35 million tons and 0.92 million tons in 1957-58. Although increase in oilseeds production was thus quite sizable, it was not fully reflected in prices.

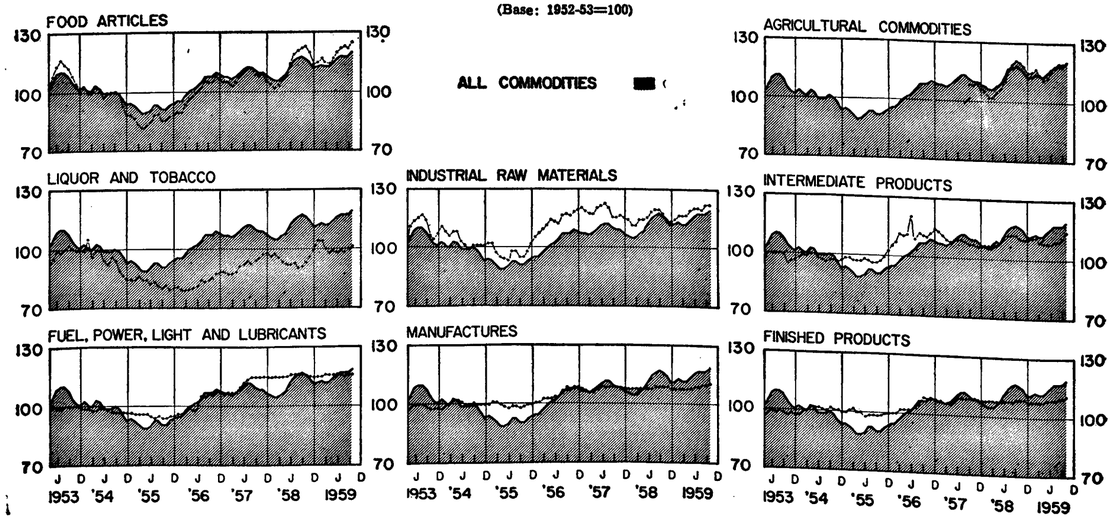
A comparison of the price trends of industrial raw materials and those of manufactures shows that the former rose more steeply than the latter. Thus, between January and October 1959, the index number of industrial raw materials advanced from 114.1 to 122.6 or by eight points, whereas that of manufactures improved from 108.4 to 111.1 or by less than three points. This suggests that the increase in prices of raw materials was not fully passed on by the manufacturers to the consumers of their products. Among finished products, the index number of textiles rose from 101.9 in January to 106.1 in October and of machinery and transport equipment from 104.4 to 105.9 while the index number of chemicals actually declined from 111.3 to 107.1.

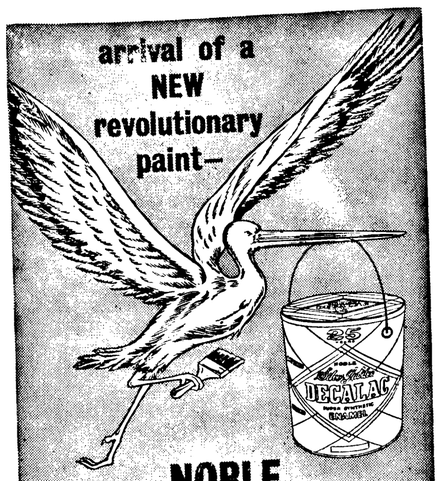
Cost of Living

An important consequence of the rise in wholesale prices of commodities was that the consumer price index numbers for working class moved up during the year, with the result that dearness allowance payable to workers had to be stepped up by industrial managements. Thus, the all-India consumer price index number (Base: 1949=100) was 125 in September 1959, as against 117 in January and 121 in September 1958; the corresponding figures for Bombay were 137, 129 and 132, for Ahmedabad 129, 121, 117, for Madras 134, 130 and 127 and for Calcutta 114, 105, 116. The following table gives the Consumer Price Index Number—Working Class in the latest month for which figures are available, in May 1959, December 1958 and

INDEX NUMBERS OF WHOLESALE PRICES

(Base: 1952-53=100)





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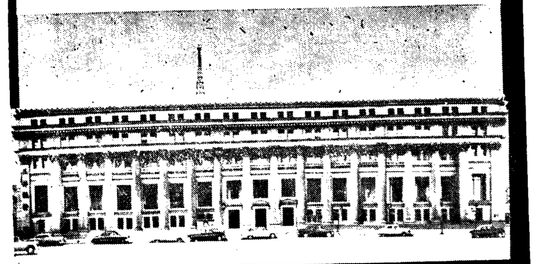

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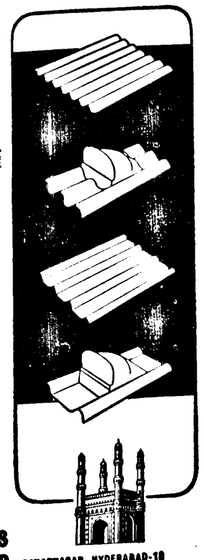

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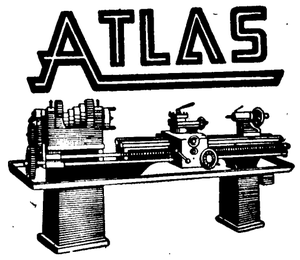

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September 1958 for all-India and for certain important centres:

Consumer Price Index Numbers—Working Class
(Base: Year 1949=100)

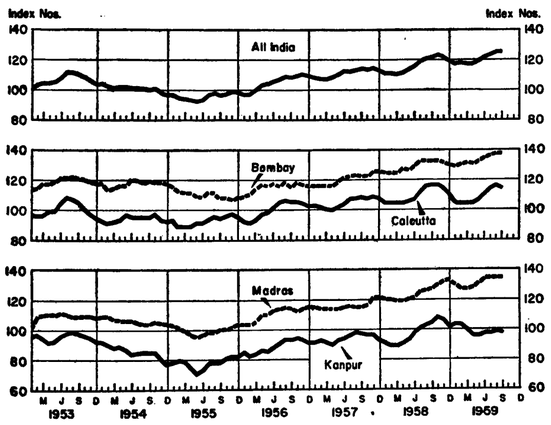
	Sept. 1959	May 1959	January 1959	Sept. 1958
All India ..	125	119	117	121
Bombay ..	127	122	129	122
Ahmedabad ..	129	124	121	117
Nagpur ..	125	122	127	120
Calcutta ..	114	106	105	116
Madras ..	134	121	130	127
Bangalore ..	143	138	134	122
Delhi ..	118	116	122	117

As a result of the rise in this index number, the dearness allowance for Bombay's textile workers, for instance, was Rs. 87.15 in July 1959 as compared with the average of Rs. 81.59 in 1958. This will convey some idea of the magnitude of the rise in industry's wage bill. Indeed, throughout the country, there was a general demand for increase in wages and dearness allowance by fixed income groups. The second Pay Commission, which submitted its report in November last, recommended that the minimum remuneration of a Central Government employee should be raised from Rs. 75 to Rs. 80. The initial cost of implementing this and certain other recommendations made by the Commission will involve an aggregate burden of Rs. 29 crores per year on the Exchequer.

It is now generally recognised that the holding of the price line is not just a day's economic battle nor a battle in any particular sector but a continuous engagement all along the economic front. Thus, selective credit controls have been helpful but monetary authorities themselves admit that such controls "are not designed to correct the general inflationary pressures within the economy." Similarly, the imposition of curbs on forward trading has been useful, but they cannot be regarded as a permanent solution of the problem of high prices. It is on the improvement in overall production, agricultural and industrial, that the success on the price front depends. Again, it is this success that will ensure healthy economic growth which implies development with stability.

INDEX NUMBERS OF COST OF LIVING—WORKING CLASS

(Base: Year ended August 1949=100)



PRODUCTION OF COTTON MILLS STATIC

(*Concluded from page 206*)

the trend of exports in the different varieties of cloth from Bombay Port only:

(In million yards)

	January-October		1958	1957
	1959	1958		
Sheetings ..	258.59	208.84	246.07	362.51
Drills	60.36	52.85	65.60	88.79
Longcloth ..	51.68	51.01	60.94	92.86
Shirting	40.56	40.01	49.11	100.22
Voiles and mulls ..	35.04	34.51	39.74	51.97
Domestics ..	55.29	43.86	53.49	55.21
Coating	12.13	11.76	13.68	21.56
Dhotis and *saris* ..	8.54	6.72	7.80	11.41
Chintz	4.80	3.71	4.30	6.79
Others	2.18	2.57	3.07	5.03
Total ..	549.17	455.84	543.70	796.39

Three countries purchased substantially large quantities of mill cloth from India in 1959, namely, the U.K., Sudan and British East Africa. The total purchases made by these countries during the first ten months of 1959 as compared with the same period in the previous season was higher by 78.87 million yards at 232.20 million yards. Exports of cloth from India to the U.K. in the next three years (1960-61-62) will be governed by the voluntary agreement entered into between the two countries towards the end of September 1959. The agreement fixes the ceiling on cloth exports to Britain for retention in the home market at 175 million square yards. The table below gives the exports of cloth from Bombay Port to the principal buying countries:

(In million yards)

Countries	January-October		1958
	1959	1958	
United Kingdom ..	95.71	64.59	78.37
Sudan	85.00	57.28	57.28
British E. Africa ..	51.49	31.46	46.80
British W. Africa ..	14.28	37.22	46.91
Australia ..	37.77	37.29	45.81
Aden	27.00	27.84	34.52
Malaya	23.58	14.35	20.64
Ethiopia ..	14.06	7.92	11.84
Afghanistan ..	9.61	10.09	11.58
Canada	14.55	12.43	13.91
Ceylon	8.89	12.22	14.75
Saudi Arabia ..	9.83	9.63	11.45
Indonesia ..	6.21	6.81	11.58
Burma	20.49	3.05	4.43

From the rise in overseas sales of Indian cloth noted in 1959 one should not, however, rush to conclude that all is well on the export front. For competition in world markets is becoming keener and keener every day and India will have to face it. It is this factor and the importance of ensuring adequate supplies of cloth to the domestic consumer at a price which he can afford and which will enable him to increase his consumption that impart utmost urgency to the need for modernisation of mills' equipment and rationalisation of the production processes. The Government of India has no doubt permitted the installation of 13,500 automatic looms—6,000 looms covered under the export promotion scheme (3,000 allowed in October 1958 and the balance in July 1959) and the remaining 7,500 looms or 2,500 looms per annum during the years 1959, 1960 and 1961 covered under the pilot project announced early in December 1958. But, even after the installation of all these loans, the total number of automatic looms will come to no more than 30,000 representing about 13-14 per cent. of the aggregate loomage, whereas the proportion of automatic looms to the total is almost 100 per cent. in the U.S. and 67 per cent. in Japan. It would, therefore, be interesting to await the details of the "lock-stock-and-barrel" modernisation scheme for the cotton mill industry now being drawn up by the Government of India.

EXPORT OF TEXTILES TO U.K.

The Union Minister for Commerce, Mr. Nityanand Kanungo, stated in the Lok Sabha on 10th December that the ceiling of 175 million square yards for imports by the United Kingdom from India, fixed under the recent agreement between the two countries, was considerably higher than the actual Indian exports to that country in the past. The Minister added that no definite appraisal could be made at present of the benefit likely to accrue to the Indian textile industry from this agreement. The main features of the agreement, Mr. Kanungo stated, were: (1) A ceiling of 175 million square yards as the limit of imports from India for retention in the U.K.; (2) the agreement to remain in force for a three-year period from January next year; (3) tne ceiling of 175 million square yards not to apply to imports which are subsequently re-exported; and (4) where the total ceiling is not reached in any year, the shortfall to be carried forward to the next year.

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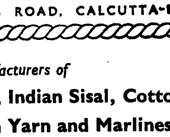

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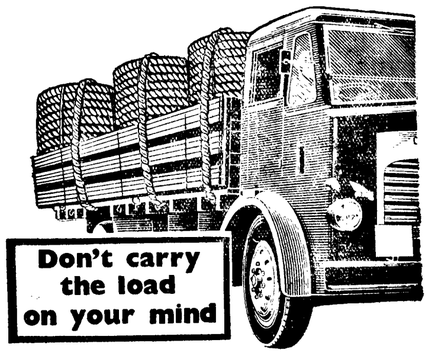
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Life Business Makes Headway

General Insurance Still Under Strain

A NOTABLE development of the year in the field of insurance was the emergence of the Life Insurance Corporation from the cloud of suspicion and misgivings that had gathered round it on account of the "Mundhra Affair" and its successful bid to rehabilitate its prestige. Under the guidance of its new Chairman, Mr. P. A. Gopalkrishnan, the Corporation put in a creditable performance. Apart from a perceptible rise in new business, the publication of the first annual report of the Corporation covering the sixteen-month period ended 31st December 1957 and the second report within eight months after the publication of the first valuation report and the long-awaited, much-delayed declaration of bonus to policyholders reflected the determined efforts of the Corporation to get into the stride. Moreover, the Corporation announced a five-year plan of new business development which set a target of Rs. 1,000 crores to be reached by the end of the fifth year, that is, 1963.

New business of the Corporation during 1958, the latest year for which figures are available, increased by 21.7 per cent. to Rs. 343.07 crores, as compared with the previous year, bringing the total business in force as on 31st December 1958 to Rs. 1,682 crores under 6.23 million policies, as against Rs. 1,473 crores under 5.68 million policies as on 31st December 1957. Of this, the business in force in India was Rs. 1,584 crores under 5.97 million policies and total business in force outside India was Rs. 98 crores under 260,000 policies.

Valuation Report

The first valuation report on the financial condition of the business of the Corporation as on 31st December 1957, was issued in June 1959, along with the declaration of a reversionary bonus of Rs. 14 per Rs. 1,000 sum assured on with-profits endowment policies and Rs. 17.52 per Rs. 1,000 sum assured on with-profits whole-life policies. The erstwhile private insurers, whose business was taken over by the Corporation, were divided into no less than seven groups and their policyholders were awarded bonuses ranging from Rs. 21 (whole life) and Rs. 16.8 (endowment) to *nil*. The principle of differential bonus and the quantum of bonus in the different groups were generally well received, as they were nearer the rates of private insurers than was anticipated earlier. The surplus disclosed by the valuation was also recognised as real, though there were some who thought it was partly due to a weakening of the valuation basis.

The Corporation's latest annual report, for the calendar year ended 31st December 1958, disclosed some encouraging trends. The net lapse ratio, that is, the ratio of the sum assured lapsed less the sum assured revived to the mean business in force, declined from 6.4 per cent. in 1957 to 4.5 per cent. in 1958, indicating that the rise in new business was not the result of doing rush business to show off striking results. The renewal expense ratio, too, declined, though only fractionally, from 15.89 per cent. to 15.46 per cent. during the same period.

Investments of the Corporation continued to be guided by the new policy laid down by the Government last year and approved by Parliament. The investment rate of over Rs. 10 lakhs a day was maintained and, in fact, improved upon during 1958. Total investments of the Corporation pertaining to the life business of the Corporation as on 31st December 1958 amounted to Rs. 420.94 crores of which Rs. 410.13 crores were held in assets in India and Rs. 10.81 crores outside India. Total book value of the Corporation's investments in stock exchange securities was Rs. 378.89 crores of which Rs. 368.93 crores were in India and Rs. 9.96 crores outside India.

There was steady rise in the percentage of investments in the public sector and a progressive decline in the percentage of investments flowing into the private sector. On 31st December, 1957, investments in the public and private sectors were 77.4 per cent. and 22.6 per cent. respectively. At the end of December 1958, these percentages were 78.3 and 21.7 respectively. The share of the private sector declined still further to 21.4 per cent. while that of the public sector increased to 78.6 per cent. on 31st July 1959. This declining trend, according to the Chairman of the Corporation, was due to the increasing difficulty of making investments other than in Government and approved securities owing to the comparative short supply of sound scrips in the stock markets. With the recent decision of the Corporation to revive the grant of loans on mortgage of properties, it should be possible to offset, to some extent, this shrinkage of investments in the private sector.

Five-year Plan

The Corporation, as noted above, has drawn up a five-year plan which aims at reaching a target of Rs. 1,000 crores of new business by the fifth year of the plan. This obviously involves fresh recruitment and training of officers and staff, selection and strengthening of the field force, opening of new offices, market surveys and publicity and various other organisational improvements. The details of these are being worked out. For the first year of the plan, namely, 1959, a target of Rs. 415 crores has been fixed. New business completed during the first eight months of the year amounted to Rs. 148.16 crores as against Rs. 121.0 crores in the corresponding period of the previous year, representing an increase of 23 per cent. If this rate of progress is maintained the Corporation should not have any difficulty in reaching the target.

The Corporation has, by and large, solved most of its staff problems, including the categorisation of senior officers and the question of bonus to the clerical, subordinate and supervisory staff and the categorisation of field officers. It concluded a five-year bonus agreement with the administrative staff. With the initial difficulties over and many of the staff problems solved the Corporation, which has the monopoly of selling life cover, is well set on the road to further expansion of business. It is to be hoped that henceforth equal attention would be given to servicing of policyholders which leaves much to be desired.

General Insurance

General insurance continued to be under strain during the year under review also. Intensive competition, rebating, broadening of the cover provided without a commensurate increase in the premium charged, higher expense ratio due to rise in prices and costs—all these factors combined to present the same problems for general insurers in 1959 as in previous years, though not to the same extent.

Expansion of general insurance in the country since 1955, a peak year for this business, has not kept pace with the growth in industrialisation. The rate of expansion in 1956 slowed down, as compared with 1955. It declined further in 1957. Thus, the index number of general insurance business in India (1951=100) rose by only 0.7 in 1957, as against 4.2 in 1956 and 23.1 in 1955. The index (1951=100) which stood at 135.3 in 1955 rose to 139.5 in 1956 and 140.2 in 1957, the latest year for which data are available. Index of industrial production, at the same time, recorded a steep rise from 122.1 in 1955 to 132.6 in 1956 and 137.3 in 1957.

Gross and Net Premium

Gross premium written direct in India in 1957 aggregated Rs. 27.79 crores, as against Rs. 26.01 crores in 1956, and Rs. 23.10 crores in 1955, which yielded a net premium of Rs. 18.09 crores, as compared with Rs. 16.04 crores in the previous year and Rs. 14.41 crores in 1955. Indian insurers wrote a gross premium of Rs. 24.30 crores, of which Rs. 17.93 crores, or 73.8 per cent., were in India and Rs. 6.37 crores, or 26.2 per cent., were outside India. Net premium of Indian insurers amounted to Rs. 22.52 crores, of which Rs. 10.94 crores or 48.6 per cent. were in India and Rs. 11.59 crores or 51.4 per cent. were outside India. The following table gives the portfolio-wise breakdown of gross and net premium income of all insurers derived from business in India during the five years ended 1957:

(In crores of Rupees)

	Fire	Marine	Miscellaneous	Total
Gross Premium				
1957 ..	11.87	7.04	8.89	27.79
1956 ..	12.04	6.60	7.37	26.01
1955 ..	10.44	5.99	6.67	23.10
1954 ..	10.07	5.21	6.06	21.34
1953 ..	9.83	4.88	6.11	20.82
Net Premium				
1957 ..	6.87	4.00	7.22	18.09
1956 ..	6.37	3.85	6.01	16.04
1955 ..	5.62	3.40	5.38	14.41
1954 ..	5.44	3.08	5.07	13.61
1953 ..	5.18	2.95	4.99	13.12

A proposal to cut the fire tariff rate so as to give cover to the public at a more reasonable and economic rate has been under consideration for over two years now. Insurers have been much worried over this question. The proposed reduction is intended as a remedy for the evil of rebating, which, in spite of the Code of Conduct, still persists. By reducing the profit margin through a reduction in premium, it is sought to cripple the capacity of the insurer to pay illegal commissions.

While it is agreed that every effort should be made to check the evil of rebating, insurers point out that the premium rate structure should be economic. It is common knowledge that it is the fire department that now subsidises the marine and accident sections, the underwriting results of which continue to be adverse and their accounts still in red. A cut in premium may well signal the virtual extinction of many marginal insurers. Rate reduction in itself, it is pointed out, will not put an end to all the unhealthy practices. As insurers themselves, through the Executive Committee of the General Insurance Council, are taking measures to check the evils, it is suggested that adequate time should be given to the trade to set matters right.

Reinsurance

Further progress was made during the year by the Reinsurance Corporation. The trend of reinsurance can generally be expected to follow the course of the direct-writing companies. For general insurance, 1958 was a year of only average results and this was reflected in the results of the Corporation also. But, considering that reinsurance is still in its infancy in India and that the Corporation was established as late as 1956, its performance must be considered extremely satisfactory. In 1958, the Corporation wrote a higher net premium of Rs. 1.26 crores, as against Rs. 93.79 lakhs in 1957.

The underwriting pattern has been revised, particularly in the fire department, with a view to enabling the Corporation to retain a larger portion of the Indian business on its net account. Of the sum of Rs. 56 lakhs of net fire premium written in 1958, only Rs. 15 lakhs were in respect of Indian business. Of the total portfolio, the Indian element was only about 26 per cent. Because of the revised pattern of underwriting it is expected that the Indian element of the retained net premium would go up materially to about 45 per cent. in 1959. The revision is also expected to improve the profitability of the Corporation in 1959 and subsequent years.

A large number of companies continued to take advantage of the Reinsurance Exchange to exchange their fire facultative business during the year. Every day, on an average, 26 companies participated, 91 risks were insured and the total acceptances by all companies were 271.

In the long run, it will certainly be in the interest of all companies to pass on to the Corporation a good portion of their reinsurance business. Thereby, they could enjoy a double advantage. First, they will secure the same terms and conditions they are getting at present. Second, they will get prompt and satisfactory service. Another indirect advantage is that by giving business to the Corporation, they would be building up the strength of the Corporation and thereby automatically increasing the value of their shareholding in its capital.

Export Insurance

In spite of many teething troubles, the Export Risks Insurance Corporation too made appreciable progress. The business of the Corporation expanded rapidly. In the second year of its working, that is, during the 12-month period ended 30th September 1959, the Corporation issued 222 policies with a maximum liability of Rs. 6.49 crores, as compared with 146 policies with a maximum liability of Rs. 7.50 crores in the previous year. Premium income amounted to Rs. 1.54 lakhs, as against only Rs. 43,000 during the first year. The Corporation had so far received four claims amounting to Rs. 73,440.

An encouraging development is that big exporters, who were hitherto reluctant to avail themselves of the facilities offered by the Corporation, are now coming forward to insure their risks with the Corporation. Even so, not more than 2 per cent. of the total insurable exports of Rs. 250 crores is at present insured with the Corporation and there is, therefore, still wide ground for the Corporation to cover. It is making vigorous efforts to attract more and more exporters and, with this end in view, it recently announced a reduction in premium rates by an average of about 10 per cent.

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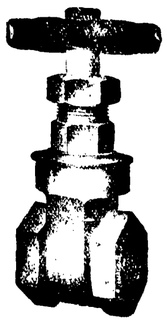
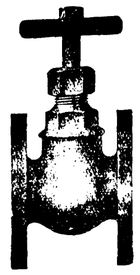

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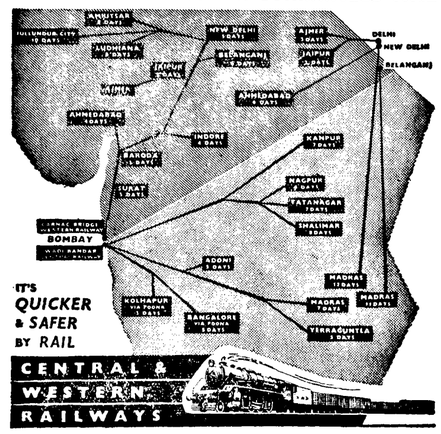


BANKING AND MONETARY TRENDS

Large Expansion in Money Supply—Bank Credit Rises Sharply

THE year 1959 witnessed a change for the better in the economies of the major industrialised countries of the world. The various measures taken in the U.S. and other nations to arrest the 1958 recession, such as the relaxation of restrictive financial policies, reduction in Bank rates, and adoption of expansionary measures, had their desired effect. There was a brisk upswing in economic activity during the year under review and this became more pronounced as the year progressed. Thus, after a lapse of one year, that is, 1958, the upward trend in economic activity noted in 1955-57 was resumed. There was an all-round expansion in industrial production and employment; personal income rose; consumer expenditure was high and commercial bank lending recorded a sharp rise. A noteworthy feature of this revival was the absence of any perceptible rise in price levels, with the result that it could be claimed that, in many countries, the upswing in economic activity was not accompanied by inflation. As the year drew to a close, however, some of the countries found it necessary to restrain growth somewhat by applying a mild dose of higher interest rates. Bank rates in the U.S., Holland, West Germany and Japan were raised as a precautionary step.

United States

The economic recovery started much earlier in the year in the U.S. and the U.K. than in West European countries. In the U.S., the monetary authorities thrice raised the Federal discount rates from 2½ per cent. to 3 per cent. in March, again to 3½ per cent. in June and further to 4 per cent. in September. This was accompanied by a rise in commercial banks prime rates from 4 per cent. to 5 per cent. in two steps. Along with the use of interest rate weapon, the authorities enforced restraint on credit for purchases or holding of stocks, tightened the use of credit for purchase of securities. The U.S. resorted to these measures primarily to check the gold drain caused by a large balance of payments deficit and to curb speculation in stock markets, but they have not had the desired effect till the time of writing.

In the U.K., the most important step taken early in the year to stimulate the economy was the removal of all restrictions on borrowing of money by companies and capital issues. Purchase taxes were cut and investment allowances were restored to 20 per cent. for new plant and machinery and 10 per cent. on construction of industrial buildings. Exchange controls were relaxed and financial controls on forward dealings in foreign exchanges and gold were relaxed after nearly 20 years since their imposition. Sterling displayed considerable strength and gold and convertible currency reserves increased considerably. There was a marked rise in commercial bank lending, particularly in personal loans to finance purchase of consumer goods. Following the rise in interest rates in the U.S., the rates in the U.K., too, hardened, especially towards the close of the year.

Bank Rates Lowered

The economic climate of most of the West European countries also improved, thanks to the advent of convertibility of currencies and the European Common Market. In order to maintain the level of production and employment, a flexible use of monetary and credit instruments was made. The relaxation of monetary controls took the form of a reduction in discount rates in the first half of the year, as shown below:

Countries	From	To
	%	%
W. Germany	3	4½
France	4½	4
Switzerland	2½	2
Netherlands	4	2½
Austria	5	4½
Belgium	2½	2½
Finland	6½	6

This brought about a general decline in short-term interest rates. Almost all restrictions on foreign exchange were removed. There was a greater confidence in the West European currencies and the distinction between hard and soft currencies was reduced. Following the relaxation of credit controls, there was a sharp rise in bank lending. As already stated, the expansionary trend in the economies brought in its wake full employment and threatened to give a fresh impetus to inflation. So they again relied on the interest rate weapon to ensure stability. West Germany, for instance, restored its Bank rate back to 3 per cent. in September and stepped it up further to 4 per cent. in October. Denmark raised it from 4½ per cent. to 5 per cent. in September and the Netherlands Bank raised its interest rate on all transactions by ½ per cent. as from 16th November. The new rates are: bill discount rate—3½ per cent., discount rate for promissory notes—4 per cent., interest rate on current account advances and private loans—5 per cent. and on other loans —4 per cent. Many countries raised their minimum reserve requirements of commercial banks.

In India, too, the economy showed a distinct improvement, following the increase in development expenditure, in refreshing contrast to the slackening in the pace of economic growth in 1958. There was a slight improvement in the external reserves, thanks mainly to a rise in the quantum of foreign aid received during the year under review. Industrial production was higher, and so also agricultural production. Nevertheless, prices of raw materials and finished goods tended to be on the high side, as the improvement in production fell short of the country's need. There was an increase in bank credit too. A distinct change for the better in investment climate was noted and the stock exchanges exhibited boom conditions. Inflationary pressures were felt even more acutely than in 1958. Unlike in the developed countries, the authorities did not resort to the interest rate weapon to combat inflation. They were content, as in the previous years, with enforcing selective credit controls through directives to commercial banks. They actually allowed interest rates to fall.

The cumulative effect of the expansionist forces in the economy is reflected in the rise in money supply with the public and the demand for bank credit. Over the twelve months ended November 1959, money supply grew by about Rs. 150 crores, as against Rs. 77 crores in the corresponding period of 1958 and Rs. 110 crores and Rs. 149 crores in the years ended November 1957 and 1956, respectively. Thus, the decline in the pace of expansion in money supply noted in the previous two years was sharply reversed during the year under review. As compared with 1958, the growth in money supply during 1959 is nearly 100 per cent. The bulk of the expansion, as in the previous year, is accounted for by currency with the public which rose by about Rs. 130 crores, as against Rs. 75 crores. The increase in deposit money (demand deposits only) was of the order of Rs. 23 crores only.

Rise in Bank Credit

The larger expansion in money supply during the year under review was mainly due to two factors: (1) a substantial increase in bank credit to both private and public sectors, and (2) the re-emergence of a surplus in balance of payments, albeit on a small scale, after three years of sustained deficit. Thus, bank credit (only Scheduled banks) to the private sector increased by Rs. 91 crores, as against a decline of Rs. 7 crores in the previous year, and that to the public sector by Rs. 253 crores, as compared with a rise of Rs. 431 crores in the corresponding twelve months of last year. The balance of payments surplus as measured by the rise in foreign assets of the Reserve Bank amounted to Rs. 23.5 crores, as against a deficit of Rs. 128.9 crores in the previous twelve months and Rs. 315 crores (including the drawings from the I.M.F.) in the year ended November 1957. Though the bulk of the rise in bank deposits, was, as in the previous year, accounted for by time deposits, there was a sizable increase in demand deposits of banks, too, in contrast to the small shrinkage in the previous year and this accounts for the increase in deposit money with the public noted above.

The seasonal savings in money supply during the year under review were also more pronounced than in the previous year, as will be seen from Table I on page 226.

Thus, in the last busy season (November 1958-April 1959), money supply expanded by a record extent of Rs. 291.3 crores, which represented an increase of 74 per cent. over that (Rs. 167.3 crores) in the 1957-58 season and was even larger than that (Rs. 239.4 crores) in the 1956-57 season. The larger expansion, as compared with that in the 1957-58 season, reflected mainly (1) the substantial increase in the public indebtedness to banks (Rs. 128.8 crores), in contrast to the decline of Rs. 44.1 crores in the 1957-58 season, and (2) emergence of a balance of payments surplus of Rs. 30.3 crores (as measured by the changes in foreign assets of the Reserve Bank), as against a deficit of Rs. 59.3 crores in the corresponding season of last year. Rise in bank credit to Government was, however, smaller than in the 1957-58 season.

In the slack season (May-October 1959), money supply showed a contraction of Rs. 110.6 crores, which was smaller than that (Rs. 156.8 crores) in the 1958 slack season, though larger than that (Rs. 82.7 crores) in the 1957 season. The slower pace of contraction in money supply during the 1959 slack season was due to (1) a substantial reduction in the balance of payments deficit (Rs. 10.5 crores), as against Rs. 89.4 crores in the 1958 slack season, and (2) a smaller decline in public's net indebtedness to the banking sector (Rs. 207 crores), as compared to that (Rs. 238 crores) in the corresponding season of 1958. Bank credit to Government, however, showed a smaller rise (Rs. 111 crores), as against that (Rs. 211 crores) in the 1958 season.

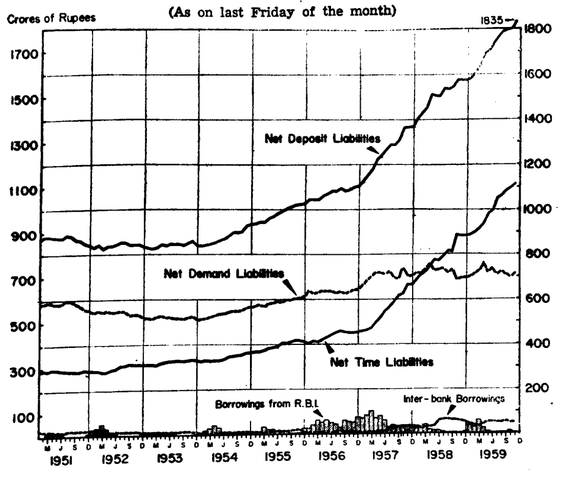
Banking Trends

The banking situation during the year under review continued to be characterised by a state of ample liquidity, though, during the busy season, the stringency was no less acute than in the corresponding period of 1958. Over the year ended November 1959, bank deposits (net) grew by Rs. 259 crores, or 16.4 per cent., as against Rs. 209 crores (15.3 per cent.) in the twelve months to November 1958, though the extent of rise was still less than that (Rs. 268 crores) in 1957. Thus, in the last three years, the growth of bank deposits is as much as Rs. 736 crores or 67 per cent. As in the previous year, a good part of the increase in deposits is attributed to the accrual to the U.S. Government's balances in India of counterpart funds arising from imports under P.L. 480. This is indicated by the rise of Rs. 107.3 crores in deposits of the State Bank of India as against a similar rise (Rs. 107.6 crores) in the previous twelve months, though it cannot be said that the entire expansion in State Bank's deposits is accounted for by P.L. 480 funds. A part of the growth in deposits of Scheduled banks is also due to the increase in the number of offices, partly on account of the opening of new branches and partly accounted for by the inclusion of some banks in the Second Schedule to the Reserve Bank of India Act. Another reason for the rise in deposits is the heavy investment expenditure, a substantial part of which was covered by deficit financing.

As in the previous year, the total (net) deposit liabilities of Scheduled banks crossed the notes in circulation, but the most notable feature was the extent of excess; this was much greater than that in the previous

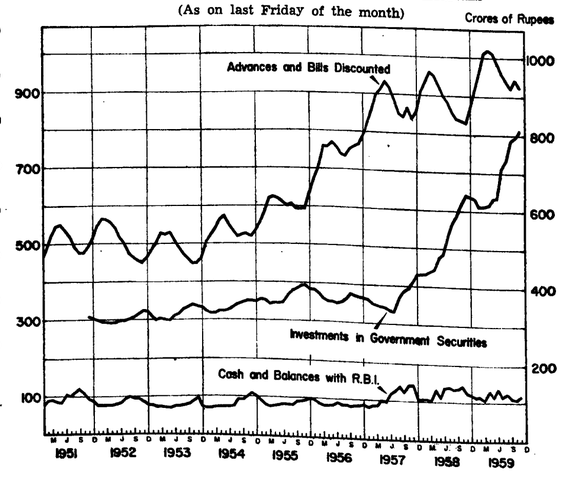
PRINCIPAL LIABILITIES OF SCHEDULED BANKS

(As on last Friday of the month)



PRINCIPAL ASSETS OF SCHEDULED BANKS

(As on last Friday of the month)



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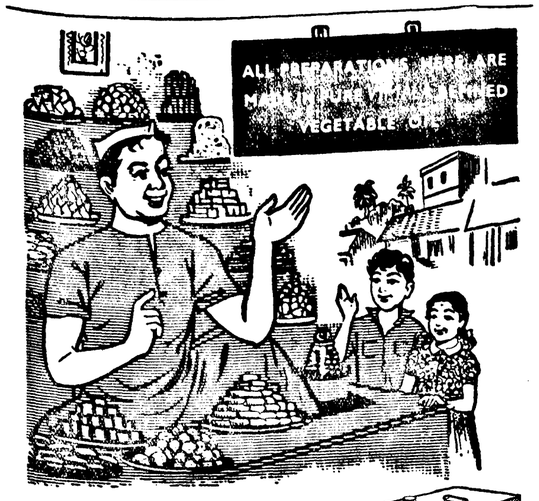

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year, the reason being that the pace of increase in bank deposits was greater than that in notes in circulation. Thus, the increase in deposits amounting to Rs. 259 crores was more than twice that (Rs. 124 crores) in notes in circulation. It was in the week ended 26th June that bank deposits crossed over notes in circulation and stood Rs. 22 crores in excess of the latter. This excess grew with the progress of the slack season to as much as Rs. 155 crores at the end of November, as against just Rs. 20 crores a year before.

Another feature of the growth of bank deposits is that, unlike in the previous year, demand deposits too rose by nearly Rs. 22 crores (in the twelve months ended November 1959) as against a contraction of Rs. 5 crores in the corresponding period of last year, though over the year their share in total deposits fell from 44.1 per cent. to 39.1 per cent., as will be seen from the following comparative table.

Consolidated Position of Scheduled Banks

(In crores of rupees)

	As on 27th Nov. 1959	As on 28th Nov. 1958	Change over the year	Change in previous year
Liabilities (Net)				
Demand	717.03 (39.1%)	695.22 (44.1%)	+21.81	—5.24
Time	1,117.65 (60.9%)	880.46 (55.9%)	+237.19	+213.99
Total ..	1,834.68	1,575.68	+259.00	+208.75
Borrowings from R.B.I.	1.56	1.56	..	—14.69
Cash and balances with R.B.I. ..	119.30 (6.5%)	126.31 (8.0%)	—7.01	—18.28
Investments	812.81 (44.3%)	643.64 (40.9%)	+169.17	+235.13
Advances	923.50 (50.3%)	832.72 (52.9%)	+90.78	—7.26

N.B.—The percentage figures within brackets represent the ratio of the respective item to total net deposit liabilities.

The growth of time deposits continued and that at a greater pace than in the previous year. Thus, over the year, they have risen by Rs. 237 crores as against Rs. 214 crores in 1958, and as also their share in total deposits from 55.9 per cent. to 60.9 per cent. This rise in time deposits has occurred, despite the fact that the interest rates on deposits were on the lower side as compared with those in 1958.

That there is a steady growth of savings among the public is evident from the rise of Rs. 21.32 crores in savings bank deposits to Rs. 245.04 crores during the first ten months of 1959; this compares favourably with the increase of Rs. 16.59 crores in the corresponding period of 1958 and Rs. 18.05 crores in 1957.

Bank Credit

Along with the enlargement in the resources of banks, the demand for bank credit also was more pronounced than in the previous year. Over the year ended November 1959, advances of Scheduled banks show a rise of Rs. 91 crores, as against a contraction of Rs. 7 crores in the corresponding period of last year. During the last busy season, the expansion in bank credit at Rs. 181.7 crores, was more than twice that (Rs. 88.3 crores) in the 1957-58 busy season. In the following slack season the return of bank credit was less marked (Rs. 80.5 crores) than that (Rs. 117.4 crores) in the 1958 slack period. It may also be noted that the rise in bank credit during the 1958-59 busy season occurred in the face of an increase of Rs. 115.5 crores in deposits of banks, while the slower pace of the slack season fall in bank credit took place, despite a larger accretion (Rs. 109 crores) in bank deposits, as compared with Rs. 65.9 crores in the 1958 slack season. In November 1959, there was a further drop of Rs. 16.5 crores in bank credit, while deposits themselves grew by Rs. 33 crores, while in the corresponding month of 1958 there was a drop of Rs. 8.4 crores in bank credit and of Rs. 1.8 crores in deposits. As the growth in deposits over the year was on a much larger scale than in the previous year and at a greater pace than in bank credit, the credit ratio shows a decline from 52.9 per cent. at the end of November 1958 to 50.3 per cent.

For the same reason, the banks' investments in Government securities also rose to a peak of Rs. 813 crores at the end of November, an increase of Rs. 169 crores over the year, raising the ratio of investments to deposits from 40.9 per cent. to 44.3 per cent. The pace of increase was, however, much less than that (Rs. 235 crores) in the twelve months to November 1958.

Treasury Bills

Despite the larger demand for bank credit during the year as a whole, the sale of 91-day Treasury Bills by tenders and of Intermediate Bills was continued during the year. The total amount of Bills issued by tenders during the first eleven months of the year was Rs. 93 crores and through Intermediate Bills Rs. 35.23 crores, making an aggregate of Rs. 128.23 crores. Of these, the outstandings of bills sold by tender at the end of November were Rs. 27 crores and those of Intermediate Bills Rs. 22.94 crores.

While the ratio of investments to deposits at the end of November 1959 rose to 44.3 per cent., from 40.9 per cent. a year before, that of cash fell from 8 per cent. to 6.5 per cent. Such a low cash ratio reflects the anxiety of banks to earn as much as possible in order to cover the rise in the cost of their operations.

Interest rates were fairly stable during the year, except for the seasonal fluctuations in inter-bank call money. The average level of rates was, however, on the low side. The inter-bank agreement fixing maximum interest rates payable on different categories of deposits signed in October last year worked very well. Even during the busy season, there were hardly any complaints of non-observance of the terms of the agreement by its members. Indeed, all the banks were so keen on bringing down the interest rates further that there was no difficulty in lowering the ceilings by ½ per cent. The new ceilings, which became effective on 1st September 1959, are 3½ per cent. for deposits for three months and over and 3¾ per cent. for deposits of less than three months and deposits at seven days' notice. Earlier, during the busy season, the rate on three months' deposits among the major Scheduled banks (other than the State Bank of India) rose from 2¾-4 per cent. to 3-4 per cent., but declined to 3-3½ per cent. in the slack season. The State Bank of India's rate for three months' deposits was unchanged at 2½ per cent., except during the four months February-April, when it was 3 per cent. The rate on seven days' call money moved between 2½-3½ per cent. and 3¾ per cent. among the Scheduled banks, while that of the State Bank fluctuated to decline from 3 per cent. to 2½ per cent. Inter-bank call money rate among the major Scheduled banks touched a peak of 3¾ per cent. during the 1958-59 busy season, before declining to ¾ per cent. towards the close of November. It has since then hardened to 3½ per cent., following the belated commencement of the 1959-60 busy season.

The average rate of discount on 91-day Treasury Bill was 2.429 per cent. in December 1958 and this gradually rose to an average of 2.798 per cent. in May. In fact, the peak level touched for the year was 2.800 per cent. Subsequently, it declined successively to 2.338 per cent. at the end of November. During the first two weeks of December, however, the discount rate began to improve, the latest rate being 2.370 per cent.

While there has been a downward trend in interest rates on deposits, there does not appear to have been any change in the rate of interest charged on advances by banks. A recent survey conducted by the Reserve Bank of India disclosed that the spread between the average rate of interest on deposits and that on advances during the half-year ended June 1959 was 3.396 per cent., as against 3.412 per cent. in the previous half-year and 3.276 per cent. in the corresponding six months of 1958. The downward revision of deposit rates during the current half-year may widen this margin, as the interest rates on advances are unchanged. This does not necessarily mean that the profits of banks for 1959 will be higher than in the previous year. For the effect of lower rates of interest on deposits will be offset by the cost of carrying a substantially larger volume of deposits, as well as by the rise in administrative expenses. Indeed, the contention of most of the banks towards the close of the year was that their costs had gone up so substantially that a further downward revision in the ceiling on interest rates on deposits was necessary. At the time of writing, informal discussions on this question are going on among the prominent members of the inter-bank agreement.

Branch Banking

As indicated earlier, the growth of deposits was to some extent due to the increase in the number of offices of Scheduled banks, as will be seen from the following table, showing the position as on 30th September of the last three years:

Branches of Scheduled Banks

	30-9-1959	30-9-1958	30-9-1957
State Bank of India	804	688	603
Five leading joint-stock banks ..	886	845	790
Foreign banks	67	67	67
Other Scheduled banks	2,111	1,949	1,650
Total ..	3,868	3,549	3,110

It will, however, be seen that the pace of increase in the number of offices slowed down during the year 1958-59. This is mainly accounted for by Scheduled banks other than the State Bank of India, which increased their offices by only 203, as against 354 in the previous year. The increase of 116 in the number of offices of the State Bank, however, compares favourably with 85 in 1957-58.

TREND OF MARKETS IN 1959

Our customary reviews of the principal Stock Exchanges, bullion, commodity and foodgrains markets are included in a sixteen-page Supplement inserted at the end of this main section.

EDITOR

TABLE I

Variations in Money Supply and Allied Monetary Data

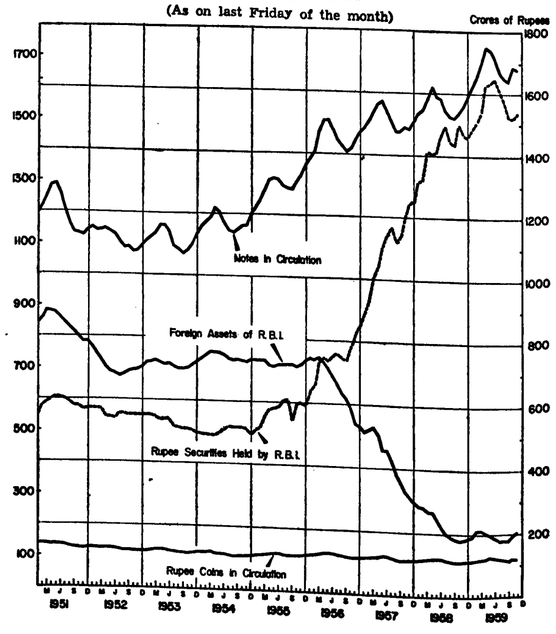
(In crores of rupees)

	Busy season Nov. 1 1958 to Apr. 24 1959	Busy season Oct. 26 1957 to Apr. 25 1958	Slack season Apr. 25 1959 to Oct. 30 1959	Slack season Apr. 26 1958 to Oct. 31 1958	Busy season Oct. 31 to Nov. 27 1959	Busy season Nov. 1 to Nov. 28 1958	Year ended November 1959	Year ended November 1958
Money supply ..	+291.3	+167.3	—110.6	—156.8	+ 5.0*	+ 29.2	+150.0*	+ 76.6
Currency in circulation ..	+221.3	+142.9	— 57.8	— 87.1	— 9.0*	+ 21.7	+130.0*	+ 75.0
Central Govt. deposits ..	— 18.1	+ 0.5	+ 1.4	+ 18.7	— 5.5	— 12.2	— 10.1	+ 8.7
Foreign assets of the Reserve Bank..	+ 30.3	— 59.3	— 10.5	— 89.4	+ 5.9	+ 2.2	+ 23.5	—128.9
Other loans and advances ..	+ 20.1	— 13.2	+ 19.0	— 1.3	— 11.3	+ 1.0	+ 26.8	+ 2.2
Rupee investments of the Reserve Bank ..	+130.1	+208.2	—104.3	+ 95.7	+ 17.9	— 29.3	+ 73.0	+225.2
Scheduled Banks								
Demand liabilities (net) ..	+ 65.4	+ 19.7	— 52.0	— 69.6	+ 14.5	+ 6.2	+ 21.8	— 5.2
Time liabilities (net) ..	+ 50.1	+128.8	+161.0	+133.9	+ 18.4	— 8.0	+237.2	+213.9
Cash and balances with the Reserve Bank ..	— 13.8	— 10.7	— 21.1	+ 13.7	+ 7.5	— 19.9	— 7.0	— 17.8
Advances and bills purchased and discounted ..	+181.7	+ 89.4	— 80.5	—117.9	— 16.5	— 6.4	+ 90.8	— 7.3
Investments ..	— 2.8	+ 50.4	+178.5	+174.7	+ 18.7	+ 24.6	+169.2	+235.1

* Rough estimate only.

CURRENCY DATA

(As on last Friday of the month)



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	1956	1956-57	1957-58	1958-59
SALES	12 lakhs	16 lakhs	17 lakhs	25 lakhs
CAPITAL	1956	1957	1958	
	6 lakhs.	9 lakhs	11½ lakhs	
DIVIDEND	1956	1956-57	1957-58	1958-59
	7½%	9%	9%	

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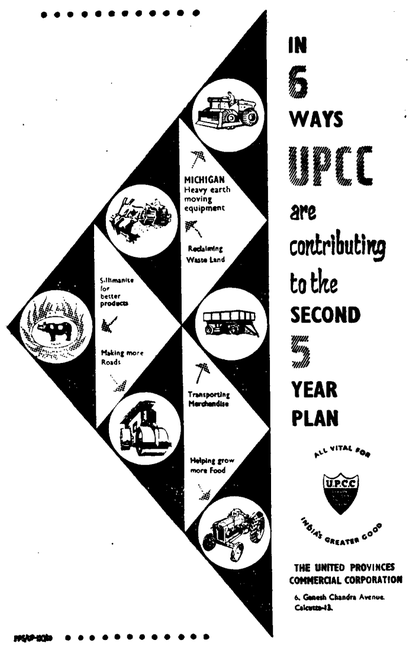

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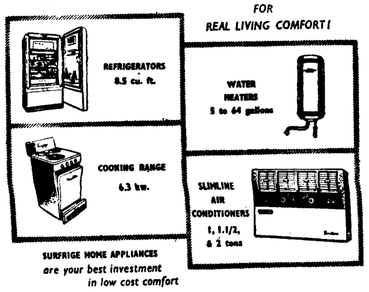

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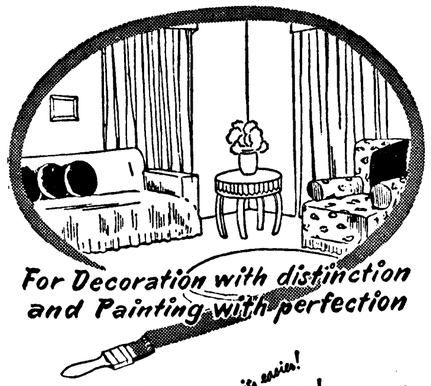

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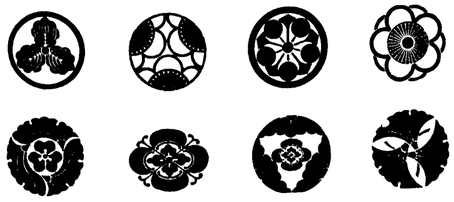

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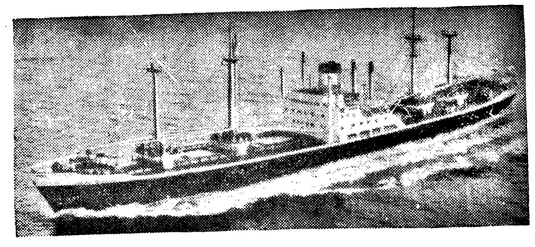

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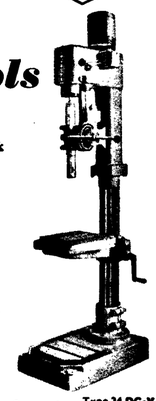
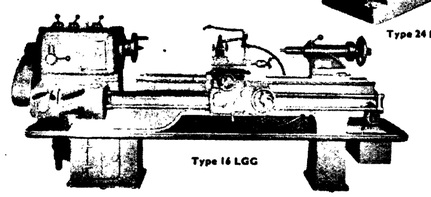


Type 24 DC-V



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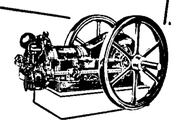

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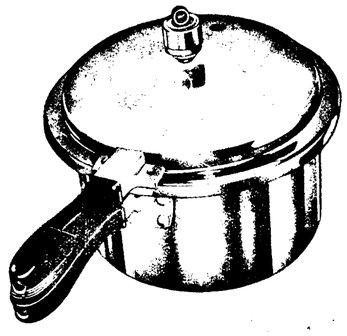

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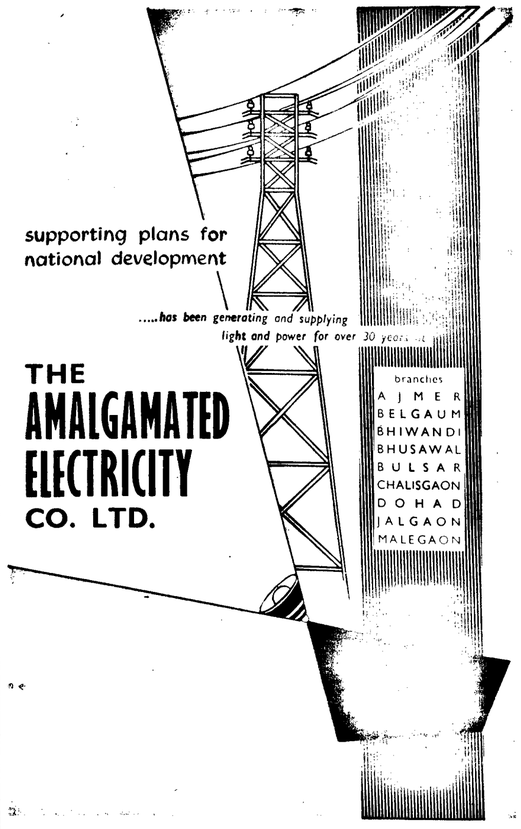

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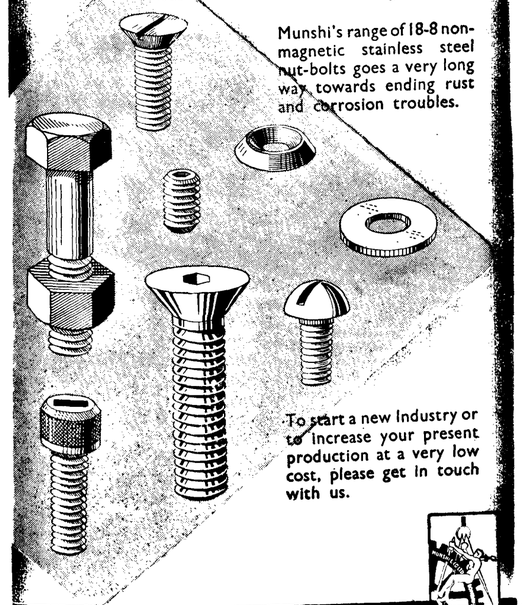

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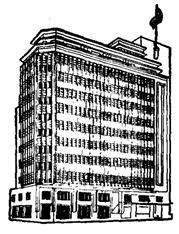

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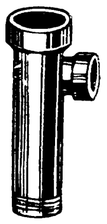

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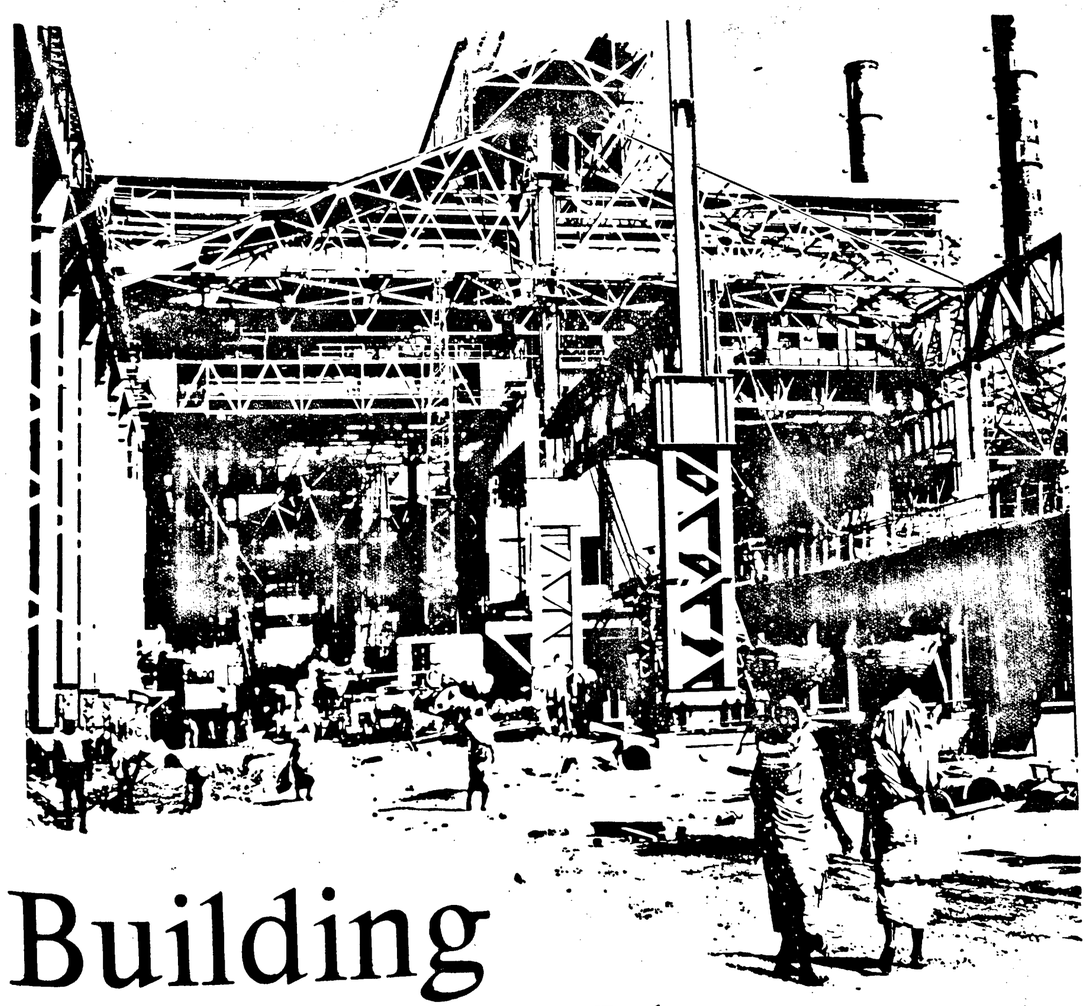

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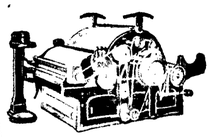
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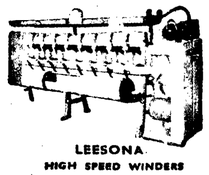
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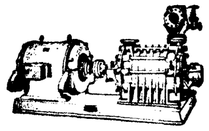
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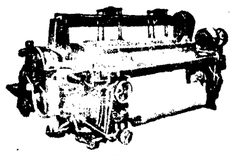
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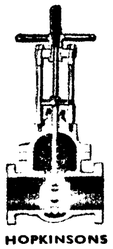
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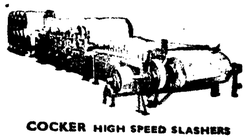
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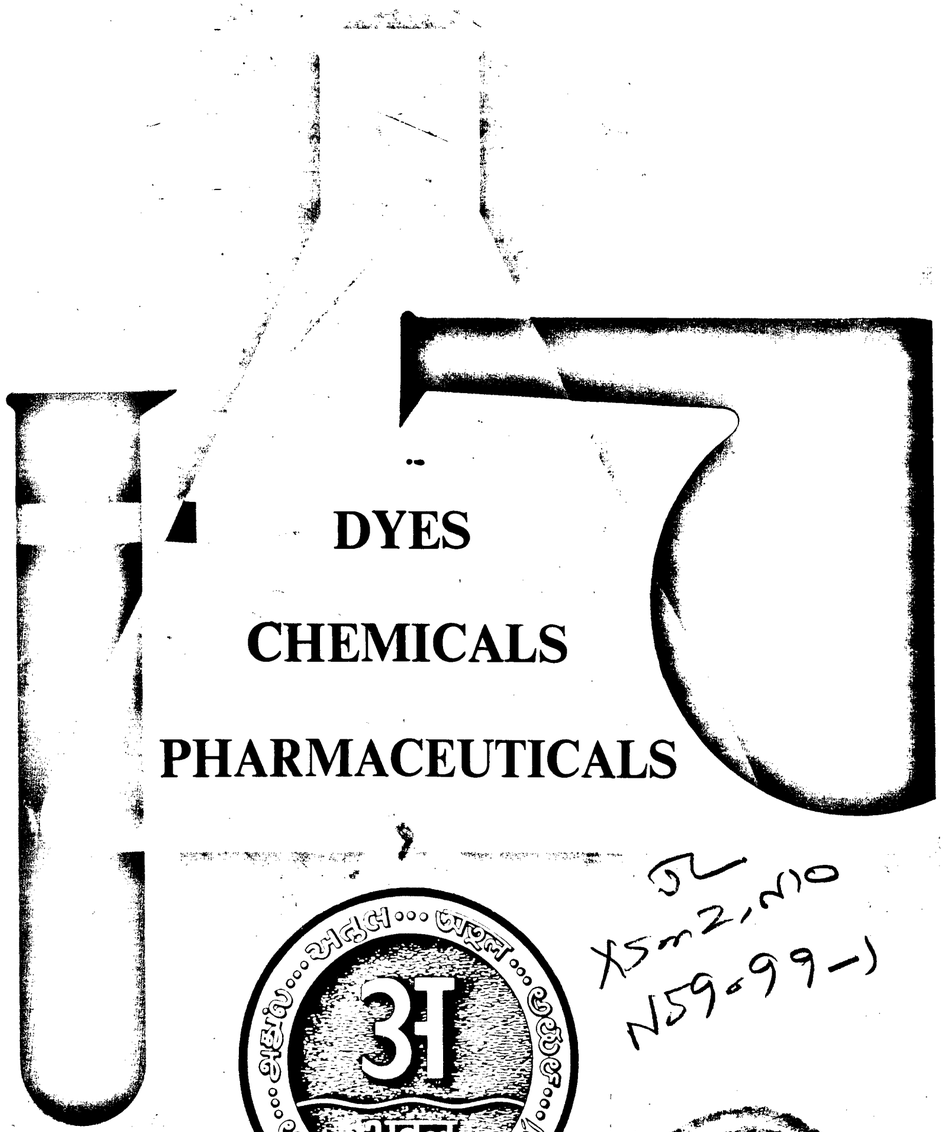

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THE ATUL PRODUCTS LIMITED

ATUL, via BULSAR, Western Railway

PRINTED BY J. MIDDLETON FOR G. CLARIDGE & CO. LTD., AT THE CAXTON WORKS, FRERE ROAD, BOMBAY 1, AND PUBLISHED BY SOHRAB B. MEHTA, B.COM., FOR COMMERCE (1935) LTD., BRADY HOUSE, VEER NARIMAN ROAD, BOMBAY 1. EDITOR: S. K. RAMAN